CREDO PETROLEUM CORP
Form 10-Q
June 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2010

o 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: 0-8877

CREDO PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**84-0772991**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

303-297-2200

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Act.)

Large accelerated filer o Accelerated filer x

Non-accelerated filer o Smaller Reporting Company o
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, net of treasurystock, as of the latest practicable date.

Date	Class	Outstanding
June 9, 2010	Common stock, $.10 par value	10,157,000

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CREDO PETROLEUM CORPORATION AND SUBSIDIARIES

Quarterly Report on Form 10-Q For the Period Ended April 30, 2010

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The terms CREDO , Company , we , our , and us refer to CREDO Petroleum Corporation and its subsidiaries unless the context suggests otherwise.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CREDO PETROLEUM CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

ASSETS

	April 30, 2010 (Unaudited)	October 31, 2009
Current Assets:		
Cash and cash equivalents	**$ 10,079,000**	$ 12,348,000
Short-term investments	**2,050,000**	635,000
Receivables:		
Accrued oil and gas sales	**1,544,000**	1,566,000
Trade	**186,000**	487,000
Derivative assets	**206,000**	104,000
Other current assets	**651,000**	859,000
Total current assets	**14,716,000**	15,999,000
Long-term Assets:		
Oil and gas properties, at cost, using full cost method:		
Unevaluated oil and gas properties	**8,875,000**	7,363,000
Evaluated oil and gas properties	**78,318,000**	76,127,000
Less: accumulated depreciation, depletion and amortization of oil and gas properties	**(54,697,000)**	(53,211,000)
Net oil and gas properties, at cost, using full cost method	**32,496,000**	30,279,000
Intangible Assets, net of accumulated amortization of $653,000 in 2010 and $436,000 in 2009	**3,796,000**	4,013,000
Compressor and tubular inventory to be used in development	**1,956,000**	1,865,000
Other, net	**402,000**	396,000
Total Assets	**$ 53,366,000**	$ 52,552,000

The accompanying notes are an integral part of these consolidated financial statements.

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LIABILITIES AND STOCKHOLDERS EQUITY

	April 30, 2010 (Unaudited)	October 31, 2009
Current Liabilities:		
Accounts payable	**$ 751,000**	$ 407,000
Revenue distribution payable	**912,000**	653,000
Accrued compensation	**467,000**	948,000
Other accrued liabilities	**263,000**	394,000
Derivative liability	**78,000**	
Income taxes payable	**67,000**	55,000
Total current liabilities	**2,538,000**	2,457,000
Long Term Liabilities:		
Deferred income taxes, net	**2,902,000**	2,537,000
Asset retirement obligation	**1,411,000**	1,502,000
Total liabilities	**6,851,000**	6,496,000
Commitments:		
Stockholders Equity:		
Preferred stock, no par value, 5,000,000 shares authorized, none issued		
Common stock, $.10 par value, 20,000,000 shares authorized, 10,660,000 issued	**1,066,000**	1,066,000
Capital in excess of par value	**31,506,000**	31,472,000
Treasury stock at cost, 485,000 shares in 2010 and 419,000 in 2009	**(3,620,000)**	(2,803,000)
Retained earnings	**17,563,000**	16,321,000
Total stockholders equity	**46,515,000**	46,056,000
Total Liabilities and Stockholders Equity	**$ 53,366,000**	$ 52,552,000

The accompanying notes are an integral part of these consolidated financial statements.

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CREDO PETROLEUM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

(Unaudited)

	Six Months Ended April 30,		Three Months Ended April 30,	
	2010	**2009**	**2010**	**2009**
Oil sales	**$ 3,530,000**	$ 2,118,000	**$ 1,806,000**	$ 1,496,000
Natural gas sales	**2,557,000**	2,343,000	**1,139,000**	857,000
	6,087,000	4,461,000	**2,945,000**	2,353,000
Costs and expenses:				
Oil and gas production	**1,658,000**	1,623,000	**802,000**	737,000
Depreciation, depletion and amortization	**1,723,000**	2,540,000	**858,000**	1,203,000
Write-down of oil and natural gas properties (Note 3) and impairment of long lived assets (Note 8)		24,652,000		8,030,000
General and administrative	**1,119,000**	1,389,000	**577,000**	521,000
	4,500,000	30,204,000	**2,237,000**	10,491,000
Income (loss) from operations	**1,587,000**	(25,743,000)	**708,000**	(8,138,000)
Other income and (expense)				
Realized and unrealized gains from derivative contracts	**27,000**	1,927,000	**41,000**	461,000
Investment and other income (loss)	**43,000**	(120,000)	**44,000**	22,000
	70,000	1,807,000	**85,000**	483,000
Income (loss) before income taxes	**1,657,000**	(23,936,000)	**793,000**	(7,655,000)
Income taxes	**(415,000)**	9,335,000	**(190,000)**	2,945,000
Net income (loss)	**$ 1,242,000**	$ (14,601,000)	**$ 603,000**	$ (4,710,000)
Earnings (loss) per share of Common Stock Basic	**$ .12**	$ (1.41)	**$ .06**	$ (.46)
Earnings (loss) per share of Common Stock Diluted	**$ .12**	$ (1.41)	**$ .06**	$ (.46)
Weighted average number of shares of Common Stock and dilutive securities:				
Basic	**10,140,000**	10,358,000	**10,187,000**	10,330,000
Diluted	**10,179,000**	10,358,000	**10,205,000**	10,330,000

The accompanying notes are an integral part of these consolidated financial statements.

