

CREDO PETROLEUM CORP
Form PRER14A
February 20, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

CREDO PETROLEUM CORPORATION
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
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 - (4) Proposed maximum aggregate value of transaction:
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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.
- (3) Filing Party:
- (4) Date Filed:

CREDO PETROLEUM CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held March 26, 2009

You are invited to attend or to be represented by proxy at the Annual Meeting of Shareholders of Credo Petroleum Corporation, a Colorado corporation, to be held at the Brown Palace Hotel, 321 Seventeenth Street, Denver, Colorado, 80202, on March 26, 2009 at 2:30 p.m., MDT, for the purposes set forth below.

1. To elect three Class II directors to serve until the 2012 Annual Meeting of Shareholders.

2. To ratify the appointment of the Company's independent registered public accounting firm, Ernst & Young, LLP, for the fiscal year 2009.

3. To consider and vote on the reincorporation of the Company from the State of Colorado to the State of Delaware.

4. To transact such other business as may properly come before the meeting and at all adjournments thereof.

Shareholders of record at the close of business on February 12, 2009 are entitled to vote at the meeting and at all adjournments thereof. You are cordially invited to attend the meeting in person.

Credo Petroleum Corporation's proxy statement is attached. Financial and other information concerning the Company is contained in the Annual Report to Stockholders for the year ended October 31, 2008. Pursuant to new rules promulgated by the Securities and Exchange Commission (SEC), we have elected to provide access to the Company's proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of the proxy material on the Internet. This proxy statement, the accompanying proxy card and the Company's 2008 Annual Report to Stockholders are available at the Company's website at www.credopetroleum.com. In addition, and in accordance with SEC rules, you may access the proxy statement at www.proxyvote.com, which does not have cookies that identify visitors to the site.

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Your vote is important. Regardless of whether you expect to attend the meeting in person, please vote your shares via the Internet at www.proxyvote.com, in accordance with the instructions provided on the website, or by completing, dating, signing and returning promptly the enclosed proxy card in the accompanying envelope (which requires no postage if mailed in the United States) in accordance with the instruction on the proxy card. You may revoke your proxy at any time before it is exercised by delivering written notice of revocation, by substituting a new proxy executed at a later date, or by requesting, in person at the stockholders meeting, that the proxy be returned.

BY ORDER OF THE BOARD OF DIRECTORS

Alford B. Neely
Secretary

February 25, 2009

Denver, Colorado

CREDO PETROLEUM CORPORATION

1801 Broadway, Suite 900, Denver, Colorado 80202

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS, MARCH 26, 2009

GENERAL INFORMATION

Your proxy in the enclosed form is solicited by the Board of Directors of Credo Petroleum Corporation for use at the Annual Meeting of Shareholders to be held on Thursday, March 26, 2009 at 2:30 p.m., MDT, at the Brown Palace Hotel, 321 Seventeenth Street, Denver, Colorado 80202, and at all adjournments thereof. You may obtain directions to the meeting by contacting us at (303) 297-2200. These proxy materials were first mailed to shareholders on or about February 25, 2009.

**Important Notice Regarding the Availability of Proxy Materials for
the Annual Meeting of Shareholders to be Held on March 26, 2009.**

The Company's Notice, Proxy Statement and Annual Report to Stockholders are available at <http://www.credopetroleum.com>.

In addition, and in accordance with SEC rules, you may also access the Notice and Proxy Statement and vote via the Internet at <http://www.proxyvote.com>, which does not have cookies that identify visitors to the site.

Only shareholders of record at the close of business on February 12, 2009 will be entitled to vote at the meeting. On that date, there were 10,349,157 shares of common stock outstanding and entitled to vote, excluding 311,098 shares held in the Company's treasury.

All shares represented by properly executed, unrevoked proxies timely received in proper form will be voted in accordance with the directions specified thereon. Any such proxy on which no direction is specified will be voted in favor of the election of the nominees named herein to the Board of Directors, for ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm

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for fiscal 2009 and for the re-incorporation of the Company under the laws of the State of Delaware. In addition, all proxies will be voted in accordance with the judgment of the proxy holder with respect to any other matter which may properly come before the meeting. Any shareholder giving a proxy may revoke that proxy at any time before it is voted at the meeting by executing a later dated proxy, by voting by ballot at the meeting, or by filing an instrument of revocation with the Secretary of the Company prior to the meeting.

