TENGASCO INC
Form 10KSB/A
May 23, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

REPORT ON FORM 10-KSB/A

(Mark one)

/X/ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year 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 No. 0-20975

TENGASCO, INC.
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

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|---|---|
| TENNESSEE<br>(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | 87-0267438<br>(I.R.S. EMPLOYER IDENTIFICATION NO.) |

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| 603 MAIN AVENUE, KNOXVILLE, TENNESSEE<br>(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | 37902<br>(ZIP CODE) |

ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE: (865) 523-1124.

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE.
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: COMMON STOCK, $.001 PAR VALUE PER SHARE.

CHECK WHETHER THE REGISTRANT (1) 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 SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS: YES /X/ NO / /

CHECK IF DISCLOSURE OF DELINQUENT FILERS IN RESPONSE TO ITEM 405 OF REGULATION S-B IS NOT CONTAINED IN THIS FORM AND NO DISCLOSURE WILL BE CONTAINED, TO THE BEST OF THE REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-KSB OR ANY AMENDMENT TO THIS FORM 10-KSB. [ ]

STATE ISSUER'S REVENUES FOR ITS MOST RECENT FISCAL YEAR: $5,241,076

STATE THE AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NONAFFILIATES (BASED ON THE CLOSING PRICE ON MARCH 16, 2001 OF $11.05): $73,152,602.

STATE THE NUMBER OF SHARES OUTSTANDING OF THE REGISTRANT'S $.001 PAR VALUE COMMON STOCK AS OF THE CLOSE OF BUSINESS ON THE LATEST PRACTICABLE DATE (MARCH 16, 2001): 9,663,610

DOCUMENTS INCORPORATED BY REFERENCE: NONE.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): YES [ ] NO [X]

FORWARD LOOKING STATEMENTS

The information contained in this Report, in certain instances, includes certain forward-looking statements. When used in this document, the words budget, budgeted, anticipate, expects, estimates, believes, goals or projects and similar expressions are intended to identify forward-looking statements. It is important to note that the Company's actual results could differ materially from those projected by such forward-looking statements. Important factors that could cause actual results to differ materially from those projected in the forward-looking statements include, but are not limited to, the following: production variances from expectations, volatility of oil and gas prices, the need to develop and replace reserves, the substantial capital expenditures required for construction of pipelines and the drilling of wells and the related need to fund such capital requirements through commercial banks and/or public securities markets, environmental risks, drilling and operating risks, risks related to exploration and development drilling, the uncertainty inherent in estimating future oil and gas production or reserves, uncertainty inherent in litigation, competition, government regulation, and the ability of the Company to implement its business strategy, including risks inherent in integrating acquisition operations into the Company's operations.

PART I

ITEM 1. BUSINESS.

BUSINESS DEVELOPMENT.

The Company is in the business of exploring for, producing and transporting oil and natural gas in Tennessee and Kansas. The Company leases producing and non-producing properties with a view toward exploration and development. Emphasis is also placed on pipeline and other infrastructure facilities to provide transportation, processing and tieback services. The Company utilizes state-of-the-art seismic technology to maximize the recovery of reserves. The Company's activities in the oil and gas business did not commence until May 1995 with the acquisition of oil and gas leases in Tennessee.

Since 1995 the Company has acquired oil and gas leases on a total of approximately 50,500 acres, located in Hancock, Claiborne, Knox, Jefferson and Union Counties in Tennessee (collectively, the "Swan Creek Leases or Field").

Effective December 31, 1997, the Company acquired from AFG Energy, Inc. ("AFG"), a private company, approximately 32,000 acres of leases in the vicinity of Hays, Kansas (the "Kansas Properties"). Included in the acquisition which closed on March 5, 1998 were 273 wells, including 208 working wells, of which 149 are producing oil wells and 59 are producing gas wells, a related 50 mile pipeline and gathering system, 3 compressors and 11 vehicles. The



total purchase price of these assets was approximately $5.5 million, which consisted of $3 million in cash and seller financing of $2.5 million. The seller financing portion of the purchase price has been refinanced by Arvest United Bank of Oklahoma City, Oklahoma as evidenced by a note dated November 23, 1999 in the amount of $1,883,650 to be paid in monthly installments of principal and interest over a three year period. The Company is current in its obligations under this transaction.

