ASPEN EXPLORATION CORP
Form 10QSB/A
June 19, 2006

FORM 10-Q-SB/A-2

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 March 31, 2006

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)	(I.R.S. 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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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 June 19, 2006
Common stock, $.005 par value	7,094,641
Transitional small business disclosure format:	[ ] Yes [X] No

Part One. FINANCIAL INFORMATION

Item 1. Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2006	**June 30, 2005**
	(unaudited)	
Current Assets:		
Cash and cash equivalents	$ 7,116,151	$ 3,430,146
Accounts receivables	4,065,006	614,720
Receivable, related party	1,273	13,000
Prepaid expenses	10,283	15,422
Precious metals	18,823	18,823
Total Current Assets	11,211,536	4,092,111
Investment in oil and gas properties, at cost (full cost method of accounting)	12,931,202	9,670,383
Less: accumulated depletion and valuation allowance	(5,737,090)	(4,587,090)
	7,194,112	5,083,293
Property and equipment, at cost:		
Furniture, fixtures and vehicles	122,576	154,819
Less: accumulated depreciation	(44,341)	(74,044)
	78,235	80,775
TOTAL ASSETS	$ 18,483,883	$ 9,256,179

	March 31, 2006	June 30, 2005

(Statement Continues)
See notes to Consolidated Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2006	June 30, 2005
	(unaudited)	
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,720,824	$ 655,190
Accounts payable - related party (Note 2)		103,233
Income taxes payable (Note 6)	223,259	
Advances from joint interest owners	5,510,855	710,477
Asset retirement obligation (Note 3)	13,826	13,826
Total Current Liabilities	8,468,764	1,482,726
Asset retirement obligation, net of current portion (Note 3)	108,384	82,384
Deferred income taxes (Note 6)	1,353,830	1,015,488
Total long term liabilities	1,462,214	1,097,872
Total Liabilities	9,930,978	2,580,598
Stockholders' Equity: (Notes 1 and 5): Common stock, $.005 par value: Authorized: 50,000,000 shares Issued and outstanding: At March 31, 2006, 6,777,641 shares and June 30, 2005, 6,733,308	33,883	33,666
Capital in excess of par value	6,828,603	6,728,321
Retained earnings (deficit)	1,727,752	(69,169)
Deferred compensation and consulting fees	(37,333)	(17,237)
Total Stockholders' Equity	8,552,905	6,675,581

	March 31, 2006	June 30, 2005
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 18,483,883	$ 9,256,179

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Oil and gas	$ 1,496,427	$ 1,103,687	$ 4,576,203	$ 2,933,599
Management fees	92,682	59,616	295,768	201,441
Total Revenues	1,589,109	1,163,303	4,871,971	3,135,040
Costs and Expenses:				
Oil and gas production	164,796	107,035	356,966	270,891
Depreciation, depletion and amortization	450,000	159,895	1,159,040	469,896
Selling, general and administrative	205,592	192,025	668,654	568,493
Total Costs and Expenses	820,388	458,955	2,184,660	1,309,280
Operating Income	768,721	704,348	2,687,311	1,825,760
Other Income (Expense)				
Interest and other, net	23,612	443	43,641	3,338
Interest (expense)	(22)	(1,053)	(22)	(5,831)
Income Before Taxes	792,311	703,738	2,730,930	1,823,267
Provision for Income Taxes	361,955	1,273	934,009	437,110
Net Income	$ 430,356	$ 702,465	$ 1,796,921	$ 1,386,157
Basic Income per Common Share	0.06	0.11	0.27	0.22
Diluted Income per Common Share	0.06	0.11	0.24	0.21

	Three Months Ended March 31,		Nine Months Ended March 31,	
Basic Weighted Average Number of Common Shares Outstanding	6,775,715	6,406,510	6,762,712	6,406,510
Diluted Weighted Average Number of Common Shares Outstanding	7,360,966	6,640,818	7,347,290	6,640,818

See notes to these consolidated financial statements

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

	Nine Months Ended March 31,	
	2006	**2005**
Cash Flows from Operating Activities:		
Net income	$ 1,796,921	$ 1,386,157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,159,040	469,896
Stock issued for interest expense and consulting fees	43,904	39,091
Deferred income tax provision	338,342	437,110
Changes in assets and liabilities:		
Increase in receivable	(3,438,559)	(87,116)
(Increase) Decrease in prepaid expense	5,139	(596)
Increase (Decrease) in accounts payable and accrued expense	6,986,038	(1,411,291)
Net cash provided by operating activities	6,890,825	833,251
Cash Flows from Investing Activities:		
Equipment inventory sale	2,000	
Additions to oil and gas properties	(3,234,819)	(1,229,772)
Purchase of producing properties		(19,248)
Purchase of furniture and fixtures	(8,500)	(21,479)
Net cash used by investing activities	(3,241,319)	(1,270,499)
Cash Flows from Financing Activities		
Proceeds from the issuance of common stock	36,499	330,000
Payment of notes payable		(112,500)
Net cash provided by financing activities	36,499	217,500
Net increase (decrease) in cash and cash equivalents	3,686,005	(219,748)
Cash and cash equivalents, beginning of year	3,430,146	1,329,376

	Nine Months Ended March 31,	
Cash and cash equivalents, end of year	$ 7,116,151	$ 1,109,628
Other information:		
Interest paid	$	$ 5,831
Income taxes paid	$ 372,408	
Non-cash investing and financing activities		
Asset retirement obligation additions	$ 26,000	$ 8,000
Stock issued for deferred consulting services	$ 64,000	

The accompanying notes are an integral part of these statements.

