ASPEN EXPLORATION CORP
Form 10-K
September 28, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended June 30, 2009

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _______ to ______

Commission file number: 001-12531

ASPEN EXPLORATION CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**84-0811316**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2050 S. Oneida St., Suite 208	
Denver, Colorado	**80224-2426**
(Address of principal executive offices)	(Zip Code)

Issuer s telephone number**(303) 639-9860**

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.005 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:o Yesx No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).o Yeso No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:o Yesx No

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.x Yeso No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The aggregate market value of the common stock held by non-affiliates of the Registrant as of December 31, 2008 was approximately $3,354,913 based upon the closing sale price of the Registrant s Common Stock on such date. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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As of September 7, 2009, 7,259,622 shares of the registrant s common stock were outstanding.

PART I
ITEM 1. BUSINESS

Forward-Looking Statements:

Because we want to provide you with more meaningful and useful information, this Annual Report on Form 10-K contains certain "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, regulations of the Securities and Exchange Commission, and common law.

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 under "Item 7. Management's Discussion and Analysis of Financial Conditions and 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-K.

Summary of Our Business:

Aspen was incorporated under the laws of the State of Delaware on February 28, 1980 for the primary purpose of acquiring, exploring and developing oil and gas and other mineral properties. Our principal executive offices are located at 2050 S. Oneida St., Suite 208, Denver, Colorado 80224-2426. Our telephone number is (303) 639-9860, and our facsimile number is (303) 639-9863. Our websites are www.aspenexploration.com and www.aspnx.com. Our email address is aecorp2@qwestoffice.net. During our fiscal year ended June 30, 2009, we were engaged primarily in the exploration, development and production of oil and gas properties in California and Montana. On June 30, 2009, the Company disposed of all of its remaining oil and gas producing assets and is not currently engaged in any oil and gas producing activities. We have an interest in an inactive subsidiary: Aspen Gold Mining Co., a company that has not been engaged in business since 1995.

During more than the past five years through June 30, 2009, our emphasis had been participation in the oil and gas segment, acquiring interests in producing oil or gas properties and participating in drilling operations. We were engaged in a broad range of activities associated with the oil and gas business in an effort to develop oil and gas reserves. Our participation in the oil and gas exploration and development segment consisted of two different lines of business ownership of working interests and operating properties.

(1) We acquired and held operating interests in oil and gas properties where we acted as the operator of oil and gas wells and properties; and

(2) We acquired and held non-operating interests in oil and gas properties.

Previously, we held a non-operating working interest in approximately 37 oil wells in the East Poplar Field, Roosevelt County, Montana which contributed only nominally (if at all) to our positive cash flow and profitability, and during much of the latter half of calendar 2008 resulted in operating losses. Effective January 1, 2009, we sold our entire interest in these oil properties.

Prior to June 30, 2009, we operated 67 gas wells in the Sacramento Valley of northern California. Additionally, we held a non-operated interest in 26 gas wells in the Sacramento Valley of northern California. As described below, we sold our interest in our California properties on June 30, 2009.

Additionally, in the past we have engaged in business activities related to the exploration and development of other minerals and resources. At the present time, we are not engaged in any drilling operations or acreage acquisition programs nor have we drilled any new wells in our current fiscal year.

Disposition of Assets:

California Assets

As announced in September 2008, our board of directors decided to investigate strategic alternatives for Aspen, including the possibility of selling our assets or considering another appropriate merger or acquisition

- The disproportionate cost of Aspen s general and administrative expenditures required as a result of compliance with the Securities Exchange Act of 1934, as amended (including the requirements of the Sarbanes-Oxley Act of 2002) when compared to Aspen s revenues and net income;
- The board of directors belief that the market price of Aspen common stock did not adequately reflect the inherent value of Aspen s producing oil and gas assets and undeveloped acreage, and thus the board of directors did not believe that a transaction based on the value of Aspen s common stock would be in the best interest of Aspen s shareholders; and
- The likelihood that Aspen s president would not be able to resume his former role and responsibilities and oversee Aspen s day-to-day operations due to the effects of the stroke he suffered in January 2008.

After an extensive campaign to market the properties from September to December 2008, Aspen received an expression of interest and then negotiated and entered into a purchase and sale agreement with Venoco, Inc. (Venoco) which was approved by Aspen s stockholders at a meeting held on May 22, 2009. On June 30, 2009, Aspen completed the sale of its California oil and gas assets (natural gas wells and drilling prospects located in Colusa, Glenn, Kern, Solano, Sutter, Tehama, and Yolo Counties, California) to Venoco. Although the closing date of the sale was June 30, 2009, the transaction was effective as of December 1, 2008. All working interest owners (including Aspen) received revenues and were obligated for expenses on the assets sold to Venoco from the economic effective date of the transaction (December 1, 2008) through the date of closing. As a result:

- The total purchase price paid to Aspen for its interests in the various properties as of December 1, 2008 after adjustments for title defects, fees payable to the mineral broker, and the expense reimbursement to Aspen, was $7,600,563. When further adjusted for the monthly revenues and expenses that Aspen realized through the date of closing, Aspen s estimated net purchase price received was $7,260,066 (before taxes), resulting in an estimated taxable gain on the transaction over Aspen s basis in the properties of $4.7 million (approximately $2.96 million book gain). Both the amount received by Aspen and the gain may be affected when the final settlement of the purchase occurs on or before October 28, 2009.
- The purchase price as of December 1, 2008, for the assets conveyed by the other working interest owners was $14,287,677 (net after adjustment for title defects, fees to the mineral broker, and expense reimbursement). After further adjustments for the monthly revenues and expenses that the other working interest owners realized through the date of closing, the aggregate amount paid to the other working interest owners was $13,289,536.

In addition to the sale of these properties by Aspen, a number of people who owned working interests in the properties with Aspen participated in the sale. This includes certain affiliates of Aspen who owned working interests in certain of the properties which they purchased from Aspen on the same terms and conditions as other non-affiliated persons; these affiliates received payment for their working interests on the same terms as unaffiliated working interest owners in the same wells. As described elsewhere, the purchase price was determined on a well-by-well basis, and allocated to each of the persons who owned a working interest in each well pursuant to their proportionate interest, and title defects were assessed on a well-by-well basis. The adjustments for post-December 1, 2008 production revenues and expenses were also allocated on a well-by-well basis. The purchase was completed based on a preliminary settlement statement; the parties must agree to a final settlement statement before October 28, 2009, which may result in either: (i) Venoco paying Aspen and the other sellers additional funds, or (ii) Venoco being entitled to collect funds from Aspen and the other sellers as an overpayment, or (iii) no further adjustment.

Montana Assets

Effective January 1, 2009, the Company sold its entire interest in an oil property in the Poplar Field of Montana for approximately $1.2 million. The disposition of these assets was significant in relation to our full cost pool, and therefore, we were required to evaluate whether the transaction had significantly altered the relationship

between our capitalized costs and proved reserves, which caused us to recognize a loss in our financial statements under the full cost pool accounting rules. Accordingly, our evaluation resulted in our recognition of a $2.157 million loss on conveyance during the year ended June 30, 2009.

During the 2008 fiscal year, we did not have any oil and gas property dispositions.

Current Company Status:

Aspen now has a significant amount of liquid assets and does not have any active business operations (since Aspen is not conducting any operations in Alaska Gold Mining, Inc.). Aspen intends to distribute substantially all of the net, after-tax proceeds from the Venoco transaction to its stockholders. Aspen needs to complete certain calculations before it is able to determine the dollar amount of the assets to be distributed. Aspen believes it will be able to make this calculation after the October 28, 2009 settlement date based on preliminary tax calculations.

Aspen has committed to present a dissolution proposal to its stockholders at its next annual meeting, tentatively scheduled for late November 2009 (subject to review by the Securities and Exchange Commission and addressing any comments that the Commission may offer to the preliminary proxy statement that was filed on September 16, 2009). Notwithstanding the dissolution proposal, Aspen also intends to consider other opportunities in the broad scope of the natural resources industry, which may include an acquisition of assets or business operations, or a merger or other business combination. As we do not intend to limit what types of business opportunities we may pursue, if we identify an appropriate business opportunity it may result in Aspen changing its line of business although Aspen intends to focus its search within the broad scope of the natural resources industry.

Although Aspen has engaged in preliminary discussions with third parties about various possibilities, none of these discussions have resulted in an agreement or any definitive steps toward the conclusion of any future relationship. Depending on the nature of the business opportunities and the related transactions, a future business acquisition may or may not require stockholder approval. If the transaction does not require stockholder approval, the board of directors will be entitled to accomplish the transaction in its discretion, although the board may (but would not be required to) seek an advisory vote of the stockholders. There can be no assurance that Aspen will identify an appropriate business opportunity or corporate transaction and consummate any such transactions.

We continue to own our other corporate assets; however, as a result of the sale of our oil and gas interests, we do not consider our remaining assets, with the exception of cash and available-for-sale securities, to be material.

Aspen does not intend to be regulated as an investment company under the Investment Company Act of 1940 and, therefore, will be limited in the type of investments it may make its cash assets. The Investment Company Act of 1940 also has an exception for a transient or inadvertent investment company in SEC Rule 3a-2. That rule provides a one year exception for companies that might otherwise be considered an investment company where the company has, as does Aspen, a *bona fide* intent to be engaged as soon as reasonably possible (but in any event, within one year), in a business other than that of investing, reinvesting, owning, holding or trading in securities.

Company Strategy:

Until June 30, 2009, we held working interests in oil and gas properties, many of which had wells producing oil or natural gas. Where we acquired an interest in a property or acreage on which exploration or development drilling was planned, we seldom assumed the entire risk of acquisition or drilling. Rather, we preferred to assess the relative potential and risks of each prospect and determined the degree to which we would participate in the exploration or development drilling. Generally, we determined that it was beneficial to invite industry participants to share the risk and the reward of the prospect by financing some or all of the costs of drilling contemplated wells, and as such entered into industry standard joint operating agreements with other parties. In such cases, we may have retained a carried working interest, a reversionary interest, or other promotional interest, and we generally were required to finance all or a portion of our proportional interest in the prospect. Although this approach reduced our potential return when the drilling operations proved successful, it also reduced our risk and financial commitment to a particular prospect. Fees assessed for the participation in these prospects are credited to the full-cost pool.

Conversely, from time to time we participated in drilling prospects offered by other persons if we believed that the potential benefit from the drilling operations outweighed the risk and the cost of the proposed operations. This approach allowed us to diversify into a larger number of prospects at a lower cost per prospect, but these operations (commonly known as farm-ins) were generally more expensive than operations where we offered the participation to others (known as farm-outs). During the year ended June 30, 2009, we did not participate in any such activities.

Although we may re-enter the oil and gas business as described above, we cannot offer any assurance that we may do so in the near term if at all. As indicated above, we plan to ask our stockholders to consider dissolution of Aspen at the next stockholders meeting. Even if the stockholders approve dissolution, the Board of Directors will have the authority to abandon dissolution if Aspen finds an appropriate business opportunity in the natural resources industry or elsewhere. To the extent that Aspen does become involved in a future business opportunity, Aspen will likely compete with others in that industry and may be subject to a significant amount of government regulation. The nature of the competition and the amount of regulation will depend on the industry in which Aspen becomes engaged. We currently have no patents, patent applications, or other material interest in intellectual property.

During the last ten years we have not produced any products or offered any services outside of the oil and gas industry. Our crude oil and natural gas production were generally sold to various entities, including pipeline companies, which serviced the areas in which our producing wells were located. During the fiscal year ended June 30, 2009, our crude oil and natural gas sales (which were subject to pricing in the local markets where the production occurred) totaled $2,760,603. Numerous factors influenced local pricing, such as refinery capacity, pipeline capacity and specifications, upsets in the mid-stream or downstream sectors of the industry, trade restrictions, governmental regulations, and other factors. As a result of the asset sales completed during 2009, Aspen is not dependent on any material customer relationships. Even before the sale, although Aspen had certain principal customers including Calpine Corporation which provided 30% of our revenues in 2009 and Enserco Energy, Inc. (63%), there was a broad national market for oil and natural gas and we do not believe the loss of either customer would have materially adversely impacted Aspen.

Aspen s prior oil field operations were dependent on the availability of drilling rigs, casing pipe, drilling mud, and other supplies and equipment. The cost and availability of these items depended on the activity of the oil and gas industry locally, nationally, and in some cases internationally. Should Aspen re-enter the oil and gas business similarly to its prior operations, it will again be dependent on the availability of these raw materials.

Aspen s prior oil field operations were also dependent on its ability to obtain drilling permits from local governmental authorities, and compliance with other governmental regulation, including worker health and safety laws, employment regulations and environmental regulations. Oil and gas operations that occur on public lands may be subject to further regulation by the Bureau of Land Management, the U.S. Army Corps of Engineers, or the U.S. Forest Service as well as other federal and state agencies.

We do not currently conduct any research and development. Since we do not own any real property or engage in any business operations, environmental compliance is not material to us. When we operated or participated in oil and gas prospects, environmental compliance was significantly important to us, but we managed our risk by proper operations and compliance with applicable federal, state, and local environmental laws which did not result in a requirement for material capital expenditures.

Employees:

As of June 30, 2009, we have 2 full-time employees. We also employ independent contractors and other consultants, as needed.

ITEM 1A. RISK FACTORS

Although not required for smaller reporting companies, Aspen has determined that risk factors are material to an understanding of its past business and future plans and, therefore, set them forth here.

An investment in and ownership of our common stock is one of high risk. You should carefully consider the risks described below in connection with any decision whether to acquire, hold or sell our securities. If any of the contingencies discussed in the following paragraphs or other materially adverse events actually occurs, the business, financial condition and results of operations could be materially and adversely affected. In such case, the trading price of our common stock could decline, and you could lose all or part of your investment.