The Kansas Properties are currently producing approximately one million cubic feet of natural gas and 400 barrels of oil per day. Income from the Kansas Properties at the present time is approximately $400,000 per month.

The Company has drilled or has an interest in thirty wells in the Swan Creek field in Tennessee and presently has twenty four productive natural gas wells and six producing oil wells in this field. In July 1998 the Company completed the first phase ("Phase I") of its pipeline in the Swan Creek Field, a 30 mile pipeline made of 6 and 8 inch steel pipe running from the Swan Creek Field into the main city gate of Rogersville, Tennessee. With the assistance of the Tennessee Valley Authority ("TVA"), the Company was successful in utilizing TVA's right-of- way along its main power line grid from the Swan Creek Field to the Hawkins County Utility District located in Rogersville. The cost of constructing Phase I of the pipeline was approximately $4,200,000.

The Company has now completed construction of the second phase ("Phase II") of its pipeline, an additional 35 miles of 8 and 12 inch pipeline extending from the terminus of the Company's existing Phase I pipeline to Eastman Chemical Company in Kingsport, Tennessee. Construction of Phase II of the pipeline cost approximately $6,800,000. Ceremonies marking the completion of construction were held in Kingsport, Tennessee on March 8, 2001 and were attended by over two hundred people, including the Hon. Don Sundquist, Governor of the State of Tennessee, the president of Eastman Chemical Company, and many state and local government officials. Deliveries of gas to the Holston Army Ammunition Plant at Kingsport, Tennessee began on April 4, 2001 and deliveries to Eastman Chemical Company are expected to commence on or before April 30, 2001.

Currently the Company is producing and selling approximately 4,000 barrels of oil per month from the Swan Creek Field. Income from oil sales from the Swan Creek Field is approximately $ 80,000 per month.

The Company will continue to conduct exploration and production activities to produce increased quantities of crude oil and natural gas. The principal markets for these commodities are local refining companies, major natural gas transmission pipeline companies, local utilities and private industry end-users.



the original agreement to the higher quantity stated above without the need for the Company to elect to install some or all of the treatment facilities as was required under the original agreement. The March 27, 2000 amendment also provides that in the event Eastman determines that the processes requiring low nitrogen gas fail to operate satisfactorily with the gas provided to them by the Company pursuant to the amendment, then Eastman may give written notice to the Company to begin installation of facilities under the agreement as it existed prior to the amendment and complete same within eighteen (18) months of such written notice.

Under the agreement as amended March 27, 2000, Eastman will pay the Company the index price plus $0.10 for all natural gas quantities up to 5,000 MMBtus delivered per day, the index price plus $0.05 for all quantities in excess of 5,000 MMBtus per day and the index price for all quantities in excess of 15,000 MMBtu's per day. The index price means the price per MMBtu published in McGraw-Hills Inside F.E.R.C's Gas Market Report equal to the Henry Hub price index as shown in the table labeled Market Center Spot Gas Prices. This index price ranged from $9.91 per MMBtu in January, 2001 to $5.35 per MMBtu in April, 2001.

The agreement with Eastman is for a term of twenty years and will be automatically extended, if the parties agree, for successive terms of one year. The initial term of the agreement commences upon the Company's completion of construction of Phase II of its pipeline and connection to Eastman's facilities and once commercial operation of that facility is approved. Pursuant to its agreement with Eastman, completion of construction of Phase II of the pipeline was originally to be made by December 31, 2000. However, Eastman subsequently agreed to extend the completion date of construction to March 31, 2001.

In April 2000, the Company commenced construction of Phase II of the pipeline. When the pipeline was completed on March 8, 2001, the Company had laid an additional 35 miles of 8 inch and 12 inch pipeline at a cost of approximately $6,800,000 extending its pipeline from a point near the terminus of Phase I and connecting to an existing pipeline and meter station at Eastman's chemical plant. The completed pipeline extends 65 miles from the Company's Swan Creek Field to Kingsport, Tennessee. The Company is ready to commence deliveries of gas to Eastman. The Company has been advised by Eastman that although the Company's gas has been tested and the quality of gas is acceptable for initial deliveries under the agreement, Eastman encountered technical problems in adjusting its metering equipment for initial deliveries and that final adjustments and additions to Eastman's meters are being concluded and that Eastman expects to take initial deliveries as soon as such adjustments and additions to its equipment are concluded. Based on these representations from Eastman, the Company expects deliveries to Eastman to begin on or before April 30, 2001.

