

CROFF ENTERPRISES INC
Form 10-Q
August 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2006

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 000-16731

CROFF ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

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

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 551,344 shares of common stock outstanding on August 1, 2006, exclusive of 69,399 common shares held in treasury stock.

CROFF ENTERPRISES, INC.

FORM 10-Q

For the Quarter Ended June 30, 2006

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

All statements, other than statements of historical or present facts, that address activities, events, outcomes or developments that the Company plans, expects, believes, assumes, budgets, predicts, forecasts, estimates, projects, intends or anticipates (and other similar expressions) will or may occur in the future are forward looking statements. These forward-looking statements are based on management's current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the cautionary statements in this Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2005. 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

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(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, 2005.

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, 2005 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)

| | <u>December 31,</u> <u>2005</u> | <u>June 30, 2006</u> |
|---|------------------------------------|----------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 902,257 | \$ 778,254 |
| Accounts receivable | \$ 157,959 | \$ 138,726 |
| | <u>\$ 1,060,216</u> | <u>\$ 916,980</u> |
| Oil and natural gas properties, at cost, successful efforts method: | \$ 1,282,616 | \$ 1,333,070 |
| Accumulated depletion and depreciation | \$ (535,330) | \$ (559,830) |
| | <u>\$ 747,286</u> | <u>\$ 773,240</u> |
| Total Assets: | <u>\$ 1,807,502</u> | <u>\$ 1,690,220</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 37,945 | \$ 31,131 |
| Farmout agreement liability | \$ 300,621 | \$ -- |
| Current portion of ARO liability | \$ 23,000 | \$ 23,000 |
| Deposit on sale of assets | \$ -- | \$ 100,000 |
| Accrued liabilities | \$ 72,788 | \$ 23,885 |
| | <u>\$ 434,354</u> | <u>\$ 178,016</u> |
| Long-term portion of ARO liability | <u>58,828</u> | <u>\$ 61,761</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 | \$ 1,089,233 | \$ 1,221,324 |
| Common stock, \$.10 par value | | |
| 20,000,000 shares authorized, 620,643 shares issued and outstanding | \$ 62,064 | \$ 62,064 |
| Capital in excess of par value | \$ 155,715 | \$ 155,715 |
| Treasury stock, at cost, 69,399 | | |
| issued and outstanding in 2005 and 2006 | \$ (107,794) | \$ (107,794) |
| Retained earnings | \$ 115,102 | \$ 119,134 |
| | <u>\$ 1,314,320</u> | <u>\$ 1,450,443</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 1,807,502</u> | <u>\$ 1,690,220</u> |

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

CROFF ENTERPRISES, INC.

STATEMENT OF OPERATIONS

(Unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-------------------|-----------------------------|-------------------|
| | 2005 | 2006 | 2005 | 2006 |
| Revenues: | | | | |
| Oil and natural gas sales | \$ 198,694 | \$ 209,032 | \$ 379,986 | \$ 435,106 |
| Interest income | \$ -- | \$ 7,221 | \$ -- | \$ 13,879 |
| Other income | \$ 5,473 | \$ -- | \$ 18,610 | \$ -- |
| | <u>\$ 204,167</u> | <u>\$ 216,253</u> | <u>\$ 398,596</u> | <u>\$ 448,985</u> |
| Expenses: | | | | |
| Lease operating expense including production taxes | \$ 116,097 | \$ 57,469 | \$ 162,763 | \$ 123,158 |
| General and administrative | \$ 47,518 | \$ 35,874 | \$ 88,778 | \$ 98,826 |
| Overhead expense, related party | \$ 12,697 | \$ 8,126 | \$ 24,697 | \$ 24,444 |
| Depletion and depreciation | \$ 10,500 | \$ 12,000 | \$ 21,000 | \$ 24,500 |
| Accretion expense | \$ -- | \$ 1,467 | \$ -- | \$ 2,934 |
| | <u>\$ 186,812</u> | <u>\$ 114,936</u> | <u>\$ 297,238</u> | <u>\$ 273,862</u> |
| Pretax income (loss) | \$ 17,355 | \$ 101,317 | \$ 101,358 | \$ 175,123 |
| Provision for income taxes: | \$ 8,000 | \$ 23,000 | \$ 15,850 | \$ 39,000 |
| Net income (loss) | <u>\$ 9,355</u> | <u>\$ 78,317</u> | <u>\$ 85,508</u> | <u>\$ 136,123</u> |
| Net income applicable to preferred B shares: | <u>\$ 58,579</u> | <u>\$ 76,682</u> | <u>\$ 121,141</u> | <u>\$ 132,091</u> |
| Net income (loss) applicable to common shares | <u>\$ (49,224)</u> | <u>\$ 1,635</u> | <u>\$ (35,633)</u> | <u>\$ 4,032</u> |
| Basic and diluted net income (loss) per common share | <u>\$ (0.09)</u> | <u>\$ *</u> | <u>\$ (0.06)</u> | <u>\$ 0.01</u> |
| Weighted average common shares outstanding | <u>\$ 567,400</u> | <u>\$ 551,224</u> | <u>\$ 567,400</u> | <u>\$ 551,224</u> |

