

CROFF ENTERPRISES INC  
Form 10-Q  
November 14, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2005

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From            to

Commission File Number 01-100

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**CROFF ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

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Utah  
(State or other jurisdiction of incorporation or organization)

87-0233535  
(I.R.S. Employer Identification No.)

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3773 Cherry Creek Drive North, Suite 1025  
Denver, Colorado  
(Address of principal executive office)

80209  
(Zip Code)  
(303)-383-1555

Securities registered pursuant to Section 12(b) of the Act:  
Common - \$0.10 Par Value

Name of each exchange on which registered:  
None

Securities registered pursuant to Section 12(g) of the Act: None

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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

There were 567,400 shares of common stock outstanding on November 1, 2005, exclusive of 54,743 common shares held in treasury stock.

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## CROFF ENTERPRISES, INC.

## FORM 10-Q

For the Quarter Ended September 30, 2005

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**Forward-Looking Statements**

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 statements (other than statements of historical or present fact) that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

All statements, other than statements of historical 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, 2004. 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, 2004.

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, 2004 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, 2004	September 30, 2005
	<u>          </u>	<u>          </u>
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$ 257,667	\$ 523,593
Accounts receivable	\$ 109,691	\$ 154,583
	<u>          </u>	<u>          </u>
	\$ 367,358	\$ 678,176
	<u>          </u>	<u>          </u>
Oil and natural gas properties, at cost, successful efforts method:	\$ 1,219,119	\$ 1,178,303
Accumulated depletion and depreciation	\$ (497,924)	\$ (523,330)
	<u>          </u>	<u>          </u>
	\$ 721,195	\$ 654,973
	<u>          </u>	<u>          </u>
<b>Total Assets:</b>	<u>          </u>	<u>          </u>
	\$ 1,088,553	\$ 1,333,149
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 28,410	\$ 31,017
Payable to related party	\$ --	\$ 2,362
Accrual for plugging and abandonment (1)	\$ --	\$ 18,402
Accrued liabilities	\$ 8,705	\$ 45,783
	<u>          </u>	<u>          </u>
	\$ 37,115	\$ 97,564
	<u>          </u>	<u>          </u>
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	\$ 772,929	\$ 989,621
Common stock, \$.10 par value		
20,000,000 shares authorized, 622,143 shares issued and outstanding	\$ 62,214	\$ 62,214
Capital in excess of par value	\$ 157,927	\$ 157,927
Treasury stock, at cost, 53,243 and 54,743		
issued and outstanding in 2004 and 2005	\$ (83,151)	\$ (85,513)
Retained earnings	\$ 141,519	\$ 111,336

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	<u>                    </u>	<u>                    </u>
	\$ 1,051,438	\$ 1,235,585
	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,088,553</b>	<b>\$ 1,333,149</b>
	<u>                    </u>	<u>                    </u>

(1) See accompanying notes to unaudited condensed financial statements.

## CROFF ENTERPRISES, INC.

## STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2005	2004	2005
<b>Revenues:</b>		\$		
Oil and natural gas sales	\$ 176,707	\$ 247,288	\$ 446,849	\$ 627,274
Loss on natural gas "put" contracts	--	--	\$ (7,599)	--
Loss on sale of marketable equity securities	--	--	\$ (38,166)	--
Other income	\$ 228	\$ 7,059	\$ 1,851	\$ 25,669
	<u>\$ 176,935</u>	<u>\$ 254,347</u>	<u>\$ 402,935</u>	<u>\$ 652,943</u>
<b>Expenses:</b>				
Lease operating expense including production taxes	\$ 50,278	\$ 46,253	\$ 156,981	\$ 209,016
Yorktown Re-entry Program	\$ 16,435	--	\$ 24,903	--
General and administrative	\$ 26,543	\$ 35,327	\$ 88,887	\$ 124,105
Overhead expense, related party	\$ 12,000	\$ 11,674	\$ 36,000	\$ 36,371
Depletion and depreciation	\$ 10,500	\$ 12,000	\$ 31,500	\$ 33,000
Plug and abandon expense (1)	\$ --	\$ 18,402	\$ --	\$ 18,402
	<u>\$ 115,756</u>	<u>\$ 123,656</u>	<u>\$ 338,271</u>	<u>\$ 420,894</u>
Pretax income	\$ 61,179	\$ 130,691	\$ 64,664	\$ 232,049
Provision for income taxes:	\$ 6,397	\$ 29,690	\$ 6,877	\$ 45,540
Net income	<u>\$ 54,782</u>	<u>\$ 101,001</u>	<u>\$ 57,787</u>	<u>\$ 186,509</u>
Net income applicable to preferred B shares:	<u>\$ 71,041</u>	<u>\$ 95,551</u>	<u>\$ 119,603</u>	<u>\$ 216,692</u>
Net income (loss) applicable to common shares	<u>\$ (16,259)</u>	<u>\$ 5,450</u>	<u>\$ (61,816)</u>	<u>\$ (30,183)</u>
Basic and diluted net income (loss) per common share	<u>\$ (0.03)</u>	<u>\$ 0.01</u>	<u>\$ (0.11)</u>	<u>\$ (0.05)</u>
Weighted average common shares outstanding	<u>\$ 566,900</u>	<u>\$ 567,400</u>	<u>\$ 566,900</u>	<u>\$ 567,400</u>