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CREDO PETROLEUM CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended April 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	**$ 1,242,000**	$ (14,601,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Write-down of oil and natural gas properties and impairment of long lived assets		24,652,000
Depreciation, depletion and amortization	**1,723,000**	2,540,000
ARO liability accretion	**39,000**	38,000
Unrealized (gain) loss on derivative instruments	**(24,000)**	348,000
Deferred income taxes	**365,000**	(9,335,000)
(Gain) loss on short term investments	**(11,000)**	208,000
Compensation expense related to stock options granted	**34,000**	16,000
Other		27,000
Changes in operating assets and liabilities:		
Purchase of short term investments	**(1,500,000)**	
Proceeds from short-term investments	**96,000**	975,000
Accrued oil and gas sales	**22,000**	(167,000)
Trade receivables	**301,000**	465,000
Other current assets	**208,000**	(177,000)
Accounts payable and accrued liabilities	**(363,000)**	(981,000)
Income taxes payable	**12,000**	(1,000)
Net cash provided by operating activities	**2,144,000**	4,007,000
Cash flows from investing activities:		
Additions to oil and gas properties	**(3,565,000)**	(10,368,000)
Proceeds from sale of oil and gas properties	**86,000**	
Changes in other long-term assets	**(117,000)**	(41,000)
Purchase intangible assets		(4,400,000)
Net cash used in investing activities	**(3,596,000)**	(14,809,000)
Cash flows from financing activities:		
Purchase of treasury stock	**(1,114,000)**	(1,152,000)
Proceeds from exercise of stock options	**297,000**	
Net cash provided by (used in) financing activities	**(817,000)**	(1,152,000)
Increase (decrease) in cash and cash equivalents	**(2,269,000)**	(11,954,000)
Cash and cash equivalents:		
Beginning of period	**12,348,000**	22,332,000
End of period	**$ 10,079,000**	$ 10,378,000

The accompanying notes are an integral part of these consolidated financial statements.

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CREDO PETROLEUM CORPORATION AND SUBSIDIARIES

Notes To Consolidated Financial Statements (Unaudited)

April 30, 2010

1. BASIS OF PRESENTATION

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-Q 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 adjustments) considered necessary for a fair presentation of the company s results for the periods presented. For a more complete understanding of the company s financial condition and accounting policies, these consolidated financial statements should be read in conjunction with the company s Annual Report on Form 10-K for the fiscal year ended October 31, 2009. The results for interim periods are not necessarily indicative of annual results.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The company bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances. Although actual results may differ from these estimates under different assumptions or conditions, the company believes that its estimates are reasonable and that actual results will not vary significantly from the estimated amounts.

2. CONCENTRATION OF CREDIT RISK

Credo s accounts receivable are primarily from purchasers of the company s oil and natural gas production and from other exploration and production companies which own joint working interests in the properties that the company operates. This industry concentration could adversely impact the company s overall credit risk because the company s customers and working interest owners may be similarly affected by changes in economic and financial market conditions, commodity prices, and other conditions. Credo s oil and gas production is sold to various purchasers in accordance with the company s credit policies and procedures. These policies and procedures take into account, among other things, the creditworthiness of potential purchasers and concentrations of credit risk. For most joint working interest partners, the company has the right of offset against related oil and natural gas revenues.

3. OIL AND NATURAL GAS PROPERTIES

Depreciation, depletion and amortization of oil and natural gas properties for the six months ended April 30, 2010 and 2009 were $1,485,000 and $2,273,000 respectively, and were $740,000 and $1,081,000 for the three months ended April 30, 2010 and 2009, respectively. The company uses the full cost method of accounting for costs related to its oil and natural gas properties. Capitalized costs included in the full cost pool are depleted on an aggregate basis using the units-of-production method. All costs incurred in the acquisition, exploration, and

development of properties (including costs of surrendered and abandoned leaseholds, delay lease rentals, dry holes, and overhead related to exploration and development activities) and the fair value of estimated future costs of site restoration, dismantlement, and abandonment activities are capitalized. Costs for unevaluated properties, which typically include lease rentals, geology and seismic costs, are capitalized but are excluded from the amortizable pool during the evaluation period. When determinations are made whether the property has proved recoverable reserves or not, or if there is an impairment, the costs are reclassified to the full cost pool.

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The capitalized costs in the full cost pool are subject to a quarterly ceiling test that limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and natural gas reserves discounted at 10 percent plus the lower of cost or market value of unproved properties less any associated tax effects. The ceiling test is calculated using oil and natural gas prices in effect as of the balance sheet date. If such capitalized costs exceed the ceiling, the company will record a write-down to the extent of such excess as a non-cash charge to earnings, unless the company considers price increases subsequent to the balance sheet date which may reduce or eliminate a write-down. A write-down may not be reversed in future periods, even though higher oil and natural gas prices may subsequently increase the ceiling.

At April 30, 2010 the estimated present value of future net revenues from proved reserves, net of related income tax considerations, exceeded the capitalized costs of the company s oil and natural gas properties. Therefore, a ceiling test write-down was not required. For the three and six months ended April 30, 2009, the company recorded non-cash ceiling test write-downs of $8,030,000 and $23,726,000 respectively.

Changes in oil and natural gas prices have historically had the most significant impact on the company s ceiling test. In general, the ceiling is lower when prices are lower. Even though oil and natural gas prices can be highly volatile over weeks and even days, the ceiling calculation dictates that prices in effect as of the last day of the test period be used and held constant. The resulting valuation is a snapshot as of that day and, thus, is generally not indicative of a true fair value that would be placed on the company s reserves by the company or by an independent third party. Therefore, the future net revenues associated with the estimated proved reserves are not based on the company s assessment of future prices or costs, but rather are based on prices and costs in effect as of the end of the test period. See Footnote 12 for description of new SEC rules which Credo will adopt, effective October 31, 2010.

4. STOCK-BASED COMPENSATION

For the six months ended April 30, 2010 and 2009, the company recognized stock based compensation expense of $34,000 and $16,000, respectively. For the three months ended April 30, 2010 and 2009, the company recognized stock based compensation expense of $27,000 and $8,000, respectively. The estimated unrecognized compensation cost from unvested stock options as of April 30, 2010 was approximately $171,000 which is expected to be recognized over an average of 2.7 years.

