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AER ENERGY RESOURCES INC /GA
Form 10-Q
August 14, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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 0-21926

AER ENERGY RESOURCES, INC.
(Exact name of registrant as specified in its charter)

Georgia

34-1621925

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

4600 Highlands Parkway, Suite G, Smyrna, Georgia

30082

(Address of principal executive offices)

(Zip Code)

(770) 433-2127

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

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There were 25,522,121 shares of Common Stock outstanding as of August 13, 2001.

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AER ENERGY RESOURCES, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2001

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

AER ENERGY RESOURCES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED BALANCE SHEETS

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ASSETS

Current assets:
Cash and cash equivalents
Inventories
Prepaid expenses and other current assets

Total current assets

Equipment and improvements
Less accumulated depreciation

Other assets

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:
Accounts payable
Deferred revenue
Other accrued expenses
Convertible Notes Payable, net of discount of \$121,687

Total current liabilities

Redeemable convertible preferred stock, no par value, in series:

Series A: authorized - 425,000 shares; 404,500 shares issued and outstanding at June 30, 2001 and December 31, 2000; liquidation preference and redemption price of \$4,252,811 as of June 30, 2000 (including \$207,811 undeclared dividends)

Series B: authorized - 250,000 shares; 102,250 shares issued and outstanding at June 30, 2001; liquidation preference and redemption price of \$1,045,919 as of June 30, 2001 (including \$23,419 undeclared dividends)

Series C: authorized - 250,000 shares; 102,250 shares issued and outstanding at June 30, 2001; liquidation preference and redemption price of \$1,028,252 as of June 30, 2001 (including \$5,752 undeclared dividends)

Total liabilities and redeemable convertible preferred stock

Stockholders' deficit:

Preferred stock, no par value:

Authorized - 10,000,000 shares; no shares issued and outstanding

Common stock, no par value:

Authorized - 100,000,000 shares; 25,507,121 shares issued and outstanding at June 30, 2001 and 24,850,263 shares issued and outstanding December 31, 2000

Unearned stock compensation

Deficit accumulated during the development stage

Total stockholders' deficit

TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT

See notes to condensed financial statements.

AER ENERGY RESOURCES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX M
	2001	2000	2001
	-----	-----	-----
License fees and research and development revenues	\$ 107,812	\$ 107,811	\$ 215,6
Product sales	--	--	
Cost of product sales	--	--	
	-----	-----	-----
Gross margin on product sales	--	--	
	-----	-----	-----
	107,812	107,811	215,6
	-----	-----	-----
Costs and expenses:			
Research and development			
- related party	--	--	
- other	745,742	858,338	1,523,2
Marketing, general and administrative			
- related party	--	--	
- other	386,852	424,087	800,8
	-----	-----	-----
Total costs and expenses	1,132,594	1,282,425	2,324,1
	-----	-----	-----
Operating loss	(1,024,782)	(1,174,614)	(2,108,5
Interest income	5,370	24,438	8,6
Interest expense	(45,562)	--	(45,5
Interest expense - related parties	--	(110,725)	
	-----	-----	-----
Net loss	(1,064,974)	(1,260,901)	(2,145,4
	-----	-----	-----
Accretion of redeemable preferred stock	(67,931)	--	(105,3
Redeemable preferred stock dividends	(91,267)	--	(165,6
	-----	-----	-----
Net loss attributable to common stock	\$ (1,224,172)	\$ (1,260,901)	\$ (2,416,4
	=====	=====	=====
Net loss per share (basic and diluted)	\$ (0.05)	\$ (0.05)	\$ (0.
	=====	=====	=====
Weighted average shares outstanding (basic and diluted)	25,312,229	24,850,263	25,082,5

See notes to condensed financial statements.

AER ENERGY RESOURCES, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	SIX MONTHS E JUNE 30 2001 -----
OPERATING ACTIVITIES:	
Net loss	\$ (2,145,435)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	86,000
Amortization of unearned stock compensation	17,473
Amortization of warrants' value	
Amortization of discount on promissory notes	--
Grant of compensatory stock options	--
Forgiveness of promissory notes	--
Loss on disposal of equipment	--
Accretion of discount on short-term investments and marketable securities	--
Net changes in operating assets and liabilities	(284,619)

Net cash used in operating activities	(2,326,581)
INVESTING ACTIVITIES:	
Purchases of equipment and improvements	(16,354)
Purchases of short-term investments and marketable securities	--
Purchase of license agreement	--
Proceeds from sales/maturities of short-term investments and marketable securities	--
Changes in other assets	--

