ASPEN EXPLORATION CORP
Form 10QSB
May 14, 2001

FORM 10-Q-SB

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

MARK ONE

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

For the quarterly period ended March 31, 2001

OR

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

For the transition period from ________ to ________

Commission File Number 0-9494

ASPEN EXPLORATION CORPORATION

(Exact Name of Aspen as Specified in its Charter)

Delaware	84-0811316
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Suite 208, 2050 S. Oneida St., Denver, Colorado	80224-2426
(Address of Principal Executive Offices)	(Zip Code)

Issuer's telephone number: (303) 639-9860

Indicate by check mark whether Aspen (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 Aspen was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at May 11, 2001
Common stock, $.005 par value	5,637,074

Part One. FINANCIAL INFORMATION

Item 1. Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2001 (Unaudited)	June 30 2000 (Audited)
Current Assets:		
Cash and cash equivalents, including $1,892,340 and $417,443 of invested cash at March 31, 2001 and June 30, 2000 respectively	$ 2,223,005	$ 507,382
Precious metals	18,823	18,823
Accounts receivable, trade	376,195	340,177
Prepaid expenses	5,643	9,259
Total current assets	2,623,666	875,641
Investment in oil and gas properties, at cost (full cost method of accounting)	3,362,850	2,942,712
Less accumulated depletion and valuation allowance	(1,728,589)	(1,520,589)
	1,634,261	1,422,123
Property and equipment, at cost:		
Furniture, fixtures and vehicles	216,787	201,654
Less accumulated depreciation	(140,689)	(128,689)
	76,098	72,965
Cash surrender value, life insurance	239,095	239,095
TOTAL ASSETS	4,573,120	$ 2,609,824

(Statement Continues)
See notes to Consolidated Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2001 (Unaudited)	June 30, 2000 (Audited)
Current liabilities:		
Accounts payable and accrued expenses	$ 254,297	$ 363,955
Advances from joint owners	502,478	169,713
Income taxes payable	79,165	23,000
Notes payable - current	-0-	236,746
Total current liabilities	835,940	793,414
Stockholders' equity:		
Common stock, $.005 par value: Authorized: 50,000,000 shares Issued: At March 31, 2001: 5,637,074 and June 30, 2000: 5,345,938	26,729	26,729
Capital in excess of par value	6,017,610	6,017,610
Accumulated deficit	(2,283,529)	(4,191,096)
Deferred compensation	(23,630)	(36,833)
Total stockholders' equity	3,737,180	1,816,410
Total liabilities and stockholders' equity	$ 4,573,120	$ 2,609,824

See Notes to Consolidated Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000	Nine Months Ended March 31, 2001	Nine Months Ended March 31, 2000
Revenues:				
Oil and gas	$1,109,992	$ 252,605	$2,688,142	$ 840,343

Management fees	26,135	30,671	138,397	113,781
Interest and other, net	43,387	1,077	72,533	10,530
Total Revenues	1,179,514	284,353	2,899,072	964,654
Costs and expenses:				
Oil and gas production	27,058	33,400	151,585	75,534
Depreciation, depletion and amortization	77,000	86,925	220,000	237,775
Aspen Power Systems expense	-0-	1,562	-0-	45,356
Selling, general and administrative	146,322	124,296	449,805	375,830
Interest expense	70	2,226	7,949	9,468
Total Costs and Expenses	250,450	248,409	829,339	743,963
Net income before taxes	929,064	35,944	2,069,733	220,691
Provision for income taxes	82,165	-0-	162,165	-0-
Net income	$ 846,899	$ 35,944	$1,907,568	$ 220,691
Basic earnings per common share	$ .16	$ .01	$ .35	$ .04
Diluted earnings per common share	$ .15	$ .01	$ .34	$ .04
Basic weighted average number of common shares outstanding	5,401,678	5,191,322	5,401,678	5,191,322
Diluted weighted average number of common shares outstanding	5,661,678	5,531,162	5,661,678	5,531,162

The accompanying notes are an integral
part of these statements.

