

ASPEN EXPLORATION CORP
Form 10-Q
February 16, 2010

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

MARK ONE

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

For the quarterly period ended December 31, 2009

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 registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

84-0811316

(IRS Employer
Identification No.)

**Suite 208, 2050 S. Oneida St.,
Denver, Colorado**

(Address of Principal Executive Offices)

80224-2426

(Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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 12, 2010
Common stock, \$.005 par value	7,259,622

TABLE OF CONTENTS

	<u>Page</u>
<u>Part One Financial Information</u>	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	5
Consolidated Statement of Shareholders' Equity	6
Condensed Consolidated Statements of Cash Flows	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosures about Market Risk	16
Item 4T. Controls and Procedures	16
<u>Part II</u>	
Item 1. Legal Proceedings	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 3. Defaults Upon Senior Securities	17
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 5. Other Information	17
Item 6. Exhibits	19

Part One. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****ASPEN EXPLORATION CORPORATION AND SUBSIDIARY**

(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2009 (unaudited)	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,239,578	\$ 10,478,774
Marketable securities	229,662	228,319
Account and trade receivables	3,970	602,270
Other current assets	129,202	289,429
Total current assets	3,602,412	11,598,792
Property and equipment		
Support equipment	33,166	96,560
	33,166	96,560
Accumulated depreciation	(31,519)	(29,933)
Net property and equipment	1,647	66,627
Other assets:		
Deferred income taxes, net	200,000	29,000
Total other assets	200,000	29,000
Total assets	\$ 3,804,059	\$ 11,694,419

(Statement Continues)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q
ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

	December 31, 2009 (unaudited)	June 30, 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 74,279	\$ 1,398,863
Income tax payable	-	924,985
Total current liabilities	74,279	2,323,848
Stockholders' equity:		
Common stock, \$.005 par value:		
Authorized: 50,000,000 shares		
Issued and outstanding: At December 31, 2009, and June 30, 2009, 7,259,622 shares		
	36,298	36,298
Capital in excess of par value	4,554,934	7,676,458
Accumulated other comprehensive (loss)	(519,335)	(520,186)
Retained earnings:		
Accumulated prior to the development stage	-	2,178,001
(Deficit) accumulated during the development stage	(342,117)	-
Total stockholders' equity	3,729,780	9,370,571
Total liabilities and stockholders' equity	\$ 3,804,059	\$ 11,694,419

The accompanying notes are an integral part of these condensed consolidated financial statements.

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Operating expenses:				
Selling, general and administrative	\$ 194,327	\$ 159,808	\$ 463,584	\$ 366,348
Depreciation expense	793	5,319	1,586	10,638
	195,120	165,127	465,170	376,986
Operating loss	(195,120)	(165,127)	(465,170)	(376,986)
Other income (expenses)				
Interest and other income	24,921	6,633	25,236	13,693
Interest and other (expenses)	-	(8,165)	(6,550)	(25,738)
Gain on sale of marketable securities	-	-	-	12,050
Total other income (expenses)	24,921	(1,532)	18,686	5
Loss from continuing operations before income taxes	(170,199)	(166,659)	(446,484)	(376,981)
Income tax benefit (expense)	54,728	69,911	149,728	155,798
(Loss) from continuing operations	(115,471)	(96,748)	(296,756)	(221,183)
Discontinued operations				
Income (loss) from discontinued operations (net of applicable income taxes of \$0 and \$815,000)	-	(1,256,841)	-	(1,017,416)
Loss on disposal of oil & gas operations (net of applicable income taxes of \$21,700 and \$0)	(46,764)	-	(45,361)	-
Net Income (loss)	\$ (162,235)	\$ (1,353,589)	\$ (342,117)	\$ (1,238,599)
Basic net income (loss) per share	\$ (0.02)	\$ (0.19)	\$ (0.05)	\$ (0.17)
Diluted net income (loss) per share	\$ (0.02)	\$ (0.19)	\$ (0.05)	\$ (0.17)

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

Weighted average number of common shares outstanding used to calculate basic net income (loss) per share :	7,259,622	7,259,622	7,259,622	7,259,622
Effect of dilutive securities:				
Equity based compensation	-	-	-	-
Weighted average number of common shares outstanding used to calculate diluted net income (loss) per share :	7,259,622	7,259,622	7,259,622	7,259,622

The accompanying notes are an integral part of these condensed consolidated financial statements.