Net cash used in investing activities	(16,354)
FINANCING ACTIVITIES:	
Proceeds from revolving credit note to related parties	--
Issuance of convertible debentures, net of issuance costs	--
Proceeds from convertible notes payable	261,113
Proceeds from convertible notes payable to related parties	--
Payments on notes payable to related parties	--
Payments received on promissory notes	--
Issuance of common stock upon exercise of stock options	--
Issuance of common stock, net of issuance costs	254,211
Issuance of redeemable convertible preferred stock, net of issuance costs	1,959,792

Net cash provided by financing activities	2,475,116

(Decrease) increase in cash and cash equivalents	132,181
Cash and cash equivalents at beginning of period	781,314

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Cash and cash equivalents at end of period \$ 913,495
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See notes to condensed financial statements.

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AER ENERGY RESOURCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of AER Energy Resources, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2000. Operating results for the three and six month periods ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001 or any interim period.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, bank deposits and highly liquid investments with maturities of three months or less when purchased and are stated at cost, which approximates market.

Inventories

The Company's inventories are valued at the lower of cost or market, using the first in, first out (FIFO) method. The inventories balances at June 30, 2001 and December 31, 2000 of \$96,217 and \$76,752, respectively, consist entirely of raw materials.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

In accordance with FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those

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assets are less than the carrying amounts of those assets. Based on the Company's estimate of future undiscounted cash flows, the Company expects to recover the carrying amounts of its remaining fixed assets. The Company's estimates of future undiscounted cash flows have taken into consideration its current research and development operations and contemplate the Company entering into license agreements and research and development agreements, similar, or somewhat similar, to its agreements with Duracell Inc. and Rayovac Inc., throughout the remaining useful lives of the Company's fixed assets. If the Company is unable to enter into such agreements, a write down of long-lived assets to fair value may be required. No write-offs of obsolete equipment were recorded in either of the six-month periods ended June 30, 2001 or 2000.

3. PREFERRED STOCK AND WARRANT TRANSACTION

On February 27, 2001, the Company issued 102,250 shares of Series B Convertible Preferred Stock ("Series B Preferred") and a warrant to purchase up to 776,699 shares of common stock for a total purchase price, net of transaction fees, of \$0.98 million to one of the major shareholders of the Company, Elmwood Partners II (affiliated with Jon Lindseth, the Company's Chairman of the Board). The Series B Preferred may be converted, at the option of the holder, to common stock of the Company at any time at a conversion price of \$0.515 per share, subject to various possible adjustments. The Company may redeem the Series B Preferred at a price equal to \$10.00 per share plus all accrued and unpaid dividends; and it must be redeemed in February 2006, unless previously converted. Dividends accrue at the rate of 6.75% per annum, are cumulative and compound annually.

The warrant is exercisable for five years and entitles the holder to purchase up to 776,699 shares of common stock at an exercise price of \$0.5376 per share, subject to various possible adjustments. The fair value for this warrant of \$0.26 million, or \$0.34 per share, was estimated at the date of grant using a Black-Scholes valuation model. The warrant value has been allocated to common stock and will be accreted to the Series B Preferred on a straight-line basis through the mandatory redemption date so that at such redemption date, the carrying amount of the Series B Preferred will equal the mandatory redemption value.

On June 1, 2001, the Company issued 102,250 shares of Series C Convertible Preferred Stock ("Series C Preferred") and a warrant to purchase up to 982,891 shares of common stock for a total purchase price, net of transaction fees, of \$0.98 million to one of the major shareholders of the Company, FW AER II, L.P. The Series C Preferred may be converted, at the option of the holder, to common stock of the Company at any time at a conversion price of \$0.407 per share, subject to various possible adjustments. The Company may redeem the Series C Preferred at a price equal to \$10.00 per share plus all accrued and unpaid dividends; and it must be redeemed in June 2006, unless previously converted. Dividends accrue at the rate of 6.75% per annum, are cumulative and compound annually.

The warrant is exercisable for five years and entitles the holder to purchase up to 982,891 shares of common stock at an exercise price of \$0.425 per share, subject to various possible adjustments. The fair value for this warrant of \$0.61 million, or \$0.62 per share, was estimated at the date of grant using a Black-Scholes valuation model. The warrant value has been

allocated to common stock and will be accreted to the Series C Preferred on a

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straight-line basis through the mandatory redemption date so that at such redemption date, the carrying amount of the Series C Preferred will equal the mandatory redemption value.