4

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended March 31, 2001	2000
Cash flows from operating activities:		
Net income	$ 1,907,567	$ 220,691
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion & amortization	220,000	237,775

Amortization of deferred compensation	13,203	5,667
Changes in assets and liabilities:		
Increase in accounts receivable	(36,018)	(31,629)
Decrease in prepaid expense	3,616	3,663
Increase in accounts payable and accrued expense	279,272	74,346
Net cash provided by operating activities	2,387,640	510,513
Cash flows from investing activities:		
Additions to oil & gas properties	(420,138)	(396,542)
Purchase of office equipment & vehicle	(21,133)	(13,995)
Sale of idle equipment at cost	6,000	-0-
Net cash used in investing activities	(435,271)	(410,537)
Cash flows from financing activities:		
Repayment of notes payable	(236,746)	(112,327)
Net cash used in financing activities	(236,746)	(112,327)
Net increase in cash and cash equivalents	1,715,623	(12,351)
Cash and cash equivalents, beginning of year ...	507,382	335,603
Cash and cash equivalents, end of period	$ 2,223,005	$ 323,252
Interest paid	$ 7,949	$ 7,583
Income taxes paid	$ 83,000	$ -0-

The accompanying notes are an integral
part of these statements.

ASPEN EXPLORATION CORPORATION

Notes to Consolidated Financial Statements
(Unaudited)

March 31, 2001

Note 1 BASIS OF PRESENTATION

The accompanying financial statements are unaudited. However, in our opinion, the accompanying financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for fair presentation. Interim results of operations are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with our Annual Report on

Form 10-KSB for the year ended June 30, 2000.

Except for the historical information contained in this Form 10-QSB, this Form contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in this Report. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Report and any documents incorporated herein by reference, as well as the Annual Report on Form 10-KSB for the year ended June 30, 2000.

Note 2 EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued Financial Accounting Standard No. 128 ("SFAS No. 128"), addressing earnings per share. SFAS No. 128 changed the methodology of calculating earnings per share and renamed the two calculations basic earnings per share and diluted earnings per share. The calculations differ by eliminating any common stock equivalents (such as stock options, warrants, and convertible preferred stock) from basic earnings per share and changes certain calculations when computing diluted earnings per share. We adopted SFAS No. 128 in fiscal year 1998.

6

Note 2 EARNINGS PER SHARE (CONTINUED)

The following is a reconciliation of the numerators and denominators used in the calculations of basic and diluted earnings per share for the nine months ended March 31, 2001 and 2000:

	March 31, 2001			March 31, 2000	
	Net Income	Shares	Per Share Amount	Net Income	Shares
Basic earnings per share:					
Net income and share amounts	$1,907,568	5,401,678	$.35	$220,691	5,191,322
Dilutive securities stock options		380,000			560,000
Repurchased shares		(120,000)			(220,160)
Diluted earnings per share:					

Net income and assumed share conversion	$1,907,568	5,661,678	$.34	$220,691	5,531,162

Note 3 SEGMENT INFORMATION

We operate in one industry segment within the United States, oil and gas exploration and development.

Identified assets by industry are those assets that are used in our operations in that industry. Corporate assets are principally cash, cash surrender value of life insurance, furniture, fixtures and vehicles.

During the fourth quarter of 1998, we adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). The adoption of SFAS No. 131 requires the presentation of descriptive information about reportable segments which is consistent with that made available to the management of the Company to assess performance.

Our oil and gas segment derives its revenues from the sale of oil and gas and prospect generation and administrative overhead fees charged to participants in our oil and gas ventures. Corporate income is primarily derived from interest income on funds held in money market accounts.

Note 3 SEGMENT INFORMATION (CONTINUED)

During the nine months ended March 31, 2001 there were no intersegment revenues. The accounting policies applied by each segment are the same as those used by us in general.

There have been no differences from the last annual report in the basis of measuring segment profit or loss, with the exception of the elimination of the mineral and power plant segments which we are no longer active in and are not material. There have been no material changes in the amount of assets for any operating segment since the last annual report except for the oil and gas segment which capitalized approximately $420,000 for the development and acquisition of oil and gas properties.

