CROFF ENTERPRISES INC
Form 10-Q
May 13, 2008

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 March 31, 2008

OR

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

For the transition period from N/A to N/A

Commission File Number: 000-16731

CROFF ENTERPRISES, INC.
(Exact Name of Registrant As Specified In Its Charter)

Utah	3773 Cherry Creek Drive North, Suite 1025 Denver, Colorado	80209
State of Incorporation	Address of principal executive offices	Zip Code

(303) 383-1555	87-0233535
Registrant’s telephone number, including area code	I.R.S. Employer Identification Number

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

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

$0.10 Par Value	None
Title of each class	Name of each exchange on which registered

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

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule12b-2 of the Exchange Act.

Large acclerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company x

Indicate by checkmark whether the registrant is a shell company (as defined by Rule12b-2) of the Exchange Act) YES x NO o

As of May 1, 2008, the aggregate market value of the common voting stock held by non-affiliates of the Registrant, computed by reference to the average of the bid and ask price on such date was: $210,000.

As of May 1, 2008, the Registrant had outstanding 516,799 shares of common stock (excludes 102,644 common shares held as treasury stock).

CROFF ENTERPRISES, INC.

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INDEX TO INFORMATION INCLUDED IN THE QUARTERLY REPORT (FORM 10-Q)
TO THE SECURITIES AND EXCHANGE COMMISSION
FOR THE THREE MONTHS ENDED MARCH 31, 2008 (UNAUDITED)

Forward-Looking Statements & Engineering Reports

Certain information included in this report, other materials filed or to be filed by the Company with the Securities and Exchange Commission ("SEC"), as well as information included in oral statements or other written statements made or to be made by the Company contain or incorporate by reference certain forward looking statements (other than statements of historical or present fact) within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

All statements, other than statements of historical or present facts, that address activities, events, outcomes or developments that the Company plans, expects, believes, assumes, budgets, predicts, forecasts, estimates, projects, intends or anticipates (and other similar expressions) will or may occur in the future are forward looking statements. These forward-looking statements are based on management's current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the cautionary statements in this Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Such forward-looking statements appear in a number of places and include statements with respect to, among other things, such matters as: future capital, development and exploration expenditures (including the amount and nature thereof), drilling, deepening or refracing of wells, oil and natural gas reserve estimates (including estimates of future net revenues associated with such reserves and the present value of such future net revenues), expansion and growth of the Company's operations, the opportunity and risk factors in seeking a corporate acquisition, 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, the market price of oil and natural gas, the risks associated with being a shell company, 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, 2007.

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, 2007 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.

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CROFF ENTERPRISES, INC.
BALANCE SHEETS
(Unaudited)

	December 31, 2007	March 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 408,634	$ 360,984
Accounts receivable	86,730	68,174
	495,364	429,158
Total assets	$ 495,364	$ 429,158
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 7,159	$ 15,500
Current portion of ARO liability	--	--
Accrued liabilities	70,667	68,612
	77,826	84,112
Stockholders' equity:		
Class A Preferred stock, no par value, 10,000,000 shares authorized, none issued	--	--
Common stock, $.10 par value; 50,000,000 shares authorized, 620,643 shares issued and outstanding	62,064	62,064
Capital in excess of par value	439,615	439,615
Treasury stock, at cost, 69,399 in 2007 and 98,644 shares in 2008	(107,794)	(147,604)
Retained earnings (deficit)	23,653	(9,029)
	417,538	345,046
Total liabilities and stockholders' equity	$ 495,364	$ 429,158

See accompanying notes to unaudited condensed financial statements.

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CROFF ENTERPRISES, INC.
STATEMENTS OF OPERATIONS
For the three months ended March 31, 2007 and 2008
(Unaudited)

	2007 As Restated	2008
Revenues		
Oil and natural gas sales	$ --	$ --
Other income (lease payments)	--	--
	--	--
Expenses		
Lease operating expense including production taxes	--	--
Proposed drilling program	--	--
General and administrative	16,743	32,122
Overhead expense, related party	3,000	3,000
Accretion expense	--	--
Depletion and depreciation	--	--
	19,743	35,122
(Loss) from operations	(19,743)	(35,122)
Other income (expense)		
Interest income	11,149	2,441
	11,149	2,441
(Loss) from continuing operations before income taxes	(8,594)	(32,681)
Provision for income taxes	--	--
Income (loss) from continuing operations	(8,594)	(32,681)
Discontinued operations:		
Income from operations of discontinued component (including loss on disposal in 2007 of $93,371)	84,966	--
Provision for income taxes	22,000	--
Income from discontinued operations	62,966	--
Net income (loss)	$ 54,372	$ (32,681)
Net income applicable to preferred B shares	$ 50,891	$ --
Net income (loss) applicable to common shares	$ 3,481	$ (32,681)

Basic and diluted (loss) from continuing operations	$	(0.02)	$	(0.06)
Basic and diluted income from discontinued operations	$	0.84	$	--
Basic and diluted net income (loss) per common share	$	0.01	$	(0.06)
Weighted average per outstanding shares		551,224		521,979

See accompanying notes to unaudited condensed financial statements.