(1) See accompanying notes to unaudited condensed financial statements.

**CROFF ENTERPRISES, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
For the year ended December 31, 2004 and the nine months ended September 30, 2005  
(Unaudited)

	Preferred B stock		Common stock		Capital in Excess of Par	Treasury stock	Accumulated Earnings
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Value</u>	<u>stock</u>	<u>Earnings</u>
Balance at December 31, 2004	540,659	\$772,929	622,143	\$ 62,214	\$157,927	\$ (83,151)	\$ 141,519
Net income for the nine months ended September 30, 2005	-	-	-	-	-	-	186,509
Purchase of treasury stock	-	-	-	-	-	(2,362)	-
Preferred Stock reallocation	-	216,692	-	-	-	-	(216,692)
<b>Balance at September 30, 2005</b>	<b>540,659</b>	<b>\$989,621</b>	<b>622,143</b>	<b>\$ 62,214</b>	<b>\$ 157,927</b>	<b>\$ (85,513)</b>	<b>\$ 111,336</b>

During the three month period ended March 31, 2005, the Company purchased 1,500 shares of its common stock for \$2,362, now included in the treasury.

See accompanying notes to unaudited condensed financial statements.

## CROFF ENTERPRISES, INC.

## STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2004 and 2005

(Unaudited)

	<u>2004</u>	<u>2005</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 57,787	\$ 186,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion and depreciation	\$ 31,500	\$ 33,000
Loss on abandonment	\$ --	56,089
Gain on sale of equipment	\$ --	(14,173)
Realized loss on marketable equity securities	\$ 38,166	--
Loss on natural gas "put" contracts	\$ 7,599	--
Changes in operating assets and liabilities:		
Accounts receivable	\$ (25,949)	\$ (44,892)
Accounts payable	\$ 33,159	\$ 2,607
Accrued liabilities	\$ 8,195	\$ 55,480
<b>Net cash provided by operating activities</b>	<b>\$ 150,457</b>	<b>\$ 274,620</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of equipment	61	\$ 48,500
Acquisition of property leases and improvements	\$ (352,776)	\$ (57,194)
Proceeds from sale of marketable equity securities	\$ 51,514	--
Proceeds from sale of mutual fund	\$ 77,429	--
<b>Net cash used in investing activities</b>	<b>\$ (223,772)</b>	<b>\$ 8,694</b>
Net increase (decrease) in cash and cash equivalents	\$ (73,315)	\$ 265,926
Cash and cash equivalents at beginning of period	\$ 154,490	\$ 257,667
<b>Cash and cash equivalents at end of period</b>	<b>\$ 81,175</b>	<b>\$ 523,593</b>

Supplemental disclosure of non-cash investing and financing activities:

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During the three month period ended March 31, 2005, the Company purchased 1,500 shares of its common stock for \$2,362, now included in the treasury.

See accompanying notes to unaudited condensed financial statements.

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**CROFF ENTERPRISES, INC**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**Footnote 1 to Balance Sheets and Statement of Operations**

Historically, Croff has not operated any oil and natural gas wells, its assets consisting of royalties and non-operated working interests. It recently started operating four wells and has established a working interest reserve for plugging and abandonment costs, less salvage value, in the quarter ended September 30, 2005. This reserve, based on the estimates of management, may not comply with the Financial Accounting Standards Board Rule 143 (FAS 143) and management has been so advised by its auditors. Croff intends to complete a revised schedule compliant with FAS 143 for its year end report on Form 10-K.