Segment information consists of the following for the nine months ended March 31:

	Oil and Gas	Corporate	Consolida
Revenues:			
2001	$ 2,826,539	$ 72,533	$ 2,899,0
2000	954,124	10,530	964,6

Income (loss) from operations:			
2001	$ 2,304,789	$ (397,221)	$ 1,907,5
2000	652,590	(431,899)	220,6
Identifiable assets:			
2001	$ 2,010,456	$ 2,562,664	$ 4,573,1
2000	1,371,933	668,195	2,040,1
Depreciation, depletion and valuation charged to identifiable assets:			
2001	$(1,728,589)	$ (140,689)	$(1,869,2
2000	(1,081,902)	(129,544)	(1,211,4
Capital expenditures:			
2001	$ 420,138	$ 21,133	$ 441,2
2000	396,542	13,995	410,5

8

Note 4 MAJOR CUSTOMERS

We derived in excess of 10% of our revenue from various sources (oil and gas sales) as follows:

	The Company				
	A	B	C	D	E
Year ended:					
March 31, 2001	-	-	35%	12%	49%
March 31, 2000	73%	12%	-	-	-

Note 5 NOTES PAYABLE

We owe the following debt:

	March 31, 2001	June 30, 2000
Borrowings from life insurance company on cash surrender value of officer life insurance, interest at 6% per annum, collateralized by cash surrender value of policy.	$ -0-	$ 155,430
Note payable to related party, Interest at 11.21% per annum, monthly principal and interest payments of $4,269, due September, 2000, collateralized by working interests in the Emigh lease.	$ -0-	12,566

Note payable to third party for the acquisition purchase of producing oil and gas properties. Interest at 5.475% per annum. Principal payments of $68,875 are due in January 2001. There is no collateral for this note.	-0-	68,750
Total notes payable	-0-	236,746
Less current portion	-0-	236,746
Long term portion	$ -0-	$ -0-

Note 6 COMMITMENTS AND CONTINGENCIES

At March 31, 2001 the Company was committed to the following drilling and development projects in California:

Project	Aspen Cost
Emigh 35-5	$172,000
Emigh 34-3	85,000
Emigh 34-2	172,000
Armstrong 17-4	338,000
Zimmerman 1-24 Recompletion	16,000
Total Estimated Costs	$783,000

Note 7 SUBSEQUENT EVENTS

During May 2001 the Emigh 35-5 well, in which we have approximately 23.80% working interest, tested 2000 MCFPD and will go on production by June 1, 2001. The Emigh 34-3 is currently drilling but has not reached total depth. The remaining wells in our drilling program have not been spudded as of the date of this filing.

Prices for our natural gas are estimated to average $9.18 and $12.05 per MMBTU for the months of April and May 2001. June prices have not yet been posted.

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

This should be read in conjunction with the management's discussion and analysis of financial condition and results of operations contained in our Annual Report on Form 10-KSB for the year ended June 30, 2000, which has been filed with the Securities and Exchange Commission. This management's discussion and analysis and other portions of this report contain forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended). These statements reflect our current expectations regarding our possible future results of operations, performance, and achievements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Wherever possible, we have tried to identify these forward-looking statements by using words such as "anticipate," "believe," "estimate," "expect," "plan," "intend," and similar expressions. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties and contingencies include, without limitation, the factors set forth in our Form 10-KSB under "Item 6. Management's Discussion and Analysis of Financial Conditions or Plan of Operation - Factors that may affect future operating results." We have no obligation to update or revise any such forward-looking statements that may be made to reflect events or circumstances after the date of this Form 10-QSB.

Liquidity and Capital Resources

March 31, 2001 as compared to March 31, 2000

At March 31, 2001 current assets were $2,623,666 and current liabilities were $835,940 and we had positive working capital of $1,787,726 compared to current assets of $875,641 at June 30, 2000 and current liabilities of $793,414 at the same date, resulting in working capital at June 30, 2000 of $82,227. Our working capital increased more than twenty times from June 30, 2000 to March 31, 2001 for several reasons.

Our current assets increased primarily because cash and cash equivalents increased from approximately $508,000 to approximately $2.2 million because of the higher prices being received for oil and gas production, which exceeded our current cash requirements at March 31, 2001.