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
 (A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

	Common Stock			Retained	(Deficit)	Accumulated	Accumulated	Accumulated	T
	Shares	Par Value	APIC	Earnings	Accumulated	Prior to	During the	Other	Ec
				Accumulated	Development	Development	Development	Comprehensive	Equ
				Stage	Stage	Stage	Stage	(Loss)	
Balances at July 1, 2009	7,259,622	\$ 36,298	\$ 7,676,458	\$ 2,178,001	\$ -	\$ -	\$ -	(520,186)	\$ 9,3
Unrealized gain on marketable securities (net of income tax of \$498)	-	-	-	-	-	-	-	851	
Dividends paid	-	-	(3,121,524)	(2,178,001)	-	-	-	-	(5,2
Net (loss)	-	-	-	-	(342,117)	-	-	-	(3
Balances at December 31, 2009	7,259,622	\$ 36,298	\$ 4,554,934	\$ -	\$ -	\$ (342,117)	\$ -	(519,335)	\$ 3,7

The accompanying notes are an integral part of these condensed consolidated financial statements.

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended December 31,	
	2009	2008
<u>Cash Flows from Operating Activities:</u>		
Net income (loss)	\$ (342,117)	\$ (1,238,599)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Accretion and depreciation, depletion, and amortization	1,586	3,291,238
Deferred income taxes	(171,492)	(1,013,831)
Realized (gain) on marketable securities	-	(12,050)
Loss on sale of equipment	53,094	-
Changes in assets and liabilities:		
(Increase) decrease in current assets other than cash, cash equivalents, and short-term marketable securities	758,527	938,290
Increase (decrease) in current liabilities other than notes payable and asset retirement obligation	(2,249,569)	(1,368,737)
Net Cash Provided by (Used in) Operating Activities	(1,949,971)	596,311
<u>Cash Flows from Investing Activities:</u>		
Additions to oil and gas property	-	(208,119)
Sales of marketable securities	-	322,165
Sale of property and equipment	10,300	-
Net Cash Provided by (Used in) Investing Activities	10,300	114,046
<u>Cash Flows from Financing Activities:</u>		
Payment of long-term debt	-	(144,897)
Payment of cash dividends	(5,299,525)	-
Net Cash (Used in) Financing Activities	(5,299,525)	(144,897)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,239,196)	565,460
Cash and Cash Equivalents, beginning of period	10,478,774	1,595,150
Cash and Cash Equivalents, end of period	\$ 3,239,578	\$ 2,160,610
<u>Supplemental disclosures of cash flow information:</u>		
Interest paid	\$ 6,550	\$ 25,738
<u>Supplemental non-cash activity</u>		
Increase (Decrease) in fair value of marketable securities (net of income taxes of \$498 and (\$182,570), respectively)	\$ 845	\$ (273,873)

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

Increase (decrease) in asset retirement obligation	\$	-	\$	(110,355)
--	----	---	----	-----------

The accompanying notes are an integral part of these consolidated financial statements.

8

ASPEN EXPLORATION CORPORATION

Notes to Condensed Consolidated Financial Statements

(Unaudited)

December 31, 2009

NOTE 1 BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Aspen Exploration Corporation (the Company or Aspen) are unaudited. However, in the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for fair presentation for the interim period.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Management believes the disclosures made are adequate to make the information not misleading and suggests that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes hereto included in the Company's Form 10-K for the year ended June 30, 2009.

This Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this Form 10-Q, including, without limitation, the statements under both Notes to Consolidated Financial Statements and Item 2. Management's Discussion and Analysis located elsewhere herein regarding the Company's financial position and liquidity, its strategies, financial instruments, and other matters, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in this Form 10-Q in conjunction with the forward-looking statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Aspen Exploration Corporation was incorporated under the laws of the State of Delaware on February 28, 1980 for the primary purpose of acquiring, exploring and developing oil and gas properties. The Company was engaged primarily in the exploration and development of oil and gas properties in California and had a significant working interest in oil wells in the Poplar Field of northern Montana. As of June 30, 2009, the Company has discontinued all oil and gas exploration and production activities, and disposed of all significant oil and gas related assets. Effective July 1, 2009, the Company has issued financial statements in accordance with the authoritative guidance. As a result of the sale of its oil and gas properties on June 30, 2009, the Company has re-entered the development stage effective July 1, 2009 in accordance with the authoritative guidance provided by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 915. As the current period presented (six months ended December 31, 2009) is the development stage period, we did not include a separate column indicating the changes in operations or cash flows since development stage inception.