The Company's Annual Report on Form 10-K (the "Annual Report"), which includes audited financial statements, is being mailed to shareholders of the Company simultaneously with this Proxy Statement. The Company amended its Annual Report by filing a Form 10-K/A on February 20, 2009. The changes made in the Form 10-K/A are reflected in the Summary of Changes Made in Form 10-K/A being mailed with this Proxy Statement. The Annual Report is not part of the Company's proxy soliciting materials.

VOTING INFORMATION

The \$.10 par value common stock of the Company is the only class of capital stock outstanding. Each outstanding share of common stock is entitled to one vote with respect to each matter to be voted on by the shareholders, which vote may be given in person or by proxy. Cumulative voting is not permitted. A quorum, being a majority of shares of outstanding common stock, is necessary in order for business to be transacted at the meeting. Abstentions and broker non-votes

represented by submitted proxies will be included in the calculation of the number of the shares present at the meeting for the purposes of determining a quorum. Broker non-votes means shares held of record by a broker that are not voted because the broker has not received voting instructions from the beneficial owner of the shares and either lacks or declines to exercise the authority to vote the shares in its discretion.

Proposal One. Directors are elected by a plurality and the nominees who receive the most votes will be elected.

Proposal One is considered a routine matter under NASDAQ rules and, accordingly, brokerage firms and nominees have the authority to vote their customers' unvoted shares on Proposal One as well as to vote the customers' shares where the customers have not furnished voting instructions within a specified period of time prior to the Annual Meeting of Shareholders. Abstentions and broker non-votes will not affect the outcome of the vote on Proposal One.

Proposal Two. To be approved, the ratification of Ernst & Young, LLP, as the Company's independent public accounting firm must receive the affirmative vote of the majority of the shares of common stock present in person or by proxy at the Annual Meeting of Shareholders and entitled to vote. Proposal Two is considered a routine matter under NASDAQ rules and, accordingly, brokerage firms and nominees have the authority to vote their customers' unvoted shares on Proposal Two as well as to vote the customers' shares where the customers have not furnished voting instructions within a specified period of time prior to the Annual Meeting of Shareholders. Abstentions and broker non-votes will not affect the outcome of the vote on Proposal Two.

Proposal Three. To be approved, the re-incorporation of the Company from the laws of the State of Colorado to the laws of the State of Delaware must receive the affirmative vote of the majority of the outstanding shares of common stock. Proposal Three is considered a non routine matter under NASDAQ rules and, accordingly, brokerage firms and nominees do not have the authority to vote their customers' unvoted shares on Proposal Three or to vote the customers' shares if the customers have not furnished voting instructions within a specified period of time prior to the Annual Meeting of Shareholders. Abstentions and broker non-votes will have the same effect as a vote against Proposal Three.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The only persons known to own of record or beneficially more than 5% of the Company's common stock as of February 12, 2009 is set forth below. As of February 12, 2009 there were 10,363,157 shares of common stock outstanding.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Title of Class	Name And Address Of Beneficial Owner	Amount And Nature Of Beneficial Ownership	Percent Of Class
Common Stock	James T. Huffman (1) 6919 S. Steele Street	748,555	7.1 %

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	Centennial, Colorado 80122		
Common Stock	Estate of R.K. O Connell (2) P.O. Box 2003 Casper, Wyoming 82602	556,428	5.3%
Common Stock	RCH Energy Opportunity Fund II, LP (3) 21 Waterway, Suite 200 The Woodlands, TX 77380	1,150,000	11.1%
Common Stock	RCH Energy Opportunity Fund III, LP (3) 21 Waterway, Suite 200 The Woodlands, TX 7738	687,000	6.6%

(1) Mr. Huffman is the Company's Chief Executive Officer and Chairman of the Board of Directors. Includes 404,406 shares owned by members of Mr. Huffman's immediate family and

108,563 shares that are related to options currently exercisable, or exercisable within 60 days of, February 12, 2009.

(2) Includes 454,445 shares owned by the Estate of Mr. O Connell and a corporation for which he served on the Board of Directors, and 101,983 shares owned by other family members.