CROFF ENTERPRISES, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
For the year ended December 31, 2007 and the three months ended March 31, 2008
(Unaudited)

	Common stock				
	Shares	Amount	Capital in excess of par value	Treasury stock	Accumulated earnings
Balance at December 31, 2007	620,643	$ 62,064	$ 439,715	$ (107,794)	$ 23,653
Net income for the three months ended March 31, 2008	--	--	--	--	(32,681)
Purchase of treasury stock	--	--	--	(39,810)	--
Balance at March 31, 2008	620,643	$ 62,064	$ 155,715	$ (147,604)	$ (9,028)

See accompanying notes to unaudited condensed financial statements.

CROFF ENTERPRISES, INC.
STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2007 and 2008
(Unaudited)

	2007	2008
Cash flows from operating activities:		
Net income (loss)	$ 54,372	$ (32,682)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and accretion	14,114	--
Changes in operating assets and liabilities:		
Accounts receivable	(12,540)	18,556
Accounts payable	(410)	8,341
Accrued liabilities	2,000	(2,055)
Net cash provided by operating activities	80,054	(7,840)
Cash flows from investing activities:		
Acquisition of property leases and improvements	(22,845)	--
Net cash provided (used) by investing activities	(22,845)	--
Cash flows from financing activities:		
Repurchase of treasury stock	--	(39,810)
Net cash (used) by financing activities	--	(39,810)
Net increase in cash and cash equivalents	34,691	(47,650)
Cash and cash equivalents at beginning of period	985,729	408,364
Cash and cash equivalents at end of period	$ 1,020,420	$ 360,984

Supplemental disclosure of non-cash investing and financing activities: None

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 month periods ended March 31, 2007 and 2008 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, 2007, 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.

1) Discontinued Operations

As of December 31, 2007, pursuant to a plan adopted by the shareholders, the Company had transferred its oil and gas operations to a Company owned by the shareholders of the Preferred B Stock. The affect of these discontinued operations on the Company are included in the Schedule of discontinued operations as of March 31, 2007, set out below:

SCHEDULE OF DISCONTINUED OPERATIONS
For the Three Months Ended March 31, 2007

Revenues		
Oil and natural gas sales	$	210,329
Other income (lease payments)		--
	$	210,329
Expenses		
Lease operating expense including production taxes		75,086
General and administrative		27,039
Overhead expense, related party		9,125
Accretion expense		1,613
Depletion and depreciation		12,500
		125,363
Income from discontinued operations		84,966
Provision for income taxes		22,000
Net income from discontinued operations	$	62,966

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.

Summary of Current and Subsequent Material Events – Change of Control & Sale of Assets

In December, 2007 Croff Enterprises, Inc. hereafter "Croff Enterprises" or "Croff" spun-off its oil and gas assets, related bank accounts, along with all related assets and liabilities to a new wholly owned subsidiary Croff Oil Company, Inc. All shares of Croff Oil Company, Inc were then exchanged to the Croff preferred B shareholders and the preferred B shares cancelled. All of the oil and gas assets, including perpetual mineral interests, were pledged to the preferred B shareholders at the creation of the preferred B class in 1996. All shareholders of Croff Enterprises, Inc at the date of issuance in 1996 were given an equivalent number of shares of preferred B stock, while keeping their common shares. Since that time the preferred B stock has had a limited trading market as it is not listed on any exchange. Based on the limited number of shareholders and small capitalization, Croff Oil Company, Inc. is a private corporation.

Beginning December 31, 2007, and until any subsequent reorganization, Croff Enterprises will not be engaged in any active business, but primarily is seeking to acquire a private company with more scalable assets which desires to merge with a public company in order to obtain a more active public market. Either an acquisition or sale of controlling shares may cause a change in the control of the company and a change in management and directors. At this time, Croff Enterprises has approximately $340,000 in cash, only one class of stock, its common stock, and no active business. While Croff may acquire another private or public company in the energy business, it is also possible it may acquire another company in a different business if such an acquisition would provide an opportunity for growth in the company's business and the chance of increasing the value of the company's stock. The Company intends to pursue such acquisition or sale.

This division of the Company occurred approximately three years after Croff's Board of Directors had determined to review Croff's strategic alternatives with a view to obtain more liquidity for the Company's two classes of stock and to increase the value to its shareholders of the company's stock. In the first quarter of 2005, the Board felt the combined value of $2.30 for a common plus a preferred B share did not reflect the total value of the Company. The Board set the value under the Utah Dissenting Shareholders Rights Act in the fourth quarter of 2007 at $5.25 for a combination of both a preferred B and a common share, allowing shareholders to receive this cash buyout.