We are not engaged in any business operations at the present time. In November 2009 Aspen held a meeting of its stockholders who considered a proposal (submitted by the Board of Directors without a recommendation) to approve a resolution granting the Board of Directors the authority in its sole discretion to dissolve Aspen within a twelve month period. Aspen's stockholders did not approve the resolution to grant Aspen's Board of Directors the discretion to dissolve the company. To be approved Delaware law required that this proposal be approved by a majority of shares outstanding and entitled to vote thereon. Although more stockholders voted in favor of the proposal than voted against it, only approximately 41% of the total shares outstanding and entitled to vote on the proposal voted in favor of this approval.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Business (Continued)

As a result, Aspen currently intends to maintain its corporate status and explore other business opportunities. Should Aspen not identify and execute upon an appropriate opportunity Aspen's Board of Directors will likely later reevaluate Aspen's status and consider other courses of action for the company.

Oil and Gas Exploration and Development. Prior to July 1, 2009, the major emphasis of the Company's activities had been participation in the oil and gas segment acquiring interests in producing oil or gas properties and participating in drilling operations. The Company engaged in a broad range of activities associated with the oil and gas business in an effort to develop oil and gas reserves and to participate in oil field operations. The Company's primary area of interest was in the state of California where the Company acquired a number of interests in oil and gas properties, although we also held a non-operating working interest in approximately 37 oil wells in the East Poplar Field, Roosevelt County, Montana. The Montana properties contributed only nominally (if at all) to our positive cash flow and profitability, and during much of the latter half of calendar 2008 resulted in operating losses. Effective January 1, 2009, we sold our entire interest in these Montana oil properties to the other participants in the Poplar Field.

On June 30, 2009, effective December 1, 2008, we completed the sale of our California properties to Venoco, Inc. (Venoco). As a result of the sale of the California properties to Venoco and the earlier sale of our Montana properties we are no longer (and since July 1, 2009 have not been) engaged in the oil and gas business or any other business operations.

On November 2, 2009 Aspen declared a cash dividend of \$0.73 per share. The dividend was paid to stockholders of record on December 2, 2009. The distribution follows the final settlement of the sale of Aspen's California oil and gas assets to Venoco, Inc., at which the parties made a number of immaterial adjustments to the purchase price paid at the June 30, 2009 closing, and made certain other payments that were not determined until after the closing. At the final settlement date Aspen received a net payment from Venoco, but was required to make various payments to third parties which ultimately resulted in a cash outflow from Aspen in an amount not considered to be material.

A summary of the Company's significant accounting policies follows:

Consolidated Financial Statements

The consolidated financial statements include the Company and its wholly-owned subsidiary, Aspen Gold Mining Company. Significant intercompany accounts and transactions, if any, have been eliminated. The subsidiary is currently inactive.

Cash and Cash Equivalents

For purposes of the Consolidated Balance Sheets and Statements of Cash Flows, we consider all highly liquid investments with a maturity of ninety days or less when purchased to be cash equivalents.

Management's Use of Estimates

Accounting principles generally accepted in the United States of America require certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses to be made. Actual results could differ from those estimates. The Company's significant estimates include depreciation of equipment and income taxes.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management's Use of Estimates (Continued)

The mining and oil and gas industries are subject, by their nature, to environmental hazards and cleanup costs for which the Company carries catastrophe insurance. At this time, there is no known substantial costs from environmental accidents or events for which the Company may be currently liable. Since the Company is no longer engaged in the oil and gas industry and has not been engaged in the mining industry for a number of years, further accrual of such costs is not expected until such time as the Company commences operations in an environmentally hazardous industry.

Discontinued Operations

The Company has accounted for the disposition of its oil and gas assets in accordance with ASC 205 and has reclassified its consolidated statements of operations for the quarters ended December 31, 2009 and 2008 to reflect its discontinued oil and gas operations sold during fiscal 2009.

Fair Value of Financial Instruments

Effective July 1, 2008, the Company adopted FASB's authoritative guidance provided in ASC 820 for fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under the guidance are described below:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities, trade receivables, and accounts payable. The fair values of cash and cash equivalents, trade receivables, and accounts payable approximate their carrying values due to the short-term nature of these instruments.