* less than \$0.01 per share

See accompanying notes to unaudited condensed financial statements.

CROFF ENTERPRISES, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the year ended December 31, 2005 and the six months ended June 30, 2006
(Unaudited)

| | Preferred B stock | | Common stock | | Capital in Excess of Par Value | 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, 2005 | 540,659 | \$1,089,233 | 620,643 | \$ 62,064 | \$155,715 | (107,794) | \$ 115,102 |
| Net income for the six months ended June 30, 2006 | - | - | - | - | - | - | 136,123 |
| Preferred Stock reallocation | - | 132,091 | - | - | - | - | (132,091) |
| Balance at June 30, 2006 | 540,659 | \$1,221,324 | 620,643 | \$ 62,064 | \$ 155,715 | (107,794) | \$ 119,134 |

See accompanying notes to unaudited condensed financial statements.

CROFF ENTERPRISES, INC.

STATEMENT OF CASH FLOWS

For the six months ended June 30, 2005 and 2006

(Unaudited)

| | <u>2005</u> | <u>2006</u> |
|---|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 85,508 | \$ 136,123 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depletion, depreciation, and accretion | 21,000 | 27,434 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,480) | 19,232 |
| Accounts payable | 3,464 | (6,814) |
| Accrued liabilities | 7,145 | (48,903) |
| Net cash provided by operating activities | <u>114,637</u> | <u>127,072</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of equipment | 48,500 | -- |
| Acquisition of treasury stock | (2,362) | -- |
| Deposit recieved for sale of assets | -- | 100,000 |
| Acquisition of property leases and improvements | -- | (50,454) |
| Net cash provided in investing activities | <u>46,138</u> | <u>49,546</u> |
| Cash flows from financing activities: | | |
| Costs incurred for the benefit of farmout agreement | -- | (300,621) |
| Net cash (used) by financing activities | <u>--</u> | <u>(300,621)</u> |
| Net increase (decrease) in cash and cash equivalents | 160,775 | (124,003) |
| Cash and cash equivalents at beginning of period | 257,667 | 902,257 |
| Cash and cash equivalents at end of period | <u>\$ 418,442</u> | <u>\$ 778,254</u> |

Supplemental disclosure of non-cash investing and financing activities:

During the six month period end June 30, 2005, the Company purchased 1,500 shares of its common stock for \$2,362 now included in the treasury.

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See accompanying notes to unaudited condensed financial statements.

CROFF ENTERPRISES, INC

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

Basis of Preparation

The condensed financial statements for the three and six month periods ended June 30, 2005 and 2006 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, 2005, 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, and online at the Securities and Exchange Commission website at www.sec.gov/edgar.

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

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 212 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 six 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 2006 the Company has a small working interest in three wells being drilled in Wyoming and one scheduled in Utah. 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, and Tempest declined to participate in the balance of the acreage. In June, 2006, the Company reached an agreement to sell all of its assets in the Yorktown Program except a working interest in two wells. The sale was for approximately the Company's cost in the program.

During the last 12 months, the Company has been involved in seeking strategic alternatives to its previous business. On April 8, 2005, the Company announced that it would seek such strategic alternatives to attempt to enhance shareholder value and liquidity. Beginning in June and completed in August 2005, shareholders received a tender offer for their Preferred B shares from private companies owned by the Company's President and Chairman.

Following the tender offer, the President and his affiliated companies own approximately 67% of the outstanding Preferred B shares of the Company. The Company continues to engage in negotiations intended to create more value and liquidity for its shareholders. There is no assurance these negotiations will be successful.