(3) Robert J. Raymond and RR Advisors, LLC beneficially own the RCH Energy Opportunity Fund II, LP and RCH Energy Opportunity Fund III, LP shares.

The following table, based in part upon information supplied by officers, directors and principal stockholders, sets forth certain information known to the Company with respect to beneficial ownership of the Company's common stock as of February 12, 2009, by (i) each Named Executive Officer (see Executive Compensation Summary Compensation Table), (ii) each director of the Company, and (iii) all directors and executive officers of the Company as a group. Except as otherwise indicated, each person has sole voting and investment power with respect to all shares shown as beneficially owned, subject to community property laws where applicable. Voting power is the power to vote or direct the voting of securities, and investment power is the power to dispose of or direct the disposition of securities.

Security Ownership of Management

Title of Class	Name of Beneficial Owner	Amount And Nature Of Beneficial Ownership	Percent Of Class
Common Stock	Clarence H. Brown (1) (4)	91,080	0.9 %
Common Stock	Oakley Hall (1) (2)	120,000	1.2 %
Common Stock	James T. Huffman (1) (3)	748,555	7.1 %
Common Stock	Alford B. Neely (1)	10,000	0.1 %
Common Stock	H. Leigh Severance (7)	237,000	2.3 %
Common Stock	William F. Skewes	70,301	0.7 %
Common Stock	Richard B. Stevens (5)	191,104	1.8 %
Common Stock	David E. Dennis	0	0.0 %
Common Stock	W. Mark Meyer (6)	0	0.0 %
Common Stock	John A. Rigas (6)	0	0.0 %
Common Stock	All Directors and Officers as a Group (ten persons)	1,468,040	14.2 %

(1) Includes the following shares subject to stock options which are currently exercisable, or exercisable within 60 days of February 12, 2009: Mr. Brown - 29,250 shares; Mr. Hall 20,000 shares; Mr. Huffman - 108,563 shares; Mr. Neely - 10,000 shares.

(2) Mr. Hall's shares are held in the name of an entity he controls.

(3) Includes 404,406 shares owned by members of Mr. Huffman's immediate family.

- (4) Mr. Brown's shares are held in the name of a trust, of which he is a beneficiary.
- (5) Mr. Stevens' shares are held in the name of a trust, of which he is a beneficiary.
- (6) Mr. Meyer and Mr. Rigas are partners in RCH Energy Opportunity Fund II, LP and RCH Energy Opportunity Fund III, LP. The two funds, combined, hold 1,837,000 shares or 17.7% of the Company's common stock. Based on Schedule 13D filed on July 14, 2008. Robert J. Raymond and RR Advisors, LLC are the beneficial owners of the 1,837,000 RCH Energy Opportunity Fund II, LP and RCH Energy Opportunity Fund III, LP shares.
- (7) Mr. Severance was appointed to the Board in November, 2008.

DIRECTORS AND OFFICERS

Election of Directors (Item 1 on Proxy Card)

The Articles of Incorporation, as amended, classify members of the Board of Directors into three classes having staggered terms of three years each. The Board of Directors consists of eight directors, including seven independent directors, who have particular expertise in areas considered essential to the Company's business—namely land, petroleum engineering, legal, accounting and investments. The Board of Directors has affirmatively determined that Clarence H. Brown, Oakley Hall, William F. Skewes, Richard B. Stevens, W. Mark Meyer, John A. Rigas and H. Leigh Severance, who comprise a majority of the Board of Directors, are independent directors in accordance with NASDAQ standards.

The directors to be elected to the Board of Directors in Class II at the 2009 Annual Meeting of Shareholders will serve until the 2012 Annual Meeting of Shareholders and until their successors are duly elected and qualified. Class I and Class III directors will continue to serve until the 2010 and 2011 Annual Meetings of Shareholders, respectively, or until their successors are duly elected and qualified.

The Class II nominees named below are presently members of the Board of Directors. Unless your proxy contains contrary instructions, it will be voted FOR the nominees. Should the nominees become unable to serve, which is not anticipated, the proxy will vote for such substitute nominees as recommended by the Board of Directors. Any vacancy occurring in a class following the election of that class may be filled by the remaining members of the Board of Directors. A director selected to fill a vacancy in a class will hold office for a term expiring at the Annual Meeting of Shareholders at which the term of that class expires or until a successor is duly elected and qualified.