We have no business operations, and only limited prospects for business operations.

We currently are not engaged in any business operations, although we are beginning the process of considering alternatives including the dissolution of Aspen or entering into a business combination or otherwise recommencing business should an attractive opportunity become available. We cannot offer any assurances that we will be able to complete any business combination. We can also offer no assurance that if we do complete any business combination, we will be able to do so on commercially-reasonable terms, in a manner that could be advantageous to our shareholders, or that the combination will, ultimately, be successful.

Our funds are primarily invested in money market funds in a limited number of uninsured accounts.

Our funds are substantially all invested in a limited number of uninsured accounts. Inasmuch as these funds are not insured by the Federal Deposit Insurance Corporation or other government or private agency, we are at risk for the solvency of the funds and the ability of the funds to repay our funds when we require them. While we believe Aspen has chosen its funds based on financial strength more than return, especially in light of the experiences during the last eighteen months, Aspen cannot offer any assurance that the amount it has invested in money market funds will be available when required.

We do not know what our final settlement relating to the sale of assets to Venoco will be.

Although we received a net (before taxes) of approximately $7,260,066 from Venoco for the June 30, 2009 sale of assets, our final settlement with Venoco may occur as late as October 28, 2009, at which time Venoco may owe us (and the other working interest owners who participated in the sale) additional funds, Venoco may have the right to recoup funds from us (and the other selling working interest owners), or there may be no adjustment. Furthermore, during the due diligence leading up to the sale, Venoco identified title discrepancies which led to price reduction for some wells in which Aspen and other working interest owners participated, and in some cases those reductions were significant. Aspen believes that it acquired and operated its properties in accordance with good industry practices, but there is the risk that certain of the working interest owners who sold properties for less than they initially anticipated may take action against Aspen. In such case, Aspen intends to defend itself aggressively.

We have not instituted corporate governance policies or procedures and we have no independent directors.

Aspen currently only has three executive officers, but only one who is an employee who serves as our chief executive officer. Aspen does not have any independent directors, an audit committee, a nominating committee, any other corporate governance committee, or experienced accounting personnel employed by it, although it does retain consultants to provide accounting assistance. Thus, our stockholders do not have the benefits or protections associated with corporate governance controls and other corporate oversight mechanisms overseen by independent directors.

We have made, and will need to continue to make substantial financial and man-power investments in order to assess our internal controls over financial reporting and our internal controls over financial reporting may be found to be deficient.

Section 404 of the Sarbanes-Oxley Act of 2002 requires management to assess our internal controls over financial reporting and requires auditors to attest to that assessment. We have expanded our use of outside consultants to comply with the Section 404 requirements and, as a result, management, with the aid of consultants, concluded that our ICFR were effective, as described in Item 9A(T) below. There are, however, inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective ICFR can provide only reasonable assurance with respect of financial statement preparation and may not prevent or detect misstatements. Aspen primarily relies on consultants for the effectiveness of its ICFR. Material weaknesses make it more likely that a material misstatement of annual or interim financial statements will not be prevented or detected. In addition, effective ICFR at any point in time may become ineffective in future periods because of changes in conditions or due to deterioration in the degree of compliance with our established policies and procedures. If our independent auditors are unable to provide an unqualified attestation report on such assessment when such report is required, we may be required to change our internal control over financial reporting to remediate deficiencies. In addition, investors may lose confidence in the reliability of our financial statements causing our stock price to decline.

We may become subject to the regulations under the Investment Company Act of 1940 and subject to regulation that would impose significant responsibilities and restrictions on our ability to do business.

The Investment Company Act of 1940 (the ICA) is intended to impose additional regulation on companies whose business is to invest or reinvest in, hold, or trade securities of other companies. Companies who own investment securities constituting more than 40% of their assets (not including cash or government securities) are by definition subject to ICA regulation unless the transient investment company exemption applies. Aspen is relying on the transient investment company exemption in connection with its money market fund investments, an exemption which will be available through at least July 1, 2010. If Aspen were to become an investment company, we will be subject to a significant amount of additional regulation, significant restrictions in our ability to do business, and significant restrictions on any relationship with affiliates. We will also be subject to more detailed SEC scrutiny and subject to the registration and reporting requirements of the ICA in addition to the reporting requirements of the 1934 Act. Compliance with these new obligations will restrict Aspen s opportunities to conduct its business as it has heretofore done, and will result in significantly greater regulatory compliance expenses.

It is likely that any efforts we may make to acquire a business or to raise capital will result in substantial additional dilution to our shareholders.

Our existing resources, after our proposed distribution to stockholders, will likely be insufficient to support business operations for a significant period of time. Furthermore, with any business combination or acquisition in which we engage, Aspen will likely issue shares of its common stock rather than paying cash for the business (as we will likely need our cash for operations). Moreover, if we raise capital for any operations in the future or issue stock for a business combination or acquisition, such action will require the issuance of equity or debt securities which will likely result in substantial dilution to our existing shareholders. Although we will attempt to minimize the dilutive impact of any future business acquisition or capital-raising activities, we cannot offer any assurance that we will be able to do so.

Our common stock has and may continue to experience price volatility.

Our common stock is traded on the OTC Bulletin Board. Since July 1, 2006, our stock has traded as high as $5.00 per share (July 2006) and as low as $0.48 per share (February 2009). During that period, our trading volume has ranged from as low as 40 shares per week (January 2009) to 71,200 shares per week (July 2006). Until a larger secondary market for our common stock develops, the price of and trading volume for our common stock will likely continue to fluctuate substantially. The price of and trading volume for our common stock is impacted not only by our performance and announcements, but also by general market conditions and other factors that are beyond our control or influence and which may be unrelated to our performance.

Our common stock is subject to the penny stock rules which limits the market for our common stock.

Because our stock is quoted on the OTC Bulletin Board and since the market price of the common stock is less than $5.00 per share, the common stock is classified as a penny stock. SEC Rule 15g-9 under the Securities Exchange Act of 1934 imposes additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as an established customer or an accredited investor. This includes the requirement that a broker-dealer must make a determination that investments in penny stocks are suitable for the customer and must make special disclosures to the customers concerning the risk of penny stocks. Many broker-dealers decline to participate in penny stock transactions because of the extra requirements imposed on penny stock transactions. Application of the penny stock rules to our common stock reduces the market liquidity of our shares, which in turn affects the ability of holders of our common stock to resell the shares they purchase, and they may not be able to resell at prices at or above the prices they paid.

Indemnification of officers and directors may result in unanticipated expenses.

The Delaware General Corporation Law and our certificate of incorporation and bylaws provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney s fees and other expenses incurred by them in any litigation to which they become a party arising from their association with us or activities on our behalf. We also will bear the expenses of such litigation for any of their directors, officers, employees, or agents, upon such person s promise to repay them if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by us that we may be unable to recoup and could direct funds away from our business and products (if any).

Our executive officers are involved in other ongoing business opportunities.

Only one of our executive officers is an employee of Aspen, and none of our executive officers devote any significant amount of time to Aspen s business operations. Our executive officers are each involved in other ongoing business opportunities, any of which could cause time conflicts and other various conflicts of interest with respect to such officer s duties and obligations to Aspen.

We have significant obligations under the Securities Act of 1934.

Because we are a public company filing reports under the Securities Exchange Act of 1934, we are subject to increased regulatory scrutiny and extensive and complex regulation. The Securities and Exchange Commission has the right to review the accuracy and completeness of our reports, press releases, and other public documents. In addition, we are subject to extensive requirements to institute and maintain financial accounting controls and for the accuracy and completeness of their books and records. Normally these activities are overseen by an audit committee consisting of qualified independent directors. We have not appointed any independent directors. Consequently, the protections normally provided to shareholders by independent directors are not available. Although we hope to appoint qualified independent directors in the future should we enter into a business combination or acquire a business, we cannot offer any assurance that we will locate any person willing to serve in that capacity.

Forward-looking statements may prove to be inaccurate.

In our effort to make the information in this report more meaningful, this report contains both historical and forward-looking statements. All statements other than statements of historical fact are forward-looking statements within the meanings of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this report are not based on historical facts, but rather reflect the current expectations of our management concerning future results and events. It should be noted that because we are a penny stock, the protections provided by Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934 do not apply to us. We have attempted to qualify our forward-looking statements with appropriate cautionary language to take advantage of the judicially-created doctrine of bespeaks caution and other protections.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements to be different from any future results, performance and achievements expressed or implied by these statements. These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in the forward-looking statements in this prospectus. Other unknown or unpredictable factors also could have material adverse effects on our future results.

Provisions in our charter documents could prevent or delay a change in control or a takeover.

Provisions in our bylaws provide certain requirements for the nomination of directors which preclude a stockholder from nominating a candidate to stand for election at any annual meeting. As described in Section 2.12 of the bylaws, nominations must be presented to Aspen at least 45 days before the scheduled annual meeting, and the notification must include specific information as set forth in that section. Aspen believes that such a provision provides reasonable notice of nominees to the Board of Directors, but it may preclude stockholder nomination at a meeting where the stockholder is not conversant with nomination procedures and, therefore, may prevent or delay a change of control or takeover. Furthermore, Delaware recently added §112 to its general corporation law to provide that Delaware corporations may amend their bylaws to require the corporation to include in its proxy materials one or more nominees submitted by stockholders in addition to individuals nominated by the board of directors, subject to certain conditions that may be imposed. Congress and the Securities and Exchange Commission are considering similar proposals, but at the present time Aspen has not amended its bylaws to provide stockholder access and, therefore, stockholders who desire to nominate directors will be required to comply with Regulation 14A of the Securities and Exchange Commission, another factor that may delay or prevent a change of control or a takeover.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. DESCRIPTION OF PROPERTIES

General Information:

As of June 30, 2009, the Company had disposed of all of its oil and gas producing assets and discontinued substantially all related activities in two transactions one (completed in February 2009) resulted in the disposition of our Montana oil properties effective as of January 1, 2009, and the other (completed on June 30, 2009) resulted in the disposition of our California natural gas properties effective December 1, 2008. As a result, at the close of business on June 30, 2009, Aspen did not own an interest in any oil and gas properties or other mineral assets.

Other Oil and Gas Disclosure

Because Aspen sold all of its oil and gas properties during 2009, oil and gas producing activities are no longer material to Aspen. Consequently, as of June 30, 2009, Aspen has no interest in oil and gas reserves and (therefore) has not prepared a reserve report for disclosure of proved developed or undeveloped reserves, Aspen has no delivery commitments, is not engaged in any present activities relating to oil and gas producing activities, and has no interest in oil and gas properties or wells.

During the fiscal year ended June 30, 2009, we did not participate in the drilling of oil and gas wells.

The table below sets forth the net quantities of oil and gas production (net of all royalties, overriding royalties and production due to others) attributable to Aspen for the fiscal years ended June 30, 2009, 2008, and 2007, and the average sales prices, average production costs and direct lifting costs per unit of production. It should be noted that the following table should not be considered indicative of future performance inasmuch as Aspen no longer owns any of these producing properties. Consequently oil and gas operations are no longer material to Aspen, and the following information is presented for the purposes of comparing Aspen s operations with prior years.

	Years Ended June 30,		
	2009	2008	2007
Net Production			
Oil (Bbls)	5580	10166	3986
Gas (1,000 MMbtu)	380	582	598
Average Sales Prices			
Oil (per Bbl)	$74.15	$96.65	$58.30
Gas (per MMbtu)	$6.17	$7.58	$7.00
Average Production Cost[1]			
Per equivalent			
Bbl of oil	$37.14	$36.36	$27.04
Average Lifting Costs[2]			
Per equivalent			
Bbl of oil	$15.06	$13.59	$8.08

1 Production costs include depreciation, depletion and amortization, lease operating expenses and all associated taxes.

2 Direct lifting costs do not include impairment expense, ceiling write-down, or depreciation, depletion and amortization.

Office Facilities:

Our principal office is located in Denver, Colorado. We also have an office located in Bakersfield, California. The Denver office consists of approximately 1,108 square feet with an additional 750 square feet of basement storage. We entered into a lease agreement on May 1, 2008 for a period of one year, which is continuing on a month-to-month basis for a lease rate of $1,261 per month.

We entered into a lease agreement for our Bakersfield, California office, which consists of approximately 546 square feet. The Bakersfield, California lease payments are $901-$934 per month over the term of the lease, which expired July 31, 2008 and was extended until September 30, 2009 at which time the lease will expire and will not be extended.

ITEM 3. LEGAL PROCEEDINGS

We are not subject to any pending or, to our knowledge, threatened, legal proceedings.

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

Aspen held a special meeting of its stockholders on May 22, 2009 to consider approval of the purchase and sale agreement between Aspen and Venoco. The meeting did not involve the election of directors and the only matter presented to the stockholders was the following resolution:

RESOLVED, that the sale of Aspen s California oil and gas properties and assets to Venoco upon the terms described in the Purchase and Sale Agreement as signed by the parties and as filed with the Securities and Exchange Commission be approved by the stockholders.

The stockholders approved the resolution by a vote of 3,845,323 shares for the resolution (53% of the total outstanding as of the record date), 592,688 shares against the resolution, and 28,985 shares abstaining. A total of 4,466,996 shares (approximately 61.5% of the total outstanding as of the record date) were present at the meeting.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information:

Our common stock is quoted on the Over-the-Counter Bulletin Board (OTCBB) under the symbol "ASPN". The OTCBB rules provide that companies not current in their reporting requirements under the Securities Exchange Act of 1934 will be removed from the quotation service. At present and at June 30, 2009 and June 30, 2008, we believe that we were in full compliance with these rules.