No options were granted during fiscal year 2009. The fair value of the 50,000 options granted during the six months ended April 30, 2010 was estimated as of the grant date using the Black-Scholes option pricing model with the following assumptions: volatility, 51.6%; expected option term, 3 years; risk-free interest rate, 2.69% and; expected dividend yield, 0%. If option grants are made in the future, compensation expense for all such share-based payments granted, based upon the grant-date fair value estimated in accordance with the provisions of FASB ASC 718 will also be included in compensation expense.

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Plan activity for the six months ended April 30, 2010 is set forth below:

	Number of options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2009	179,063	$ 7.46	$ 530,000
Granted	50,000	9.30	
Exercised	(50,000)	5.93	
Cancelled or forfeited			
Outstanding at April 30, 2010	179,063	$ 8.40	$ 356,000
Exercisable at April 30, 2010	124,063	$ 7.86	$ 336,000
Weighted average contractual life at April 30, 2010		5.73years	

		Outstanding		Exercisable	
Range of Exercise Prices	Number Outstanding at April 30, 2010	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable at April 30, 2009	Weighted Average Exercise Price
$ 5.93	89,063	3.12	$ 5.93	89,063	$ 5.93
$ 9.30	50,000	9.67	$ 9.30		$ 9.30
$12.78	40,000	6.60	$ 12.78	35,000	$ 12.78
$ 5.93 -$12.78	179,063	5.73	$ 8.40	124,063	$ 7.86

5. OIL AND NATURAL GAS DERIVATIVES

The company is exposed to certain commodity price risks relating to its ongoing operations. The company periodically uses oil and natural gas derivatives as economic hedges of the price of a portion of its estimated production when the potential for significant downward price movement is anticipated. These transactions typically take the form of costless collars for oil, and forward short positions based upon the NYMEX futures market for natural gas, and are closed by purchasing offsetting positions. Such contracts do not exceed estimated production volumes and are authorized by the company s Board of Directors. Contracts are expected to be closed as related production occurs but may be closed earlier if the anticipated downward price movement occurs or if the company believes that the potential for such movement has abated.

For the six months ended April 30, 2010 and 2009, the company had realized gains on natural gas derivatives of $3,000 and $2,275,000, respectively, and unrealized gains (losses) of $36,000 and ($348,000) respectively. For the quarters ended April 30, 2010 and 2009 the company had realized gains on natural gas derivatives of $12,000 and $1,350,000 respectively, and unrealized gains (losses) of $41,000 and ($889,000), respectively.

At April 30, 2010 the company held open derivative contracts representing natural gas short sales positions for 400,000 MMBtus at NYMEX basis prices ranging from $5.31 to $7.27 and covering the production months of May 2010 through December 2010. The company also held open derivative contracts with the same counterparty representing natural gas long positions for 360,000 MMBtus at NYMEX basis prices

ranging from $4.26 to $5.83 and covering the production months of May 2010 through December 2010. These positions are presented net due to the contractual netting provisions with the counterparty. The open derivative contracts net to 40,000 MMBtus with a net unrealized gain of $206,000 at April 30, 2010.

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Average natural gas prices received in the company s primary market have historically been 15% - 17% below NYMEX prices due to basis differentials compared to the current differentials of about 4%.

At April 30, 2010 the company also held natural gas basis differential hedges on 280,000 MMBtus with NYMEX vs. Panhandle Eastern Pipeline basis differentials of $0.47 and covering the production months of May 2010 through December 2010. These open basis differential contracts represent unrealized losses of $66,000 at April 30, 2010.

Subsequent to April 30, the May and June natural gas related derivative contracts closed, resulting in realized derivative gains of $32,000.

At April 30, 2010 the company also held costless collar derivative contracts for 6,000 barrels of oil for the production months of May through October 2010, priced at NYMEX WTI $75.00 floor and $95.00 ceiling. There were no realized gains or losses on these derivatives for the three or six months ended April 30, 2010. Unrealized losses on oil derivative contracts were $12,000 for the three and six month periods ended April 30, 2010. There were no oil hedges in 2009. Subsequent to April 30, the May contract closed, resulting in a realized gain of $1,000. There were no oil hedges in 2009.

The company has a hedging line of credit with its bank which is available, at the discretion of the company, to meet margin calls. To date, the company has not used this facility and maintains it only as a precaution related to possible margin calls. The maximum credit line available is $7,200,000 with interest calculated at the prime rate. The facility is unsecured and has covenants that require the company to maintain $3,000,000 in cash or short term investments, none of which are required to be maintained at the company s bank, and prohibits funded debt in excess of $500,000. The line expires May 1, 2013.

The company has elected not to designate its commodity derivatives as cash flow hedges for accounting purposes. Accordingly, such contracts are recorded at fair value on the balance sheet and changes in fair value are recorded in the statement of operations as they occur.

The location and amount of derivative fair values and related gain (loss) are indicated in the following tables:

Derivatives not designated as hedging instruments:

		As of April 30, 2010	
	Balance Sheet Location		**Fair Value**
Natural Gas Forward Positions	Derivative Asset	$	206,000
Natural Gas Basis Positions	Derivative Liability		(66,000)
Crude Oil Collars	Derivative Liability		(12,000)

Amount of Gain or (Loss) Recognized in Income on Derivatives:

Derivatives not designated as hedging instruments:

	Location of Gain/(Loss) Recognized in Income on Derivatives	Six Months Ended April 30, 2010
Natural Gas Forward Positions	Other Income and (Expense)	$ 107,000
Natural Gas Basis Positions	Other Income and (Expense)	(68,000)
Crude Oil Collars	Other Income and (Expense)	(12,000)

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6. EARNINGS PER SHARE

The company s calculation of earnings per share of common stock is as follows:

	Six Months Ended April 30,						
	2010			2009			
	Net Income	Shares	Net Income Per Share	Net (Loss)	Shares	Net (Loss) Per Share	
Basic earnings (loss) per share	**$ 1,242,000**	**10,140,000**	**$ .12**	$ (14,601,000)	10,358,000	$ (1.41)	
Effect of dilutive shares of common stock from stock options		**39,000**					
Diluted earnings (loss) per share	**$ 1,242,000**	**10,179,000**	**$ .12**	$ (14.601,000)	10,358,000	$ (1.41)	

	Three Months Ended April 30,						
	2010			2009			
	Net Income	Shares	Net Income Per Share	Net Loss	Shares	Net (Loss) Per Share	
Basic earnings (loss) per share	**$ 603,000**	**10,187,000**	**$ .06**	$ (4,710,000)	10,330,000	$ (.46)	
Effect of dilutive shares of common stock from stock options		**18,000**					
Diluted earnings (loss) per share	**$ 603,000**	**10,205,000**	**$ .06**	$ (4,710,000)	10,330,000	$ (.46)	

The company s outstanding options were not included in the calculation of diluted loss per share for the three and six month periods ended April 30, 2009 as their inclusion would have an antidilutive effect.