4. NOTE PAYABLE, COMMON STOCK, AND WARRANT TRANSACTION

In April 2001, the Company signed a License and Development Agreement with Rayovac Corporation (the "Agreement"). Under the Agreement the Company is licensing its zinc-air battery technology to Rayovac and performing design and development work for Rayovac. Rayovac will own the technology developed under this agreement and the Company will have rights to utilize that technology.

In connection with the Agreement the Company issued to Rayovac 656,858 shares of Company common stock and a warrant to purchase up to 218,953 shares of common stock for a total purchase price, net of transaction fees, of \$0.27 million. The warrant is exercisable for four years and entitles the holder to purchase up to 218,953 shares of common stock at an exercise price of \$0.4567 per share, subject to various possible adjustments. The fair value for this warrant of \$0.74 million, or \$0.34 per share, was estimated at the date of grant using the Black-Scholes valuation model. Rayovac has certain rights to purchase additional shares of common stock and warrants as of the Phase III Notice Date, anticipated to be early 2002.

Additionally, the Company issued a \$250,000 non-interest bearing note payable. The note converts to the number of shares of common stock equal to \$250,000 divided by the lesser of the average closing price for the thirty days prior to the conversion or \$1.50. The principal on the note is payable in cash only upon the occurrence of specified events of default. The note will convert to common stock upon the Phase III Notice Date, anticipated to be early 2002. While the note has no stated interest rate, an interest rate of 15% was used to discount the note by \$0.03 million and will be amortized to interest expense over its expected life. Based upon the rate at which the note becomes convertible, an additional discount of \$0.07 million was recorded in accordance with Emerging Issues Task Force Topic No. 00-27, which will also be amortized to interest expense.

5. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Company has adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" effective January 1, 2001. Effective June 1, 2001, the Company has also adopted FASB Statement No. 141, "Business Combinations", and FASB Statement No. 142, "Goodwill and Other Intangible Assets". There has been no impact on the Company's results of operations and financial position.

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

GENERAL

The Company was incorporated in 1989 and has been engaged in the development and commercialization of high energy density zinc-air batteries. Until 1998, the Company's operations were focused primarily on developing and improving its technology, setting up the manufacturing process, testing and selling rechargeable zinc-air batteries, recruiting personnel, and similar activities. In 1998, the Company changed its strategy to research and product development of zinc-air technology with its focus in primary (disposable) batteries, rather than rechargeable batteries, and plans to commercialize the technology through alliances with battery and original equipment manufacturers

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("OEMs"). This change allows the Company to capitalize on the capability of its patented Diffusion Air Manager technology and opportunities in hand-held electronic products like camcorders, cellular telephones, cordless telephones, digital cameras, and hand-held computers. The Diffusion Air Manager can extend zinc-air battery storage life by isolating the cells in zinc-air batteries from exposure to air during periods when the battery is in storage or not in use.

In September 1998, the Company announced its Technology Licenses and Services ("TLAS") Agreement with Duracell Inc., a subsidiary of The Gillette Company, making Duracell the first licensee of the Company's primary (non-rechargeable) zinc-air technology. Under the terms of the TLAS Agreement, Duracell agreed to license the rights to the Company's then existing patents. In addition, Duracell agreed to fund certain joint product development projects with the Company during 1999. Duracell owns technology developed under the projects it funds, and the Company has rights to utilize the technology. Duracell also has options to obtain certain other license rights. The current revenue of \$0.11 million per quarter being recognized under this agreement will cease in the third quarter of 2001.

In April 2001, the Company entered into a License and Development Agreement with Rayovac Corporation to explore the feasibility of combined products and to license AER's proprietary technology and patents to Rayovac. The Agreement includes both a Development Program and a Stock Purchase. The Development Program consists of three phases: a preliminary phase (Sub-Phase A), an intermediate phase (Sub-Phase B), and a final phase (Sub-Phase C), with all three phases expected to be completed in early 2002. Each party shall perform specific obligations set for and assigned to it in the Development Plan; however, the Company will not be required to incur more than \$250,000 of its own expenses. Rayovac will own technology developed for it and AER will have certain rights to utilize that technology. Rayovac also has options to obtain certain other license rights. See Footnote 4.

Throughout 2001, the Company will continue to seek additional license agreements for its patented zinc-air technology with other companies and focus on the development of prototype primary zinc-air batteries that utilize Diffusion Air Manager technology.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2001 and 2000

The Company generated \$0.11 million of license fees and research and development revenues under the TLAS Agreement with Duracell during both the first three months ended June 30, 2001 and 2000.

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Research and development expenses decreased 13% to \$0.75 million for the three months ended June 30, 2001 from \$0.86 million for the same period in 2000. This decrease resulted primarily from reduced travel, depreciation, and tooling expenses.