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 June 30, 2006, the Company had assets of \$1,690,220 and current assets totaled \$916,980 compared to current liabilities of \$178,016. Working capital at June 30, 2006 totaled \$738,946, an increase of 18% compared to \$625,862 at December 31, 2005. The Company had a current ratio at June 30, 2006 of approximately 5:1. During the six month period ended June 30, 2006, net cash provided by operations totaled \$127,072, as compared to \$114,637 for the same period in 2005. This increase was primarily due to lower operating expenses in 2006. 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 June 30, 2006. In December, 2005, the Company purchased 16,156 shares of its common stock at a cost of \$24,643, which is included in the treasury at June 30, 2006.

Capital expenditures in the second quarter included \$40,000 paid for the Panther Pipeline in Dewitt County, Texas. This pipeline was then included in the sale of the Dewitt County assets completed in July, 2006. (See Item 5, Subsequent Events). Capital costs in the first quarter of 2006, totaled \$10,454 incurred to pay for costs in the Dixel Gips well in Dewitt County, Texas. As of March 31, 2006, the Company had capitalized approximately \$210,000 related to the 2004 Yorktown Re-Entry Program, and by June 30, 2006, approximately \$250,000. The Dewitt County assets sale was for approximately \$255,000. The Company's oil and natural gas assets in the Yorktown Re-Entry Program in Dewitt County, Texas, are allocated to the Company's common shareholders. The Company has not incurred any substantial cash expenditures for assets in the second quarter due to high prices for asset acquisition. The Company has commitments to participate in small fractional amounts in wells in Utah and Wyoming.

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, and reasonably priced opportunities. Bank borrowings may be utilized to finance the Company's 2006 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 June 30, 2006 compared to three months ended June 30, 2005.

The Company had a net income for the second quarter of 2006 which totaled \$78,317 compared to a net income of \$9,355 for the same period in 2005. This increase in income in 2006 was due to higher prices for oil and natural gas, lower lease operating expenses, and lower general and administrative expenses. The major factor was the lower operating expenses in Dewitt County, and less workover cost elsewhere. The Company's costs for lease operating expenses are expected to increase in the next quarter, due to participation in drilling and workovers.

Revenues for the second quarter of 2006 totaled \$216,253, a slight increase from the same period in 2005. Oil and natural gas sales for the second quarter of 2006 totaled \$209,032, a 5% increase from the same period in 2005. Increased oil and natural gas prices, combined with slight increases in production levels during the first quarter of 2006, were the factors causing this increase in oil and natural gas sales compared to the same period in 2005. The Company's average sales price of oil in the second quarter of 2006 was approximately \$10 per barrel higher than the same period in 2005. The Company's average sales price of natural gas in the second quarter of 2006 was approximately \$5.50 per Mcf (Mcf equates to one thousand cubic feet). The price in the second quarter of 2005 was approximately the same.

For the second quarter of 2006, lease operating expenses, which includes all production related taxes, totaled \$57,469 compared to \$116,097 incurred for the same period in 2005. This decrease was due to much lower expenses in Dewitt County, Texas, which included a write off in 2005, and less workover costs.

Estimated depreciation and depletion expense for the second quarter of 2006 totaled \$12,000 and for 2005, totaled \$10,500.

General and administrative expense, including overhead expense paid to a related party, for the second quarter of 2006, totaled \$44,000 compared to \$60,215 for the same period in 2005. This decrease related primarily to timing of year end expenses related to the audit, and expenses involved in responding to a tender offer in 2005. The Company has incurred additional costs during the second quarter in both 2005 and 2006, associated with compliance with the Sarbanes-Oxley Act of 2002. Legal and accounting expenses were higher in the second quarter of 2005.

Provision for income taxes for the second quarter of 2006 totaled \$23,000 compared to \$8,000 from the same period in 2005. This increase is primarily attributable to an increase in net income for the quarter, which also results in a higher tax bracket.

Six Months ended June 30, 2006 compared to the six months ended June 30, 2005.

Revenues for the six months ended June 30, 2006 totaled \$ 448,985 a 12% increase from the revenues of \$398,596 at June 30, 2005. Net income for the six months ended June 30, 2006 and 2005 totaled \$136,123 and \$85,508 respectively. This increase in the net income was due to an increase in the revenue, and much reduced lease operating expenses due to lower workover costs overall, and the lack of significant expenses in Dewitt County, Texas. Interest income also increased.