The following table sets forth certain information with respect to each nominee and each director whose term of office will continue after the meeting.

Information Concerning Director Nominees and Continuing Directors

**Name, Age, Position
with Company
and Term as Director**

**Business Experience and Directorships
in Other Public or Investment Companies**

**CLASS II - NOMINEES FOR ELECTION AT THE 2009 ANNUAL MEETING
WHOSE TERMS WILL EXPIRE AT THE 2012 ANNUAL MEETING**

James T. Huffman
Age: 61; Chairman of the Board,
Chief Executive Officer and Director
since 1980

Mr. Huffman was a founder of the Company in 1978 and has been the Chairman of the Board of Directors and Chief Executive Officer of the Company since 1980.

Clarence H. Brown
Age: 74; Director
since 2000

Mr. Brown has been an independent businessman and oil operator since December of 2000. From 1989 until December of 2000, Mr. Brown was an Executive Vice President, Chief Operating Officer and member of the Board of Directors for Columbus Energy, Inc. Prior to 1989, Mr. Brown was the Chairman of the Board of Directors and Chief Executive Officer of Kimbark Oil and Gas Company.

W. Mark Meyer
Age: 46; Director
since July 2008

Mr. Meyer has been President, since April of 2007, of RR Advisors, LLC and Principal of RCH Energy Opportunity Fund II, LP and RCH Energy Opportunity Fund III, LP, E&P equity investment funds. From August of 2005 until March of 2007, Mr. Meyer was a Portfolio manager for CastleArk Management. From January of 2001 until July of 2005, Mr. Meyer was Director of Simmons & Company, Int'l and a Senior Equity Research Analyst in the E&P sector.

CLASS I - DIRECTORS WHOSE TERMS WILL EXPIRE AT THE 2010 ANNUAL MEETING

Oakley Hall
Age: 62; Director
since 2000

Mr. Hall has been an independent businessman and investor since July of 2000. Previously, Mr. Hall was an audit partner with the accounting firm of PricewaterhouseCoopers.

William F. Skewes
Age: 63; Director
since 1980

Mr. Skewes has been an attorney in private practice since April of 1988. From 1977 until April 1988, Mr. Skewes was a partner in the Denver law firm of Kelly, Stansfield & O'Donnell.

CLASS III DIRECTORS WHOSE TERMS WILL EXPIRE AT THE 2011 ANNUAL MEETING

Richard B. Stevens
Age: 79; Director
since 1987

Mr. Stevens has been an independent businessman and oil operator since July of 1987. From 1981 to July of 1987, Mr. Stevens was President and a member of the Board of Directors of SECO Energy Corporation.

John A. Rigas
Age 45; Director
since July 2008

Mr. Rigas has been Vice President, since June of 2007, of RR Advisors, LLC and Partner of RCH Energy Opportunity Fund II, LP and RCH Energy Opportunity Fund III, LP, E&P equity investment funds. From January of 2006 until May of 2007, Mr. Rigas was an independent business development consultant for various oil and gas companies. From April of 2003 until December of 2005, Mr. Rigas was a Principal in Odyssey Energy Capital I, LP, managing a portfolio of oil and gas mezzanine loans.

Pursuant to an equity sale transaction entered into in July, 2008, RCH Energy Opportunity Fund II LP and RCH Energy Opportunity Fund III LP made an investment in the Company and Mr. John A. Rigas and Mr. W. Mark Meyer, nominated by RCH, became directors of the Company. During the period of service of Messrs. Rigas and Meyer, significant disagreements have arisen between Messrs. Rigas and Meyer and other board members, in particular Mr. Huffman, about a number of issues, primarily involving the strategic direction of the Company and the senior management of the Company. Mr. Rigas and Mr. Meyer do not believe that Mr. Huffman should continue as a director of the Company and voted against the nomination of Mr. Huffman to continue as a director of the Company. The remainder of the Board members voted in favor of Mr. Huffman being nominated for reelection as a director of the Company. A significant majority of directors support Mr. Huffman and the current strategic direction of the Company.

