ASPEN EXPLORATION CORP
Form 10QSB
February 07, 2002

FORM 10-Q-SB

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

MARK ONE

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

For the quarterly period ended December 31, 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 (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 Aspen (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Aspen was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Class	Outstanding at February 7, 2002
Common stock, $.005 par value	5,863,828

Part One. FINANCIAL INFORMATION

Item 1. Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2001 (Unaudited)
Current Assets:	
Cash and cash equivalents, including $1,225,362 and $2,636,342 of invested cash at December 31, 2001 and June 30, 2001 respectively	$ 1,575,185
Precious metals	18,823
Accounts receivable, trade	336,265
Accounts receivable - related party (Note 7)	-0-
Prepaid expenses	50,792
Total current assets	1,981,065
Investment in oil and gas properties, at cost (full cost method of accounting)	4,817,445
Less accumulated depletion and valuation allowance	(2,139,013)
	2,678,432
Property and equipment, at cost:	
Furniture, fixtures and vehicles	107,573
Less accumulated depreciation	(36,813)
	70,760
Cash surrender value, life insurance	239,095
TOTAL ASSETS	$ 4,969,352

(Statement Continues)
See notes to Consolidated Financial Statements

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ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2001 (Unaudited)
Current liabilities:	
Accounts payable and accrued expenses	$ 348,522
Advances from joint owners	232,792
Total current liabilities	581,314
Deferred income tax payable	179,200
Total liabilities	760,514
Stockholders' equity:	
Common stock, $.005 par value: Authorized: 50,000,000 shares Issued: At December 31, 2001: 5,863,828 and June 30, 2001: 5,812,205	29,320
Capital in excess of par value	6,015,020
Accumulated deficit	(1,827,094)
Deferred compensation	(8,408)
Total stockholders' equity	4,208,838
Total liabilities and stockholders' equity	$ 4,969,352

See Notes to Consolidated Financial Statements

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

	Three Months Ended December 31,	
	2001	2000
Revenues:		

Oil and gas	$ 133,027	$ 1,016,456	$
Management fees	24,949	56,230	
Interest and other, net	14,893	19,025	
Total Revenues	172,869	1,091,711	
Costs and expenses:			
Oil and gas production	42,401	66,985	
Depreciation, depletion and amortization	121,013	79,000	
Aspen Power Systems expense	5,500	-0-	
Selling, general and administrative	137,367	152,188	
Interest expense	-0-	939	
Total Costs and Expenses	306,281	299,112	
Net income (loss) before taxes	$ (133,412)	$ 792,599	$
Provision for income taxes	-0-	60,600	
Net income (loss)	$ (133,412)	$ 731,999	$
Basic earnings (loss) per common share	$ (.02)	$ .14	$
Diluted earnings (loss) per common share	$ (.02)	$ .13	$
Basic weighted average number of common shares outstanding	5,816,133	5,345,938	
Diluted weighted average number of common shares outstanding	5,821,166	5,831,415	

The accompanying notes are an integral part of these statements.

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

	Six months ended December 31, 2001	2000
Cash flows from operating activities:		
Net income (loss)	$ (134,502)	$ 1,060,669

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion & amortization	226,279	143,000
Amortization of deferred compensation	8,800	8,800
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	237,894	(475,337
(Increase) decrease in prepaid expense	(35,894)	309
Increase (decrease) in accounts payable and accrued expense	(899,631)	2,543,358
Net cash provided (used) by operating activities	(597,054)	3,280,799
Cash flows from investing activities:		
Additions to oil & gas properties	(520,139)	(345,732
Purchase of office equipment	(3,205)	(2,287
Sale of idle equipment at cost	-0-	6,000
Net cash (used) by investing activities	(523,344)	(342,019
Cash flows from financing activities:		
Repayment of notes payable	-0-	(167,996
Net cash used in financing activities	-0-	(167,996
Net increase (decrease) in cash and cash equivalents	(1,120,398)	2,770,784
Cash and cash equivalents, beginning of year	2,695,583	507,382
Cash and cash equivalents, end of period	$ 1,575,185	$ 3,278,166
Interest paid	$ -0-	$ 7,879
Income taxes paid	$ -0-	$ 33,000

The accompanying notes are an integral
part of these statements.