Investments in Debt and Equity Securities

The Company classifies all investments as available for sale securities in accordance with ASC 942. Changes in the fair value of the securities are reported as a separate component of stockholders' equity until realized.

Oil and Gas Properties

On May 22, 2009, Aspen's stockholders approved the sale of the Company's California oil and gas properties and assets to Venoco upon the terms described in the Purchase and Sale Agreement as signed by the parties and as filed with the Securities and Exchange Commission. The sale was closed on June 30, 2009 but the effective date of the sale was December 1, 2008. The parties agreed to a final settlement statement on November 2, 2009. This final closing resulted in Venoco paying Aspen and the other sellers additional funds, however the net adjustment was immaterial to Aspen.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Depreciation and amortization of property and equipment are expensed in amounts sufficient to relate the expiring costs of depreciable assets to operations over estimated service lives, principally using the straight-line method. Estimated service lives range from three to eight years. When assets are sold or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized. Depreciation expense was \$1,586 and \$10,638 for the six month periods ended December 31, 2009 and 2008, respectively. It should be noted that, since Aspen's prior oil and gas operations are treated as discontinued operations, depreciation expense set forth in the previous sentence does not include depreciation, depletion or amortization associated with Aspen's discontinued operations.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. We do not have any off-balance-sheet credit exposure related to our customers. As of December 31, 2009 and 2008, we do not have an allowance for doubtful accounts.

Earnings Per Share

Our earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the diluted weighted average number of common shares. The diluted weighted average number of common shares is computed using the treasury stock method for common stock that may be issued for outstanding stock options. Dilution is not permitted if there are net losses.

Income Taxes

The Company uses the asset and liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the tax rate in effect at that time. ASC 740 requires that amounts recognized in the Balance Sheet related to uncertain tax positions be classified as a current or noncurrent liability, based upon the expected timing of the payment to a taxing authority. The Company had no material uncertain tax positions as of December 31, 2009 or 2008.

The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, if appropriate. Realization of future tax benefits related to the deferred tax assets is dependent on many factors, including the ability to generate taxable income within the carryforward period. The Company estimates approximately \$448,000 in net operating losses (NOLs) at December 31, 2009. The available NOLs are expected to be utilized by carrying the losses back to the 2009 tax year.

Equity-Based Compensation

No compensation expense related to our equity compensation plans was recognized in the six months ended December 31, 2009 or 2008.

Recent Accounting Developments

In May 2009, the FASB issued authoritative guidance, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We implemented this guidance during the first quarter of fiscal 2010 and we expanded our disclosures accordingly. See Note 7 to these unaudited financial statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)Recent Accounting Developments (Continued)

In June 2009, the FASB approved the FASB Accounting Standards Codification (ASC), which after its effective date of July 1, 2009 is the single source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification reorganizes all previous U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. All existing standards that were used to create the Codification are now superseded, replacing the previous references to specific Statements of Financial Accounting Standards (SFAS) with numbers used in the Codification's structural organization. The adoption of this authoritative guidance did not have a material impact on our financial statements. We have updated our disclosures accordingly. SEC accounting pronouncements were not superseded by the ASC and continue to also apply to the GAAP applicable to the Company.

NOTE 3 ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss for the periods ending December 31, 2009 and 2008 consists of unrealized losses on available-for-sale securities. Changes in accumulated other comprehensive loss for the quarters ended December 31, 2009 and 2008 are as follows:

	2009	2008
Accumulated other comprehensive loss, July 1	\$ (520,186)	\$ (281,849)
Unrealized gains (losses) on available-for-sale securities, net	851	(273,873)
Less: reclassification adjustment for gains realized in net income	-	(2,901)
Accumulated other comprehensive loss, December 31	\$ (519,335)	\$ (558,623)

Unaudited condensed statements of comprehensive income loss for the three and six month periods ended December 31, 2009 and 2008 are as follows:

	Three months Ended		Six Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Net income (loss)	\$ (162,235)	\$ (1,353,589)	\$ (342,117)	\$ (1,238,599)
Unrealized losses on available-for-sale securities, net of income tax of \$498 and \$(174,005), respectively.	(13,604)	(12,848)	851	(273,873)
Other Comprehensive Income (loss)	\$ (175,839)	\$ (1,366,437)	\$ (341,266)	\$ (1,512,472)

NOTE 4 FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued authoritative guidance under ASC 820 in order to establish a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements. The authoritative guidance also expands disclosures about fair value measurements. The authoritative guidance applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The guidance was originally effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years with early adoption permitted.