H. Leigh Severance
Age 70; Director
since November 2008

Mr. Severance has owned Severance Capital Management, a portfolio management company, since 1984. Prior 1984, Mr. Severance was employed by Cambiar Investors, Inc., an independent Denver-based investment advisory firm. Previously, he served as portfolio manager of Founder Growth Fund, portfolio manager of J.M. Hartwell and Company, and as a securities analyst for the endowment fund at the University of Rochester. Mr. Severance was appointed by the Board in November, 2008 to fill an additional Board position.

Information Concerning Other Executive Officers and Significant Employees

In addition to the directors and executive officer listed above, during fiscal year 2008 the following persons have been or are executive officers or significant employees as defined by Securities and Exchange Commission regulations.

Name	Position	Age	Work Experience
Alford B. Neely	Chief Financial Officer and Secretary since July 2008	63	Mr. Neely served as the Company's Manager of Regulatory Compliance from July 2006 until July 2008, and was the Company's Vice President and Chief Financial Officer from April 1998 through April 2000. From April 2000 to July 2006, Mr. Neely was a principal in his family's business, and served as the principal owner and general manager.
David E. Dennis	Chief Financial Officer August 2006 to July 2008 and Secretary January 2007 to July 2008	67	Mr. Dennis has been the owner of Dennis & Company, PC, CPA, since 1989. Previously, he was a partner at Holben, Dennis & Company, PC from 1979 to 1989. Prior to that, he was Director in charge of the Rocky Mountain consulting practice for Coopers and Lybrand (now PricewaterhouseCoopers). He is a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Public Accountants.
Kenneth J. DeFehr	Manager-Petroleum Engineering since October 1990	59	Prior to joining the Company, from 1982 until 1990, Mr. DeFehr was a Senior Reservoir Engineer for Axem Resources, Inc. Prior to that, Mr. DeFehr was a Reservoir Engineer for Phillips Petroleum Company. Mr. DeFehr is a Registered Professional Engineer.
Torie A. Vandeven	Manager-Geology and Exploration since August 1999	54	Prior to joining the Company, from 1997 to 1998, Ms. Vandeven was a Regional Geologist for Key Production Company. From 1995 to 1997, Ms. Vandeven was a Senior Staff Geologist and from 1998 to 1999 a Regional Exploitation Geologist for Amoco Production Company. Prior to 1995, Ms. Vandeven was a Senior Staff Geologist for Santa Fe Minerals, Inc. Ms. Vandeven is a Certified Petroleum Geologist.

Information Concerning Meetings of the Board of Directors and Board Committees

The Board of Directors met sixteen times during fiscal 2008. All directors attended more than 75% of Board and committee meetings. It is Company policy that Board members attend the Annual Meeting of Shareholders unless health, family or other important personal matters prohibit such attendance. All members of the Board of Directors attended the Company's 2008 Annual Meeting of Shareholders.

The Board of Directors has an Executive Committee consisting of Messrs. Hall, Huffman and Skewes. Mr. Hall and Mr. Skewes are independent directors in accordance with NASDAQ standards. The Executive Committee did not meet during fiscal 2008. There are no Compensation or Nominating Committees because such matters are considered by the entire Board of Directors or by the Executive Committee. The Directors believe that, due to its size and composition, either the full Board or the Executive Committee is capable and qualified to fulfill the function of a separate Nominating Committee or Compensation Committee.

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The Audit Committee of the Board of Directors has three members: Mr. Hall, a retired CPA; Mr. Brown, a former oil company executive and Mr. Skewes, an attorney in private practice. The Audit Committee met seven times during fiscal 2008. Mr. Hall is a retired CPA and is a retired PricewaterhouseCoopers audit partner. He is Chairman of the Audit Committee and is qualified as an audit committee financial expert under the applicable Securities and Exchange

Commission rules. Mr. Hall, Mr. Brown and Mr. Skewes are independent directors in accordance with NASDAQ standards.