ASPEN EXPLORATION CORPORATION

Notes to Consolidated Financial Statements
(Unaudited)

December 31, 2001

Note 1 BASIS OF PRESENTATION

The accompanying financial statements are unaudited. However, in our opinion, the accompanying financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for fair presentation. Interim results of operations are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with our Annual Report on Form 10-KSB for the year ended June 30, 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.

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

	December 31, 2001			D
	Net Income	Shares	Per Share Amount	Net Income
Basic earnings per share:				
Net income and share amounts	$ (134,502)	5,816,133	$ (.02)	$1,060,669
Dilutive securities stock options		100,000		
Repurchased shares		(94,967)		

Diluted earnings per share:				
Net income and assumed share conversion	$ (134,502)	5,821,166	$ (.02)	$1,060,669

On December 17, 2001 a director exercised his stock options for 80,000 shares of our common stock at an average exercise price of $0.26 per share. As consideration for the option shares purchased, the director surrendered common stock with a fair value equal to the exercise price of the option shares. The fair value of the shares surrendered was based on a ten-day average bid price immediately prior to the exercise date. Total shares surrendered were 28,377. The effect of this transaction is a net increase to the common stock par value of $260 and a corresponding decrease to additional paid in capital of $260. The filing of this stock option exercise with the Securities and Exchange Commission by Form 4 was not timely filed.

Note 3 SEGMENT INFORMATION

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

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

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

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

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

There have been no differences from the last annual report in the basis of measuring segment profit or loss, with the exception of the elimination of the mineral and power plant segments which we are no longer active in and are not material. There have been no material changes in the amount of assets for any operating segment since the last annual report except for the oil and gas segment which capitalized approximately $520,139 for the development and acquisition of oil and gas properties, and the corporate segment which purchased $3,205 of computer equipment during the period.

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Note 3 SEGMENT INFORMATION (CONTINUED)

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

	Oil and Gas	Power Plant	Corporate
Revenues:			
2001	$ 456,824	$ -0-	$ 36,205
2000	1,690,412	-0-	29,146
Income (loss) from operations:			
2001	$ 170,951	$ (25,500)	$ (279,953)
2000	1,350,885	-0-	(290,216)
Identifiable assets:			
2001	$ 3,014,697	$ -0-	$ 1,954,655
2000	2,930,052	20,000	3,044,634
Depreciation, depletion and valuation charged to identifiable assets:			
2001	$ (217,600)	$ -0-	$ (8,679)
2000	(135,000)	-0-	(8,000)
Capital expenditures:			
2001	$ 520,139	$ -0-	$ 3,205
2000	345,732	-0-	2,287

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:			
December 31, 2001	-	27%	43%
December 31, 2000	12%	25%	58%

Note 5 COMMITMENTS AND CONTINGENCIES

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

1. Two Tehama County, California wells. Total costs for each well is estimated at $500,000 with our share of the net costs per well approximately $125,000.

2. One Colusa County, California well that is estimated to cost $775,000 with our share of the net costs approximately $155,000.

Note 6 INCOME TAXES

The Company has made no provision for income taxes for the six month period ended December 31, 2001 since it utilizes net operating loss carryforwards. The Company had $583,321 of such carryforwards at June 30, 2001.

Note 7 SUBSEQUENT EVENTS

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, as well as an additional $5,500 payment made to APS in the quarter ended December 31, 2001. The additional $5,500 payment along with a like amount from each of the other three participants in APS was applied to the outstanding obligations of APS at December 31, 2001. At December 31, 2001 we received approximately $10,000 from APS for the services of our president R. V. Bailey. These services were administrative in nature and were mainly for negotiations with third parties for the construction of power plants in California. 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.

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

December 31, 2001 as compared to December 31, 2000

At December 31, 2001 current assets were $1,981,065 and current liabilities were $581,314 and we had positive working capital of $1,399,751 compared to current assets of $3,303,463 at June 30, 2001 and current liabilities of $1,480,947 at the same date, resulting in working capital at June 30, 2001 of $1,822,516. Our current assets decreased by 40%, while current liabilities decreased by 61% from June 30, 2001 to December 31, 2001 for several reasons.

