ASPEN EXPLORATION CORP
Form 10QSB
February 12, 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 December 31, 2000

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)	(IRS 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 February 7, 2001
Common stock, $.005 par value	5,345,938

Part One. FINANCIAL INFORMATION

Item 1. Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2000 (Unaudited)	June 30, 2000 (Audited)
Current Assets:		
Cash and cash equivalents, including $2,684,507 and $417,443 of invested cash at December 31, 2000 and June 30, 2000 respectively	$ 3,278,166	$ 507,382
Precious metals	18,823	18,823
Accounts receivable, trade	815,514	340,177
Prepaid expenses	8,950	9,259
Total current assets	4,121,453	875,641
Investment in oil and gproperties, at cost(full cost method of accounting)	3,288,444	2,942,712
Less accumulated depletion and valuation allowance	(1,655,589)	(1,520,589)
	1,632,855	1,422,123
Property and equipment, at cost:		
Furniture, fixtures and vehicles	197,941	201,654
Less accumulated depreciation	(136,689)	(128,689)
	61,252	72,965
Cash surrender value, life insurance	239,095	239,095
TOTAL ASSETS	$ 6,054,655	$ 2,609,824

(Statement Continues)
See notes to Consolidated Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2000 (Unaudited)	June 30, 2000 (Audited)
Current liabilities:		
Accounts payable and accrued expenses	$ 2,821,815	$ 363,955
Advances from joint owners	231,211	169,713
Income taxes payable	47,000	23,000
Notes payable - current	68,750	236,746
Total current liabilities	3,168,776	793,414
Stockholders' equity:		
Common stock, $.005 par value: Authorized: 50,000,000 shares Issued: At December 31, 2000: 5,345,938 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	(3,130,427)	(4,191,096)
Deferred compensation	(28,033)	(36,833)
Total stockholders' equity	2,885,879	1,816,410
Total liabilities and stockholders' equity	$ 6,054,655	$ 2,609,824

See Notes to Consolidated Financial Statements

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2000	1999	2000	1999

Revenues:				
Oil and gas..........................	$1,016,456	$ 314,464	$1,578,150	$ 587,
Management fees......................	56,230	65,544	112,262	83,
Interest and other, net..............	19,025	7,368	29,146	9,
Total Revenues........................	1,091,711	387,376	1,719,558	680,
Costs and expenses:				
Oil and gas production..............	66,985	27,280	124,527	42,
Depreciation, depletion and amortization	79,000	90,925	143,000	150,
Aspen Power Systems expense..........	-0-	22,585	-0-	43,
Selling, general and administrative..	152,188	111,992	303,483	251,
Interest expense....................	939	3,744	7,879	7,
Total Costs and Expenses..............	299,112	256,526	578,889	495,
Net income before taxes...............	$ 792,599	$ 130,850	$1,140,669	$ 184,
Provision for income taxes............	60,600	-0-	80,000	
Net income............................	$ 731,999	$ 130,850	$1,060,669	$ 184,
Basic earnings per common share........	$ .14	$ .03	$ .20	$
Diluted earnings per common share......	$ .13	$ .03	$ .18	$
Basic weighted average number of common shares outstanding.............	5,345,938	5,191,322	5,345,938	5,191,
Diluted weighted average number of common shares outstanding.............	5,831,415	5,311,002	5,831,415	5,311,

The accompanying notes are an integral
part of these statements.

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

	Six months ended December 31, 2000	1999

Cash flows from operating activities:		
Net income	$ 1,060,669	$ 184,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion & amortization	143,000	150,850
Amortization of deferred compensation	8,800	--
Changes in assets and liabilities:		
Increase in accounts receivable	(475,337)	(121,390)
Decrease in prepaid expense	309	5,199
Increase in accounts payable and accrued expense	2,543,358	921,730
Net cash provided by operating activities	3,280,799	1,141,136
Cash flows from investing activities:		
Additions to oil & gas properties	(345,732)	(321,855)
Purchase of office equipment	(2,287)	(3,700)
Sale of idle equipment at cost	6,000	--
Net cash used in investing activities	(342,019)	(325,555)
Cash flows from financing activities:		
Repayment of notes payable	(167,996)	(28,836)
Net cash used in financing activities	(167,996)	(28,836)
Net increase in cash and cash equivalents	2,770,784	786,745
Cash and cash equivalents, beginning of year	507,382	335,603
Cash and cash equivalents, end of period	$ 3,278,166	$ 1,122,348
Interest paid	$ 7,879	$ 7,242
Income taxes paid	$ 33,000	$ -0-

The accompanying notes are an integral part of these statements.

ASPEN EXPLORATION CORPORATION

Notes to Consolidated Financial Statements
(Unaudited)

December 31, 2000

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.

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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 six months ended December 31, 2000 and 1999:

	December 31, 2000			December 31, 1999	
	Net Income	Shares	Per Share Amount	Net Income	Shares

Basic earnings per share:					
Net income and share amounts	$1,060,669	5,345,938	$.20	$184,747	5,191,322
Dilutive securities stock options		780,000			460,000
Repurchased shares		(294,523)			(340,320)
Diluted earnings per share:					
Net income and assumed share conversion	$1,060,669	5,831,415	$.18	$184,747	5,311,002

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.

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Note 3 SEGMENT INFORMATION (CONTINUED)

During the six months ended December 31, 2000 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 $345,732 for the development and acquisition of oil and gas properties.