On January 25, 2000, the Company's wholly owned subsidiary, Tengasco Pipeline Corporation ("Tengasco Pipeline"), signed a franchise agreement to install and operate new natural gas utility service to residential, commercial and industrial users in Hancock County, Tennessee for the Powell Valley Utility District. The Powell Valley District has no existing natural gas facilities and the system to be installed by Tengasco Pipeline will initially extend to schools and small customers, and will be gradually expanded over time to serve as many of the



districts.

Now that the pipeline has been completed, management believes that it will be able to sell all of its daily natural gas production from the Swan Creek Field. The Company anticipates that a sufficient quantity of crude oil or natural gas will be produced from the Swan Creek Field to supply the Company's customers and make the Company profitable.

Natural gas from the Kansas Properties is delivered to Kansas-Nebraska Energy, Inc. in Bushton, Kansas. At present, crude oil is sold to the National Cooperative Refining Association in McPherson, Kansas, 120 miles from Hays. National Cooperative is solely responsible for transportation of the oil it purchases whether by truck or pipeline. There is a limited market in the area and the only other purchaser of crude oil is EOTT Energy Operations Ltd.

RESERVE ANALYSES

Ryder Scott Company of Houston, Texas ("Ryder Scott") has performed reserve analyses of all the Company's productive leases. Ryder Scott and its employees and its registered petroleum engineers have no interest in the Company or IRC, and performed these services at their standard rates. The net reserve values used hereafter were obtained from a report dated March 28, 2001 prepared by Ryder Scott. In substance, the report used estimates of oil and gas reserves based upon standard petroleum engineering methods which include decline curve analysis, volumetric calculations, pressure history, analogy, various correlations and technical judgment. Information for this purpose was obtained from owners of interests in the areas involved, state regulatory agencies, commercial services, outside operators and files of Ryder Scott. The net reserve values in the Ryder Scott Report were adjusted to take into account the working interests that have been sold by the Company in various wells in the Swan Creek Field. See, "Item 2 - Description of Property." The report of Ryder Scott provides that the net proved reserves for wells in the Swan Creek Field is 54,572 MMCF of natural gas and 569,774 barrels of oil. According to the Ryder Scott Report, discounting the net reserve values by 10% results in a present value as of December 31, 2000 of $443,367,924 before production taxes and $430,066,886 after production taxes for the Swan Creek Field.

The reserves analysis performed by Ryder Scott Company for the Swan Creek field resulted in a decrease in the stated dollar value of the reserves of that field from the reserve analysis previously performed for the Company by Coburn Engineering of Tulsa, Oklahoma. This decrease in the stated dollar value of the reserve analysis was due to the fact that Ryder Scott utilized more conservative assumptions in its analysis in three primary respects. First, Ryder Scott assumed that the gas wells in the Swan Creek field would drain a smaller area per well based on the permeability of the structure. Second, Ryder Scott assumed that due to the complicated geology of the structure, certain oil zones in Swan Creek field may not be in communication with producing oil zones, and therefore did not classify those zones as proven undeveloped reserves for valuation purposes at this time. Finally, economic projections by Ryder



Scott of production rates used in the valuation process of the reserves were more conservative than those utilized by Coburn Engineering. The Company recognizes that varying levels of assumptions can be made in rendering an analysis of reserves and believes that the more conservative assumptions utilized by Ryder Scott are within the parameters customarily utilized in the analysis of reserves by companies performing reserve analysis. The Company also notes that Ryder Scott Company is well known in the oil and gas industry and by financial institutions throughout the United States and enjoys a reputation of being one of the preeminent firms engaged in performance of reserve analysis.

Ryder Scott also performed a reserve analysis of the Kansas Properties. The net reserve values used hereafter were also obtained from the Ryder Scott Report dated March 28, 2001. According to the Ryder Scott Report, discounting the net reserve values by 10% results in a present value as of December 31, 2000 of $54,419,609 before production taxes and $54,307,992 after production taxes for the Kansas Properties.

The Company believes that the reserve analysis reports prepared by Ryder Scott for the Company for the Swan Creek Field and Kansas Properties provide an essential basis for favorable consideration and review of the Company's producing properties by all potential industry partners and all financial institutions across the country. It is standard in the industry for reserve analyses such as these to be used as a basis for financing of drilling costs. Reserve analyses, however, are at best speculative, especially when based upon limited production; no assurance can be given that the reserves attributed to these leases exist or will be economically recoverable. The result of any reserve analysis is dependent upon the forecast of product prices utilized in the analysis which may be more or less than the actual price received during the period in which production occurs.