> Our current assets decreased primarily because cash and cash equivalents decreased from approximately $2.7 million to approximately $1.6 million. Accounts receivable - trade decreased by about 40% because of the lower prices being received for oil and gas production, and decreased production volumes experienced during the six months ended December 31, 2001.
>
> Our current liabilities decreased to $581,000 at December 31, 2001, from approximately $1.5 million at June 30, 2001. This reduction was due to a number of factors, including a decrease in accounts payable of $688,000 due to a decrease in drilling activity caused by the completion of planned drilling projects, a decrease of $211,000 in advance payments received from joint owners also caused by project completions at December 31, 2001.

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.

During the six month period ending December 31, 2001, we experienced a sharp decline in production and prices received for the natural gas we produced during that period. At June 30, 2001, we received an average of $10.16 per MMBTU. At December 31, 2001 our price per MMBTU had been reduced to approximately $2.55 per MMBTU, a 75% decline. Given current macro economic conditions and continued mild winter weather, we see no near term improvement in natural gas prices.

In conjunction with a decline in prices we have also experienced a decline in production volumes for the period. For the six months ended June 30, 2001 we produced approximately 172,000 MMBTU of gas compared to approximately 121,000 MMBTU for the six months ended December 31, 2001, a 30% decline.

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

Although our drilling and development plans have not been finalized for the coming year, at December 31, 2001 we are committed to drill 3 additional wells at an estimated cost to us of approximately $280,000, with the balance (approximately $995,000) to be paid by joint owners in the properties, including certain affiliated investors. For the six months ended December 31, 2001 we invested $520,000 in our oil and gas properties compared to approximately $346,000 for the six month period in the preceding fiscal year. We anticipate additional drilling will occur in fiscal 2002.

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

Results of Operations

December 31, 2001 Compared to December 31, 2000

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

Oil and gas revenues, which includes income from management fees, for the six months ended December 31, 2001 decreased approximately $1,233,000 from $1,690,000 to $457,000, a 73% decrease. This decrease reflects an erosion of prices and reduced production volumes in California. Our share of sales of oil and gas for the six month period ended December 31, 2001 were 1795 barrels of oil and approximately 123,000 MMBTU of gas with the price received for oil at $19.77 per barrel and $2.87 per MMBTU for gas. This is a decrease in total oil production compared to the 2441 barrels of oil produced in the first half of fiscal 2001, and a decrease in natural gas production of 51,000 MMBTU when compared to the approximately 172,000 MMBTU of gas production achieved during the first half of 2001. As discussed in Liquidity and Capital Revenues, a significant factor resulting in the substantial decrease in revenues during the last six months of 2001 was a decrease in the prices received for our production when compared to prices of $24.04 and $10.16 received for oil and gas respectively during the first half of 2001.

Oil and gas production costs decreased $56,254 when compared to last six month period, from $124,527 to $68,273. Production costs decreased approximately $62,000 due to the elimination of non-recurring workover costs for recompleting wells in upper producing zones. Production costs increased approximately $6,000 because of the addition of new wells and compression costs associated with older producing wells.

Depletion, depreciation and amortization decreased $83,279 or 58% for the six month period, which is our best estimate of what the full year cost will be.

Selling, general and administrative expense increased approximately 1% from $303,500 to $307,500 for the six months ended December 31, 2001. This increase is primarily due to salary and office rental increases, and was offset by the receipt of approximately $10,000 from Aspen Power Systems for the services of our president R. V. Bailey.

As a result of our operations for the six months ended December 31, 2001, we ended the period with a net loss of $134,500 after taxes compared to net income of $1,061,000 for the year earlier. This loss of approximately $134,500 is due to a decrease in production and the price received for our oil and gas as discussed earlier as well as the fact that our depletion costs rose substantially during the six month period ending December 31, 2001.

Interest and other income increased approximately $7,000 to $36,205 and is due to our maintaining a greater balance of funds in our invested cash accounts, and the realization of approximately $5,000 from the sale of geological data in Alaska.

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

/s/ R. V. Bailey

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

February 7, 2002