The table below sets forth the high and low closing prices of the Company s Common Stock during the periods indicated as reported by the Internet source Yahoo Finance (http://finance.yahoo.com). The quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not reflect actual transactions. No dividends were declared or paid in 2009 and 2008:

	2009 Price Range		2008 Price Range	
	High	Low	High	Low
First Quarter	$ 2.76	$ 1.50	$ 3.80	$ 2.10
Second Quarter	1.75	0.51	3.32	2.08
Third Quarter	0.88	0.35	2.50	1.86
Fourth Quarter	0.92	0.66	3.00	1.82

Holders:

As of June 30, 2009, there were approximately 1,000 holders of record of our Common Stock. This does not include an indeterminate number of persons who hold our Common Stock in brokerage accounts and otherwise in street name.

Dividends:

No dividends were declared or paid during the 2009 or 2008 fiscal years. Decisions concerning dividend payments in the future will depend on income and cash requirements. As described elsewhere herein, Aspen intends to pay stockholders a dividend after it has been able to calculate the net, after tax proceeds received from the sale of properties to Venoco. Currently the intention is to pay this dividend in or about December 2009. There are no contractual restrictions on our ability to pay dividends to our shareholders.

Securities Authorized for Issuance Under Equity Compensation Plans:

The following is provided with respect to compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance as of the fiscal year ending June 30, 2009.

Equity Compensation Plan Information1

Plan Category and Description	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Security Holders	-	$ -	-
Equity Compensation Plans Not Approved by Security Holders	578,766	2.32	601,236
Total	578,766	$ 2.32	601,236

(1) There are currently 601,236 shares available for issuance under the Company s 2008 Equity Plan.

Description of the 2008 Equity Plan

On February 27, 2008 the Board of Directors adopted the 2008 Equity Plan (the Plan). 1,000,000 shares of common stock are reserved for the grant of stock options or issuance of stock bonuses under the Plan. The Plan was adopted to compensate new, continuing, and existing employees, officers, consultants, and advisors of the Company and its controlled, affiliated and subsidiary entities. The Plan represents the only formal stock option plan adopted by the Company.

The Plan is administered by a committee appointed by the Board or by the Board as a whole if no committee is appointed. The Plan does not require shareholder approval and therefore none of the options granted under the Plan qualify as incentive stock options under Section 422 of the Internal Revenue Code. The exercise price of the options granted under the Plan must be 100% of the fair market value (which is defined in the Plan) of our common stock on the date of grant, and the exercise period for options granted under the Plan cannot exceed ten years from the date of grant. The Plan provides that an option may be exercised through the payment of cash, in accordance with the Plan s cashless exercise provision, or in property or in a combination of cash, shares and property and, subject to approval of the Company.

Recent Sales of Unregistered Securities Item 701 Disclosure:

There were no sales of unregistered securities during the fiscal year ended June 30, 2009 or subsequently, that were not previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K.

ITEM 6. SELECTED FINANCIAL DATA

Smaller reporting companies are not required to provide the information required by this Item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION

The management 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.

Overview:

Aspen was incorporated under the laws of the State of Delaware on February 28, 1980 for the primary purpose of acquiring, exploring and developing oil and gas and other mineral properties. During our fiscal year ended June 30, 2009, we were engaged primarily in the exploration, development and production of oil and gas properties in California and Montana. During fiscal 2009 (with the last transaction occurring on June 30, 2009), the Company disposed of all of its oil and gas producing assets and is not currently engaged in any oil and gas producing activities. We are not engaged in any business operations at the present time, although we are discussing possible business combinations with third parties, and are also preparing to ask our stockholders to consider a proposal to grant the Board of Directors the discretion to dissolve Aspen.

Liquidity and Capital Resources:

As a result of the disposition of our oil and gas assets, we have no long term debt, insignificant amounts of short term debt (all of which is current), and (at June 30, 2009), in excess of $9,000,000 of cash and other liquid assets.

The June 30, 2009 transaction with Venoco was completed based on a preliminary settlement statement and the parties must agree to a final settlement statement on or before October 28, 2009. This final closing may result in either: (i) Venoco paying Aspen and the other sellers additional funds, or (ii) Venoco being entitled to collect funds from Aspen and the other sellers as an overpayment, or (iii) no further adjustment.

The following table sets forth information regarding Aspen s liquidity and capital resources as of June 30, 2008 and 2009. As noted above, at June 30, 2008, Aspen was involved in oil and gas producing activities, while at June 30, 2009, it was no longer involved in any business operations.

	As of June 30,	
	2009	2008
Working Capital (current assets minus current liabilities)	$ 9,257,477	$ 1,318,075
Net property and equipment	66,627	13,310,693
Total other assets	152,000	263,650
Total Assets	11,817,419	18,427,304
Total long term liabilities	-	3,190,622
Stockholders equity	9,476,104	11,701,796

Aspen intends to distribute substantially all of the net, after-tax proceeds from the completion of the Venoco sale to its stockholders, an amount that Aspen estimates will be from $5 million to $5.5 million. (Prior to

the calculation of the final settlement, Aspen has estimated the net, before tax, proceeds from the Venoco transaction to be $7,260,066, with an estimated taxable gain of $4.7 million and an estimated combined federal and state tax rate of 40%.) Aspen needs to complete certain calculations before it is able to determine the dollar amount of the assets to be distributed. Aspen believes it will be able to make this calculation following the final settlement statement based on preliminary tax calculations. We continue to own our other corporate assets; however, as a result of the sale of our oil and gas interests, we do not consider our remaining assets aside from cash and available-for-sale securities to be material (since Aspen is not conducting any operations in Alaska Gold Mining, Inc. and the permit for the prospect is expected to expire in the near future).

During the 2009 fiscal year, we generated approximately $8.9 million of cash in our operations, investing activities and financing activities, which was primarily a result of the sale of substantially all of our oil and gas related assets.

Our operating activities (including discontinued operations presented in our statement of operations) generated net cash of approximately $919,000 for the year ended June 30, 2009, as compared to approximately $1.8 million in cash generated from operating activities for the year ended June 30, 2008. This negative change of approximately $835,000 was due to a number of factors, including lower oil and gas prices, and increased legal and accounting fees.

Our investing activities generated cash of $8.3 million primarily from the sale of our oil and gas properties. In addition, the Company used cash to increase capitalized oil and gas costs of $214,000 during the 2009 fiscal year as compared to $3.7 million in 2008. Investments in oil and gas activities during fiscal 2008 were for lease acquisition, seismic work, intangible drilling and well workovers and equipment, whereas our fiscal 2009 expenditures related primarily to well workovers as we did not participate in any drilling activities during the period. The Company also sold $322,000 in securities held for investment purposes in fiscal 2009 compared to purchases of $300,000 in the prior year.

Financing activities in fiscal 2009 were solely to retire $369,257 of long-term debt. An additional $222,410 in long term debt was relieved as part of the sale of our Montana assets. The Company did not declare or pay dividends in fiscal 2009.

Even after the proposed distribution to our stockholders (and unless stockholders approve dissolution and the Board of Directors determines to complete the dissolution), Aspen expects to retain more than $2,000,000 in cash for the purposes of pursuing business opportunities as described below. Aspen believes that such funds will be sufficient to fund Aspen s operations for more than our current fiscal year ending June 30, 2010, however our projections or planned activities may change resulting in our need to consider raising additional capital or curtailing future activities.

Results of Operations

Because of the sale of Aspen s oil and gas assets during fiscal 2009, the comparison of operations between our fiscal years 2009 and 2008 is not meaningful for future operations. During fiscal 2009, Aspen received significantly less revenues from oil and gas operations due to the effective date of the sale of its properties December 1, 2008 for the sale of its California properties and January 1, 2009 for the sale of its Montana properties. Even during the period that Aspen received production revenues, declining prices and increasing expenses materially and adversely impacted Aspen s results of those activities. Nevertheless, the following table sets forth certain items from our Consolidated Statements of Operations to permit a comparison between our 2009 and 2008 fiscal years:

	Comparison of the Fiscal Year Ended June 30,		Increase (Decrease)	
	2009	2008	Amount	Percentage
Revenues:				
Oil and gas sales	$ 2,760,603	$ 5,390,367	$ (2,629,764)	-49%
Cost and Expenses:				
Oil and gas production	1,218,930	1,463,415	(244,485)	-17%
DD&A and ceiling write-down	5,072,661	2,451,417	2,621,244	107%
Selling, general and administrative	688,365	621,463	66,902	11%
Total Costs and Expenses	6,979,956	4,536,295	2,443,661	54%
Operating Income (loss)	(4,219,353)	854,072	(5,073,425)	-594%
Other Income (Expenses)	811,141	58,510	752,631	1286%
Income Tax Benefit (Provision)	1,315,324	(109,779)	1,425,103	-1298%
Net Income (Loss)	$ (2,092,888)	$ 802,803	$ (2,895,691)	-361%

The above data compares the overall results of our 2009 compared to 2008 fiscal years. Due to the disposition of our oil and gas assets, the Company has reclassified its oil and gas operating results in its consolidated statement of operations to discontinued operations for the years ended June 30, 2009 and 2008. Although a significant portion of our selling, general, and administrative expenses relate directly to our oil and gas operations, we did not allocate the expenses to discontinued operations. SG&A expenses are likely to continue until an ultimate determination is made regarding the future of the Company.

When Aspen was engaged in oil and gas producing activities during fiscal 2009 and earlier, the Company used the full cost method of accounting for costs related to its oil and natural gas properties. Capitalized costs included in the full cost pool were depleted on an aggregate basis using the units-of-production method. Depreciation, depletion and amortization was a significant component of oil and natural gas properties, but did not impact cash flow. A change in proved reserves without a corresponding change in capitalized costs will cause the depletion rate to increase or decrease.

In general, our operations during fiscal 2009 were adversely affected by significantly increasing costs of production and accretion, depletion, depreciation, and amortization, as well as additional administrative, consulting, legal, and accounting costs incurred. Additionally, the Company recorded a write-down of $3.55 million to its full cost pool due to declining oil and gas prices and lack of reserve replacements. Our income tax provision was significantly lower in the prior year due to the carryback of a portion of our Net Operating Losses.

The capitalized costs in the full cost pool were subject to a quarterly ceiling test that limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and natural gas reserves discounted at 10 percent plus the lower of cost or market value of unproved properties less any associated tax effects. When such capitalized costs exceeded the ceiling, Aspen recorded a write-down to the extent of such excess as a non-cash charge to earnings. Such write-downs reduced earnings in the period of occurrence and result in lower depreciation and depletion in future periods. A write-down may not be reversed in future periods, even though higher oil and natural gas prices may subsequently increase the ceiling. During its fiscal year 2009, Aspen recognized a write-down of $3.55 million to the full cost pool (including a $1.3 million write-down in the third quarter of fiscal 2009 and a $2.25 million write-down in the second quarter). These write-downs were primarily due to the declining prices received for natural gas and increased production costs.

Where the Company acted as operator for our producing wells, we received management fees for those services, which served to offset our SG&A expenses. When comparing SG&A for 2009 and 2008, costs decreased marginally by 3%, due primarily to a decrease in salary expense, while management fees decreased approximately 17%. As a result, management fees as a percentage of SG&A decreased 14% for the period ending June 30, 2009 compared to 2008.

	June 30, 2009	June 30, 2008
Management fees	$ 506,022	$ 607,269
Selling, general and administrative (SG&A)	1,194,387	1,228,732
Management fees as a percentage of SG&A	42.4%	49.4%

Central to the issue of success of the twelve months operations ended June 30, 2009 is the discussion of changes in oil and gas sales, volumes of natural gas sold and the price received for those sales. We present them here in tabular form:

	Gas Sales	MMBTU Sold	Price/ MMBTU	Oil & NGL Sales	Bbls Sold	Price/ Bbl
June 30, 2009	$ 2,346,858	380,284	$ 6.17	$ 413,745	5,580	$ 74.15
June 30, 2008	$ 4,407,873	581,787	$ 7.58	$ 982,494	10,166	$ 96.65
12 Month Change						
2009 vs 2008						
Amount	$ (2,061,015)	(201,503)	$ (1.41)	$ (568,749)	(4,586)	$ (22.5)
Percentage	-46.8%	-34.6%	-18.6%	-57.9%	-45.1%	-23.3%

Oil and gas revenue and volumes sold of our product showed a significant decrease during fiscal 2009. As the table above notes, gas revenue decreased approximately 47% when comparing the year ended June 30, 2009 and 2008, while oil revenue decreased 58% due to the full year results of sales from the Poplar Field of Montana in the prior year; whereas those assets were sold at the beginning of the third quarter of the current year. Gas volumes sold decreased approximately 34.6%, while the price received for our product decreased 18.6% . Oil and NGL volume decreased 45%, due to the property disposition, while the price per barrel decreased 23%.

Inasmuch as Aspen is no longer engaged in oil and gas producing activities, the foregoing issues are no longer relevant to Aspen.

Plan of Operations

Aspen now has a significant amount of liquid assets and does not have any active business operations. Aspen is retaining these funds in liquid money market accounts which it believes can be withdrawn quickly.

Aspen has committed to present a dissolution proposal to its stockholder at its next annual meeting, tentatively scheduled for late November 2009 (subject to review by the Securities and Exchange Commission and addressing any comments that the Commission may offer to the preliminary proxy statement that was filed on September 16, 2009). Notwithstanding the dissolution proposal, Aspen also intends to consider other opportunities in the natural resources industry, which may include an acquisition of assets or business operations, or a merger or other business combination. As we do not intend to limit what types of business opportunities we may pursue, if we identify an appropriate business opportunity it may result in Aspen changing its line of business although Aspen intends to focus its search within the broad scope of the natural resources industry. If Aspen were to dissolve, it would not enter into another business opportunity but would wind up its operations, attempt to settle any outstanding fiscal obligations and distribute its remaining assets to stockholders (if any).