**Basis of Preparation**

The condensed financial statements for the three and nine month periods ended September 30, 2004 and 2005 in this report have been prepared by the Company without audit pursuant to the rules and regulations of the Securities and Exchange Commission and reflect, in the opinion of the management, all adjustments necessary to present fairly the results of the operations of the interim periods presented herein. Certain information in footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes the disclosures presented herein are adequate to make the information presented not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which report has been filed with the Securities and Exchange Commission. The Annual Report is available from the Company's website at [www.croff.com](http://www.croff.com), and online at the Securities and Exchange Commission website at [www.sec.gov/edgar](http://www.sec.gov/edgar).

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Current Items**

The Company announced on April 8, 2005 that its Board of Directors had voted to seek strategic alternatives for the Company. The Company has continued to seek a merger or acquisition participant, and other strategic steps.

On July 15, 2005, the President and Chairman, through Jensen Development Company and C.S. Finance L.L.C., private companies controlled by the President ("Offerors"), tendered for the Preferred B shares of the Company at a cash price of \$3 per share. Offerors collectively owned 253,191 Preferred B shares prior to the tender. The Tender Offer for Preferred B shares of the Company expired on August 19, 2005. The Offerors reported to the Company that 75,050 Preferred B shares were successfully tendered and not withdrawn by the expiration of the Offer. The tendered shares represent approximately 13.9% of the outstanding Class B Preferred stock of Croff Enterprises, Inc.



Background on the Tender Offer was reported in the Company's quarterly report for the period ended June 30, 2005.

Immediately following the Tender Offer, the Offerors acquired an additional 29,365 shares, at the same price, from two of Croff's directors in return for promissory notes in lieu of cash. Currently, Gerald L. Jensen and the Offerors own 359,580 Preferred B shares or approximately 66.5% of the outstanding Preferred B shares and the remaining non-tendering shareholders hold approximately 181,079 shares or approximately 33.5%.

## **Overview**

Croff Enterprises, Inc. ("Croff" or the "Company") was incorporated in Utah in 1907. Croff is an independent energy company engaged in the business of oil and natural gas exploration and production, primarily through the acquisition of producing oil and natural gas leases as well as the ownership of perpetual mineral interests. Other companies operate almost all of the wells from which Croff receives revenues and Croff has no control over the factors which determine royalty or working interest revenues, such as markets, prices and rates of production. Today, Croff participates as a working interest owner in approximately 40 wells or units of several wells. Croff holds small royalty interests in approximately 250 wells.

Croff's business strategy is focused on targeting opportunities that are of lower risk with the potential for stable cash flow and long asset life while seeking to keep operating costs low. The Company has no short-term or long-term debt outstanding. Over the last five years, the Company acquired an interest in three wells in Michigan, one well in Montana, six wells in Oklahoma and nine wells in Texas. In 2004 the Company sold its Yorktown Re-entry Program to Tempest Energy Resources LP, retaining a 25% interest in the Area of Mutual Interest (AMI). The first re-entry well in this program was unsuccessful. The Company continues to actively search for oil and natural gas properties that may fit into our overall business strategy.

## **Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operation are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The Company analyzes its estimates, including those related to oil and natural gas revenues, oil and natural gas properties, marketable securities, income taxes and contingencies. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements and the uncertainties that it could impact results of operations, financial conditions and cash flows. The Company accounts for its oil and natural gas properties under the successful efforts method of accounting. Depletion, depreciation and amortization of oil and natural gas properties and the periodic assessments for impairment are based on underlying oil and natural gas reserve estimates and future cash flows using then current oil and natural gas prices combined with operating and capital development costs. There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves and in projecting future rates of production and timing of development expenditures.

Historically, oil and natural gas prices have experienced significant fluctuations and have been particularly volatile in recent years. Price fluctuations can result from variations in weather, levels of regional or national production and demand, availability of transportation capacity to other regions of the country and various other factors. Increases or decreases in oil and natural gas prices received could have a significant impact on future results.

