ASPEN EXPLORATION CORP
Form 10QSB
November 09, 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 September 30, 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)	(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 November 9, 2001
Common stock, $.005 par value	5,812,205

Part One. FINANCIAL INFORMATION

Item 1. Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2001 (Unaudited)	June 30, 2001 (Audited)
Current Assets:		
Cash and cash equivalents, including $2,636,342 and $2,046,201 of invested cash at September 30, 2001 and June 30, 2001 respectively	$ 2,273,055	$ 2,695,583
Precious metals	18,823	18,823
Accounts receivable, trade	572,030	554,159
Accounts receivable, related party (Note 7)	-0-	20,000
Prepaid expenses	51,124	14,898
Total current assets	2,915,032	3,303,463
Investment in oil and gas properties, at cost (full cost method of accounting)	4,648,879	4,297,306
Less accumulated depletion and valuation allowance	(2,023,713)	(1,921,413)
	2,625,166	2,375,893
Property and equipment, at cost:		
Furniture, fixtures and vehicles	104,368	104,368
Less accumulated depreciation	(31,100)	(28,133)
	73,268	76,235
Cash surrender value, life insurance	239,095	239,095
TOTAL ASSETS	$ 5,852,561	$ 5,994,686

(Statement Continues)
See notes to Consolidated Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2001 (Unaudited)	June 30, 2001 (Audited)
Current liabilities:		
Accounts payable and accrued expenses	$ 817,308	$ 1,036,715
Advances from joint owners	518,203	444,232
Total current liabilities	1,335,511	1,480,947
Deferred income taxes payable (Note 6)	179,200	179,200
Total liabilities	1,514,711	1,660,147
Stockholders' equity:		
Common stock, $.005 par value: Authorized: 50,000,000 shares Issued: At September 30, 2001: 5,812,205 and June 30, 2001: 5,812,205	29,061	29,060
Capital in excess of par value	6,015,279	6,015,279
Accumulated deficit	(1,693,682)	(1,692,592)
Deferred compensation	(12,808)	(17,208)
Total stockholders' equity	4,337,850	4,334,539
Total liabilities and stockholders' equity	$ 5,852,561	$ 5,994,686

See Notes to Consolidated Financial Statements

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

	Three Months Ended September 30, (unaudited) 2001	2000
Revenues:		
Oil and gas	$ 256,160	$ 561,694
Management fees	42,688	56,032

Interest and other, net	21,312	10,121
Total Revenues	320,160	627,847
Costs and expenses:		
Oil and gas production	25,872	57,542
Depreciation, depletion and amortization	105,266	64,000
Aspen Power Systems expense	20,000	-0-
Selling, general and administrative	170,112	151,295
Interest expense	-0-	6,940
Total Costs and Expenses	321,250	279,777
Net income before taxes	$ (1,090)	$ 348,070
Provision for income taxes	-0-	19,400
Net income	$ (1,090)	$ 328,670
Basic earnings per common share	$ -0-	$ .06
Diluted earnings per common share	$ -0-	$ .06
Basic weighted average number of common shares outstanding	5,812,205	5,345,938
Diluted weighted average number of common shares outstanding	5,891,844	5,693,138

The accompanying notes are an integral part of these statements.

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

	Three months ended September 30, 2001	2000
Cash flows from operating activities:		
Net income (loss)	$ (1,090)	$ 328,670

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion & amortization	105,266	64,000
Amortization of deferred compensation	4,400	4,400
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,130	(186,655)
(Increase) in prepaid expense	(36,226)	(8,171)
Increase (decrease) in accounts payable and accrued expense	(145,435)	1,734,714
Net cash provided (used) by operating activities	(70,955)	1,936,958
Cash flows from investing activities:		
Additions to oil & gas properties	(351,573)	(129,107)
Net cash used in investing activities	(351,573)	(129,107)
Cash flows from financing activities:		
Repayment of notes payable	-0-	(12,566)
Net cash used in financing activities	-0-	(12,566)
Net increase (decrease) in cash and cash equivalents	(422,528)	1,795,285
Cash and cash equivalents, beginning of year	2,695,583	507,382
Cash and cash equivalents, end of year	$ 2,273,055	$ 2,302,667
Interest paid	$ -0-	$ 6,940
Income taxes paid	$ -0-	$ 8,000

The accompanying notes are an integral part of these statements.