Under the Utah Dissenting Shareholder's Rights Act, Croff common and preferred "B" shareholders had the option to receive a cash option from the company in exchange for their shares. Common shares were redeemed at $1.00 per share and Preferred "B" shares were redeemed at $4.25 per share. If a shareholder did not approve of the price they were able to propose a different price with justification. 24,030 common shares of Croff Enterprises were redeemed at $1.00 per share, while 10,415 shares were redeemed at various prices from $1.00 to $2.70. There were 35,930 shares of preferred "B" shares redeemed all of which accepted the $4.25 per share price. The result of shareholders exercising their rights under the Utah Statute was that issued and outstanding common shares were reduced from 551,244 to 516,799 common shares by March 31, 2008.

Liquidity and Capital Resources

At March 31, 2008, the Company had assets of $429,158 and current assets totaled $429,158 compared to current liabilities of $84,112. The Company had a current ratio at March 31, 2007 of approximately 5:1. During the three month period ended March 31, 2008, net cash provided by operations totaled a loss of $7,840, as compared to an increase of $80,054 for the same period in 2007. This decrease was due to the exchange of the oil and gas assets to the former preferred "B" shareholders, resulting in no active business in 2008. The Company had no short-term or long-term debt outstanding at March 31, 2008. In February and March of 2008, the Company purchased 34,445 shares of its common stock at a cost of $46,811, which is included in the treasury at March 31, 2008. This reduced cash from approximately $380,000 to $340,000.

Results of Operations

Three months ended March 31, 2008 compared to three months ended March 31, 2007.

The Company had a net loss for the first quarter of 2008 which totaled $32,681 compared to a net income of $54,372 for the same period in 2007. As a result of the Plan of Corporate Division there was only interest income in the first quarter of 2008, while there were oil revenues in the first quarter of 2007. The decrease in revenues was partially offset by a decrease in overhead costs from approximately $15,000 per quarter to approximately $3,000. The President's salary also decreased from $13,500 per quarter in 2007 to $1.00 per year in 2008.

General and administrative expense, including overhead expense paid to a related party, for the first quarter of 2008, totaled $35,122 compared to $19,743 for the same period in 2007. This cost included the costs of the audit, expenses relating to the division of the company, and additional accounting and legal costs. Provision for income taxes for the first quarter of 2008 was zero compared to $22,000 from the same period in 2007. This decrease is attributable to the net loss for 2008.

Results of Discontinued Operations

Revenues for the first quarter of 2008 totaled $2,441 compared to $221,478 for the period ending March 31, 2007, a decrease due to the spinoff of the oil and gas assets. Interest income decreased from $11,149 in 2007 to $2,441 in the first quarter of 2008, due to the spinoff of the preferred "B" stock, cash accounts, and lower interest rates. Oil and gas revenues decreased from $210,329 in the first quarter of 2007 to $0 in the first quarter of 2008.

For the first quarter of 2008, there were no lease operating expenses, compared to $75,086 incurred for the first quarter in 2007. This decrease was due to the spinoff of the oil and gas assets before December 31, 2007. Estimated depreciation and depletion expense for the first quarter of 2008 was $0 compared to $12,500 for 2007.

Accounting Pronouncements Regarding Interim Financial Statements

SFAS 158 "Employers" Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of SFAS 87, 88, 106, and 132(R)." This statement requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The Company does not maintain a defined benefit pension plan and offers no other post retirement benefits.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of SFAS No. 115 ("SFAS No. 159"), which becomes effective for fiscal periods beginning after November 15, 2007. Under SFAS No. 159, companies may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. This election, called the "fair value option", will enable some companies to reduce volatility in reported earnings caused by measuring related assets and liabilities differently. We do not expect the impact of adoption to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations, ("SFAS 141 R"). SFAS 141 R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, including goodwill, the liabilities assumed and any non-controlling interest in the acquiree. The Statement also establishes disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will be dependent on the future business combinations that the Company may pursue after its effective date.

In December 2007, the SEC issued SAB 110 Share-Based Payment. SAB 110 amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expressed the views of the staff regarding the use of the "simplified" method in developing an estimate of the expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue use for the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. SAB 110 is effective January 1, 2008. We currently use the "simplified" method to estimate the expected term for share option grants as we do not have enough historical experience to provide a reasonable estimate. We will continue to use the "simplified" method until we have enough historical experience to provide a reasonable estimate of expected term in accordance with SAB 110. The Company does not expect SAB 110 will have a material impact on its consolidated balance sheets, statements of income and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company’s major market risk exposure is finding a suitable acquisition of a private company or other reorganization within a reasonable time.

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 is also the Company’s 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, and the Acting Chief Financial 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.

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 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, 2008, 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, 2008, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.*

33.1 8-K dated March 6, 2008, Croff Announces Results of Corporate Division

*Filed herewit

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CROFF ENTERPRISES, INC.

Date: May 12, 2008 By /s/ Gerald L. Jensen
Gerald L. Jensen, President,
Chief Executive Officer

Date: May 12, 2008 By /s/ Gerald L. Jensen
Gerald L. Jensen
Acting Chief Financial Officer