Segment information consists of the following for the six months ended December 31:

		Oil and Gas	Corporate	Consolidated
Revenues:				
	2000	$ 1,690,412	$ 29,146	$ 1,719,558
	1999	670,848	9,453	680,301
Income (loss) from operations:				
	2000	$ 1,350,885	$ (290,216)	$ 1,060,669
	1999	485,744	(300,997)	184,747
Identifiable assets:				
	2000	$ 2,448,369	$3,606,286	$ 6,054,655
	1999	1,438,419	1,422,853	2,861,272
Depreciation, depletion and valuation charged to identifiable assets:				
	2000	$ (135,000)	$ (8,000)	$ (143,000)
	1999	(143,000)	(7,850)	(150,850)
Capital expenditures:				
	2000	$ 345,732	$ 2,287	$ 348,019
	1999	321,855	3,700	325,555

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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
Year ended:				
December 31, 2000	-	12%	25%	58%
December 31, 1999	73%	-	-	-

Note 5 NOTES PAYABLE

We owe the following debt:

	December 31, 2000	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.	68,750	68,750
Total notes payable	68,750	236,746
Less current portion	68,750	236,746
Long term portion	$ -0-	$ -0-

Note 6 COMMITMENTS AND CONTINGENCIES

At December 31, 2000 the Company was committed to the following drilling and development projects in California:

1. Further test the Emigh 35-4 well.
2. Drill, complete and equip the Brick House 1-9.

The Emigh 35-4 well was spudded on October 29, 2000 and is currently being tested. Continental Operating Company was the operator of this well and our share of rework costs of this well is estimated to be $5,000. Effective February 1, 2001 we assumed responsibility for the operation of this well.

Total costs of the Brick House 1-9 well are estimated to be $525,000 with our share of the net costs approximately $44,000. As of this filing we have not begun drilling this well.

Note 7 SUBSEQUENT EVENTS

On January 2, 2001 we paid in full our outstanding loan balance of $68,750 plus $3,764 in accrued interest to D. E. Craggs, Inc.

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

December 31, 2000 as compared to December 31, 1999

At December 31, 2000 current assets were $4,121,453 and current liabilities were $3,168,776 and we had positive working capital of $952,677 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 current assets and liabilities increased more than four-fold from June 30, 2000 to December 31, 2000 for several reasons.

Our current assets increased primarily because cash and cash equivalents increased from approximately $508,000 to approximately $3.3 million. Accounts receivable - trade increased by about 140% because of the higher prices being received for oil and gas production, and funds received from oil and gas sales not disbursed to joint owners at December 31, 2000.

Our current liabilities increased to $3.2 million at December 31, 2000, approximately four times the $793,000 amount at June 30, 2000. This increase was due to a number of factors, including a decrease in accounts payable of $232,000 due to a decrease in drilling activity caused by adverse weather conditions, an increase of $61,000 in advance payments received from joint owners but not expended for drilling activities at December 31, 2000 and $2,633,000 in oil and gas revenue due to joint owners not distributed until January 2001.

Another component of our current liabilities, advances from joint owners, increased $61,000 from June 30, 2000 ($170,000) to December 31, 2000

($231,000) primarily because of the funds we received for drilling of wells, not yet completed.

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.

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.

In order to provide interim financing, we borrowed $130,000 during 1997 from an affiliate to finance our share of drilling an offset well on the Denverton Creek property. In April 2000 we withdrew $125,000 against a split dollar life insurance plan to facilitate the payment of our drilling obligations. The affiliate loan was paid in full during August 2000, and the split dollar life insurance loan was paid in full during October 2000.

Although our drilling and development plans have not been finalized for the coming year, at December 31, 2000 we are committed to drill four additional wells at an estimated cost to us of approximately $462,000, with the balance (approximately $2,583,000) to be paid by joint owners in the properties, including certain affiliated investors. For the six months ended December 31, 2000 we invested $346,000 in our oil and gas properties compared to approximately $322,000 for the six 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.

While we have substantially reduced our outstanding debt at this writing, we may be required again to seek outside funding to facilitate our 2001 drilling program.

Results of Operations

December 31, 2000 Compared to December 31, 1999

For the six months ended December 31, 2000 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 six months ended December 31, 2000 increased approximately $1,019,000 from $671,000 to $1,690,000, a 152% 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 six month period ended December 31, 2000 were 2732 barrels of oil and approximately 206,205 MMBTU of gas with the price received for oil at $28.39 per barrel and $7.27 per MMBTU for gas. This is a decrease in total oil production compared to the 3557 barrels of oil produced in the first half of fiscal 2000, and an increase in natural gas production of 28,600 MMBTU when compared to the approximately 177,605 MMBTU of gas production achieved during the first half of the 2000 fiscal year. A significant factor resulting in the substantially increased revenues during the six months of fiscal 2000 was an increase in the prices received for our production when compared to prices of $19.95 and $2.83 received for oil and gas respectively during the first half of fiscal 2000.

Oil and gas production costs increased $82,393 when compared to last six month period, from $42,134 to $124,527. Approximately $62,000 of this increase was due to non-recurring workover costs for recompleting wells in upper producing zones, the balance, approximately $20,000 reflects the addition of new wells and compression costs associated with older producing gas wells.

Depletion, depreciation and amortization decreased $7,850 or 5% for the year, which is our best estimate of what the full year cost will be.

Selling, general and administrative expense increased approximately 21% from $251,500 to $303,500 for the six months ended December 31, 2000. This increase is primarily due to salary and office rental increases and the amortization of deferred officer compensation costs of $8,800.

As a result of our operations for the six months ended December 31, 2000, we ended the period with net income of $1,061,000 after taxes compared to $185,000 for the year earlier. This increase of approximately $876,000 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 $19,693 to $29,146 and is due to our maintaining a greater balance of funds in our invested cash accounts.

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

February 7, 2001

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