Marketing, general and administrative expenses decreased 9% to \$0.39 million for the three months ended June 30, 2001 from \$0.42 million for the same period in 2000. This decrease resulted primarily from decreased travel, legal, and personnel related expense, offset by increased investor relations expenses.

Six Months Ended June 30, 2001 and 2000

The Company generated \$0.22 million of license fees and research and

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development revenues under the TLAS Agreement with Duracell during both the first six months ended June 30, 2001 and 2000.

Research and development expenses decreased 14% to \$1.52 million for the six months ended June 30, 2001 from \$1.78 million for the same period in 2000. This decrease resulted primarily from reduced travel, tooling, depreciation, and supplies and materials expenses.

Marketing, general and administrative expenses decreased 9% to \$0.80 million for the six months ended June 30, 2001 from \$0.88 million for the same period in 2000. This decrease resulted primarily from decreased travel and investor relations expense, offset by increased sample sales and general insurance expenses.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

As of June 30, 2001, the Company had cash and cash equivalents of \$0.91 million. The Company anticipates using these funds as needed to fund capital equipment purchases, research and product development efforts, marketing and licensing activities, production of prototype zinc-air battery products, development of alliances with battery manufacturers and OEMs, working capital and general corporate purposes as determined by management.

In February 2001, the Company received \$0.98 million in cash, net of issuance costs, pursuant to the issuance of 102,250 shares of Series B Preferred to AER's major shareholder, Elmwood Partners II (affiliated with Jon Lindseth, the Company's Chairman of the Board). The preferred stock may be converted to common stock of the Company at a conversion price of \$0.515 per share, subject to various possible adjustments, at any time at the option of the holder. The Company may redeem the preferred stock at a price equal to \$10.00 per share plus all accrued and unpaid dividends at any time and it must be redeemed in February 2006, unless previously converted. Dividends accrue at the rate of 6.75% per annum, are cumulative and compound annually. A warrant to purchase a total of 776,699 shares of AER Energy common stock at \$0.5376 per share, subject to various possible adjustments, was also issued to the investor. The warrant expires in February 2006.

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In June 2001, the Company received \$0.98 million in cash, net of issuance costs, pursuant to the issuance of 102,250 shares of Series C Preferred to AER's major shareholder, FW AER II, L.P. The preferred stock may be converted to common stock of the Company at a conversion price of \$0.407 per share, subject to various possible adjustments, at any time at the option of the holder. The Company may redeem the preferred stock at a price equal to \$10.00 per share plus all accrued and unpaid dividends at any time and it must be redeemed in June 2006, unless previously converted. Dividends accrue at the rate of 6.75% per annum, are cumulative and compound annually. A warrant to purchase a total of 982,891 shares of AER Energy common stock at \$0.425 per share, subject to various possible adjustments, was also issued to the investor. The warrant expires in June 2006.

Net cash and cash equivalents used in operating and investing activities decreased to \$2.34 million for the six months ended June 30, 2001 from \$2.48 million for the same period in 2000 due primarily to the decrease in net loss offset by the net increase in operating assets and liabilities.

Net cash and cash equivalents provided by financing activities for the six months ended June 30, 2001 was \$2.48 million, arising from the issuance of a note payable to Rayovac and the issuance of redeemable convertible preferred

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stock and common stock. Net cash provided by financing activities for the same period in 2000 were \$2.00 million, arising from notes payable to related parties.

The Company currently anticipates that its existing cash and cash equivalents balance will fund operations and continue technology development at the current level of activity into the third quarter of 2001. The Company will need to raise additional funds through additional debt or equity. There can be no assurance that additional equity or debt financing will be available when needed or on terms acceptable to the Company.

The market price of the Company's common stock has fluctuated significantly since it began to be publicly traded in July 1993 and may continue to be highly volatile. Factors such as those described in "Forward Looking Statements" below may cause significant fluctuations in the market price of the Company's common stock. The market prices of the stock of many high technology companies have fluctuated substantially, often unrelated to the operating or research and development performance of the specific companies. Such market fluctuations could adversely affect the market price for the Company's common stock.