DISTRIBUTION METHODS OF PRODUCTS OR SERVICES

Crude oil is normally distributed in Tennessee by tank truck and natural gas is distributed and transported via pipeline.

On September 3, 1999,the Company entered into a farmout agreement with Miller Petroleum, Inc. ("Miller") for ten wells to be drilled in the Swan Creek Field with the Company having an option to award up to an additional ten future wells. All locations are to be mutually agreed upon. Net revenue will be 81.25% to Miller and the Company will transport Miller's gas for a fee. See, Item 2 "Description of Property."

COMPETITIVE BUSINESS CONDITIONS, COMPETITIVE POSITION IN THE INDUSTRY AND METHODS OF COMPETITION

The Company's contemplated oil and gas exploration activities in the States of Tennessee and Kansas will be undertaken in a highly competitive and speculative business

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NUMBER OF TOTAL EMPLOYEES AND NUMBER OF FULL-TIME EMPLOYEES

The Company presently has forty one full time employees and no part-time employees.

ITEM 2. DESCRIPTION OF PROPERTY

PROPERTY LOCATION, FACILITIES, SIZE AND NATURE OF OWNERSHIP

The Company's Swan Creek Leases are on approximately 50,500 acres in Hancock, Claiborne, Knox, Jefferson and Union Counties in Tennessee. The initial terms of these leases vary from one to five years. Many of them can be extended at the option of the Company by payment of annual rent. Some of them will terminate unless the Company has commenced drilling. However, the Company does not anticipate any difficulty in continuing the Swan Creek Leases. See "Description of Business" - "General" above.

Morita Properties, Inc., an affiliate of one of the Company's Directors, Shigemi Morita, currently has a 25% working interest in nine of the Company's existing wells, and a 50% working interest and 6% working interest in two of the Company's other existing wells. In addition, to those interests, Morita Properties, Inc. previously owned a 25% working interest in three of the Company's other existing wells and 12.5% working interest in another of the Company's wells which it subsequently sold. See Item 12 -"Certain Relationships and Related Transactions" - "Transactions with Management and Others."

An individual who is not an affiliate of the Company purchased 25% working interests in two other wells, the Stephon Lawson No. 1 and the Patton No. 1. All of these wells are located in the Swan Creek Field.

Another individual has a 29% revenue interest in the Laura Jean Lawson No. 3 well, also located in the Swan Creek Field, by virtue of having contributed her unleased acreage to the drilling unit and paying her proportionate share of the drilling costs of the well. The Company was obligated to allow that individual to participate on that basis in accordance with both customary industry practice and the requirements of the procedures of the Tennessee Oil and Gas Board in a forced pooling action brought by the Company to require the acreage to be included in the unit so that the well could be drilled. The forced pooling procedure was concluded by her contribution of acreage and agreement to pay proportionate share of drilling costs.

The Company has also entered into a farmout agreement with Miller Petroleum, Inc. ("Miller") for ten wells to be drilled in the Swan Creek Field with the Company having an option to award up to an additional ten future wells. All locations are to be mutually agreed upon.

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Series B 8% cumulative Convertible Preferred Stock ($100.00 per share)

| NAME | DATE ACQUIRED | NUMBER OF SHARES | AGGREGATE CONSIDERATION |
|---|---|---|---|
| McGowan, Edward | 9/5/00 | 1000 | $ 100,000.00 |
| Dolphin Offshore Partners, L.P. | 9/5/00 | 9000 | $ 900,000.00 |

Management believes that all of the foregoing persons were either "accredited investors" as that term is defined under applicable federal and state securities laws, rules and regulations, or were persons who by virtue of background, education and experience who could accurately evaluate the risks and merits attendant to an investment in the securities of the Company. Further, all such persons were provided with access to all material information regarding the Company, prior to the offer or sale of these securities, and each had an opportunity to ask of and receive answers from directors, executive officers, attorneys and accountants for the Company. The offers and sales of the foregoing securities are believed to have been exempt from the registration requirements of Section 5 of the 1933 Act, as amended, pursuant to Section 4(2) thereof, and from similar state securities laws, rules and regulations covering the offer and sale of securities by available state exemptions from such registration.