### **Liquidity and Capital Resources**

At September 30, 2005, the Company had assets of \$1,333,149 and current assets totaled \$678,176 compared to current liabilities of \$97,564. Working capital at September 30, 2005 totaled \$580,612, an increase of 76% compared to \$330,243 at December 31, 2004. The Company had a current ratio at September 30, 2005 of approximately 7:1. During the nine month period ended September 30, 2005, net cash provided by operations totaled \$231,045, as compared to \$150,457, during the same period in 2004. During the first quarter of 2004, the Company sold its portfolio of marketable equity securities and mutual fund for a net realized loss of \$38,166. The Company spent a significant portion of its operating capital during the first nine months in 2004 on the Yorktown Re-entry program in Dewitt County, Texas. The Company's cash flow from operations is highly dependent on oil and natural gas prices. The Company had no short-term or long-term debt outstanding at September 30, 2005. In January, 2005, the Company purchased 1,500 shares of its common stock at a cost of \$2,362, which is included in the treasury at September 30, 2005.

Capital expenditures for the first nine months of 2005 consisted of expenditures for the acquisition of expiring leases in Yorktown, Texas. In July, 2005, Croff (25% interest) and Tempest (75% interest) determined to abandon the Helen Gips #1 and to pull the tubing to use in the Wiggins well. Croff's costs in the Helen Gips #1 wellbore of \$52,638 were written off in the June 30, 2005 financial statements. As of September 30, 2005, the Company has capitalized approximately \$198,000 related to the 2004 Yorktown Re-Entry Program. The Company's only oil and natural gas assets not pledged to the Preferred B shares is the Yorktown Re-Entry Program in Dewitt County, Texas. This approximate 1,100 acre project was sold or optioned to Tempest Energy Resources LP in the fourth quarter of 2004 with the Company retaining a carried 15% interest in the re-entry wells, and an additional 10% paid participation for a 25% working interest. The first well in this project, the Helen Gips #1, had been started by Croff in 2004 and was completed by Tempest during the first quarter 2005. Tempest and Croff have determined that the formation is too tight and the well will be non-commercial and determined to abandon it. Tempest purchased a second lease in the Area of Mutual Interest (AMI) known as the Wiggins well, a producing Wilcox well, with an additional plugged and abandoned re-entry well. Croff exercised its right to participate with respect to a 25% interest in this lease, but has no carried interest. The Wiggins well is currently producing from the Wilcox formation at a rate of approximately 30 mcf per day. Tempest and Croff have agreed to attempt to re-complete this well in an upper formation of the Wilcox which has not been depleted. The remaining leases in the Yorktown re-entry program, on which Tempest has not exercised its option, are retained by Croff, which is planning to participate with other oil and gas companies to re-enter existing wellbores. As part of the Yorktown Re-entry Program, Croff had purchased 3 1/2 inch casing and other equipment for a re-entry well, which equipment Tempest has declined to use. Croff then sold this equipment during the first quarter of 2005 for approximately \$48,500, yielding an approximate \$14,000 gain over its cost in the casing. The only current commitment of Croff for future capital expenditures is for lease renewals and future drilling or re-entries in the Yorktown program in Dewitt County, Texas.



The Company's plans for ongoing development, acquisition and exploration expenditures, and possible equity repurchases over and beyond the Company's operating cash flows will depend entirely on the Company's ability to secure acceptable financing. Bank borrowings may be utilized to finance the Company's 2005 capital budget. In addition, the Company will utilize its internal operating cash flows. Future cash flows are subject to a number of variables, including the level of production and oil and natural gas prices. There can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned levels of capital expenditures or that increased capital expenditures will not be undertaken.

The Company believes that borrowings from financial institutions, projected operating cash flows and the cash on hand will be sufficient to cover its working capital requirements for the next 12 months. In connection with consummating any significant acquisition or funding an exploratory or development drilling program, additional debt or equity financing will be required, which may or may not be available on terms that are acceptable to the Company.

While certain costs are affected by the general level of inflation, factors unique to the oil and natural gas industry result in independent price fluctuations. Over the past five years, significant fluctuations have occurred in oil and natural gas prices. Although it is particularly difficult to estimate future prices of oil and natural gas, price fluctuations have had, and will continue to have, a material effect on the Company. Overall, it is management's belief that inflation is generally favorable to the Company since it does not have significant operating expenses.

## **Results of Operations**

Three months ended September 30, 2005 compared to three months ended September 30, 2004.