Although Aspen has engaged in preliminary discussions with third parties about various possibilities, none of these discussions have resulted in an agreement or any definitive steps toward the conclusion of any future relationship. Depending on the nature of the business opportunities and the related transactions, a future business acquisition may or may not require stockholder approval. If the transaction does not require stockholder approval, the board of directors will be entitled to accomplish the transaction in its discretion, although the board may (but would not be required to) seek an advisory vote of the stockholders.

Critical Accounting Policies and Estimates:

We believe the following critical accounting policies affect our most significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

Use of Estimates

Accounting principles generally accepted in the United States of America require certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses to be made. Actual results could differ from those estimates. The Company s significant estimates include the carrying value of our gas property, estimated life of long-lived assets, use of reserves in the estimation of depletion of gas properties, impairment of gas properties, asset retirement obligation abilities, and income taxes.

Discontinued Operations:

The Company has accounted for the disposition of its oil and gas assets in accordance the SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets and has reclassified its consolidated statements of operations for the years ended June 30, 2009 and 2008 to reflect its discontinued oil and gas operations sold during fiscal 2009.

Property, Equipment and Depreciation:

We utilize the full cost method of accounting for costs related to our gas property. Capitalized costs included in the full cost pool are depleted on an aggregate basis over the estimated lives of the properties using the units-of-production method. These capitalized costs are subject to a ceiling test that limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved gas reserves discounted at 10 percent plus the lower of cost or market value of unproved properties less any associated tax effects. If the full cost pool of capitalized gas property costs exceeds the ceiling, we will record a ceiling test write-down to the extent of such excess. We review our properties quarterly for impairment. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculation. This write-down is a non-cash charge to earnings. If required, it reduces earnings and impacts shareholders equity in the period of occurrence and results in lower depreciation and depletion in future periods. The write-down may not be reversed in future periods, even though higher gas prices may subsequently increase the ceiling. Due to recent declines in gas prices and the fact that the Company has taken no action to replace reserves that have been produced, the Company recorded a ceiling write down of $3.55 million in the period ended June 30, 2009.

Asset Retirement Obligations:

We recognize the future cost to plug and abandon gas wells over the estimated useful life of the wells in accordance with the provision of SFAS No. 143, Asset Retirement Obligations . SFAS No. 143 requires that we record a liability for the present value of the asset retirement obligation with a corresponding increase to the carrying value of the related long-lived asset. The increase in the asset will be amortized over time and recognize accretion expense in connection with the discounted liability over the remaining life of the respective well. Any asset retirement costs capitalized pursuant to Statement 143 are subject to the full cost ceiling limitation under Rule 4-10(c)(4) of Regulation S-X. The sales of our oil and gas assets in fiscal 2009 relieved the Company of any potential future asset retirement obligations.

Income Taxes

The Company computes income taxes in accordance with SFAS No. 109, Accounting for Income Taxes . SFAS No. 109 requires an assets and liability approach which results in the recognition of deferred income taxes on the difference between the tax basis of an asset or liability and its carrying amount in the Company s financial statements. This difference will result in taxable income or deductions in future years when the reported amount of the asset or liability is recovered or settled, respectively. Considerable judgment is required in determining when these events may occur and whether recovery of an asset is more likely than not. Additionally, the Company s federal and state income tax returns are generally not filed before the financial statements are prepared; therefore the Company estimates the tax basis of its asset and liabilities at the end of each fiscal year as well as the effects of tax rate changes, tax credits, and tax credit carryforwards. A valuation allowance is recognized if it is determined that

deferred tax assets may not be fully utilized in future periods. Adjustments related to differences between the estimates used and actual amounts reported are recorded in the period in which income tax returns are filed. These adjustments and changes in estimates of asset recovery could have an impact on results of operations. Due to uncertainties involved with tax matters, the future effective tax rate may vary significantly from the estimated current year effective tax rate.

Investments in Debt and Equity Securities

The Company classifies all investments as available for sale securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Changes in the fair value of the securities are reported as a separate component of shareholders equity until realized.

Off Balance Sheet Arrangements:

We do not have any off balance sheet accounting arrangements. We previously entered into joint ventures and operating agreements for the ownership and drilling of wells with third parties. Aspen s balance sheet as of June 30, 2008 only reflects its own interest in these arrangements, however, and has no interest in any ownership by third parties (some of whom are related parties).

Recently Issued Pronouncements:

There have been several recent accounting pronouncements, but none are expected to have a material effect on our financial position, results of operations, or cash flows. For more information, see Note 1 Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Smaller reporting companies are not required to provide the information required by this Item.

ITEM 8. FINANCIAL STATEMENTS

The information required by this Item begins on page 37 of Part III of this report on Form 10-K and is incorporated into this part by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective November 3, 2008 Gordon, Hughes, & Banks, LLP (GH&B) resigned as the independent registered accounting firm for Aspen. GH&B had recently entered into an agreement with Eide Bailly LLP (Eide Bailly), pursuant to which Eide Bailly acquired the operations of GH&B. Certain of the professional staff and shareholders of GH&B joined Eide Bailly either as employees or partners of Eide Bailly and will continue to practice as members of Eide Bailly. On November 3, 2008, the Company s Board of Directors approved the engagement of Eide Bailly as the Company s independent registered public accounting firm.

GH&B s principal accountant report on the financial statements for either of the past two fiscal years did not contain an adverse opinion or disclaimer of opinion, or was modified as to uncertainty, audit scope, or accounting principles. There were no disagreements with GH&B on any matter of accounting principles, practices, financial statement disclosure, or auditing scope or procedure. The Company had not previously contacted Eide Bailly with respect to any accounting principles, disclosure, or other matters.

ITEM 9A(T). CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange

Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, under the direction of our Chief Executive Officer (who is our principal executive officer), and Chief Financial Officer (who is our principal accounting officer) has evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of June 30, 2009 (the end of the period covered by this report). Based on that evaluation, our principal executive officer and our principal accounting officer concluded that these disclosure controls and procedures were effective as of such date.

Internal Control Over Financial Reporting

Our management is also responsible for establishing internal control over financial reporting (ICFR) as defined in Rules 13a-I5(f) and 15(d)-15(f) under the 1934 Act. Our ICFR are intended to be designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Our ICFR are expected to include those policies and procedures that management believes are necessary that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and our directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control, and accordingly, even effective internal control can provide only reasonable assurance with respect of financial statement preparation and may not prevent or detect misstatements. In addition, effective internal control at a point in time may become ineffective in future periods because of changes in conditions or due to deterioration in the degree of compliance with our established policies and procedures.

As of June 30, 2009, management assessed the effectiveness of the Company s ICFR based on the criteria for effective ICFR established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and SEC guidance on conducting such assessments by smaller reporting companies and non-accelerated filers. Based on that assessment, management concluded that, during the period covered by this report, such internal controls and procedures were effective as of June 30, 2009.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this Annual Report.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable. All required information has been reported herein.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Identification of Directors and Executive Officers:

The following table sets forth the names and ages of all the directors and executive officers of Aspen, and the positions held by each such person as of June 30, 2009. As described below, the Board of Directors is divided into three classes which, under Delaware law, must be as nearly equal in number as possible. The members of each class are elected for three-year terms at each successive meeting of stockholders serve until their successors are duly elected and qualified. Since we have not held an annual meeting since February 25, 1994, the terms of each class of director expires at the next annual meeting of stockholders or until their resignation or retirement.

Each of the directors will be up for reelection at the next annual meeting of stockholders and will continue to serve until his successor is elected and qualified or until his or her earlier death, resignation, or removal. We did not hold an annual meeting during fiscal 2008 or 2009; however, we expect to hold an annual meeting during the current fiscal year.

Each officer is appointed annually and serves at the discretion of the Board of Directors until his successor is duly elected and qualified. No arrangement exists between any of Aspen s officers and directors pursuant to which any of those persons was elected to such office or position. None of the directors are also directors of other companies filing reports under the Securities Exchange Act of 1934.

Name	Age	Position	Class	Director Since
R. V. Bailey	77	Chief Executive Officer, Secretary, Director, Vice President, and Board Chairman	III	1980
Robert A. Cohan	53	President and Director	I	1998
Kevan B. Hensman	53	Chief Financial Officer and Director	II	2006
Douglas Imperato	51	Director		2008

Robert A. Cohan. Mr. Cohan currently serves as our President and as a director. He served as our chief executive officer and chief financial officer until January 2008 when he suffered a stroke and he has not been able to resume full-time duties since then. Mr. Cohan obtained a Bachelor of Science degree in Geology from the State University College at Oneonta, NY in 1979. He has approximately 28 years experience in oil and gas exploration and development, including employment in Denver, CO with Western Geophysical, H. K. van Poollen & Assoc., Inc., as a Reservoir Engineer and Geologist, Universal Oil & Gas, and as a principal of Rio Oil Co., Denver, CO. Mr. Cohan served as Manager, Oil & Gas Operations, Aspen Exploration Corporation, Denver, CO from 1989 to 1992. He was employed as Vice President, Oil & Gas Operations, for Tri-Valley Oil & Gas Co., Bakersfield, CA. from 1992 to April 1995, at which time Mr. Cohan rejoined Aspen Exploration Corporation as Vice President West Coast Division (now President), opening an office in Bakersfield, CA. He is a member of the Society of Petroleum Engineers (SPE) and the American Association of Petroleum Geologists (AAPG).

Kevan B. Hensman. Mr. Hensman became a director of Aspen Exploration Corporation on September 11, 2006. As a result of Mr. Cohan s stroke, Mr. Hensman was appointed as our chief financial officer in January 2008. Since April 2002, except for a one-year position as Manager of Paramount Citrus Association, Mr. Hensman has served as an Analyst for Truxtun Radiology Medical Group, LP with the duties of providing financial analysis; performing special projects; and assisting the Practice Administrator in performing various duties and assignments.

Mr. Hensman was employed by Aera Energy, LLC as its Energy Portfolio Consultant from June 1999 to November 2001. During his tenure, his duties included providing an analysis of gas pricing and supply to upper management and the operation departments; the administration and negotiation of all gas purchase/sales contracts and gas pipeline transportation contracts and agreements; advising business partners on current Governmental regulations and legislation; managing the fuel budget; preparing month-, quarter- and year-end reports; and partnering with department heads to prepare the annual plan and budget forecasts.

Mr. Hensman served as the Planner/Gas Analyst from November 1997 to May 1999 for Texaco Exploration and Production Company. His duties included evaluating the energy markets for gas pricing for the management team and production department; supporting the gas contract administration; negotiating gas contracts for natural gas purchase and sales and pipeline transportation; managing the imbalance account with vendors to minimize the company s penalty fees; scheduling deliveries of supplies to production operations and projects; budgeting for the yearly plan and five year strategic plan for Kern River Business Unit; completing forecasts;

economics evaluations; performing variance reports and month-end reports; managing project completion audits; resolving accounting and budget issues; and preparing month-end and year-end reports with accounting.

Mr. Hensman served as the Supervisor of Fuel Supply and Acquisition Analyst from February 1991 to October 1997 for Santa Fe Energy/Monterey Resources. Mr. Hensman was responsible for administration and negotiating gas purchase/sales contracts; tracking fuel use; scheduling and balancing on gas pipelines; evaluating energy markets relating to gas pricing for the recommendation of term purchases; supporting annual planning and budget cyclic; economic evaluation of acquisition candidates; and portfolio evaluation.

In 1999, Mr. Hensman received a Bachelor of Science degree in finance from California State University Bakersfield (CSUB).

R. V. Bailey. Mr. Bailey served as our vice president until January 2008 when he was appointed as our chief executive officer as a result of Mr. Cohan s stroke. Mr. Bailey obtained a Bachelor of Science degree in Geology from the University of Wyoming in 1956. He has approximately 45 years experience in exploration and development of mineral deposits, primarily gold, uranium, coal, and oil and gas. His experience includes basic conception and execution of mineral exploration projects. Mr. Bailey is a member of several professional societies, including the Society for Mining and Exploration, the Society of Economic Geologists and the American Association of Petroleum Geologists, and has written a number of papers concerning mineral deposits in the United States. He is the co-author of a 542-page text, published in 1977, concerning applied exploration for mineral deposits. Mr. Bailey is the founder of Aspen and has been an officer and director since its inception, and currently devotes a substantial portion of his time to Aspen s business.

Douglas Imperato. Mr. Imperato was appointed to our Board of Directors on December 9, 2008. Since 1996, Mr. Imperato has been a self-employed geologist in the oil and gas exploration industry. Mr. Imperato served as a director for Applied Earth Technology, Inc. from September 1985 through September 1989.

In the past we have paid Mr. Imperato consulting fees for services provided to the Company, and paid such fees during our 2009 fiscal year. However, as described below in Certain Relationships and Related Party Transactions the consulting fees we have paid to Mr. Imperato have been significantly less than $120,000 in each of our previous fiscal years, and we do not expect the consulting fees that we have, and will, pay to Mr. Imperato in our current fiscal year to equal $120,000 or greater.

Involvement in Certain Legal Proceedings:

During the past five years, no present director or executive officer of the Company has been the subject matter of any of the following legal proceedings: (a) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b) any criminal convictions; (c) any order, judgment, or decree permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or (d) any finding by a court, the SEC or the CFTC to have violated a federal or state securities or commodities law. Further, no such legal proceedings are believed to be contemplated by governmental authorities against any director or executive officer.

Meetings of the Board and Committees:

The Board of directors held one formal meeting during the fiscal year ended June 30, 2008 and six formal meetings during the fiscal year ended June 30, 2009. Each director attended all of the formal meetings either in person or by telephone, without exception. In addition, regular communications were maintained throughout the year among all of the officers and directors of the Company and the directors acted by unanimous consent six times during fiscal 2008, four times during fiscal 2009, and three times subsequently.

No Audit Committee or Code of Ethics:

Aspen does not have an audit committee, compensation committee, nominating committee, or other committee of the board that performs similar functions. Instead, the entire board acts as the Company s audit committee and therefore, Aspen does not have a designated audit committee financial expert.