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

With the completion of its 65 mile pipeline and the flow of gas through the pipeline, the Company will be able to deliver its gas to Eastman, BAE SYSTEMS at the Holston Army Ammunition Plant and other customers in the Kingsport area and anticipates being able to sell substantially all of its natural gas production from the Swan Creek Field. The Company anticipates that its agreement with Eastman will require Eastman to purchase a minimum of 10,000 MMBTU of gas per day. The Company expects deliveries to Eastman to begin on or before April 30, 2001. Deliveries of natural gas to BAE SYSTEMS at the Holston facility commenced on April 4, 2001 and the Company anticipates that purchases under that agreement will be 1,800 MMBTU of gas per day.

The completion of the pipeline will also allow the Company to focus on its drilling program on the Swan Creek leases and continue the development of that field. The existence of substantial deposits of hydrocarbons (oil and/or gas) in the Swan Creek structure (i.e. the rock formation beneath the surface) is confirmed by the following facts:

(1) The Swan Creek structure is located in an area known as the Eastern Overthrust Belt which is an area with numerous faults. A fault is an area where geologic plates overlap. The Eastern Overthrust Belt is geologically similar to the Western Overthrust Belt located in the Rocky Mountains, where there are other oil and gas producing properties.

FIVE PERCENT STOCKHOLDERS

| NAME AND ADDRESS | TITLE | NUMBER OF SHARES BENEFICIALLY OWNED | PERCENT OF CLASS |
|---|---|---|---|
| Industrial Resources Corporation<br>603 Main Ave.<br>Knoxville, TN 37902 | Stockholder | 2,730,345(3) | 28% |
| Spoonbill, Inc.<br>Tung Wai Commercial Bldg.<br>20th Floor<br>109-111 Gloucester Rd.<br>Wanchai, Hong Kong | Stockholder | 878,198 | 9.09% |
| Bill L. Harbert<br>820 Shaders Creek Pkwy.<br>Birmingham, AL 35209 | Stockholder | 720,000 | 7.45% |

DIRECTORS AND OFFICERS

| NAME AND ADDRESS | TITLE | NUMBER OF SHARES BENEFICIALLY OWNED | PERCENT OF CLASS |
|---|---|---|---|
| Joseph Earl Armstrong<br>4708 Hilldale Drive<br>Knoxville, TN 37914 | Director | 50,000(4) | Less than 1% |

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(3) Malcolm E. Ratliff, the Chief Executive Officer and Chairman of the Board of Directors of the Company is the sole owner of the outstanding securities and President of Industrial Resources Corporation ("IRC"). Ownership of the IRC shares was previously transferred from Malcolm E. Ratliff, due to his illness, to his father, James Ratliff. In December 1999 ownership of the IRC shares was transferred back to Malcolm E. Ratliff from his father. Malcolm E. Ratliff's wife, Linda Ratliff, is the Secretary of IRC. Accordingly, IRC may be deemed to be an affiliate of the Company. James Ratliff, who is the father of Malcolm E. Ratliff, is the sole shareholder and President of Ratliff Farms, Inc. Malcolm E. Ratliff is the Vice-President/Secretary of Ratliff Farms. Malcolm E. Ratliff has voting control of the shares of the Company owned by Ratliff Farms, Inc. Accordingly, Ratliff Farms, Inc. may also be deemed to be an affiliate of the Company. The shares listed here for IRC include 2,187,232 shares owned directly by IRC, 55,353 shares owned directly and an option to purchase 50,000 shares held by Malcolm E. Ratliff, 243,760 shares owned directly by Ratliff Farms, Inc., 30,000 shares owned directly by a trust of which Linda Ratliff is trustee and the children of Malcolm E. Ratliff are the beneficiaries and 164,000 shares transferred by Ratliff Farms, Inc. to James Ratliff.