The Company had a net income for the third quarter of 2005 which totaled \$101,001 compared to a net income of \$54,782 for the same period in 2004. An additional expense of \$18,402 was accrued during the third quarter of 2005, to create a reserve for the plugging and abandonment expense, less salvage value, for the Company's working interest wells. Because this expense has never been accrued, the Company has chosen to add this amount into this quarterly report. General and administrative expenses also increased by approximately \$10,000 due to costs of responding to the tender offer for the Preferred B shares and higher accounting and legal fees.

Revenues for the third quarter of 2005 totaled \$254,347, a 44% increase from the \$176,935 during the same period in 2004. Oil and gas sales for the third quarter of 2005 totaled \$247,288, a 40% increase from the same period in 2004. A large increase in oil and natural gas prices, combined with slight increases in oil production levels during the third quarter of 2005, were major factors causing this increase in oil and gas sales compared to the same period in 2004. The Company's average sale price per barrel of oil in the third quarter of 2005 was approximately \$55 per barrel compared to \$30 per barrel for the same period in 2004. The Company's average sale price of natural gas in the third quarter of 2005 was approximately \$7 per Mcf (Mcf equates to one thousand cubic feet), compared to \$5.20 per Mcf for the same period in 2004. Other income for the three months ended September 30, totaled \$7,059 in 2005 and \$228 in 2004, reflecting higher interest on money deposits and proceeds from sale of equipment.

Lease operation expense, which includes all production related taxes for the third quarter of 2005 totaled \$46,253 and is compared to the \$50,278 incurred for the same period in 2004. The decrease was due to less workovers in 2005. Depletion and depreciation expense for the third quarter of 2005 totaled \$12,000 and is comparable to the \$10,500 incurred for the same period in 2004. There were minimal costs associated with the Yorktown Re-entry Program for the third quarter of 2005, compared with expenses incurred during the third quarter of 2004. Provision for income taxes for the third quarter of 2005 totaled \$29,690 compared to \$6,397 from the same period in 2004, due to higher pretax income.

Nine Months ended September 30, 2005 compared to nine months ended September 30, 2004.

Revenues for the nine months ended September 30, 2005 totaled \$652,943, a 62% increase from the revenues of \$402,935 at September 30, 2004. Net income for the nine months ended September 30, totaled \$186,509 in 2005 and \$57,787 in 2004. The increase in revenues and net income is due to significantly increased prices for crude oil and natural gas. Production did not increase materially, although a few new royalty interests were added. During the first quarter of 2004, the Company sold its portfolio of marketable equity securities and mutual funds for a net realized loss of \$38,166 and sold its remaining contracts for natural gas "put" contracts for a net realized loss of \$ 7,599.

Oil and gas sales for the nine months ended September 30, 2005 totaled \$627,274, a 40% increase from the \$446,849 for the same period in 2004. The increase in oil and gas sales in 2005 compared to 2004 is primarily attributed to significantly increased oil and natural gas prices. Small interests in new wells in Utah and New Mexico on the Company's mineral acreage gave a small production increase.

Lease operation expense, which includes all production related taxes for the nine months ended September 30, 2005 totaled \$209,016 a 33% increase from \$156,981 in 2004. Included in the 2005 lease operating expense is approximately \$52,638 for the write off of the Helen Gips well. Otherwise, lease operating costs were relatively stable compared to the nine month period ending September 30, 2004.

Depletion and depreciation expense for the nine months ended September 30, 2005 totaled \$33,000 compared to the \$31,500 incurred for the same period in 2004. The Company has ceased to separately classify expenses in the Yorktown drilling program in 2005.

General and administrative expenses, including overhead expense paid to related party, for the nine months ended September 30, 2005 totaled \$160,476 compared to \$124,887 for the same period in 2004. Overhead expense paid to related party for the nine months ended September 30, 2005 totaled \$36,371 compared to \$36,000 incurred for the same period in 2004. This increase in overhead expenses is primarily attributed to the costs of the audit increasing, and the extra legal and accounting expenditures of the Company responding to a tender offer for the Preferred B shares.

Provision for income taxes for the nine months ending September 30, 2005 totaled \$45,540 compared to \$6,877 for the same period in 2004. This increase is due to expected higher income in 2005 and is also attributable to an overpayment of the Company's 2003 federal income taxes which was taken as a credit during the second quarter of 2004.