ASPEN EXPLORATION CORPORATION

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2006

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 subsequent interim periods or the remainder of the year. These financial statements should be read in conjunction with our Annual Report on Form 10-KSB for the year ended June 30, 2005.

Except for the historical information contained in this Form 10-QSB/A-2, 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, 2005.

Note 2 RECEIVABLE RELATED PARTIES, PAYABLE RELATED PARTIES

The receivable from related parties constitutes amounts due from officers and consultants for joint operating costs of wells operated by us. The transactions are in the normal course of business with the same terms as other joint owners and are repaid in a normal business cycle. The payable to related parties at June 30, 2006, represents unexpended prepayments made by officers and consultants on wells operated by us as well as unpaid business expenses due officers. There is no payable to related parties as of March 31, 2006. These transactions are in the normal course of business.

Note 3 ASSET RETIREMENT OBLIGATION

We have adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. SFAS No. 143 requires us to recognize an estimated liability for the plugging and abandonment of our gas wells. We have recognized the future cost to plug and abandon the gas wells over the estimated useful lives of the wells in accordance with SFAS No. 143. A liability for the fair value of an asset retirement obligation with a corresponding increase in the carrying value of the related long-lived asset is recorded at the time a producing well is purchased or a drilled well is completed and ready for production. We will amortize the amount added to the oil and gas properties and recognize accretion expense in connection with the discounted liability over the remaining life of the respective well. The estimated liability is based on historical experience in plugging and abandoning wells, estimated useful lives based on engineering studies, external estimates as to the cost to plug and abandon wells in the future and federal and state regulatory requirements. The liability is a discounted liability using a credit adjusted risk-free rate of 6%. Revisions to the liability could occur due to changes in plugging and abandonment costs, useful well lives or if federal or state regulators enact new regulations on the plugging and abandonment of wells.

A reconciliation of our liability for the three months ended March 31, 2006 is as follows:

Asset retirement obligations as of June 30, 2005	$ 96,210
ARO additions	26,000
Liabilities settled	
Accretion expense	*
Revision of estimate	
Asset retirement obligation as of March 31, 2006	$ 122,210

* Accretion not material

Note 4 EARNINGS PER SHARE

We follow Statement of Financial Accounting Standards (SFAS) No. 128, addressing earnings per share. SFAS No. 128 established the methodology of calculating basic earnings per share and diluted earnings per share. The calculations differ by adding any instruments convertible to common stock (such as stock options, warrants, and convertible preferred stock) to weighted average shares outstanding when computing diluted earnings per share.

Note 4 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. We had a net income of $1,796,921 and $1,386,157 for the nine months ended March 31, 2006 and 2005, respectively.

	Nine Months Ended March 31, 2006	2005
	Net Income	**Net Income**
Basic earning per share:		
Net income	$ 1,796,921	$ 1,386,157
Weighted average common shares outstanding	6,762,712	6,406,510
Basic Earnings per share	$ 0.27	$ 0.22
Diluted earnings per share		
Net Income:	$ 1,796,921	$ 1,386,157
Weighted average common shares outstanding	6,762,712	6,406,510
Dilutive effect of outstanding options	584,578	234,308
Weighted average common shares outstanding - Diluted	7,347,290	6,640,818
Diluted earnings per share	$ 0.24	$ 0.21

Note 5 STOCKHOLDERS EQUITY

Stock Options

On January 10, 2006, a consultant exercised options for 8,333 shares of our common stock granted April 27, 2005 at an average price of $2.67 per share. The consultant paid us $22,249 to exercise his options on the 8,333 shares.

As of March 31, 2006, we had an aggregate of 502,000 common shares reserved for issuance under our stock option plans. These plans provide for the issuance of common shares pursuant to stock option exercises, restricted stock awards and other equity based awards.

We account for stock options using APB No. 25 for directors and employees and SFAS No. 123 for consultants.

Note 5 STOCKHOLDERS' EQUITY (CONTINUED)

We have adopted SFAS Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. SFAS No. 148 amends No. SFAS 123, Accounting for Stock-Based Compensation to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We will continue to account for stock based compensation using SFAS 123 detailed in the stock-based compensation accounting standard.

There were 260,000 options granted in 2005. Directors and employees were granted 235,000 and consultants were granted 25,000. The consultant options were valued using the fair value method of SFAS No. 123 as calculated by the Black-Scholes option-pricing model. The fair value of each option grant, as opposed to its exercise price, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield, expected volatility of 159.54%, risk free interest rates of 3.92% and expected lives of 4.5 years. The options vest one-third in each of January 2006, 2007 and 2008.

SFAS No. 123, Accounting for Stock-Based Compensation , requires us to provide pro forma information regarding net income as if compensation cost for the Company s stock option plans had been determined in accordance with the fair value based method prescribed in SFAS No. 123. To provide the required pro forma information, we estimate the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model.

Note 5 STOCKHOLDERS' EQUITY (CONTINUED)

A summary of the pro forma effects to reported net income and earning per share, as if the company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123:

	3 Months Ended March 31,		9 Months Ended March 31,	
	2006	**2005**	**2006**	**2005**
Net income, as reported	$ 430,356	$ 702,465	$ 1,796,921	$ 1,386,157
Add: Stock based employee compensation expense included in reported net income, net of related				