Consideration of Director Nominees

Shareholder Nominees

If a shareholder wishes to recommend a nominee for the Board of Directors, the shareholder should write to the Corporate Secretary of the Company at:

CREDO Petroleum Corporation
1801 Broadway, Suite 900
Denver, Colorado 80202

Shareholders should specify the name and address of the nominee and the qualifications of such nominee for membership on the Board of Directors. All such recommendations will be brought to the attention of the Company's Board of Directors.

Evaluating Nominees for Director

Nominations for open positions on the Board of Directors may come from a variety of sources including business contacts of current and former directors or officers, the use of a professional search firm selected by the Board of Directors and shareholder nominations. In evaluating such nominations, the Board of Directors will seek to achieve a balance of knowledge, skills and experience on the Board. Each nominee will be considered based on the need or desire to fill existing vacancies or expand the size of the Board and otherwise to select nominees that best suit the Company's needs.

Director Qualifications

Director candidates will be evaluated based on criteria developed by the Board of Directors from time to time for each individual vacancy. Qualifications that will be considered for all nominees include, but are not limited to:

- the ability of the prospective nominee to represent the interests of the Company's shareholders;
- the prospective nominee's personal and professional experience and expertise;

- the prospective nominee's standards of integrity, commitment and independence of thought and judgment; and
- the prospective nominee's ability to dedicate sufficient time, energy and attention to the performance of his or her duties.

Certain Relationships and Related Transactions

Transactions with Related Persons

Credo Petroleum Corporation, a Colorado corporation (the *Company*), entered into a Company Stock Purchase Agreement (the *Purchase Agreement*) with RCH Energy Opportunity Fund II, LP, a Delaware limited partnership (*Purchaser*) on June 3, 2008, pursuant to which the Company agreed to sell to Purchaser 1,150,000 shares of newly-issued common stock, par value \$0.10 per share (the *Stock*), at a price of \$14.50 per share in cash. On July 3, 2008, the Company completed the issuance and sale to Purchaser of the Stock (the *Closing*), and contemporaneously therewith, Messrs. Huffman, Skewes and Stevens, directors of the Company, completed a private sale to Purchaser of 687,000 shares of Stock, also at a price of \$14.50 per share, for \$6,162,500, \$2,784,000 and \$1,015,000, respectively (*The Secondary Stock Purchase*).

The Purchase Agreement provides that Purchaser is entitled to designate two directors to serve on the Company's board of directors for so long as it beneficially owns at least 15% of the outstanding common stock, and one director so long as it beneficially owns at least 10% of the outstanding common stock. The Purchase Agreement also contains a standstill provision that will prohibit Purchaser from acquiring any additional shares of common stock for a period of two years following the closing without the consent of the Company.

Purchaser and the Company entered into a registration rights agreement pursuant to which Purchaser is entitled to require the Company to register its shares of common stock for resale under the Securities Act of 1933 in certain circumstances.

In connection with the transactions contemplated by the Purchase Agreement and effective June 3, 2008, the Company amended its Rights Agreement, dated as of April 11, 1989, as amended (the Rights Agreement), between the Company and Computershare Trust Company, N.A., in order to exempt the Purchase Agreement, the agreement governing the Secondary Stock Purchase and the related transactions from application of the Rights Agreement.

Review, Approval or Ratification of Transactions with Related Persons

The Board of Directors recognizes that transactions between the Company and certain related persons present a heightened risk of conflicts of interest. In order to ensure that the Company acts in the best interest of its stockholders, the Board of Directors has delegated the review and approval of related party transactions to the Audit Committee. Any related party transaction required to be disclosed in accordance with applicable SEC regulations must be reviewed and approved by the Audit Committee. In reviewing a proposed transaction, the audit committee must (i) satisfy itself that it has been fully informed as to the related party's relationship and interest and the material facts of the proposed transaction and (ii) consider all of the relevant facts and circumstances available to the committee. After its review, the Audit Committee will only approve or ratify transactions that are fair to the Company and not inconsistent with the best interests of the Company and its stockholders.

Compensation Discussion and Analysis

Overview of Compensation Committee

The Board of Directors (excluding Mr. Huffman with respect to Chief Executive Officer compensation and benefits) acting as the Compensation Committee (the Compensation Committee) is responsible for establishing and administering a general compensation policy and program for the Company. The Compensation Committee possesses powers of administration under the Company's employee benefit plans, including the stock option plan, key employee retention plan and other employee benefit plans. Subject to the provisions of those plans, the Compensation Committee determines the individuals eligible to participate in the plans, the extent of such participation and the terms and conditions under which benefits may be vested, received or exercised.