Aspen s board of directors has not adopted a code of ethics because the board does not believe that, given the small size of Aspen and the limited transactions, a code of ethics is warranted.

No Nominating Committee; Procedures by which Security Holders May Recommend Nominees to the Board of Directors; Communications with Members of the Board of Directors:

As noted above, Aspen does not have a nominating committee. We do not have a nominating committee because our board does not believe that such a committee is necessary given our small size, and because we have not held an annual meeting of shareholders since February 1994. Instead, when a board vacancy occurs, the remaining board members participate in deliberations concerning director nominees.

For the same reasons stated immediately above, the board of directors has not adopted a formal procedure by which security holders may recommend nominees to the board of directors. However, any shareholder desiring to nominate a person to the Board of Directors or communicate directly with any officer or director of Aspen may address correspondence to that person at our offices in Denver, Colorado. Our office staff will forward such communications to the addressee.

Identification of Significant Employees:

There are no significant employees who are not also directors or executive officers as described above. No arrangement exists between any of the above officers and directors pursuant to which any one of those persons was elected to such office or position.

Family Relationships:

As of June 30, 2009, and subsequently, there were no family relationships between any director, executive officer, or person nominated or chosen by the Company to become a director or executive officer.

Section 16(a) Beneficial Ownership Reporting Compliance:

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires Aspen's directors and officers and any persons who own more than ten percent of Aspen's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). All directors, officers and greater than ten-percent shareholders are required by SEC regulation to furnish Aspen with copies of all Section 16(a) reports files. Based solely on our review of the copies of Forms 3, 4 and any amendments thereto furnished to us during the fiscal year completed June 30, 2009 and subsequently, we believe that during the period from July 1, 2008 through August 31, 2009, all filing requirements applicable to our officers, directors and greater-than-ten-percent shareholders were complied with.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information regarding compensation awarded, paid to, or earned by the chief executive officer and the other principal officers of Aspen for the two years ended June 30, 2008 and 2009. No other person who is currently an executive officer of Aspen earned salary and bonus compensation exceeding $100,000 during any of those years. This includes all compensation paid to each by Aspen and any Aspen subsidiary.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Plan Compensation ($)	All Other Compensation ($)	Total ($)
R. A. Cohan,									
President and director	2009	$ 80,000	$ -	$ -	$ -	$ -	$ -	$ 24,523	$ 104,523
	2008	$ 160,000	$ -	$ -	$ 71,563	$ -	$ -	$ 156,123	$ 387,686
R. V. Bailey, CEO									
and Chairman,	2009	$ 90,000	$ -	$ -	$ -	$ -	$ -	$ 99,848	$ 189,848
Executive Vice President	2008	$ 60,000	$ -	$ -	$ 50,957	$ -	$ -	$ 135,367	$ 246,324

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes the material elements of compensation for the executive officers identified in the Summary Compensation Table contained above being our chief executive officer (R.V. Bailey (CEO)), and President (Robert A. Cohan), the named executive officers.

As more fully described below, the board of directors (which includes the named executive officers) acting in lieu of a compensation committee reviews the total direct compensation programs for our CEO, and President. Notably the salary and other benefits payable to our named executive officers are set forth in employment agreements which are discussed below. The only discretionary portion of the compensation is the options that may (in the discretion of the board) be issued to the named executive officers.

Our CEO reviews the base salary, annual bonus and long-term compensation levels for other employees of the Company. The entire Board of Directors remains responsible for significant changes to, or adoption, of new employee benefit plans.

A. ***Cash Compensation Payable To Our Named Executive Officers.*** Historically, our named executive officers receive a base salary payable in accordance with our normal payroll practices and pursuant to contracts between each of these officers and Aspen (which contracts are described in more detail below), except for Kevan Hensman, our Chief Financial Officer, who is compensated on an hourly basis for services rendered. We believe that the base salaries as set forth in the employment contracts were reasonable when entered into and were less than those that are received by comparable officers with comparable responsibilities in similar companies. Notably our chief executive officer and our president were participants in our amended royalty and working interest plan discussed below. Our chief financial officer did not participate in this plan. As described in more detail below, Mr. Cohan s employment contract expired December 31, 2008 and Mr. Bailey s contract will expire December 31, 2009.

In the future, when we reconsider salaries for our executives, we will do so by evaluating their responsibilities, experience and the competitive marketplace. More specifically, we expect to consider the following factors in determining our executive officers base salaries:

1. the executive s leadership and operational performance and potential to enhance long-term value to the Company s shareholders;
2. performance compared to the financial, operational and strategic goals established for the Company;
3. the nature, scope and level of the executive s responsibilities;
4. competitive market compensation paid by other companies for similar positions, experience and performance levels; and
5. the executive s current salary, the appropriate balance between incentives for long-term and short-term performance.

Unless the composition of our board of directors changes before that time, however, the board considering these issues will not be independent. All of our directors are employees, Company consultants, or named executive officers. Thus, any compensation decisions made in the future are not likely to be at arms -length.

B. ***Stock Option Plan Benefits***. Our officers and directors are eligible to be granted options. Currently the Company only has one formal equity compensation plan the 2008 Equity Plan.

Prior to the adoption of the 2008 Equity Plan Messrs. Cohan, Bailey, and Hensman were granted option outside of that plan and own the following options which are not subject to vesting criteria or termination in the event the individual is no longer associated with Aspen.

	Options Outstanding	Exercise Price	Expiration Date
Cohan	80,000	$ 2.67	January 1, 2010
Bailey	65,000	2.67	January 1, 2010
Hensman	10,000	3.70	September 11, 2011

The 2008 Equity Plan (consisting of 1,000,000 shares, options for 600,000 of which were granted to persons serving as our directors on February 28, 2008). The 2008 Equity Plan provides for:

- a cashless exercise of the options granted (§7(d)(5) of the 2008 Equity Plan),
- all Options theretofore granted to such Recipient but not theretofore exercised shall terminate three months following the date the Recipient ceased to be an employee, officer, advisor or consultant of the Corporation unless for Cause, in which case the options terminate immediately (§7(e) of the 2008 Equity Plan), and
- The continued exercisability of all options for one year following the death or disability of the option holder (§7(f) of the 2008 Equity Plan).

With respect to the options granted under the 2008 Equity Plan, one-third of the options granted vested or expired as of September 30, 2008, one-third as of September 30, 2009, and one-third as of September 30, 2010, in each case based on Aspen achieving certain performance goals as reflected in its audited financial statements and reserve report as of the fiscal year end immediately preceding such date. To the extent they vest, the options expire February 27, 2013. The options are exercisable at $2.14 per share well in excess of the current market price. The following table sets forth the performance standards.

Factors*	Weight	Actual Results for year ended June 30, 2007	Goals for the Year Ended June 30, 2009	2010
Total Barrels of Oil Equivalent Proved	30%	580,045	650,000	700,000
Present Value of Reserves 10% Discount	25%	$ 13,400,466	$ 15,140,000	$ 16,030,000
Production (Barrels of Oil Equivalent)	30%	103,653	120,000	130,000
Net Income	15%	$ 925,269	10% increase over prior year	10% increase over prior year

No factor may be valued more than 100%. Any factor that is less than the 2007 base year will be weighted at zero.

At June 30, 2008, 90,600 options were earned by the named executive officers based on performance conditions that were met, and 76,067 options expired due to unmet conditions. The 90,600 options that were earned by the named executive officers as of June 30, 2008 vested as of September 30, 2008. 166,667 options that were subject to the vesting requirements during the 2009 fiscal year were unearned during fiscal 2009 due to unmet conditions. Specifically:

- Since the Venoco transaction closed on June 30, 2009, there will be no reserve report for the fiscal year ended 2009. Thus the first two conditions (55%) cannot be met.
- Since the transaction closed as of December 1, 2008, the third condition (30%) was not met.
- The fourth condition (15%) was not met due to a net loss for the 2009 fiscal year.

C. Elements of All Other Compensation. The amounts reflected in the column labeled other compensation in the above Summary Compensation Table predominately consist of compensation paid to the named executive officers from our Amended Royalty and Working Interest Plan and from benefits received from our 401(k) plan.

1. Amended Royalty and Working Interest Plan

Aside from their base salaries, the largest element of the compensation of our executive officers is realized from our Amended Royalty and Working Interest Plan (the Plan) by which we have in the past, in our discretion, assigned overriding royalty interests or other interests in oil and gas properties or in mineral properties. This plan was intended to provide additional compensation to Aspen s personnel involved in the acquisition, exploration and development of Aspen s oil or gas or mineral prospects. In addition to our executive officers, all of our employees are eligible to participate in this Plan. In the fiscal years ended June 30, 2009 and 2008, Ms. Shelton, our corporate office manager (and neither an officer nor a director of Aspen), also participated in the Plan. Inasmuch as Aspen is not engaged in the oil and gas industry at the present time, we do not expect any additional assignments to be made under this plan.

The allocations for royalty under Aspen s Royalty and Working Interest Plan for employees are based on a determination by management whether there is any room for royalties in a particular transaction. In some specific cases management may believe that an oil or gas property or project is sufficiently burdened with existing royalties so that no additional royalty burden can be allocated to our employees for that property or project. In other situations a determination may be made that there are royalty interests available for assignment to our employees. The determination of whether royalty interests are available and how much to assign to employees (usually less than 3%) is made on a case-by-case basis by Robert A. Cohan, president, and R. V. Bailey, our chief executive officer and vice president, both of whom benefit from royalty interests assigned. We never granted any overriding royalty interests in our Montana oil properties (which properties we sold in February 2009).

During fiscal year 2008, we assigned to employees royalties on certain of our properties pursuant to our Amended Royalty and Working Interest Plan, as set forth in the following table. No assignments of overriding royalty interests were made to employees during fiscal year 2009. At the time we assign these overriding royalty interests, we considered the value of the royalties assigned to be nominal since the assignments are made while the properties are undeveloped and unproved, and before any wells or drilled or significant exploratory work has been performed. The overriding royalty interests in these properties granted to our named officers and our one additional (non-executive) employee were as follows:

	R.V. Bailey	**R.A. Cohan**	**J.L. Shelton**
Assigned during the 2009 fiscal year	**percent**	**percent**	**percent**
	-	-	-
Assigned during the 2008 fiscal year:			
Johnson Unit 13	1.260000	1.260000	0.480000
SJDD 11-1	1.360000	2.000000	0.640000
Delta Farms 10	0.816000	1.200000	0.384000
Eastby 1-1	0.906661	1.333325	0.426664

The following table sets forth the payments received during the years stated by our named executive officers.

	Payments Received During Fiscal Year Ended June 30,	
	2009	2008
Mr. Cohan	$ 59,114	$ 145,873
Mr. Bailey	$ 43,234	$ 102,927

These payments derive from royalties assigned to employees as described above and the royalties that were assigned in prior years. Any monies realized by our executive officers under the Amended Royalty and Working Interest Plan are reflected in column labeled All Other Compensation in the Summary Compensation Table.

2. Other Elements of Compensation and Benefits

Our executive officers also receive certain other benefits, although these benefits do not constitute a large portion of their overall compensation. These benefits are summarized below.

We have a Profit-Sharing 401(k) Plan which we adopted effective July 1, 1990. All employees are eligible to participate in this Plan immediately upon being hired to work at least 1,000 hours per year and attained age 21. Aspen s contribution (if any) to this plan is determined by the Board of Directors each year.

We adopted an Amendment to the Profit-Sharing 401(k) Plan effective July 1, 2005 which states that Aspen will make matching contributions equal to 50% of the participant s elective deferrals. During fiscal 2008, we contributed $30,250 to the plan ($10,000 to R. V. Bailey s plan; $10,250 to Robert A. Cohan s plan; $10,000 to Judith L. Shelton s plan). During fiscal 2009, we contributed $25,125 to the plan ($10,000 to R. V. Bailey s plan; $5,125 to Robert A. Cohan s plan; $10,000 to Judith L. Shelton s plan). When amounts are contributed to Mr. Bailey s and Mr. Cohan s accounts (which amounts are fully vested), these amounts are also included in the column labeled All Other Compensation in the Summary Compensation table, above.

For the fiscal years ended June 30, 2009 and 2008, the Company had a policy of reimbursing employees for medical expenses incurred but not covered by the paid medical insurance plan. Expenses reimbursed for fiscal 2009 and fiscal 2008 were $22,833 and $24,108, respectively. As of June 30, 2009 and 2008 there were no accruals for reimbursement of medical expenses. Under the terms of Mr. Bailey s current employment agreement, he is responsible for his own medical insurance premiums and will no longer be reimbursed excess medical expenses.

During the 2008 fiscal year Aspen provided one vehicle each to Messrs. Bailey and Cohan. In fiscal 2009, Messrs. Bailey and Cohan purchased the vehicles from the Company. Mr. Cohan purchased his vehicle from Aspen at fair market value as determined in the used car market. Pursuant to Mr. Bailey s September 2004 employment agreement, he purchased his vehicle from Aspen for $500, significantly below the fair market value of that vehicle. The difference between the purchase price paid by Mr. Bailey when he acquired his vehicle from Aspen for $500 (pursuant to his September 2004 employment agreement) and the fair market value of that vehicle ($23,781) is also included in Other Compensation for Mr. Bailey.

3. Expense Reimbursement.

We have agreed to reimburse our officers and directors for out-of-pocket costs and expenses incurred on behalf of Aspen. Since this reimbursement is on a fully-accountable basis, there is no portion treated as compensation.

4. Purchases of Working Interests

As described in Item 1, above, when Aspen was actively operating its California natural gas properties, Aspen generally did not incur all of the expense and bear all of the risk in drilling its wells. Aspen generally sought other participants who were familiar with the oil and gas industry and the wells being drilled and retained a promotional interest. Oftentimes, our named executive officers participate in these wells. When they did so, they purchased working interests on the same basis as unaffiliated parties and bear their proportionate share of Aspen s promotional interest. These investments by our named executive officers are not considered to be compensatory since the named executive officers are participating in the wells on the same basis as unaffiliated parties.