7. INCOME TAXES

The company uses 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 effective tax rate varies from the statutory rate primarily due to utilization of percent depletion deductions.

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

As of April 30, 2010, the company remains subject to examination of its 2006 and 2008 Federal and 2006 through 2008 state tax returns, except Colorado, in which the 2005 tax year also remains open.

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8. INTANGIBLE ASSETS

The company owns all of the patents underlying the Calliope Gas Recovery Technology and patents covering a new fluid lift technology for shallow wells known as Tractor Seal. The patents are being amortized on a straight line basis over the remaining lives ranging from 7.1 to 16.4 years.

	April 30, 2010	
	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Calliope intangible assets	$ 4,449,000	$ 653,000
Aggregate amortization expense:		
For the six months ended April 30, 2010		$ 217,000

The company reviews the value of its intangible assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. For the six months ended April 30, 2009, the company recorded a non-cash impairment expense of $926,000 related to other intangible assets.

9. FAIR VALUE MEASUREMENTS

The company utilizes derivative contracts to hedge against the variability in cash flows associated with the forecasted sale of its anticipated future natural gas production. These derivatives are carried at fair value on the consolidated balance sheets. Additionally, the company s short-term investments consist primarily of professionally managed limited partnerships which include investments that are not publicly traded and may have less readily determinable market values. Accounting standards established a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

- Level 3 inputs are measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources.

The classification of financial assets or liabilities within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The determination of the fair values below incorporates various factors required under fair value accounting guidance, including the impact of the counterparty s non-performance risk with respect to the company s financial assets and the company s

non-performance risk with respect to the company s financial liabilities. The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of April 30, 2010:

	As of April 30, 2010			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Asset:				
Short-term investments	$ 1,815	$	$ 235	$ 2,050
Derivative asset	$	$ 206	$	$ 206
Derivative liability	$	$ (73)	$	$ (73)

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Level 3 instruments are comprised of the company s investments in professionally managed limited partnerships. The fair value represents the net asset value of the company s share in each partnership. The company identified the investments as Level 3 instruments due to the fact that quoted prices for the underlying investments in the partnerships cannot be obtained and there is not an active market for the underlying investments or the partnerships shares. The company utilizes periodic fund statements along with current fund redemption activity and communication with investment advisors to determine the valuation of its investment.

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy for the three and six months ended April 30, 2010:

	Three Months Ended April 30, 2010	Six Months Ended April 30, 2010
	(in thousands)	
Balance as of January 31, 2010 and October 31, 2009, respectively(1)	$ 275	$ 342
Total gains (losses):		
Included in earnings(2)	(1)	(12)
Redemptions	(39)	(95)
Balance as of April 30, 2010(1)	$ 235	$ 235

(1) This amount is included in short-term investments on the balance sheet.

(2) This amount is included in investment and other income (loss) on the statement of operations.

10. COMMON STOCK

On September 22, 2008, the company s Board of Directors authorized a stock repurchase program. Under the program, the company could acquire up to $2,000,000 of its common stock. On April 9, 2009, the Board authorized expanding the repurchase program to $4,000,000. The repurchases may be made on the open market, in block trades or otherwise. The stock repurchase program may be expanded, suspended or discontinued at any time. During the quarter ended April 30, 2010, the company acquired 47,978 shares of its common stock at an aggregate cost of $448,000. For the six months ended April 30, 2010, the company acquired 115,435 shares of its common stock at an aggregate cost of $1,114,000. A total of 410,869 shares have been repurchased under the program at an average price per share of $8.90. Subsequent to April 30, 2010 through May 20, 2010, 18,600 shares have been acquired at an average cost per share of $9.25.

11. COMMITMENTS AND CONTINGENCIES

The company has been named as a defendant in a lawsuit alleging breach of contract, and other issues, arising in the normal course of its oil and gas activities. The company believes that a contractual agreement requires that disputes be resolved by arbitration. Although the company believes the allegations are without merit and that the company will ultimately prevail, the ultimate outcome of this lawsuit, or arbitration, cannot be determined at this time.

The company has also been named as a defendant in a lawsuit brought by a former employee. The suit alleges breach of contract and other employment issues. Although the company believes the allegations are without merit and that the company will ultimately prevail, the ultimate outcome of this lawsuit cannot be determined at this time.

The company has no material outstanding commitments at April 30, 2010.

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12. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2010, the FASB issued authoritative guidance that eliminated the requirement to disclose the date through which management evaluated subsequent events in the financial statements. Such subsequent events must still be evaluated by management through the date that financial statements are issued. The new guidance was effective immediately and the company adopted the guidance for financial statements issued subsequent to February 24, 2010. There was no impact on the company s financial position or results of operations as a result of the adoption.

In January 2010, the FASB issued authoritative guidance titled Improving Disclosures about Fair Value Measurements. This guidance amends existing authoritative guidance to require additional disclosures regarding fair value measurements, including the amounts and reasons for significant transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for any transfers into or out of Level 3 of the fair value hierarchy, and presentation on a gross basis of information regarding purchases, sales, issuances, and settlements within the Level 3 rollforward. This guidance also clarifies certain existing disclosure requirements. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements within the Level 3 rollforward, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this authoritative guidance had no impact on our financial position or results of operations, but may require expanded disclosure about fair value measurements.