FORWARD LOOKING STATEMENTS

This report contains statements which, to the extent that they are not recitations of historical fact, may constitute "forward looking statements" within the meaning of applicable federal securities laws and are based on the Company's current expectations and assumptions. These expectations and assumptions are subject to a number of important factors, the risks and uncertainties which could cause actual results to differ materially from those anticipated, which include but are not limited to the following: the ability of the Company to achieve development goals, the ability of the Company to commercialize its battery technology, the ability of the Company to license its technology, development of competing battery technologies, the ability

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of the Company to protect its proprietary rights to its technology, improvements in conventional battery technologies, the demand for and acceptance of the Company's products in the marketplace, the ability to obtain commitments from battery manufacturers and OEMs, the impact of any future governmental regulations, the impact of pricing or material costs, the ability of the Company to raise additional funds, general market conditions and other factors affecting the Company's business that are beyond the Company's control. All forward looking statements contained in this report are intended to be subject to the safe harbor provided by applicable federal securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has invested a portion of its cash and cash equivalents in highly liquid financial instruments. The Company has historically held, and plans in the future to hold, all such instruments until maturity. If the instruments were, for some reason not anticipated, redeemed earlier than their maturity, there might be a gain or loss on the transaction. The Company has no transactions which qualify for treatment under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities".

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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On April 27, 2001 the Company issued 656,858 shares of common stock and a warrant to purchase up to 218,953 shares of common stock for a total purchase price, net of transaction fees, of \$0.27 million to Rayovac Corporation. The warrant is exercisable for four years and entitles the holder to purchase up to 218,953 shares of common stock at an exercise price of \$0.4567 per share, subject to various possible adjustments.

The issuance of the common stock and warrant was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2), including Rule 506 of Regulation D promulgated thereunder. At the time of purchase, Rayovac was an accredited investor as defined under Regulation D. No general solicitation or advertising was used in connection with this issuance and appropriate legends were placed on the certificates representing such securities stating that the securities were not registered under the Securities Act.

On June 1, 2001 the Company issued 102,250 shares of Series C Convertible Preferred Stock ("Series C Preferred") and a warrant to purchase up to 982,891 shares of common stock for a total purchase price, net of transaction fees, of \$0.98 million to one of the major shareholders of the Company, FW AER II, L.P. The Series C Preferred may be converted, at the option of the holder, to common stock of the Company at any time at a conversion price of \$0.407 per share, subject to various possible adjustments. The Company may redeem the Series C Preferred at a price equal to \$10.00 per share plus all accrued and unpaid dividends; and it must be redeemed in June 2006, unless previously converted. Dividends accrue at the rate of 6.75% per annum, are cumulative and compound annually. The warrant is exercisable for five years and entitles the holder to purchase up to 982,891 shares of common stock at an exercise price

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of \$0.425 per share, subject to various possible adjustments.

The issuance of the Series C Preferred and warrant was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2), including Rule 506 of Regulation D promulgated thereunder. The purchaser of the Series C Preferred and warrant was an accredited investor as defined under Regulation D. No general solicitation or advertising was used in connection with this issuance and appropriate legends were placed on the certificates representing such securities stating that the securities were not registered under the Securities Act.

The Series C Preferred is superior to the Company's common stock and is on parity with the Company's Series A and Series B Preferred Stock as to payment of dividends and amounts upon liquidation, dissolution or winding-up, and therefore could adversely affect the holders of common stock with respect to such payments.

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

The Company's 2001 Annual Meeting of Shareholders was held on April 26, 2001. The only matter voted upon at this meeting was the election of six nominees to the Company's Board of Directors. The following table shows the number of votes cast for each nominee and the number of votes withheld as to each nominee. There were no abstentions or broker non-votes as to any nominee, and there were no nominees other than those named in the Company's proxy statement (who are set forth below).

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Name of Nominee -----	Affirmative Votes -----	Votes Withheld -----
David G. Brown	21,883,342	70,690
James W. Dixon	21,883,342	70,690
David W. Dorheim	21,883,342	70,690
William L. Jackson	21,883,342	70,690
Jon A. Lindseth	21,883,342	70,690
John L. Wilkes	21,883,342	70,690

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBITS -----
3.1	Articles of Incorporation of the Company, as amended.
4.1	Form of Series C Convertible Preferred Stock Certificate.
10.6	Securities Purchase Agreement dated as of June 1, 2001 by and between FW AER II, L.P. and AER Energy Resources, Inc.
10.7	Warrant to Purchase Common Stock of AER Energy Resources, Inc., dated June 1, 2001 between FW AER II, L.P. and AER Energy Resources, Inc.

(b) REPORTS ON FORM 8-K:

The registrant did not file any reports on Form 8-K during the three months ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AER ENERGY RESOURCES, INC.

Date: August 13, 2001

By: /s/ David W. Dorheim

David W. Dorheim, President and
Chief Executive Officer

Date: August 13, 2001

By: /s/ J.T. Moore

J.T. Moore, Vice President,
Chief Financial Officer, Secretary

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and Treasurer
(Principal Financial Officer and
Principal Accounting Officer)

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