5. Other

Mr. Cohan also served as a director during our fiscal year 2009 and was compensated $4,000 for serving in that capacity. This amount is included in Other Compensation above rather than added to the Director compensation table below.

D. ***Employment Agreement with our Named Executive Officers.*** We have entered into employment agreements with two of our named executive officers. The material terms of these agreements are summarized as follows:

Mr. Cohan: Aspen and Robert A. Cohan entered into an employment agreement dated January 1, 2003, as amended on April 22, 2005 (the Agreement). The Agreement was for an initial three year term, was amended in April 2005, and expired on December 31, 2008. Under the Agreement we paid Mr. Cohan an annual salary of $160,000 and we offered Mr. Cohan health insurance, cost reimbursement, and certain other benefits.

As reported in January 2008, Mr. Cohan suffered a stroke and was unable to continue to perform his duties as chief executive officer and chief financial officer of Aspen. As a result, these duties were assumed by Messrs. R.V. Bailey and Kevan Hensman. As a result, on September 4, 2008, Aspen notified Mr. Cohan that his employment agreement would not be renewed when it expired on December 31, 2008.

Mr. Bailey: Effective May 1, 2003, and as amended September 21, 2004, we entered into an employment agreement with R. V. Bailey (the 2003 Agreement). The pertinent provisions of the 2003 Agreement included an employment period ending May 1, 2009, the title of Vice President (although Mr. Bailey is now serving as our chief executive officer) and an annual salary of $60,000 per year from January 1, 2007, ending May 1, 2009. Effective as of January 1, 2009, and as amended July 21, 2009, we entered into a new employment agreement with Mr. Bailey (the 2009 Agreement) pursuant to which both parties agreed that the 2003 Agreement was terminated as of January 1, 2009. The pertinent provisions of the 2009 Agreement include an employment period ending December 31, 2009 with a salary of $120,000 per year. The 2009 Agreement provides that Mr. Bailey is eligible to participate in Aspen s stock options and royalty interest programs. During the term of the agreement, and in lieu of health insurance, we have agreed to pay Mr. Bailey a monthly allowance to cover such items as prescriptions, medical and dental coverage for himself and his dependents and other expenses not covered in the agreement. To the extent that Mr. Bailey does not provide documentation accounting for the expenditure of this amount for medical reimbursement purposes, it is treated as compensation to him. The original monthly allowance was $1,700, but the agreement provided that it should be adjusted each June for inflation. Currently the monthly allowance is $1,966.

We may terminate the 2009 Agreement upon Mr. Bailey s death by paying his estate all compensation that had or will accrue to the end of the year of his death plus $75,000. Should Mr. Bailey become totally and permanently disabled, we will pay Mr. Bailey one half of the salary and benefits set forth in our agreement with him for the remainder of the term of the 2009 Agreement. Aspen may not terminate the 2009 Agreement for other reasons. The 2003 Agreement terminated Aspen s obligations under a previous agreement by which it was obligated to repurchase Mr. Bailey s stock upon his death.

Stock Options and Stock Appreciation Rights Granted During the Last Fiscal Year:

On February 27, 2008, the Board of Directors adopted the 2008 Equity Plan (the Plan). 1,000,000 shares of common stock are reserved under the Plan for the grant of stock options or issuance of stock bonuses to compensate new, continuing, and existing employees, officers, consultants, and advisors of the Company. Concurrent with the adoption of the Plan, the board granted options to purchase 775,000 shares of common stock at an exercise price of $2.14 per share. 1/3 of the shares vest on each September 30, of 2008, 2009, and 2010 if certain performance conditions are met. At June 30, 2008, 247,097 shares were earned, based on performance conditions, and 117,902 expired. At June 30, 2009, no shares were earned, based on performance conditions, and 258,333 expired.

The following table sets out the unexercised stock options, stock granted as bonuses that have not vested, and equity incentive plan awards for each Named Executive Officer outstanding at June 30, 2009.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name and Principal Position	Number of Securities Underlying Unexercised Options(1)(#) Exercisable	Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, Other Rights That Have Not Vested (#)
R. V. Bailey,	65,000	-	2.67	1/1/2010	-	$ -	-
CEO and Chairman	36,240	66,667	2.14	2/27/2013	66,667	60,000	66,667
Robert A. Cohan,	80,000	-	2.67	1/1/2010	-	-	-
President and Director	54,360	100,000	2.14	2/27/2013	100,000	90,000	100,000
Kevan Hensman,	10,000	-	3.70	9/11/2011	-	-	-
CFO and Director	18,120	33,333	2.14	2/27/2013	33,333	30,000	33,333

(1) On February 27, 2008, the Board of Directors adopted the 2008 Equity Plan (the Plan). 1,000,000 shares of common stock are reserved under the Plan for the grant of stock options or issuance of stock bonuses to compensate new, continuing, and existing employees, officers, consultants, and advisors of the Company.

(2a) On April 27, 2005, Mr. Bailey was granted an option to purchase 65,000 shares of our common stock at an exercise price of $2.67 per share. These options vested over three years without performance criteria, and are now entirely vested.

(2b) On February 27, 2008, Mr. Bailey was granted an option to purchase 200,000 shares of our common stock at an exercise price of $2.14 per share. 1/3 of the shares vest on each September 30, of 2008, 2009, and 2010 if certain performance criteria are met. At June 30, 2009, 36,240 were earned (based on the FY 2008 performance criteria), and 97,094 options expired (including 66,667 that expired in fiscal 2009 as a result of meeting none of the performance criteria).

(3a) On February 27, 2008, Mr. Cohan was granted an option to purchase 300,000 shares of our common stock at an exercise price of $2.14 per share. 1/3 of the shares vest on each September 30, of 2008, 2009, and 2010 if certain performance criteria are met. At June 30, 2009, 54,360 were earned (based on the FY 2008 performance criteria), and 145,640 options expired (including 100,000 that expired in fiscal 2009 as a result of meeting none of the performance criteria).

(3b) On April 27, 2005, Mr. Cohan was granted an option to purchase 80,000 shares of our common stock at an exercise price of $2.67 per share. These options vested over three years without performance criteria, and are now entirely vested.

(4a) On February 27, 2008, Mr. Hensman was granted an option to purchase 100,000 shares of our common stock at an exercise price of $2.14 per share. 1/3 of the shares vest on each September 30, of 2008, 2009, and 2010 if certain performance criteria are met. At June 30, 2009, 18,120 were earned (based on the FY 2008 performance criteria), and 48,546 expired (including 33,333 that expired in fiscal 2009 as a result of meeting none of the performance criteria).

(4b) On September 11, 2006, Mr. Hensman was granted an option to purchase 10,000 shares of Aspen s common stock exercisable at $3.70. The option vested immediately and is exercisable through September 11, 2011. These options vested when granted.

Long Term Incentive Plans/Awards in Last Fiscal Year:

Except as described in our 401(k) plan, we do not have a long-term incentive plan nor have we made any awards during the fiscal years ended June 30, 2009 or 2008.

Report on Re-pricing of Options/SARs:

We did not reprice any options or stock appreciation rights during the fiscal years ended June 30, 2008, June 30, 2009, or subsequently.

Compensation of Directors

Although we have not formally adopted a plan for the compensation of our directors, in September 2006, upon his appointment as a director we issued Mr. Hensman an option to purchase 10,000 share of our common stock at a price of $3.70 per share, exercisable through September 11, 2011. In addition, we agreed to pay Mr. Hensman $2,000 per meeting of the board of directors that he attends in person or by telephone, and to reimburse him for any expenses that he may incur in performing his duties as a member of the board of directors. Subsequently, we offered the same compensation terms to Mr. Imperato (who became a director in December 2008) and to Mr. Cohan (who ceased being an employee of Aspen as of December 31, 2008). The fees earned by Messrs. Hensman and Imperato for attending meetings in fiscal year 2009 are reflected in the Director Compensation Table below. As a result of his appointment as chief financial officer, Mr. Hensman is also receiving consulting fees from Aspen at the rate of $70.00 per hour. Mr. Imperato, who was a consultant to Aspen even before his appointment as a director, received consulting fees during FY 2009 at the rate of $93.75 per hour which are reflected in note 2 to the Director Compensation table, below.

Mr. Cohan also served as a director during our fiscal year 2009 but is not reflected in the Director Compensation table below as all compensation received by him is reflected in the Summary Compensation table.

We have no other arrangements pursuant to which any of our directors was compensated during the fiscal year ended June 30, 2008 or 2009 for services as a director.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Nonqualified Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation on Earnings ($)	Total ($)
Kevan Hensman	$ 10,000	$ -	$ -	$ -	$ -	$ 10,000
Douglas Imperato	$ 6,000	$ -	$ -	$ -	$ -	$ 6,000

(1) Mr. Hensman was appointed to our board of directors in September 2006 and during our 2007 fiscal year was paid fees for attending board meetings and was also granted an option to purchase 10,000 shares of our common stock upon his appointment to our board of directors. In January 2008 Mr. Hensman was appointed to serve as our chief financial officer. The line item above solely reflects compensation paid to Mr. Hensman during fiscal 2009 in his capacity as a director.

In addition to the directors fees that he received during fiscal 2009, Mr. Hensman received $9,250 in fees for services provided in his capacity as our Chief Financial Officer.

(2) Mr. Imperato was appointed to our board of directors in December 2008 and during our 2009 fiscal year was paid fees for attending board meetings. The line item above solely reflects compensation paid to Mr. Imperato during fiscal 2009 in his capacity as a director. In addition to the directors fees that he received, during its fiscal 2009, Aspen paid Mr. Imperato $86,625 in consulting fees.

On February 27, 2008, Mr. Imperato was granted an option to purchase 25,000 shares of our common stock at an exercise price of $2.14 per share. 1/3 of the shares vest on each September 30, of 2008, 2009, and 2010 if certain performance criteria are met. At June 30, 2009, 4,530 were earned, based on the performance criteria (FY 2008) and vested on September 30, 2008, and 12,136 expired.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Security Ownership of Executive Officers and Directors

The following table sets forth as of September 15, 2009 the number and percentage of Aspen s shares of $.005 par value common stock owned of record and beneficially owned by each executive officer, by each Director, and by all Officers and Directors as a group. The percentages set forth in the table below are based on the total number of shares outstanding as set forth on the cover page to this annual report.

Beneficial Owner	Beneficial Ownership Number of Shares		Percent of Total
R. V. Bailey	1,391,336	i	19.17%
Robert A. Cohan	692,737	ii	9.54%
Kevan B. Hensman	28,120	iii	0.39%
Douglas P. Imperato	7,530	iv	0.05%
All Officers and Directors as a Group (4 persons)	2,119,723		29.20%

The address for all of the above directors and executive officers is:
2050 S. Oneida St., Suite 208, Denver, CO 80224

i This number includes 1,241,776 shares of stock held of record in the name of R. V. Bailey, and 16,320 shares of record in the name of Mieko Nakamura Bailey, his spouse. Additionally, the number includes 32,000 shares of common stock Aspen issued to the Aspen Exploration Profit Sharing Plan for the benefit of R. V. Bailey as a corporation contribution to Mr. Bailey s 401(k) account. The number of shares beneficially owned also includes stock options to purchase 101,240 shares of restricted common stock. However, the number of shares does not include stock options to purchase 66,667 shares that have not yet vested and will not vest until on or after September 30, 2010, to the extent earned.

ii This number includes 527,644, shares of common stock. Additionally, Aspen issued 30,733 shares of common stock to the Aspen Exploration Profit Sharing Plan for the benefit of Robert A. Cohan as a corporation contribution to Mr. Cohan s 401(k) account. The total number of shares beneficially owned by Mr. Cohan also includes stock options to purchase 134,360 shares of restricted common stock. However, the number of shares does not include stock options to purchase 100,000 shares that have not yet vested and will not vest until on or after September 30, 2010, to the extent earned.

iii On September 11, 2006, upon being appointed to our board of directors Mr. Hensman was granted an option to purchase 10,000 shares of our common stock at $3.70 per share. These options vested immediately upon grant and are exercisable through September 11, 2011. Mr. Hensman also owns options exercisable to acquire 18,120 shares included in the above table. The table does not include options to acquire 33,334 shares, which will not vest until on or after September 30, 2010, to the extent earned.

iv. December 9, 2008, Mr. Imperato was appointed to our board of directors. Mr. Imperato owns 3,000 shares of our common stock and options to acquire 4,530 included in the table above. The table does not include options to acquire 8,334 shares, which will not vest until on or after September 30, 2010, to the extent earned.

Security Ownership of Certain Beneficial Owners

The following table sets forth the beneficial ownership of the Company s Common Stock as of September 15, 2009 by each person (other than the directors and executive officers of the Company) was known to own beneficially, more than 5% of the outstanding voting shares of Common Stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock
Tymothi Tombar 2713 Crawford Street Houston, Texas 77004	421,929i	5.8%
John Gibbs and Susan Gibbs P.O. Box 859 Ardmore, OK 73402	471,400ii	6.5%

(i) Based on a Schedule 13D filed by Mr. Tombar, on July 30, 2009.

(ii) Based on a Schedule 13G/A filed by TriPower Resources, LLC, an Oklahoma limited liability company, successor by conversion to TriPower Resources, Inc., and John and Susan Gibbs on February 12, 2009.

Change of Control

Except with respect to the employment agreement between Aspen and R. V. Bailey we know of no arrangement, the operation of which may, at a subsequent date, result in change in control of Aspen.

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 5, above, for information regarding securities authorized for issuance under equity compensation plans in the form required by Item 201(d) of Regulation SK.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following sets out information regarding transactions between officers, directors and significant shareholders of Aspen during the most recent two fiscal years and during the subsequent fiscal year.