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

NOTE 4 FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2009 are as follows:

Fair Value Measurements at Reporting Date Using				
		Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Available-for-sale securities	\$ 229,662	\$ 229,662	\$ -	\$ -

NOTE 5 DISCONTINUED OPERATIONS

The Company has reclassified its consolidated statements of operations for the six months ended December 31, 2009 and 2008 to reflect its discontinued oil and gas operations sold during fiscal 2009. This reclassification has no impact on the Company's net income or the net income per share. Condensed financial information of the results of oil and gas activities included in discontinued operations is as follows:

	Six Months Ended December 31,	
	2009	2008
Oil and gas sales	\$ -	\$ 2,153,880
Oil and gas production	-	(705,696)
Accretion, depreciation, depletion and amortization	-	(3,280,600)
net of related income taxes	-	815,000
Income from discontinued operations	-	(1,017,416)
Income (Loss) from Discontinued Operations	\$ -	\$ (1,017,416)
Basic net income (loss) per share	\$ -	\$ (0.14)
Diluted net income (loss) per share	\$ -	\$ (0.14)
Weighted average number of common shares outstanding used to calculate basic net income (loss) per share :	7,259,622	7,259,622
Effect of dilutive securities:		
Equity based compensation	-	-
Weighted average number of common shares outstanding used to calculate diluted net income (loss) per share :	7,259,622	7,259,622

NOTE 6 - SUBSEQUENT EVENT

The Company evaluates subsequent events through the date the financial statements are issued, which for the quarterly period ended December 31, 2009, is February 12, 2010. No material subsequent events were identified during this period.

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

General

The following discussion provides information on the results of operations for the periods ended December 31, 2009 and 2008 and our financial condition, liquidity and capital resources as of December 31, 2009 and June 30, 2009. The financial statements and the notes thereto contain detailed information that should be referred to in conjunction with this discussion.

The management 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, 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 items are discussed at length in Aspen's Form 10-K filed with the Securities and Exchange Commission, under the heading Risk Factors, as well as under the heading Risk Factors contained in this Form 10-Q.

Overview

Aspen was incorporated under the laws of the State of Delaware on February 28, 1980 for the primary purpose of acquiring, exploring and developing oil and gas and other mineral properties. During our fiscal year ended June 30, 2009, we were engaged primarily in the exploration, development and production of oil and gas properties in California and Montana. During fiscal 2009 the Company disposed of all of its oil and gas producing assets and is not currently engaged in any oil and gas producing activities as of July 1, 2009 (the commencement of our 2010 fiscal year). We are not engaged in any business operations at the present time.

Liquidity and Capital Resources and Results of Operations

As a result of the disposition of our oil and gas assets, we have no long term debt, insignificant amounts of short term debt (all of which is current), and (at December 31, 2009), in excess of \$3,600,000 of cash and other current assets and working capital of about \$3,528,000. We also have insignificant capital commitments. We anticipate using a portion of our working capital to pursue potential business opportunities, but do not expect that the cost will be significant compared to the remaining working capital. Aspen also intends to utilize its remaining funds to maintain its corporate status as a reporting issuer under the Securities Exchange Act of 1934 and to explore other business opportunities. Pending developments with respect to any business opportunities Aspen identifies, Aspen may later reevaluate its status and plans and consider alternatives to wind up its affairs.

The principal reason that working capital changed so significantly from June 30, 2009 (when it was approximately \$9,275,000) to December 31, 2009 was the result of the payment of a cash dividend of \$0.73 per share (\$5.3 million in total). The dividend was paid to stockholders of record on December 2, 2009. The distribution was derived from funds resulting from the sale of Aspen's California oil and gas assets to Venoco, Inc., with the final settlement of that sale occurring in November 2009. At the final settlement date Aspen received a net payment from Venoco, but was required to make various payments to third parties which ultimately resulted in a cash outflow from Aspen in an amount not considered to be material.

Other changes in our liquidity and capital resources during both the three and six month periods ended December 31, 2009 resulted from the payment by Aspen of current liabilities which, at June 30, 2009, consisted of approximately \$925,000 of income taxes payable and \$1.4 million of other current liabilities. These were paid down so that at December 31, 2009, we only had current liabilities of approximately \$74,000 a decrease in current liabilities of approximately \$2.25 million. Our negative cash flow also resulted from our operating loss during both the three and six month periods ended December 31, 2009, primarily resulted from selling, general and administrative expenses during the period.