In December 2008, the Securities and Exchange Commission (SEC) adopted revisions to its oil and gas disclosure requirements that are intended to align them with current practices and changes in technology. Among other things, the amendments will: replace the single-day year-end pricing assumption with a twelve-month average pricing assumption; permit the disclosure of probable and possible reserves; allow the use of certain technologies to establish reserves; require the disclosure of the qualifications of the technical person primarily responsible for preparing the reserves estimates or conducting a reserves audit; require the filing of the independent reserve engineers summary report; and permit the disclosure of a reserves sensitivity analysis table to illustrate the impact of different price and/or cost assumptions on reserves. These amendments are effective for registration statements filed on or after January 1, 2010, and for annual reports on Form 10-K for fiscal years ending on or after December 31, 2009 (October 31, 2010 for the company) with early adoption prohibited. The company is currently evaluating the impact that the adoption of these amendments will have on the company s financial position, results of operations, and disclosures. In January 2010, the Financial Accounting Standards Board (FASB) issued oil and gas reserve estimation and disclosure authoritative accounting guidance effective for reporting periods ending on or after December 31, 2009. This guidance was issued to align the accounting oil and gas reserve estimation and disclosure requirements with the requirements in the Securities and Exchange Commission s (SEC) final rule. The new FASB guidance includes changes to pricing used to estimate oil and gas reserves, broaden the types of technologies that a company may use to establish oil and gas reserves estimates, and broaden the definition of oil and gas producing activities to include the extraction of non-traditional resources.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, other than statements of historical facts, address matters that the company

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reasonably expects, believes or anticipates will or may occur in the future. Forward-looking statements may relate to, among other things:

- the company s future financial position, including working capital and anticipated cash flow;
- amounts and nature of future capital expenditures;
- operating costs and other expenses;
- wells to be drilled or reworked;
- oil and natural gas prices and demand;
- existing fields, wells and prospects;
- diversification of exploration;
- estimates of proved oil and natural gas reserves;
- reserve potential;
- development and drilling potential;
- expansion and other development trends in the oil and natural gas industry;
- the company s business strategy;
- production of oil and natural gas;
- matters related to the Calliope Gas Recovery System;
- effects of federal, state and local regulation;
- insurance coverage;
- employee relations;
- investment strategy and risk; and
- expansion and growth of the company s business and operations.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 2010, working capital was $12,178,000 compared to $13,542,000 at October 31, 2009. For the six months ended April 30, 2010, net cash provided by operating activities was $2,144,000 compared to $4,007,000 for the same period in 2009. The principle difference resulted from transfers between cash and short term investments. Income before taxes increased $25,593,000 primarily due to impairment losses of $24,652,000 in 2009, an increase in revenue of $1,626,000 and decreased other costs and expenses of $1,052,000 in 2010.

For the six months ended April 30, 2010 and 2009, net cash used in investing activities was $3,596,000 and $14,809,000, respectively. Last year s investment expenditures included $4,400,000 purchase of Calliope patents, $1,600,000 North Dakota Bakken acreage acquisition expenditures, $2,859,000 seismic and drilling expenditures in Central Kansas and $2,235,000 Oklahoma drilling project expenditures. Investing activities primarily included oil and gas exploration and development expenditures, including Calliope, totaling $3,555,000 and $10,368,000 respectively.

Existing working capital and anticipated cash flow are expected to be sufficient to fund operations and capital commitments for at least the next 12 months. At April 30, 2010, the company had no lines of credit or other bank financing arrangements except for the hedging line of credit discussed in Note 5. Because earnings are anticipated to be reinvested in operations, cash dividends are not expected to be paid. The company has no defined benefit plans and no obligations for post retirement employee benefits.

The company s adjusted earnings before interest, taxes, depreciation, depletion and amortization, including impairment losses, (EBITDA) was $3,380,000 for the six months ended April 30, 2010 compared to $3,256,000 for the six months ended April 30, 2009. EBITDA is not a GAAP measure of operating performance. The company uses this non-GAAP performance measure primarily to compare its performance with other companies in the industry that make a similar disclosure. The company believes that this performance measure may also be useful to investors for the same purpose. Investors should not

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consider this measure in isolation or as a substitute for operating income, or any other measure for determining the company s operating performance that is calculated in accordance with GAAP. In addition, because EBITDA is not a GAAP measure, it may not necessarily be comparable to similarly titled measures employed by other companies. Reconciliation between EBITDA and net income is provided in the table below:

	Six Months Ended April 30,	
	2010	**2009**
RECONCILIATION OF EBITDA:		
Net Income (loss)	**$ 1,242,000**	$ (14,601,000)
Add Back (Deduct):		
Interest Expense		
Income Tax Expense (Benefit)	**415,000**	(9,335,000)
Depreciation, Depletion and Amortization Expense Including Write-Down and Impairment	**1,723,000**	27,192,000
EBITDA	**$ 3,380,000**	$ 3,256,000

OFF-BALANCE SHEET FINANCING

The company has no off-balance sheet arrangements at April 30, 2010.

PRODUCT PRICES AND PRODUCTION

Although product prices are key to the company s ability to operate profitably and to budget capital expenditures, they are beyond the company s control and are difficult to predict. Since 1991, the company has periodically hedged the price of a portion of its estimated natural gas production when the potential for significant downward price movement is anticipated. Hedging transactions typically take the form of forward short positions, swaps and collars which are executed on the NYMEX futures market or by indexing to regional index prices associated with pipelines in proximity to the company s production. The company s current hedges are indexed to NYMEX, except basis hedges which are over the counter.

The oil and natural gas average sales prices reflected in the tables below exclude the effects of commodity derivative instruments. See Note 5 of the Notes to Consolidated Financial Statements and comments at Results of Operations for more information on gains and losses relating to commodity derivative instruments.