Working Interest Participation:

Some of the directors and officers of Aspen are engaged in various aspects of oil and gas and mineral exploration and development for their own account. Aspen has no policy prohibiting, nor does its Certificate of Incorporation prohibit, transactions between Aspen and its officers and directors. We plan to enter into cost-sharing arrangements with respect to the drilling of its oil and gas properties. Directors and officers (and other employees) may participate (and from time to time have participated) in these arrangements. All directors and executive officers participating in these drilling opportunities must do so on the same basis as non-affiliated participants, and consequently must share a proportional amount of Aspen s promotional interest.

At June 30, 2008, R. V. Bailey, Aspen s chief executive officer and chairman of the Board, and Robert A. Cohan, president and director of Aspen, each had working and royalty interests in certain of the California oil and gas properties operated by Aspen including Johnson #11, #12 and #13 in the Johnson Unit of the Malton Black Butte field and the Merrill #31-1 which are subject to possible title deficiencies. Depending on the results of our analysis of these deficiencies (which are described in more detail above), we may have overpaid Messrs. Bailey and Cohan some amounts to the same extent (if at all) we may have overpaid other working interest owners in the Johnson Unit of the Malton Black Butte Field with respect to Johnson #11 and #12, and the Merrill #31-1 well. Because we have not commenced production on Johnson #13, we have not made any payments to working interest or royalty owners of that well. In addition, they may have overpaid their share of the drilling costs of such wells.

At June 30, 2009, no director or officer of Aspen owned a working interest in certain of the California oil and gas properties formerly operated by Aspen.

As of June 30, 2008 and 2009, working interests of the Company and its affiliates in certain producing California properties are set forth below, as compared to Aspen s interests in all of its wells:

	Gross Wells Gas	Net Wells Gas
As of June 30, 2008		
Aspen Exploration	88	19.17
R. V. Bailey	67	2.14
R. A. Cohan	67	1.2

We have not granted any participatory rights in our Montana oil properties.

Amended Royalty and Working Interest Plan:

A discussion of Aspen s Amended Royalty and Working Interest Plant and the specific royalties assigned to our executive officers is included in Item 11 Executive Compensation above.

Employment Agreements:

See Item 11, Executive Compensation -- Employment contracts and termination of employment and change in control arrangements, for a discussion of the employment contracts between Aspen and Messrs. Cohan and Bailey.

Consulting Fees and Other Compensation Arrangements

Mr. Imperato. Mr. Imperato is a self-employed geologist in the oil and gas exploration industry and has served as a Company consultant on an on-going basis. In the past we paid Mr. Imperato consulting fees for services provided to the Company, and have paid such fees during our 2009 fiscal year. These fees, paid at the rate of $93.75 per hour during our 2009 fiscal year, amounted to $86,625 in fiscal 2009.

Mr. Imperato also had working and royalty interests in certain of the California oil and gas properties that were operated by the Company prior to the June 30, 2009 sale to Venoco. During the Company s fiscal year ended June 30, 2008 Mr. Imperato was paid $166,202 in royalties and $262,671 from his working interests. During fiscal year ended June 30, 2009 Mr. Imperato was paid $93,400 in royalties and $98,856 from his working interests.

Mr. Imperato also entered into an agreement with Brian Wolf Oil & Gas Properties (Wolf), who was engaged by the Company to assemble and operate the Company data room and to assist in the sale of Aspen s properties. The agreement between Aspen and Wolf required that Aspen pay Wolf 3% of the gross purchase price for the properties, and as a result, Aspen paid Wolf $671,733.57. Wolf had agreed to share a portion of this commission with Mr. Imperato, and as a result paid Mr. Imperato $331,134. Mr. Imperato disclosed this compensation arrangement to the Company prior to his appointment to the Board of Directors, and it had been negotiated between Wolf and Mr. Imperato several months before Mr. Imperato was a director of Aspen.

Mr. Hensman. Mr. Hensman assumed the role of chief financial officer upon Mr. Cohan s disability. In that role, Aspen has been paying him consulting fees at $70 per hour. In addition to the director s fees that he received during fiscal 2009, Mr. Hensman received $9,250 in fees for services he provided in his capacity as chief financial officer.

Other Arrangements:

During the fiscal years 2009 and 2008, Aspen paid for various hospitality functions and for travel, lodging and hospitality expenses for spouses who occasionally accompanied directors when they were traveling on company business. Management believes that the expenditures were to Aspen s benefit.

Certain Business Relationships:

None.

Indebtedness of Management:

None.

Transactions with Promoters:

Not applicable.

Director Independence:

Our board of directors consists of Messrs. Bailey, Cohan, Hensman, and Imperato. No board member is considered to be independent as defined by Section 803A of the NYSE Amex Company Guide. The board considers all relevant facts and circumstances in its determination of independence of all members of the board (including any relationships set forth in this Form 10-K under the heading Certain Related Person Transactions).

ITEM 14. PRINCIPAL ACCOUNTANT S FEES AND SERVICES.

(a) **Audit Fees.**

Effective November 3, 2008 Gordon, Hughes, & Banks, LLP (GH&B) resigned as the independent registered accounting firm for Aspen Exploration Corporation (the Company). GH&B recently entered into an agreement with Eide Bailly LLP (Eide Bailly), pursuant to which Eide Bailly acquired the operations of GH&B. Certain of the professional staff and shareholders of GH&B joined Eide Bailly either as employees or partners of Eide Bailly and will continue to practice as members of Eide Bailly. On November 3, 2008, the Company s Board of Directors approved the engagement of Eide Bailly as the Company s independent registered public accounting firm.

GH&B billed us aggregate fees for audit and tax services in the amount of approximately $46,336 for the fiscal year ended June 30, 2008 and $43,696 for the fiscal year ended June 30, 2009. Eide Bailly billed us aggregate fees for audit services in the amount of approximately $11,845 for the fiscal year ended June 30, 2009.

These amounts were billed for professional services that Gordon, Hughes & Banks, LLP and Eide Bailly LLP provided for the audit of our annual financial statements, review of the financial statements included in our report on 10-Q and other services typically provided by an accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

(b) **Audit-Related Fees.**

Gordon, Hughes & Banks, LLP billed us aggregate fees in the amount of $0 and $515 for the fiscal years ended June 30, 2009 and 2008 for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements.

Eide Bailly, LP billed us aggregate fees in the amount of $0 for the fiscal year ended June 30, 2009 for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements.

(c) **Tax Fees.**

Gordon, Hughes & Banks, LLP billed us aggregate fees in the amount of approximately $0 for the fiscal year ended June 30, 2009, and $7,395 for the fiscal year ended June 30, 2008, for tax compliance services.

Eide Bailly, LP billed us aggregate fees in the amount of approximately $7,640 for the fiscal year ended June 30, 2009, for tax compliance services.

(d) **All Other Fees.**

Gordon, Hughes & Banks, LLP billed us aggregate fees in the amount of $0 for the fiscal years ended June 30, 2009 and 2008 for other fees.

Eide Bailly, LP billed us aggregate fees in the amount of $0 for the fiscal years ended June 30, 2009 for other fees.

(e) **Audit Committee s Pre-Approval Practice.**

Inasmuch as Aspen does not have an audit committee, Aspen s board of directors performs the functions of its audit committee. Section 10A(i) of the Securities Exchange Act of 1934 prohibits our auditors from performing audit services for us as well as any services not considered to be audit services unless such services are pre-approved by the board of directors (in lieu of the audit committee) or unless the services meet certain *de minimis* standards.

The board of directors has adopted resolutions that provide that the board must:

Preapprove all audit services that the auditor may provide to us or any subsidiary (including, without limitation, providing comfort letters in connection with securities underwritings or statutory audits) as required by §10A(i)(1)(A) of the Securities Exchange Act of 1934 (as amended by the Sarbanes-Oxley Act of 2002).

Preapprove all non-audit services (other than certain *de minimis* services described in §10A(i)(1)(B) of the Securities Exchange Act of 1934 (as amended by the Sarbanes-Oxley Act of 2002) that the auditors propose to provide to us or any of its subsidiaries.

The board of directors considers at each of its meetings whether to approve any audit services or non-audit services. In some cases, management may present the request; in other cases, the auditors may present the request. The board of directors has approved Gordon, Hughes & Banks, LLP and Eide Bailly, LP performing our audit and tax services for the 2008 and 2009 fiscal years.

The percentage of the fees for audit, audit-related, tax and other services were as set forth in the following table:

	Eide Bailly, LLP Fiscal Year Ended June 30,		Gordon Hughes & Banks LLP Fiscal Year Ended June 30,	
	2009	2008	2009	2008
Audit fees	61%	0%	100%	86%
Audit-related fees	0%	0%	0%	1%
Tax fees	39%	0%	0%	13%
All other fees	0%	0%	0%	0%

PART IV.

ITEM 15. EXHIBITS

Exhibits Pursuant to Item 601 of Regulation SK:

Exhibit No.	Title
3.01	Restated Certificate of Incorporation (without) amendments.[9]
3.02	Registrant s Amended and Restated Bylaws.[1]
10.01	Purchase and Sale Agreement among Aspen Exploration Corporation, Venoco, Inc., and certain other persons listed in the Annexes thereto dated February 18, 2009. [2]
10.02	Form of Voting Agreement [2]
10.03	Form of Joinder Agreements (Indirect) [2]
10.04	Form of Joinder Agreements (Joint Seller) [2]
10.05	Agreement of Purchase and Sale among Aspen Exploration Corporation, Nautilus Poplar, LLC and Hunter Energy LLC dated February 24, 2009. [3]
10.06	Employment Agreement between Aspen Exploration Corporation and R.V. Bailey. [4]
10.07	Employment Agreement Extension between Aspen Exploration Corporation and R.V. Bailey [5]
10.08	Option Agreement between Aspen Exploration Corporation and Kevan B. Hensman. [6]
10.10	Aspen Exploration Corporation 2008 Equity Plan [7]
16.1	Letter of Gordon, Hughes, & Banks, LLP dated November 3, 2008, regarding the change in certifying accountant. [8]
21.1	Subsidiaries of Aspen Exploration Corporation. [9]
31	Certification pursuant to Rule 13a-14. *
32	Certification pursuant to 18 U.S.C. §1350. *

* Filed herewith.

(1) Incorporated by reference from Aspen s Annual Report on Form 10-K dated June 30, 2003 (filed on September 26, 2003).

(2) Incorporated by reference from the registrant s current report on Form 8-K dated February 18, 2009 and filed on February 19, 2009.

(3) Incorporated by reference from the registrant s current report on Form 8-K dated February 25, 2009 and filed on March 3, 2009.

(4) Incorporated by reference from the registrant s current report on Form 8-K dated March 25, 2009 and filed on March 31, 2009.

(5) Incorporated by reference from the registrant s current report on Form 8-K dated July 21, 2009 and filed on July 25, 2009.

(6) Incorporated by reference from Aspen s Annual Report on Form 10-K dated June 30, 2006 (filed on October 12, 2006).

(7) Incorporated by reference from Aspen s Current Report on Form 8-K dated February 27, 2008 (filed on March 10, 2008).

(8) Incorporated by reference from the registrant s current report on Form 8-K dated November 3, 2008 and

filed on July 25, 2009.

(9) Incorporated by reference from Aspen s Annual Report on Form 10-KSB dated June 30, 2007 (filed on September 28, 2007).

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

September 28, 2009

ASPEN EXPLORATION CORPORATION,
a Delaware Corporation

By: /s/ R. V. Bailey
R. V. Bailey
Chief Executive Officer

September 28, 2009

By: /s/ Kevan B. Hensman
Chief Financial Officer
(Principal Accounting Officer)

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Date	Name and Title	Signature
September 28, 2009	R. V. Bailey Chief Executive Officer Chairman of the Board, Director	/s/ R. V. Bailey
September 28, 2009	Kevan B. Hensman Chief Financial Officer Director	/s/ Kevan B. Hensman
September 28, 2009	Robert A. Cohan President Director	/s/ Robert A. Cohan
September 28, 2009	Douglas P. Imperato Director	/s/ Douglas P. Imperato

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Aspen Exploration Corporation and Subsidiary
Denver, Colorado

We have audited the accompanying consolidated balance sheet of Aspen Exploration Corporation and Subsidiary (the Company) as of June 30, 2009, and the related statements of operations, stockholders equity and comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aspen Exploration Corporation and Subsidiary as of June 30, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Greenwood Village, Colorado
September 24, 2009

See accompanying notes to these consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Aspen Exploration Corporation and Subsidiary
Denver, Colorado

We have audited the accompanying consolidated balance sheet of Aspen Exploration Corporation and Subsidiary (the Company) as of June 30, 2008, and the related statement of operations, stockholders equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aspen Exploration Corporation and Subsidiary as of June 30, 2008, and the results of its consolidated operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Gordon, Hughes & Banks, LLP

Greenwood Village, Colorado
September 16, 2008

See accompanying notes to these consolidated financial statements.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2009 AND 2008

	June 30, 2009	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,478,774	$ 1,595,150
Marketable securities	228,319	930,818
Accounts and trade receivables	602,270	2,287,519
Other current assets	289,429	39,474
Total current assets	11,598,792	4,852,961
Property and equipment		
Oil and gas property	-	23,677,355
Support equipment	96,560	183,374
	96,560	23,860,729
Accumulated depletion and impairment - full cost pool	-	(10,479,466)
Accumulated depreciation - support equipment	(29,933)	(70,570)
Net property and equipment	66,627	13,310,693
Other assets:		
Deposits	-	263,650
Deferred income taxes, net	29,000	-
Total other assets	29,000	263,650
Total assets	$ 11,694,419	$ 18,427,304

(Statement Continues)