Executive Compensation Philosophy and Objectives

The Compensation Committee is committed to a strong link between business performance and the attainment of strategic goals with the Company's compensation and benefit programs. The Company's compensation policy is designed to support the overall objective of maximizing the return to the Company's shareholders by:

- Attracting, developing, rewarding, and retaining highly qualified and productive individuals.

- Directly aligning compensation to both Company and individual performance.
- Encouraging executive stock ownership to enhance a mutuality of interest with the Company's shareholders.

This policy is intended to provide incentives that promote both the short-term and long-term financial objectives of the Company. Base salary and performance bonuses are designed to reward achievement of short-term objectives while long-term incentive compensation is intended to encourage executives to focus on the long-term goals of the Company.

Components of Executive Compensation

Base Salary

The Compensation Committee periodically reviews the compensation of each executive officer and certain other significant employees, including salaries, bonuses and total compensation levels. The compensation for each of our named executive officers is subjectively determined primarily on the basis of the following factors: experience, individual

performance, contribution to our corporate performance, level of responsibility, duties and functions, and breadth of knowledge. Base salaries are also reviewed to ensure internal consistency among the various levels of responsibility within the Company. Members of the Compensation Committee are generally knowledgeable about compensation levels in the oil and gas industry through associations within the industry and through periodic review of public disclosure documents such as proxy statements of other companies. These base salaries are reviewed annually and may be adjusted in the discretion of the Compensation Committee, based upon the factors discussed above, as well as changes in the duties, responsibilities and functions of the executive officer, changed economic circumstances affecting the Company, and the Company's financial performance generally. The relative weight given to each of these factors differs from individual to individual, as the Compensation Committee deems appropriate.

Annual Cash Bonuses and Incentives

Cash bonuses are awarded to executive officers and other significant employees to recognize and reward Company and individual performance. Performance bonuses to executive officers are subject to the discretion of the Board of Directors and focus on performance criteria reviewed at the end of the year, including but not limited to: production volume, reserve replacement, finding costs, internal and external prospect generation, promoting acquisitions, dispositions or other transactions that contribute to the Company's success, and the Company's overall financial performance. The Compensation Committee does not utilize predetermined targets to establish the payment or level of performance bonuses, but may establish particular performance goals for certain employees. A performance goal established for the Chief Financial Officer was to supervise the preparation of financial statements that did not contain a material internal control weakness, and to provide improved training for the accounting staff. The Committee looks primarily at the Company's relative short and long term operating and financial performance. In particular in 2008, taking into consideration the volatility in oil and natural gas prices and upwardly spiraling field costs, significant weight was given to the Company's record of success as viewed by outside, independent sources. Certain external market data considered by the Committee included CREDO's long record of consistent performance as the following citations show: 200 Best Small Companies 2008, 2006, 2004, 2001 (*Forbes Magazine*); America's Fastest Growing Small Companies 2006, 2005, 2004, 2003 (*Fortune Small Business Magazine*); Top Performing 25 Stocks in the Past 25 Years (#17) 2007 (*USA Today*). Additionally, the Company achieved record operating income, its second best net earnings, and raised \$16.7 million in equity capital near the 2008 market top for the Company. In anticipation of a market slow-down, the Company was also among the first to slow down drilling in the face of rising field costs. These factors, in the aggregate, demonstrated the Company's successful performance. This information, coupled with the Committee members' general knowledge of compensation levels within the oil and gas industry, provided the basis for bonus level determinations.

Long-Term Incentive Compensation

At the discretion of the Board of Directors, stock options may be granted to employees, including named executive officers. Grants are made generally on a basis similar to the parameters described for cash bonuses. No predetermined targets are utilized to determine the timing or amounts of awards to be granted. However, the Board of Directors considers items such as the potential impact on the Company's financial statements and the desire to align the employees' interests with the interests of shareholders by providing incentive based compensation such as stock options, and encouraging the Company's personnel to own and hold the Company's stock. The Company's stock option plan uses vesting periods to encourage long term affiliation with the Company.