ASPEN EXPLORATION CORPORATION

Notes to Consolidated Financial Statements
(Unaudited)

September 30, 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, 2001.

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, 2001.

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.

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 three months ended September 30, 2001 and 2000:

	September 30, 2001			Septemb 200	
	Net Income (Loss)	Shares	Per Share Amount	Net Income	Shar
Basic earnings per share:					
Net income (loss) and					
share amounts	(1,090)	5,812,205	--	328,670	5,34
Dilutive securities					

stock options		180,000			68
Repurchased shares		(100,361)			(33
Diluted earnings per share:					
Net income and assumed share conversion	(1,090)	5,891,844	--	328,670	5,693

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 131). The adoption of SFAS 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 three months ended September 30, 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. 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 $351,573 for the development and acquisition of oil and gas properties.

Segment information consists of the following for the three months ended September 30:

	Oil and Gas	Power Plant	Corporate	Consolidat

Revenues:					
	2001	$ 298,848	$ -0-	$ 21,312	$ 320,1
	2000	617,726	-0-	10,121	627,8
Income (loss) from operations:					
	2001	$ 170,676	$(20,000)	$ (151,766)	$ (1,0
	2000	480,784	-0-	(152,114)	328,6
Identifiable assets:					
	2001	$ 3,197,196	$ -0-	$ 2,655,365	$ 5,852,5
	2000	2,018,062	-0-	2,646,980	4,665,0
Depreciation, depletion and valuation charged to identifiable assets:					
	2001	$(2,023,713)	$ -0-	$ (31,100)	$(2,054,8
	2000	(1,580,589)	-0-	(132,689)	(1,713,2
Capital expenditures:					
	2001	$ 351,573	$ -0-	$ -0-	$ 351,5
	2000	129,107	-0-	-0-	129,1

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
Year ended:			
September 30, 2001	9%	52%	26%
September 30, 2000	17%	11%	65%

Note 5 COMMITMENTS AND CONTINGENCIES

At September 30, 2001 we were committed to the following projects in California:

1. Sour Grass Prospect 3-D seismic work and lease acquisition costs.

Total costs of completing the seismic study and lease acquisition costs are estimated to be $200,000, our share should be approximately $67,000.

Note 6 INCOME TAXES

Our effective income tax rate was 24% for the first quarter ended September 30, 2001 and 24% for the first quarter ended September 30, 2000.

Note 7 SUBSEQUENT EVENTS

During September and October of 2001 we drilled the Brandt 36X-27 well to a total depth of 9,216'. No commercial oil sands were encountered and this well was plugged and abandoned on October 12, 2001.

On October 4, 2001 the California Power Authority notified our affiliate, Aspen Power Systems ("APS") that no further action would be taken on APS' proposal to build and operate a 323 MW natural gas fired electrical generating plant for the State of California. Consequently, we have written off a $20,000 advance we provided APS. Future power plant construction opportunities in California appear remote, given current economic conditions, and APS has scaled back its efforts and is seeking other approaches to contracts and financing for power generation facilities in Solano County, California. There is no assurance these efforts will be successful.

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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, 2001, 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

September 30, 2001 as compared to September 30, 2000

At September 30, 2001 current assets were $2,915,032 and current liabilities were $1,335,511 and we had positive working capital of $1,579,521 compared to current assets of $2,865,752 at September 30, 2000 and current liabilities of $2,515,562 at the same date, resulting in working capital at September 30, 2000 of $350,190. Our working capital increased approximately $1,229,000 from September 30, 2000 to September 30, 2001 for several reasons.