	Six Months Ended April 30,					
	2010		**2009**		**% Change**	
Product	**Volume**	**Price**	**Volume**	**Price**	**Volume**	**Price**
Oil (bbls)	**48,500**	**$ 72.74**	54,800	$ 38.63	- 12%	+ 89%
Gas (Mcf)	**523,000**	**$ 4.89**	647,000	$ 3.62	- 19%	+ 35%
	135,700	**$ 44.86**	162,600	$ 27.43	- 17%	+ 64%

BOE (Barrels of Oil Equivalent)

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	Three Months Ended April 30,					
	2010		2009		% Change	
Product	**Volume**	**Price**	**Volume**	**Price**	**Volume**	**Price**
Oil (bbls)	**25,000**	**$ 72.31**	38,100	$ 39.25	- 35%	+ 84%
Gas (Mcf)	**248,000**	**$ 4.60**	285,000	$ 3.01	- 13%	+ 53%
BOE (Barrels of Oil Equivalent)	**66,200**	**$ 44.49**	85,600	$ 27.49	- 23%	+ 62%

The effect of realized derivative gains and losses on total price realizations are reflected in the following table:

	Six Months Ended April 30,					
Product	**Net Wellhead Price**	**2010 Realized Derivative Gain (Loss)**	**Effective Price Realization**	**Net Wellhead Price**	**2009 Realized Derivative Gain (Loss)**	**Effective Price Realization**
Oil	**$ 72.74**	**$**	**$ 72.74**	$ 38.63	$	$ 38.63
Gas	**$ 4.89**	**$ 0.01**	**$ 4.90**	$ 3.62	$ 3.51	$ 7.13

	Three Months Ended April 30,					
Product	**Net Wellhead Price**	**2010 Realized Derivative Gain (Loss)**	**Effective Price Realization**	**Net Wellhead Price**	**2009 Realized Derivative Gain (Loss)**	**Effective Price Realization**
Oil	**$ 72.31**	**$**	**$ 72.31**	$ 39.25	$	$ 39.25
Gas	**$ 4.60**	**$ 0.05**	**$ 4.65**	$ 3.01	$ 4.74	$ 7.75

OPERATIONS

During the first six months of fiscal 2010, the company s operations continued to focus on its two core projects oil and natural gas drilling and application of its patented Calliope Gas Recovery System.

The company believes that, in combination, its drilling and Calliope projects provide an excellent (and possibly unique) balance for achieving its goal of adding long-lived reserves and production at reasonable costs and risks. However, it should be expected that successful results will occur unevenly for both the drilling and Calliope projects. Drilling results are dependent on both the timing of drilling and on the drilling success rate. Calliope results are primarily dependent on the timing, volume and quality of Calliope installations available to the company.

The company will continue to actively pursue adding reserves through its two core projects in fiscal 2010, and expects these activities to be a reliable source of reserve additions. However, the timing and extent of such activities can be dependent on many factors which are beyond the company s control, including but not limited to, the cost and quality of oil field services such as drilling rigs, production equipment and related services, and access to wells for application of the company s patented gas recovery system on low pressure gas wells. The prevailing price of oil and natural gas has a significant effect on demand and, thus, the related cost of such services and wells.

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In recent years, the company has significantly expanded both the volume and breadth of its drilling activities with new projects in central Kansas and North Dakota s Williston Basin. Compared to drilling in Oklahoma, the North Dakota projects involve higher costs and greater risks but significantly higher per well reserve potential. In contrast, drilling in central Kansas is less expensive than the company s Oklahoma drilling projects while still yielding excellent economics.

All of the company s oil and natural gas properties are located on-shore in the continental United States. The company s future drilling activities may not be successful, and its overall drilling success rate may change. Unsuccessful drilling activities could have a material adverse effect on the company s results of operations and financial condition. Also, the company may not be able to obtain the right to drill in areas where it believes there is significant potential for the company.

Recent Drilling Activities.

Bakken Shale At April 30, 2010, the company s first Bakken horizontal well, the Petro Hunt 148-94-17D-08-1H (17-D), has been on production for 79 days and is currently flowing without artificial lift. During initial testing, the well flowed 1,267 barrels of oil and 1.24 million cubic feet of gas, or 1,474 barrels of oil equivalent (Boe), over a 24-hour period. Through the first 90 days the well flowed 40,000 Boe. Credo owns a 10% working interest.

Credo s second horizontal Bakken well, also on the Fort Berthold Reservation, commenced drilling in May. The 147-94-3A-10-1H (3-A) well is being drilled on a 1,280 acre spacing unit located about four miles southeast of the 17-D. The 3-A well will also be operated by Petro-Hunt, and Credo owns an 18.75% working interest.

Credo has leased approximately 8,000 gross (6,000 net) acres on the Ft. Berthold Reservation containing about 50 drillable spacing units. The company s interests range up to 51% depending on the size of the spacing unit. It is expected that more than one well will be drilled on many spacing units.

In Williams County, North Dakota, drilling has commenced on Credo s third horizontal Bakken well, the Brigham Exploration Weisz 11-14#1-H (Weisz). The well is located on a 1,280 acre spacing unit about one mile east of Brigham s Olson 10-15-H well which has produced almost 115,000 Boe in 15 months. Credo owns a 6% working interest and, based on Brigham s exploration plan for the area, expects up to three Bakken wells to be drilled in the spacing unit and potentially three additional wells to develop the deeper Sanish/Three Forks formation.

Horizontal drilling targets the Bakken and Three Forks formations. The company s acreage is generally located south and west of Parshall Field and is in the vicinity of several recently announced significant Bakken discoveries. The Reservation is surrounded on three sides by horizontal Bakken production, and drilling activity on the Reservation is escalating rapidly.

Central Kansas Uplift Last year, Credo discovered a significant new field in Barton County, Kansas in which it owns an 85% working interest. That field has produced over 100,000 barrels of oil in about 15 months. Credo is continuing an aggressive prospect generation and lease

acquisition program. The company has significantly increased its acreage holdings on the Central Kansas Uplift and western Kansas, and currently owns 147,000 gross (85,000 net) acres. The acreage contains 34 blocks in which the company owns interests ranging from 12.5% to 100%.