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

For the three and six months ended December 31, 2009, our operations were focused on finalizing the transaction of our oil and gas properties with Venoco, calling and conducting a stockholders meeting in November 2009, and commencing exploratory efforts with respect to possible business combinations. Administrative expenses incurred during the six months ended December 31, 2009 were approximately 25% higher than the amounts incurred in the same period of the prior fiscal year, primarily due to legal and accounting fees associated with the disposition of our oil and gas assets. Similarly, our administrative expenses incurred during the three months ended December 31, 2009 were 15% higher than for the same period of the prior fiscal year, primarily as a result of legal and accounting fees associated with the disposition of our oil and gas assets as well as expenses associated with the November 2009 stockholders meeting. It should be noted that the expenses incurred in the 2008 periods associated with Aspen's oil and gas properties are included in the line item for income (loss) from discontinued operations and therefore are not reflected in the 2008 comparison.

Plan of Operations

Aspen now has a significant amount of liquid assets and does not have any active business operations. Aspen is retaining these funds in liquid money market accounts which it believes can be withdrawn quickly.

As a result of the fact that the stockholders did not approve a dissolution resolution when presented at the November 2009 stockholders meeting, Aspen currently intends to maintain its corporate status and explore other business opportunities. This may include an acquisition of assets or business operations, or a merger or other business combination. As we do not intend to limit what types of business opportunities we may pursue, if we identify an appropriate business opportunity it may result in Aspen changing its line of business although Aspen intends to focus its search within the broad scope of the natural resources industry. Should Aspen not identify and execute upon an appropriate opportunity Aspen's Board of Directors will likely later reevaluate Aspen's status and consider other courses of action for the company. Depending on the nature and structure of any potential business combinations, Aspen may not seek stockholder approval of the business combination.

Included in Aspen's liquid assets is about \$230,000 value in marketable securities and, in addition, Aspen uses money market funds for its cash management. Because of the restrictions of the Investment Company Act of 1940, unless Aspen completes a business combination by the end of its current fiscal year, Aspen may be required to dispose of those securities (consisting of publicly-traded stock of UR Energy (URE.TO) and the money market funds) or be required to register as an investment company. Currently Aspen is subject to the exemption found in Investment Company Act Rule 3a-2 which provides that transient investment companies are not subject to Investment Company Act regulation where:

1. The company does not intend to be engaged in the business of investing or reinvesting in securities notwithstanding the fact that it may meet the investment company definition at the present time because of the large amount of cash it has available or for other reasons;
2. The board of directors adopts an appropriate resolution, disclaiming investment company intent; and
3. The time period for investing its assets into an operating business, thereby removing the company from the definition of an investment company, is one year.

No company may rely on this exemption for transient investment companies more than once in any three-year period. At this time, we believe that if Aspen is an investment company, it is a transient investment company meeting the exception from registration under the Investment Company Act set forth in Rule 3a-2. Aspen does not, and does not intend to, primarily engage in the business of investing, reinvesting, or trading in securities, or holding investment securities.

Although Aspen has engaged in preliminary discussions with third parties about various possibilities, none of these discussions have resulted in an agreement that could lead to the conclusion of any future relationship. Depending on the nature of the business opportunities and the related transactions, a future business acquisition may or may not require stockholder approval. If the transaction does not require stockholder approval, the board of directors will be entitled to accomplish the transaction in its discretion, although the board may (but would not be required to) seek an advisory vote of the stockholders.

Critical Accounting Policies and Estimates

The Company believes the following accounting policies and estimates are critical in the preparation of its consolidated financial statements: depreciation expense and income taxes.

Discontinued Operations:

The Company has accounted for the disposition of its oil and gas assets in accordance with authoritative guidance and has reclassified its consolidated statements of operations for the quarters ended December 31, 2009 and 2008 to reflect its discontinued oil and gas operations sold during fiscal 2009.

Investments in Debt and Equity Securities

The Company classifies all investments as available for sale securities in accordance with authoritative guidance. Changes in the fair value of the securities are reported as a separate component of stockholders' equity until realized.