Our current assets increased because cash and cash equivalents decreased $29,600 from approximately $2.3 million to approximately $2.27 million. Much of this decrease was due to a reduction in advances paid to us from joint working interest owners for the drilling of wells. We are currently committed to projects in which we have no working interest partners (See Notes). Accounts receivable - trade increased by about 8% because of the completion of various drilling projects which were in process at year end. Prepaid expenses increased approximately $33,700 because of estimated income tax payments made to the state of California during the first quarter of fiscal 2002.

Our current liabilities decreased to $1.3 million at September 30, 2001, from approximately $2.5 million at September 30, 2000. This decrease was due to a number of factors, including a decrease in accounts payable of $741,000 due to decreased drilling activity, a decrease of $195,000 in advance payments received from joint owners but not expended for drilling activities at September 30, 2001. The current portion of notes payable were reduced to zero at September 30, 2001 from $224,000 at September 30, 2000.

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.

Recent drilling success and the reentry and completion of an acquired property have added to our cash flow from operations. These successes have been offset by the decline in production rates from older wells and a significant decline in the price received from the sale of our products. The average price received for oil and gas for the quarter ended September 30, 2001 was $22.35 per barrel and $3.28 per MMBTU of gas compared to $28.73 per barrel and $4.99 per MMBTU of gas at September 30, 2000, a decline of 22% and 34% respectively.

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.

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

Results of Operations

September 30, 2001 Compared to September 30, 2000

For the three months ended September 30, 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 three months ended September 30, 2001 decreased approximately $319,000 from $617,726 to $298,848, a 52% decrease. This decrease reflects a decrease in the prices received for our products and a decrease in production in the Denverton Creek and Malton Black Butte fields as well as the Kern County oil properties. Our share of sales of oil and gas for the three month period ended September 30, 2001 were 1,035 barrels of oil and approximately 69,200 MMBTU of gas with the price received for oil at $22.35 per barrel and $3.28 per MMBTU for gas. This is a decrease in total oil production compared to the 1,300 barrels of oil produced in the first quarter of fiscal 2001, and a decrease in natural gas production when compared to the approximately 105,000 MMBTU of gas when compared to the production achieved during the first quarter of the 2001 fiscal year. A significant factor resulting in decreased revenues during the first quarter of fiscal 2002 was a decrease in the prices received for our production when compared to prices of $28.73 and $4.99 received for oil and gas respectively during the first quarter of fiscal 2001.

Oil and gas production costs decreased $31,670 when compared to last quarter from $57,542 to $25,872. Approximately $30,000 of this decrease was due to non-recurring workover costs for recompleting wells in upper producing zones in the first quarter of fiscal 2001.

Depletion, depreciation and amortization increased approximately $41,300 or 65% from the previous quarter, which is our best estimate of what the full year cost will be.

Selling, general and administrative expense increased approximately 12% from $151,295 to $170,112 for the quarter ended September 30, 2001. This increase is primarily due to salary, consulting and office rental increases.

As a result of our operations for the three months ended September 30, 2001, we ended the quarter with net loss of $1,090 compared to net income of $328,670 for the year earlier. This decrease of approximately $330,000 is due to a decrease in production volumes and the price received for our oil and gas as discussed earlier.

Interest and other income increased approximately $11,000 to $21,312 and is due to our maintaining a greater balance of funds in our invested cash accounts.

On October 4, 2001 the California Power Authority notified our affiliate, Aspen Power Systems ("APS") that no further action would be taken on APS' proposal to build and operate a 323 MW natural gas fired electrical generating plant for the State of California. Consequently, we have written off a $20,000 advance we provided APS. Future power plant construction opportunities in California appear remote, given current economic conditions, and APS has scaled back its efforts and is seeking other approaches to contracts and financing for power generation facilities in Solano County, California. There is no assurance these efforts will be successful.

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

November 9, 2001