Other Benefits

The executive officers are entitled to the same benefits coverage as other employees of the Company, including health insurance, participation in the Company's 401(K) plan and the reimbursement of ordinary and reasonable business expenses. The CEO receives other benefits, as approved by the Board of Directors, as described in the All Other Compensation Table.

The Company does not currently offer any deferred compensation program, supplemental executive retirement plan or any financial planning services for its executive officers.

Mr. Huffman and certain other technical employees receive payments from oil and gas production based on overriding royalty or working interest ownership granted to them periodically by the Company. In fiscal 2008, such payments to Mr. Huffman totaled \$68,700.

Chief Executive Officer

The majority of the Compensation Committee believes Mr. Huffman has done an outstanding job of leading and managing the Company. During the past five years, the Company has achieved significant annual increases in its production, reserves, revenue and net income. The Compensation Committee believes that Mr. Huffman has positioned the Company to maintain its growth rate while expanding and diversifying the volume and breadth of the Company's business in terms of geography, capital requirements, risk and reserve potential. The Compensation Committee also considered Mr. Huffman's success in completing the \$16.7 million equity transaction, the effective response to the changing economy and the external market analyses of the Company's performance, as noted above under the caption "Annual Cash Bonuses and Incentives." Cash compensation for Mr. Huffman during 2008 consisted of his \$200,000 base salary and a cash bonus of \$150,000. Mr. Huffman also received \$68,731 in cash payments in 2008 related to overriding royalty and working interest ownership granted to him by the Company in prior years. Although the Compensation Committee did not award Mr. Huffman any equity-based incentives in 2008, it may do so in the future to provide incentive compensation and to further align his financial interests with those of the Company's shareholders.

Summary Compensation Table

The following table sets forth the total compensation received during the Company's last two fiscal years for services in all capacities by persons acting as the Chief Executive Officer and Chief Financial Officer (the "Named Executive Officers"). No other executive officer of the Company had total compensation in excess of \$100,000 for the fiscal years ended October 31, 2008 and 2007.

Name and Principal Position	Year	Salary \$	Bonus \$	Stock Option Awards(1) \$	Non-Equity Incentive Plan Compensation \$	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$	All Other Compensation(4) \$	Total \$
James T. Huffman Chief Executive Officer	2008	\$ 200,000	\$ 150,000	\$	\$	\$	\$ 111,470	\$ 461,470
	2007	\$ 135,000	\$ 100,000	\$	\$	\$	\$ 123,255	\$ 358,255
David E. Dennis(2) Chief Financial Officer	2008	\$ 41,667	\$	\$	\$	\$	\$	\$ 41,667
	2007	\$ 50,000	\$	\$	\$	\$	\$	\$ 50,000
Alford B. Neely(3) Chief Financial Officer	2008	\$ 54,167	\$ 20,000	\$ 19,680	\$	\$	\$ 3,017	\$ 96,864
	2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Dollar amount of compensation recognized in 2008 for option awards, as defined under FAS 123R, including costs related to awards granted in previous years. The discussion of assumptions used in calculating these values can be found in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Form 10-K for the year ended October 31, 2008.

(2) Mr. Dennis served as the Company's Chief Financial Officer from August 2006 to July 2008.

(3) Mr. Neely served as the Company's Chief Financial Officer from July 2008.

(4) For additional information on All Other Compensation, see table below.

The following table provides a detailed breakdown of the amounts for fiscal years 2008 and 2007 under All Other Compensation in the Summary Compensation Table:

All Other Compensation

Benefits	Year		James T. Huffman		David E. Dennis		Alford B. Neely
Company Contributions to 401(k) Retirement Plan	2008	\$	12,566	\$		\$	
	2007	\$	8,989	\$		\$	
Health, Disability & Long Term Care Insurance Premiums	2008	\$	13,535	\$		\$	3,017
	2007	\$	10,800	\$		\$	
Life Insurance Premiums	2008	\$	10,609	\$		\$	
	2007	\$	12,800	\$		\$	
Payments on Overriding Royalty Interests	2008	\$	68,731	\$		\$	
	2007	\$	84,924	\$		\$	
Health Club Membership	2008	\$	2,039	\$		\$	