To date, Credo has drilled 56 wells on its Central Kansas Uplift acreage, of which 45% have been successful. The company is currently drilling two to three wells per month and expects to maintain that pace for the next few years.

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Recent wildcat discoveries include the Campbell #18-1 and the Keith #13-1, both located in Graham County. The Campbell was completed pumping 75 Bopd and establishes first production on a large seismic feature for the area. A second well on this feature is scheduled for June. The Keith is currently awaiting completion after yielding good oil recovery on drill stem tests. This well also establishes production on a prominent seismic feature that has good development potential. Credo owns 27% and 46% working interests in the wells, respectively.

Calliope Gas Recovery Technology

Calliope Gas Recovery System The company is are continuing to actively discuss commercial Calliope terms with several companies. We have demonstrated that Calliope will perform as advertised. Credo has previously published statistics on its Calliope wells which show finding costs of about $0.50 per Mcf and total costs to deliver gas into the pipeline of about $1.00 per Mcf. The statistics also show that Calliope is very low risk when installed on suitable wells.

Credo recently entered into a Calliope license agreement with a mid-sized oil and gas producer to install Calliope on a pilot project. In addition, the company is in late stage discussions with a large independent for a Calliope pilot project over a cross section of applications that will test its efficacy for a large population of wells.

Calliope s low finding and production costs have become increasingly attractive as the economics on many industry drilling projects deteriorate due to lower product prices. We also believe that lower natural gas prices may stimulate divestitures of marginal properties by other companies, including properties that have Calliope potential.

Results of Operations

Six Months Ended April 30, 2010 Compared to Six Months Ended April 30, 2009

For the six months ended April 30, 2010, oil and gas revenues increased 36% to $6,087,000 compared to $4,461,000 during the same period last year. As the oil and gas price/volume table on page 16 shows, oil sales prices increased 89% to $72.74 per barrel and natural gas sales prices increased 35% to $4.89 per Mcf. The net effect of these price changes was to increase oil and gas sales by $2,694,000. On an energy equivalency basis (six Mcf equals one barrel of oil), total first half production was down 17% primarily due to the impact of flush oil production last year from the company s Huslig Field discovery. For the period, oil production was down 12% and natural gas production was down 19%. This resulted in an oil and gas sales decrease of $1,068,000 for the six months ended April 30, 2010. Investment and other income increased $163,000, primarily due to market performance.

For the six months ended April 30, 2010, total costs and expenses, excluding the impairment loss of $24,652,000 in 2009, decreased 19% to $4,500,000 compared to $5,552,000 for the comparable period in 2009. Oil and gas production expenses increased due to additional wells, offset by reduced field level expenses. DD&A decreased primarily due to the effects of the 2009 impairment write-down. General and administrative expenses decreased primarily due to legal and professional fees and decreased salaries and benefits. The effective tax rate was 25% and 39% for the 2010 and 2009 periods, respectively.

Three Months Ended April 30, 2010 Compared to Three Months Ended April 30, 2009

For the three months ended April 30, 2010, total revenues increased 25% to $2,945,000 compared to $2,353,000 during the same period last year. As the oil and gas price/volume table on page 16 shows, oil prices increased 84% to $72.31 per barrel and natural gas sales prices increased 53% to $4.60 per Mcf. The net effect of these price changes was to increase oil and gas sales by $1,713,000. For the second quarter, total production was down 23%, calculated on the energy equivalency basis due to flush

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production from the Huslig Field discovery last year and suspension of drilling for natural gas. For the period, oil production was down 35% and natural gas production was down 13%. The company has concentrated on oil drilling in Central Kansas and North Dakota during 2010 and has not drilled for gas due to low natural gas prices. This production decline resulted in an oil and gas sales decrease of $1,121,000 for the quarter ended April 30, 2010. Investment and other income increased $22,000 due to a generally improved investment environment.

For the three months ended April 30, 2010, total costs and expenses fell 9% to $2,237,000 compared to $2,461,000, excluding the 2009 impairment loss of $8,030,000, for the comparable period in 2009. Oil and gas production expenses increased 8% due to additional wells, partially offset by decreased field level costs. Depreciation, depletion and amortization (DD&A) decreased primarily due to the effects of the 2009 impairment write-down. General and administrative expenses increased primarily due to legal and professional fees. The effective tax rate was 24% and 39% for the 2010 and 2009 periods, respectively.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The company bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances. Although actual results may differ from these estimates under different assumptions or conditions, the company believes that its estimates are reasonable and that actual results will not vary significantly from the estimated amounts. The company believes the following accounting policies and estimates are significant in the preparation of its consolidated financial statements: the carrying value of its oil and natural gas properties, the accounting for oil and natural gas reserves, and the estimate of its asset retirement obligations.

Derivatives The company has elected not to designate its commodity derivatives as cash flow hedges for accounting purposes. Accordingly, such contracts are recorded at fair value on its balance sheet and changes in fair value are recorded in the Consolidated Statements of Operations as they occur.

Oil and Gas Properties The company uses the full cost method of accounting for costs related to its oil and natural gas properties. Capitalized costs included in the full cost pool are depleted on an aggregate basis using the units-of-production method. Depreciation, depletion and amortization is a significant component of oil and natural gas properties. A change in proved reserves without a corresponding change in capitalized costs will cause the depletion rate to increase or decrease.

Both the volume of proved reserves and any estimated future expenditures used for the depletion calculation are based on estimates such as those described under Oil and Gas Reserves below.

The capitalized costs in the full cost pool are subject to a quarterly ceiling test that limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and natural gas reserves discounted at 10 percent plus the lower of cost or market value of unproved properties less any associated tax effects. If such capitalized costs exceed the ceiling, the company will record a write-down to the extent of such excess as a non-cash charge to earnings, unless the company considered price increases subsequent to the quarterly balance sheet date which may reduce or eliminate a write-down. Any such write-down will reduce earnings in the period of occurrence and result in lower depreciation and depletion in future periods. A write-down may not be reversed in future periods, even though higher oil and natural gas prices

may subsequently increase the ceiling.