Our current liabilities remained fairly constant when comparing the nine months ended March 31, 2001 with our fiscal year end of June 30, 2000. Accounts and notes payable decreased by approximately $346,000, while advance payments from joint owners for unexpended drilling costs increased by approximately $333,000, reflecting increased drilling activity caused by improved weather conditions in California. (See Note 6, Commitments and Contingencies.)

We anticipate that our current assets will be sufficient to pay our current liabilities as long as our oil and gas production continues to provide us with sufficient cash flow. As discussed below, this is dependent, in part, on maintaining or increasing our level of production and the national and world market maintaining its current prices for our oil and gas production.

11

In light of recent successful drilling operations, the acquisition of producing properties and the continued improvement in oil and gas prices received by us, increased revenues should continue to have a positive effect on our working capital and contribute significantly to its cash flow in the year ahead.

Our capital requirements can fluctuate over a twelve month period because our drilling program is usually carried out in California's dry season, from late April until November, after which wet weather either precludes further activity or makes it cost prohibitive.

Although our drilling and development plans have not been finalized for the coming year, at March 31, 2001 we are committed to drill four additional wells at an estimated cost to us of approximately $783,000, with the balance (approximately $2.9 million) to be paid by joint owners in the properties, including certain affiliated investors. For the nine months ended March 31, 2001 we invested $420,000 in our oil and gas properties compared to approximately $397,000 for the nine month period in the preceding fiscal year. We anticipate additional drilling will occur in fiscal 2001.

We believe that internally generated funds will be sufficient to finance our drilling and operating expenses for the next twelve months.

Results of Operations

March 31, 2001 Compared to March 31, 2000

For the nine months ended March 31, 2001 our operations continued to be focused on the production of oil and gas, and the investigation for possible acquisition of producing oil and gas properties in California.

Oil and gas revenues, which includes income from management fees, for the nine months ended March 31, 2001 increased approximately $1,848,000 from $840,000 to $2,688,000, a 220% increase. This increase reflects our continued emphasis on operations conducted in California and increased production from both the Denverton Creek and Malton Black Butte fields even though our production overall decreased. Our share of sales of oil and gas for the nine month period ended March 31, 2001 were 3959 barrels of oil and approximately 293,000 MMBTU of gas with the price received for oil at $27.00 per barrel and $8.86 per MMBTU for gas. This is a decrease in total oil production compared to the 4721 barrels of oil produced in the first half of fiscal 2000, and an increase in natural gas production of 17,400 MMBTU when compared to the approximately 275,600 MMBTU of gas production achieved during the first nine months of the 2000 fiscal year. A significant factor resulting in the substantially increased revenues during the nine months of fiscal 2001 was an increase in the prices received for our production when compared to prices of $21.70 and $3.05 received for oil and gas respectively during the first nine months of fiscal 2000.

Oil and gas production costs increased $76,051 when compared to last nine month period, from $75,534 to $151,585. Approximately $67,500 of this increase was due to non-recurring workover costs for recompleting wells in upper producing zones, the balance, approximately $8,500 reflects the addition of new wells and compression costs associated with older producing gas wells.

Depletion, depreciation and amortization decreased $17,775 or 7.5% for the year, which is our best estimate of what the full year cost will be.

Selling, general and administrative expense increased approximately 20% from $375,830 to $449,805 for the nine months ended March 31, 2001. This increase is primarily due to salary and office rental increases and the amortization of deferred officer compensation costs of $13,200.

As a result of our operations for the nine months ended March 31, 2001, we ended the period with net income of $1,907,568 after taxes compared to $220,691 for the year earlier. This increase of approximately $1,687,000 is due to an increase in production and the price received for our oil and gas as discussed earlier as well as the fact that our costs of production did not rise as quickly as the prices received for our production.

Interest and other income increased approximately $62,000 to $72,533 and is due to our maintaining a greater balance of funds in our invested cash accounts, and consulting income received from an affiliate of approximately $23,000 for services rendered by our president, R. V. Bailey.

With Management's continued emphasis on cost control, successful drilling and production operations and its improving gas sales, we believe our net income and earnings per share will continue to grow, assuming oil and gas prices maintain their current level or increase.

In accordance with the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

ASPEN EXPLORATION CORPORATION

By: /s/ R. V. Bailey

R. V. Bailey,
Chief Executive Officer,
Principal Financial Officer

May 11, 2001