### **Recent Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 123R, "Share-Based Payment." This revised standard addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense in the statements of operations. SFAS 123R will be effective for all interim or annual periods beginning after June 15, 2005. The adoption of this announcement in July 2005 is not expected to have a material impact on the Company's financial condition or results of operations as the Company currently does not receive employee services in exchange for either equity instruments of the Company or liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29". This standard requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. The Statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company has not entered into these types of nonmonetary asset exchanges during the last five years. Accordingly, the adoption of this pronouncement is not expected to have a material impact on the Company's current financial condition or results of operations.

### **Quantitative and Qualitative Disclosures Regarding Market Risk**

The Company's major market risk exposure is in crude oil and natural gas prices. Realized pricing is primarily driven by the prevailing domestic price for oil and natural gas. Historically, prices received for oil and natural gas production have been volatile and unpredictable. Pricing volatility is expected to continue. Natural gas prices averaged approximately \$4/mcf during 2004 and increased to approximately \$7/mcf during the nine months ended September 30, 2005. Oil prices ranged from a monthly average of approximately \$30 per barrel in 2004 to a monthly high of approximately \$55 per barrel during the first nine months 2005. A decline in prices of oil or natural gas could have a material adverse effect on the Company's financial condition and results of operations.

**Item 3. CONTROLS AND PROCEDURES**

Croff's principal executive officer, also acting as principal financial officer, has evaluated the effectiveness of Croff's "disclosure controls and procedures," as such term is defined in Rule 13a-14(c) and 15d-14(c) of the Securities and Exchange Act of 1934, as amended, within 90 days of the filing date of this Quarterly Report on Form 10-Q. Based upon his evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, since the date the controls were evaluated.

**Part II. Other Information**

**Item 5. Material Subsequent Events**

The Company plans to participate in the recompletion of the Kawitt Zone in the Wiggins well, located in Dewitt County, Texas, scheduled for November, 2005. This is the second attempted recompletion of a well through the Tempest-Croff Re-entry program. The Company sold a 75% working interest in certain leases in this program to Tempest Energy Resources LP in November, 2004, retaining a 25% working interest, of which 15% was carried in the reentry wells. The first attempted re-entry, the Helen Gips, was unsuccessful and the Company wrote off these costs during the second quarter of 2005. Croff is not carried on the Wiggins well and will pay its 25% of expenses. Croff is also negotiating with two other oil and gas companies to re-enter the Dixel Gips well, on a lease which Tempest had under option but declined to purchase. No agreement has yet been signed.

**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits – The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

1. Schedule 14D9 filed July 6, 2005 in response to Tender Offer for Preferred B shares.\*
2. Schedule 14D9/A filed July 20, 2005 in response to Tender Offer for Preferred B shares.\*
3. Schedule 14D9/A filed July 20, 2005 in response to Tender Offer for Preferred B shares.\*
4. Schedule 14D9 filed July 27, 2005 in response to Tender Offer for Preferred B shares.\*

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*\*

31.2 Certification of Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

\*\*

32.1 Certification of Chief Executive Officer, dated November 14, 2005, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*

32.2 Certification of Acting Chief Financial Officer, dated November 14, 2005, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*

\* Previously filed with the SEC

\*\* Filed herewith

(b) For the period ended September 30, 2005, the Company filed no reports on Form 8-K.









**CERTIFICATIONS**

I, Gerald L. Jensen, certify that :

- As Acting Chief Financial Officer, I have reviewed this quarterly report on Form 10-Q of Croff Enterprises, Inc.;
- Based on my knowledge, this 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;
- 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;
- As Acting Chief Financial Officer, I am 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:
  - ◆ Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
  - ◆ Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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
  - ◆ 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
- As Acting Chief Financial Officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - ◆ 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
  - ◆ 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.

CROFF ENTERPRISES, INC.

Date: November 14, 2005

By: \_\_\_\_\_ /s/ Gerald L. Jensen

**Gerald L. Jensen,**  
**Acting Chief Financial Officer**



**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Croff Enterprises, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald L. Jensen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) This Report on form 10Q for the period ended September 30, 2005 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) I further certify to the best of my knowledge that the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Croff Enterprises, Inc.

CROFF ENTERPRISES, INC.

Date: November 14, 2005

By: \_\_\_\_\_ /s/ Gerald L. Jensen

**Gerald L. Jensen,  
President,  
Chief Executive Officer**