Changes in oil and natural gas prices have historically had the most significant impact on the company s ceiling test. In general, the ceiling is lower when prices are lower. Even though oil and natural gas prices can be highly volatile over weeks and even days, the ceiling calculation dictates that prices in effect as of

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the last day of the test period be used and held constant. The resulting valuation is a snapshot as of that day and, thus, is generally not indicative of a true fair value that would be placed on the company s reserves by the company or by an independent third party. Therefore, the future net revenues associated with the estimated proved reserves are not based on the company s assessment of future prices or costs, but rather are based on prices and costs in effect as of the end the test period.

Oil and Gas Reserves The determination of depreciation and depletion expense as well as ceiling test write-downs related to the recorded value of the company s oil and natural gas properties are highly dependent on the estimates of the proved oil and natural gas reserves. Oil and natural gas reserves include proved reserves that represent estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. There are numerous uncertainties inherent in estimating oil and natural gas reserves and their values, including many factors beyond the company s control. Accordingly, reserve estimates are often different from the quantities of oil and natural gas ultimately recovered and the corresponding lifting costs associated with the recovery of these reserves. See Footnote 12 for description of new SEC rules which Credo will adopt, effective October 31, 2010.

Asset Retirement Obligations The company estimates the future cost of asset retirement obligations, discounts that cost to its present value, and records a corresponding asset and liability in its Consolidated Balance Sheets. The values ultimately derived are based on many significant estimates, including future abandonment costs, inflation, market risk premiums, useful life, and cost of capital. The nature of these estimates requires the company to make judgments based on historical experience and future expectations. Revisions to the estimates may be required based on such things as changes to cost estimates or the timing of future cash outlays. Any such changes that result in upward or downward revisions in the estimated obligation will result in an adjustment to the related capitalized asset and corresponding liability on a prospective basis.

Revenue Recognition The company derives its revenue primarily from the sale of produced natural gas and crude oil. The company reports revenue gross for the amounts received before taking into account production taxes and transportation costs which are reported as oil and gas production expenses. Revenue is recorded in the month production is delivered to the purchaser at which time title changes hands. The company makes estimates of the amount of production delivered to purchasers and the prices it will receive. The company uses its knowledge of its properties, their historical performance, the anticipated effect of weather conditions during the month of production, NYMEX and local spot market prices, and other factors as the basis for these estimates. Variances between estimates and the actual amounts received are recorded when payment is received.

A majority of the company s sales are made under contractual arrangements with terms that are considered to be usual and customary in the oil and gas industry. The contracts are for periods of up to five years with prices determined based upon a percentage of a pre-determined and published monthly index price. The terms of these contracts have not had an effect on how the company recognizes its revenue.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The company manages exposure to commodity price fluctuations by periodically hedging a portion of estimated production through the use of derivatives, typically costless collars for oil and forward short positions in the NYMEX Oklahoma natural gas futures market. At April 30, 2010 the company held open natural gas derivative contracts representing short sales positions for 400,000 MMBtus at NYMEX basis prices ranging from $5.31 to $7.27 and covering the production months of May 2010 through December 2010. The company also held open natural gas derivative contracts with the same counterparty representing long positions for 360,000 MMBtus at NYMEX basis prices ranging from $4.26 to $5.83 and covering the production months of May 2010 through December 2010. These positions are presented net due to the contractual netting provisions with the counterparty. The open derivative contracts net to 40,000 MMBtus with a net unrealized gain of $206,000 at April 30, 2010. Average prices in the company s primary market are currently 0% below NYMEX prices due to basis differentials and transportation costs. However, regional weather conditions and other economic factors can periodically result in substantially higher basis differentials.

At April 30, 2010 the company also held basis differential hedges on 280,000 MMBtus with NYMEX vs. Panhandle Eastern Pipeline basis differentials of $0.47 and covering the production months of May 2010 through December 2010. These open basis differential contracts represent an unrealized loss of $66,000 at April 30, 2010.

See Note 5 to the Consolidated Financial Statements for more information regarding derivative transactions.

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of Marlis E. Smith, Jr., our Chief Executive Officer, and Alford B. Neely, our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of April 30, 2010. Based on the evaluation, these officers have concluded that:

Our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms; and

Our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There has not been any change in our internal control over financial reporting that occurred during the quarter ended April 30, 2010 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Notes to Consolidated Financial Statements (Unaudited) Note 11, Commitments and Contingencies , in Part I, Item I of this Form 10-Q and incorporated by

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reference into this Part II, Item I.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the company s Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES.

During the first six months of fiscal year 2010, the company repurchased 115,435 shares of its common stock on the open market at a weighted average price of $9.65. The purchases were made pursuant to a stock repurchase plan announced on September 24, 2008 and extended by the Board of Directors on April 9, 2009. The extended plan authorized repurchases up to $4,000,000, but could be expanded, suspended or discontinued at any time. At April 30, 2010, the company has repurchased 410,869 shares of common stock at an average price per share of $8.90. Subsequent to April 30, through May 20, 2010, the company has repurchased an additional 18,600 shares, bringing the total shares repurchased to 429,469 at an average price per share of $8.92.

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum dollar value of shares that may yet be purchased under the plan
November 1, 2008 October 31, 2009	295,434	$ 8.61	295,434	$ 1,456,000
November 1 30, 2009	40,937	$ 10.19	40,937	$ 1,039,000
December 1 31, 2009		$		$
January 1 31, 2010	26,520	$ 9.38	26,520	$ 790,000
February 1 28, 2010	23,800	$ 8.87	23,800	$ 579,000
March 1-31, 2010	7,800	$ 9.73	7,800	$ 503,000
April 1 30, 2010	16,378	$ 9.84	16,378	$ 342,014
Total	410,869	$ 8.90	410,869	$ 342,014

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibits are as follow:

31.1 Certification by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

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

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)

By: /s/ Marlis E. Smith, Jr.
Marlis E. Smith, Jr.
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Alford B. Neely
Alford B. Neely
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: June 9, 2010