Deferred Taxes

We account for income taxes in accordance with authoritative guidance. Accordingly, deferred tax assets and liabilities are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements and thus no disclosure is required.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Smaller reporting companies are not required to provide the information required by this Item.

Item 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "1934 Act"), as of December 31, 2009, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer). Based upon and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2009.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated by the SEC under the Exchange Act) during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. LEGAL PROCEEDINGS

There are no material pending legal or regulatory proceedings against Aspen Exploration Corporation, and it is not aware of any that are known to be contemplated.

Item 1A. Risk Factors

See the risk factors set forth in the Company's annual report on Form 10-K for the year ended June 30, 2009, which risk factors are incorporated herein. There have been no material changes to the risk factors set forth in that Form 10-K except as follows:

Aspen does not see any significant risk to it resulting from climate change or rules or regulations addressing climate change.

On January 27, 2010, the Securities and Exchange Commission issued interpretive guidance requiring that all issuers assess risks associated with global climate change and the potential impact of legislation and regulation regarding climate change, the potential impact of international accords relating to climate change, legal, technological, political and scientific developments regarding climate change that may create new opportunities or risks for companies, and physical impact of climate change and other environmental matters. To the extent that climate change is in fact occurring, Aspen does not believe that there is any significant impact on it at the present time. To the extent that Aspen engaged in a business combination, it will assess these risks at that time.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 30, 2009, Aspen held its annual meeting of stockholders in Greenwood Village, Colorado. Two proposals were submitted to the stockholders for approval as set forth in Aspen's definitive proxy statement dated October 19, 2009. A total of 5,965,534 shares (approximately 70% of the total outstanding as of the record date) were present at the meeting in person or by proxy. The results of this meeting were included in Aspen's current report on Form 8-K reporting an event of November 30, 2009, which information is incorporated herein.

Item 5. OTHER INFORMATION

On November 18, 2009, Robert A. Cohan informed the Company that he has resigned from the Company's board of directors and as President. Mr. Cohan did not cite any disagreement with management or Company practices or policies as the basis for his decision to resign. Instead, he cited personal and health reasons as the reason for his decision to resign. Mr. Cohan's resignation was effective November 18, 2009 and was reported in Aspen's current report on Form 8-K reporting an event of November 18, 2009, which information is incorporated herein.

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

Effective December 2, 2009, the Board of Directors of Aspen appointed R.V. Bailey, currently chief executive officer, vice president exploration and administration, and chairman of Aspen's Board of Directors, as Aspen's president. Mr. Bailey was appointed to the position of president as a result of Mr. Cohan's resignation. This was reported in Aspen's current report on Form 8-K reporting an event of November 30, 2009, which information is incorporated herein.

Aspen and R.V. Bailey, Aspen's Chief Executive Officer, President, and Chairman of the Board, agreed to extend Mr. Bailey's employment agreement through March 31, 2010. The extension is dated December 15, 2009 and is effective as of January 1, 2010. Mr. Bailey's employment agreement was entered into by the parties on March 25, 2009 (but effective as of January 1, 2009). Aspen and Mr. Bailey previously agreed to extend the term of Mr. Bailey's employment agreement; however the agreement as previously extended was to terminate on December 31, 2009. The material terms of Mr. Bailey's employment agreement are described in a Current Report on Form 8-K dated March 25, 2009. Except for extending the term of the employment agreement through March 31, 2010, no other material terms of Mr. Bailey's employment agreement were amended by the extension dated December 15, 2009. This was reported in Aspen's current report on Form 8-K reporting an event of December 15, 2009, which information is incorporated herein.

Edgar Filing: ASPEN EXPLORATION CORP - Form 10-Q

Item 6. EXHIBITS

Exhibit No.	Document
10.1	Employment Agreement Extension effective as of January 1, 2010 between Aspen Exploration Corporation and R.V. Bailey. Filed herewith.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (R. V. Bailey, Chief Executive Officer).
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Kevan B. Hensman, Chief Financial Officer).
32	Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (R. V. Bailey, Chief Executive Officer, and Kevan B. Hensman, Chief Financial Officer).

Other exhibits and schedules are omitted because they are not applicable, not required or the information is included in the financial statements or notes thereto.

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

Date: February 12, 2010

/s/ R. V. Bailey
R. V. Bailey, Chief Executive Officer and principal executive officer

Date: February 12, 2010

/s/ Kevan B. Hensman
Kevan B. Hensman, Chief Financial Officer and principal financial officer