(4) Consists of 10,000 shares held directly and an option to purchase 40,000 shares.



| | | | |
|---|---|---|---|
| Benton L. Becker | Director | 90,000(5) | Less than 1% |

| | | | |
|---|---|---|---|
| 1497 Lacosta Drive East<br>Pembrook Pines, FL 33027 | | | |
| Edward W.T. Gray III<br>3 New Street<br>Remsenberg, NY 11960 | Director | 127,350(6) | 1.3% |
| Robert D. Hatcher, Jr.<br>107 Golden Gate Lane<br>Oak Ridge, TN 37830 | Director | 50,000(7) | Less than 1% |
| Sanford E. McCormick<br>1100 Louisiana Ste. 5425<br>Houston, TX 77002 | Director | 40,000(8) | Less than 1% |
| Shigemi Morita<br>35 Park Avenue<br>New York, N.Y. 10016 | Director | 235,141(9) | 2.4% |
| Malcolm E. Ratliff<br>2100 Scott Lane<br>Knoxville, TN 37922 | Chief Executive Officer; Chairman of the Board | 2,730,345(10) | 28% |

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(5) Consists of 40,000 shares owned directly and an option to purchase 50,000 shares.

(6) Consists of 77,350 shares held directly and an option to purchase 50,000 shares.

(7) Consists of shares underlying an option.

(8) Consists of shares underlying an option.

(9) Consists of (10) 5,741 shares held directly, 79,400 shares held as an IRA beneficiary and options to purchase 50,000 shares.

(10) Malcolm E. Ratliff, the Company's Chief Executive Officer and Chairman of the Board of Directors, is also the sole shareholder and President of Industrial Resources Corporation ("IRC"). Ownership of the IRC shares was previously transferred from Malcolm E. Ratliff, due to his illness to his father, James Ratliff. In December 1999 ownership of the IRC shares was transferred back to Malcolm E. Ratliff from his father. Linda Ratliff, Malcolm E. Ratliff's wife, is the Secretary of IRC. James Ratliff, who is the father of Malcolm E. Ratliff, is the sole shareholder and president of Ratliff Farms, Inc. Malcolm E. Ratliff is the Vice-President/Secretary of Ratliff Farms, Inc. Malcolm E. Ratliff has voting control over the shares of the Company owned by Ratliff Farms, Inc. The shares listed here include 2,187,232 shares owned directly by IRC, 55,353 shares owned directly and an option to purchase 50,000 shares held by Malcolm E. Ratliff, 243,760 owned directly by Ratliff Farms, Inc., 30,000 shares owned directly by a trust of which Linda Ratliff is trustee and the beneficiaries are the children of Malcolm E. Ratliff (the "Ratliff Trust") and 164,000 shares transferred by Ratliff Farms, Inc. to James Ratliff.

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|---|---|---|---|
| All Officers and<br>Directors as a group | | 3,598,965(18) | 35.2% |

CHANGES IN CONTROL

Except as indicated below, to the knowledge of the Company's management, there are no present arrangements or pledges of the Company's securities which may result in a change in control of the Company.

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH MANAGEMENT AND OTHERS

Except as set forth hereafter, there have been no material transactions, series of similar transactions or currently proposed transactions, to which the Company or any of its subsidiaries was or is to be a party, in which the amount involved exceeds $60,000 and in which any director or executive officer or any security holder who is known to the Company to own of record or beneficially more than 5% of the Company's common stock, or any member of the immediate family of any of the foregoing persons, had a material interest.

On July 16, 1998, the Company entered into a loan agreement with five individual investors totaling $800,000. The loans were secured by a pledge of 118,200 shares of the Company's Common Stock owned by Malcolm E. Ratliff, the Company's Chief Executive Officer and a Director. The loans bore interest at the rate of 8% per annum and matured on October 14, 1998. Loan origination fees consisted of $64,000 in cash to the broker who arranged the loan and 16,800 shares of the Company's common stock advanced to the lenders and broker on behalf of the Company by Malcolm E. Ratliff. The shares advanced by Malcolm E. Ratliff were carried as a debt payable to him. Approximately $520,000 of this $800,000 loan was repaid by the Company out of proceeds from a Convertible Note in the amount of $1,500,000 received during October, 1998. The Convertible Note matures in five years and is convertible into shares of the Company's common stock at a price of $6.25 per share. In connection with the loan received by the Company evidenced by the Convertible Note, the Company issued 25,000 shares of its common stock to the lender as a loan fee. The balance of the $800,000 loans have been satisfied by the issuance to the lenders of 2,800 shares of Series A Shares convertible at a price of $5.75 per share. In 1999 the Company converted the debt payable of $163,800 to Malcolm E.