Oil and gas sales for the six months ended June 30, 2006 totaled \$435,106 a 14% increase from the \$379,986 for the same period in 2005. The increase in oil and gas sales in 2006 compared to 2005 is primarily attributed to increased oil prices as well as slightly higher oil production levels during 2006.

Lease operation expense which includes all production related taxes for the six months ended June 30, 2006 totaled \$123,158 a 25% decrease from \$162,763 in 2005. Included in the 2005 lease operating expense is an approximately \$52,638 for the write off of the Helen Gips well In Dewitt County, Texas. Otherwise, lease operating costs increased slightly during the same period in 2006, from the six month period ending June 30, 2005.

Depletion and depreciation expense for the six months ended June 30, 2006 totaled \$24,500 from the sum of \$21,000 incurred for the same period in 2005. This increase was due to the small increase in producing assets in 2006.

General and administrative expenses, including overhead expense paid to related party, for the six months ended June 30, 2006 totaled \$113,475 compared to \$86,344 for the same period in 2005. Overhead expense paid to related party for the six months ended June 30, 2006 totaled \$24,444 compared to \$24,697 incurred for the same period in 2005. The increase in overhead expenses is primarily attributed to the costs of the audit increasing, and the higher professional fees of the Company. The Company has also incurred additional costs during 2006 associated with compliance with the Sarbanes-Oxley Act of 2002.

Provision for income taxes for the six months ending June 30, 2005 totaled \$39,000 compared to \$15,850 from the same period in 2005. This increase is due to expected higher income in 2006 the Company will reach a higher income tax bracket.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 replaces APB Opinion ("APB") No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changed the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 will apply to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, SFAS No. 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial condition).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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 price realizations for the Six months ended June 30, 2006, ranged from a monthly low of approximately \$5.00 per Mcf to a monthly high of approximately \$12 per Mcf. Oil prices ranged from a monthly low of approximately \$45 per barrel to a monthly high of approximately \$70 per barrel. 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. For the six months ended June 30, 2006, a 10% reduction in oil and natural gas prices would have reduced revenues by approximately \$44,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. At the end of the period covered by this Quarterly Report on Form 10-Q, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer who also serves as Acting Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer concluded that as of the end of such period, the Company's disclosure control and procedures are effective in alerting them to material information that is required to be included in the reports the Company files or submits under the Securities Exchange Act of 1934. The Company also maintains an independent Audit Committee of the Board of Directors as part of its internal controls.

Changes in Internal Controls Over Financials Reporting

There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

ITEM 5. SUBSEQUENT EVENTS

1. On July 22, 2006, the Company filed an 8-K dated July 21, 2006, reporting the sale of the significant assets in the Yorktown drilling program in Dewitt County, Texas. These assets reporting were sold to an unrelated independent oil and gas company for \$255,000, which is approximately the Company's cost in this program. The Company retained its working interest in the Wiggins well and the Korth well in Dewitt County.
2. On August 10, 2006, at a meeting of the Board of Directors of the Company, the Board accepted the resignation of Kelle Thomas as Corporate Secretary and elected Laura Cotton to this position.

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:

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 May 12, 2006, 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 May 12, 2006, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

(b) The following reports on Form 8-K were filed by Registrant during the quarter ended June 30, 2006**:

The Company filed a current report on Form 8-K on March 31, 2005 to announce that Causey Demgen and Moore, who had served as the Company's independent certified accountants since 1987, declined to stand for re-appointment due to restrictions imposed by section 208(a) of the Sarbanes Oxley Act of 2002, and the rules and regulations of the Securities and Exchange Commission that prohibit partners on the audit engagement team from providing audit services to the issuer for more than five consecutive years and from returning to audit services with the same issuer within five years. There was no disagreement with this firm on any accounting principles or practices. On April 12, 2006, Croff filed an amended 8-KA reporting this event. Both versions also contained the engagement of Ronald R. Chadwick, P.C. as the Company's new independent public accounting firm.

** Previously filed

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 March 31, 2006 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 March 31, 2006 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 results of operations of Croff Enterprises, Inc.

CROFF ENTERPRISES, INC.

Date: August 11, 2006

By: _____ /s/ Gerald L. Jensen

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