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(18) Consists of shares held directly and indirectly by management, shares held by IRC, by Ratliff Farms, Inc., by the Ratliff Trust and shares transferred from Ratliff Farms, Inc. to James Ratliff and 555,500 shares underlying options.



purchased on a turnkey basis at an aggregate cost of $875,000 a 12.5% working interest in the Stephen Lawson #3 well which interest it subsequently sold, a 25% working interest in the Laura Jean Lawson #2 well, a 25% working interest in the R.D. Helton #2 well, a 25% working interest in the Stephen Lawson #4 well, a 25% working interest in the Hugh Roberts #1 well; a 25% working interest in the Wells/Yeary #1 well, a 25% working interest in the Hazel Sutton #2 well, and a 6% working interest in the Laura J. Lawson #3 well, all of which are in the Swan Creek Field. The purchases of these interests were concluded before the respective wells were drilled and the purchaser assumed all the attendant risks involved in normal and customary drilling operations, including the risk of a dry hole. The Company received fair market value for the interests conveyed and the sale of such interests was required to raise funds to allow drilling operations to continue. In 2000, the Company paid Mr. Morita approximately $270,000 for commissions on private placements of common stock and consulting services.

In 1999, 30,000 shares of the Company's common stock held in the name of Tracmark, Inc. were transferred to an affiliate, Commonwealth Resources, Inc. James Ratliff, the father of Malcolm E. Ratliff, is the sole shareholder of Tracmark, Inc., as Trustee for the Ratliff family. Malcolm E. Ratliff is Vice-President of Tracmark, Inc. Malcolm E. Ratliff is the sole shareholder and President of Commonwealth Resources, Inc. and his wife, Linda Ratliff, is the Secretary/Treasurer of that corporation. Those 30,000 shares were subsequently transferred from Commonwealth Resources, Inc. to a family trust of which Linda Ratliff is the trustee and the beneficiaries are the children of Malcolm E. Ratliff.

In December 1999, ownership of all of the outstanding and issued shares of IRC, the largest shareholder of the Company's common stock was transferred from James Ratliff to his son, Malcolm E. Ratliff. Ownership of the IRC shares had previously been transferred to James Ratliff due to the illness of Malcom E. Ratliff. IRC presently owns 2,187,232 shares of the Company's common stock.

On August 16, 2000, Tengasco Pipeline Corporation ("TPC"), a wholly-owned subsidiary of the Company, entered into loan agreements (the "Loan Agreements") with five lenders (the "Lenders") for a loan (the "Loan") to finance the completion of Phase II of the Company's 65 mile pipeline. Under the terms of the Loan Agreements, the Lenders agreed to loan TPC $5.6 million for the construction and costs associated with Phase II. Repayment of the Loan was secured only by a first lien upon the pipeline assets of TPC. The Loan is to be repaid over a five-year term, accruing interest at 10.75% per annum from the date of funding, with no penalty for prepayment, and the first payment due in six months from closing. As additional consideration for making the Loan, each Lender is to share on a pro-rata basis, a total throughput fee for all of the Lenders of $.10 per MMBTU of natural gas delivered through the completed pipeline system. The throughput agreement will cease to exist when the Loan is paid in full. The Lenders include Morita Properties, Inc., an affiliate of Shigemi Morita, a Director of the Company which loaned TPC $500,000; Edward W.T. Gray III, a Director of the Company who loaned TPC $1,000,000; and, Malcolm E. Ratliff, Chairman of the Board of Directors and Chief Executive Officer of the Company who agreed to loan $2,000,000, to have been funded by November 15, 2000. The balance of the Loan in the amount of $2,100,000 was made by two



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| 23.2 | Consent of Robson Ferber Frost Chan & Essner, LLP contained in Exhibit No. 5.1 |

The following exhibits are filed herewith:

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| 10.19 | Memorandum Agreement between Tengasco, Inc. and The University of Tennessee dated February 13, 2001 |
| 10.20 | Natural Gas Sales Agreement between Tengasco, Inc. and BAE SYSTEMS Ordnance Systems Inc. dated March 30, 2001 |
| 99.14 | Ryder Scott Report |
| 99.14(a) | Consent of Ryder Scott Company |
| 21 | List of Subsidiaries |

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 23, 2001

TENGASCO, INC.
(Registrant)

By: /s/ MALCOLM E. RATLIFF

Malcolm E. Ratliff,
Chief Executive Officer

By: /s/ MARK A. RUTH

Mark A. Ruth
Principal Financial
and Accounting Officer