See accompanying notes to these consolidated financial statements.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Current liabilities:
- Accounts payable
- Other current liabilities and accrued expenses
- Income tax payable
- Notes payable - current portion
- Asset retirement obligation, current portion
- Deferred income taxes, current

Total current liabilities

Long-term liabilities
- Notes payable, net of current portion
- Asset retirement obligation, net of current portion

T: 0pt" align="left">However, we may terminate the rights of the purchasers to seek additional remedies under South Carolina

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the South Caroli

Utah

None of the shares sold in the state of Utah may have been issued pursuant to an effective registration statement or an applicab

Under Utah law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the perso

However, we may terminate the rights of the purchasers to seek additional remedies under the Utah Uniform Securities Act by

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Utah Unifor

Vermont

None of the shares sold in the state of Vermont may have been issued pursuant to an effective registration statement or an appli

Under Vermont law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the pe

Under Vermont law, effective as of July 1, 2006, an action may not be maintained if before the action is instituted, the purchase

Virginia

None of the shares sold in the state of Virginia may have been issued pursuant to an effective registration statement or an appli

Under Virginia law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the pe

However, we may terminate the rights of the purchasers to seek additional remedies under the Virginia Securities Act by makin

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Virginia Secu

Washington

None of the shares sold in the state of Washington may have been issued pursuant to an effective registration statement or an ap

Under Washington law, a person who offers or sells securities in violation of the registration requirements is civilly liable to th

However, we may terminate the rights of the purchasers to seek additional remedies under the Securities Act of Washington by

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Securities Ac

Israel

Israel's securities law, known as The Securities Law, 5728-1968, prohibits the offering of securities to the public, other than un

If shares were issued to you in Israel, you do not have a right of rescission under Israeli law. Accordingly, the rescission offer i

Funding the Rescission Offer

We have entered into an agreement with Mark Reed and Robert T. Reed, Jr. (the "designated purchasers") that they would irre

Directors, Officers and Major Stockholders

None of our officers, directors or 5% stockholders purchased shares in our initial public offering and are not eligible to particip

Tax Consequences of the Rescission Offer

The following discussion summarizes the material federal income tax considerations relevant to our stockholders who hold sha

29

General

The repurchase of shares from our stockholders may be treated by the Internal Revenue Service, or the Service, as, among othe

We have entered into an agreement with Mark Reed and Robert T. Reed, Jr. (the "designated purchasers") that they would irre

Treatment as Repurchase of Shares

We intend to treat the rescission transaction as one strictly between the stockholder and the designated purchaser. A sale to the

Treatment as Redemption of Shares

The Service may take the position that the rescission will constitute a taxable redemption of the rescission shares for cash, with

If this tax position as a redemption is sustained, any rescission transaction would be treated as a sale or exchange, and, assumin

In determining whether any of the above redemption tests are satisfied, a stockholder must take into account not only shares tha

If the rules of Section 302 were to apply and the rescission fails to qualify as a redemption, then the gross proceeds of such tran

THE LAW APPLICABLE TO THE RESCISSION OFFER IS UNCLEAR AND WE HAVE NOT RECEIVED AN OPINION

THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN UNITED STATES INCOME TA

This prospectus contains forward-looking statements. The forward-looking statements are contained principally in, but not limi

31

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate a

Unless required by law, we undertake no obligation to publicly revise any forward-looking statement to reflect circumstances o

Management cautions that these statements are qualified by their terms and/or important factors, many of which are outside of

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee futu

We have never declared or paid dividends on our common stock. We currently intend to retain future earnings, if any, for use i

We are obligated to pay a non-cumulative 5% dividend from lawfully available assets to the holders of our Series A preferred s

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with o

Overview

We develop, manufacture, market and sell natural non-alcoholic and "New Age" beverages, candies and ice creams. "New Age

33

We sell most of our products in specialty gourmet and natural food stores, supermarket chains, retail stores and restaurants in th

The following table shows a breakdown of net sales with respect to our distribution channels for the periods set forth in the tab

2005
2004
2003

Historically, we have focused our marketing efforts on natural and gourmet food stores. In 2003, we expanded our marketing e

In addition, since 2003, we have introduced new products and offer specialty beverage packaging options not typically availabl

We gauge the financial success of our company by a number of different parameters. Because our industry typically values con

Net sales

We believe that the increase in net sales over this period comes from three factors:

Almost as important as increasing our net sales are increasing our gross margins. We continue to work to reduce costs related t

34

In 2002, we purchased and outfitted the Brewery, in part to help reduce both production costs and freight costs associated with

In addition, our west coast Brewery facility is running at 40% of capacity. We have had difficulties with the underutilization of

Trends, Risks, Challenges, Opportunities That May or Are Currently Affecting Our Business

Our main challenges, trends, risks and opportunities that could affect or are affecting our financial results include but are not li

Fuel Prices - Our freight rates were approximately 9.7% of net sales during 2005. We expect freight rates to increase by an add

Low Carbohydrate Diets and Obesity - Our products are not geared for the low carbohydrate market. Consumer trends have re

Distribution Consolidation - There has been a recent trend towards continued consolidation of the beverage distribution indust

Consumer Demanding More Natural Foods - The rapid growth of the natural foods industry has been fueled by the growing c

35

Supermarket and Natural Food Stores - More and more supermarkets, in order to compete with the growing natural food indu

Beverage Packaging Changes - Beverage packaging has continued to innovate, particularly for premium products. There is an

Packaging or Raw Material Price Increases - An increase in packaging or raw materials has caused our margins to suffer and

Cash Flow Requirements - Our growth will depend on the availability of additional capital infusions. We have a financial histo

Interest Rates - We use lines of credit as a source of capital and are negatively impacted as interest rates rise. Management beli

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of Amer

Revenue Recognition. Revenue is recognized on the sale of a product when the product is shipped, which is when the risk of lo

Trademark License and Trademarks. Trademark license and trademarks primarily represent the costs we pay for exclusive ow

In accordance with SFAS No. 142, we evaluate our non-amortizing trademark license and trademarks quarterly for impairment

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Long-Lived Assets. Our management regularly reviews property, equipment and other long-lived assets, including identifiable

Management believes that the accounting estimate related to impairment of our long lived assets, including our trademark licen

In estimating future revenues, we use internal budgets. Internal budgets are developed based on recent revenue data for existing

Advertising. We account for advertising production costs by expensing such production costs the first time the related advertisi

Accounts Receivable. We evaluate the collectibility of our trade accounts receivable based on a number of factors. In circumsta

Inventories. Inventories are stated at the lower of cost to purchase and/or manufacture the inventory or the current estimated m

Income Taxes. Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferr

Results of Operations

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Net sales increased by $161,936, or 8.9%, from $1,817,336 in the first three months ended March 31, 2005 to $1,979,272 in the

Cost of sales increased by $202,589, or 13.6%, from $1,486,287 in the first three months ended March 31, 2005 to $1,688,876

Gross profit decreased from $331,049 in the first three months ended March 31, 2005 to $290,396 in the first three months end

General and administrative and selling expenses increased by $50,719, or 10.2%, from $499,099 in the first three months ende

Legal defense costs for the three months ended March 31, 2006 and 2005 were $9,568 and $2,216, respectively. These expense

Interest expense increased by $29,397, or 41.3%, from $71,210 in the first three months ended March 31, 2005 to $100,607 in

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As a result of the foregoing, we experienced a net loss of $241,386 in the first three months ended March 31, 2005 and $369,59

Twelve Months Ended December 31, 2005 Compared to Twelve Months Ended December 31, 2004

Net sales increased by $491,920, or 5.5%, from $8,978,365 in 2004 to $9,470,285 in 2005. Sales of our core Reed's Ginger Bre

Cost of sales increased by $642,462, or 9.0%, from $7,103,037 in 2004 to $7,745,499 in 2005. Costs of sales as a percentage of

We calculate gross profit as total revenues less cost of sales. Gross profit decreased from $1,875,328 in 2004 to $1,724,786 in 2

General and administrative and selling expenses increased by $213,958, or 11.5%, from $1,866,511 in 2004 to $2,080,469 in 2

Beginning in January 2000, we extended an interest-free line of credit to one of our consultants, Peter Sharma, III who was a m

Legal defense costs for the years ended December 31, 2005 and 2004 were $36,558 and $80,156, respectively. These expenses

Interest expense increased by $54,472, or 21.4%, from $255,032 in 2004 to $309,504 in 2005. The increase in interest expense

Loss on extinguishment of debt decreased from $153,000 in 2004 to none in 2005. This loss related to the discount on the conv

As a result of the foregoing, we experienced a net loss of $479,371 and $855,425 in 2004 and 2005, respectively. In addition, w

Management recognizes the operating losses and costs incurred have negatively impacted liquidity. We anticipate using a porti

Liquidity and Capital Resources

Historically, we have financed our operations primarily through private sales of common stock, preferred stock, convertible del

As of March 31, 2006, we had a working capital deficit of $1,315,156, compared to a working capital deficit of $1,594,758 as o

As of March 31, 2006, we had outstanding borrowings of $1,539,946 under the following line of credit agreements:

At March 31, 2006, we did not have any material commitments for capital expenditures.

Net cash used in operating activities was $491,428 in the quarter ended March 31, 2006, as compared to net cash provided by o

Net cash used in operating activities decreased to $42,610 in the year ended December 31, 2005 from $176,020 in the year end

We used $19,271 in investing activities in the quarter ended March 31, 2006, as compared to $37,001 in the quarter ended Mar

We used $214,667 in investing activities in the year ended December 31, 2005, as compared to $248,187 in the year ended Dec

Cash flow provided from financing activities in the quarter ended March 31, 2006 was $678,412, as compared to cash flow use

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Cash flow provided from financing activities was $242,533 in the year ended December 31, 2005, as compared to $453,765 in

During the quarter ended March 31, 2006, we had a net loss of $369,597. At March 31, 2006, we had a working capital deficie

We have a "best efforts" commitment from an underwriter to assist us in continuing the process of raising capital through a pul

We have entered into an agreement with Mark Reed and Robert T. Reed, Jr. (the "designated purchasers") that they would irre

We may not generate sufficient revenues from product sales in the future to achieve profitable operations. If we are not able to

42

We are conducting the public offering to raise an additional approximate $6,445,000 of net proceeds from the sale of our comm

As we are not required to use our capital sources to pay for the repurchase of shares in the rescission offer, we currently believe

In addition, our ability to implement our full business expansion plan is largely dependent upon the outcome of the public offer

We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not av

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 151, “Inventory Costs, an amendme

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In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets, an amendment of APB Opinion No.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." Statement 123(R) will provide in

In May 2005 the FASB issued SFAS Number 154, "Accounting Changes and Error Corrections." This SFAS provides guidanc

We do not believe that the adoption of the above recent pronouncements will have a material effect on our financial position or

On September 22, 2005, the SEC issued rules to delay by one-year the required reporting by management on internal controls o

Inflation

Although management expects that our operations will be influenced by general economic conditions, we do not believe that in

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Background

We develop, manufacture, market, and sell natural non-alcoholic and “New Age” beverages, candies and ice creams. “New Ag

We sell most of our products in specialty gourmet and natural food stores, supermarket chains, retail stores and restaurants in th

We produce and co-pack our products principally at our company-owned facility in Los Angeles, California, known as the Brev

Key elements of our business strategy include:

Our current sales efforts are focused in three areas:

45

We believe that these marketing efforts have contributed to our growth. We intend to continue to expand our sales personnel in

In addition, since 2003, we have introduced new products and offer specialty beverage packaging options not typically availabl

We create consumer demand for our products by

Our business expansion plans are contingent to a great extent on the success of the public offering. If all or most of the shares b

Our principal executive offices are located at 13000 South Spring Street, Los Angeles, California 90061. Our telephone numbe

Historical Development

In June 1987, Christopher J. Reed, our founder and Chief Executive Officer, began development of Reed's Original Ginger Bre

In 1991, we incorporated our business operations in the state of Florida under the name of Original Beverage Corporation and r

Throughout the 1990's, we continued to develop and launch new ginger brew varieties. Reed's Ginger Brews reached broad pla

In 1997, we began licensing the products of China Cola and eventually acquired the rights to that product in December 2000. In

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Industry Overview

Our beverages are classified as New Age beverages, a category that includes natural soda, fruit juices and fruit drinks, ready-to

Annual confectionary sales (including chocolate, non-chocolate and gum sales) in the United States were approximately $27.9

According to the International Dairy Foods Association (IDFA), total U.S. sales of ice cream and frozen desserts were estimate

Our Products

We currently manufacture and sell 15 beverages, three candies and three ice creams. We make all of our products using premiu

We produce carbonated and non-carbonated products. Most sales of our beverage products are of our sodas. According to Spen

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Our carbonated products include six varieties of Reed's Ginger Brews, Virgil's Root Beer and Cream Sodas, China Cola and C

Our candy products include Reed's Crystallized Ginger Candy, Reed's Crystallized Ginger Baking Bits and Reed's Ginger Car

Our ice cream products include Reed's Original Ginger Ice Cream, Reed's Chocolate Ginger Ice Cream and Reed's Green Tea

Beverages

Reed's Ginger Brews

Ginger ale is the oldest known soft drink. Before modern soft drink technology existed, non-alcoholic beverages were brewed a

We believe that Reed's Ginger Brews are unique in their kettle brewed origin among all mass-marketed soft drinks. Reed's Gin

In addition, since Reed's Ginger Brews are pasteurized, they do not require or contain any preservatives. In contrast, modern co

In addition, while we make no claim as to any medical or therapeutic benefits of our products, we have found friends and advoc

We currently manufacture and sell six varieties of Reed's Ginger Brews:

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All six of Reed’s Ginger Brews are offered in 12-ounce bottles and are sold in stores as singles, in four-packs and in 24-bottle c

Virgil’s Root Beer

Over the years, Virgil’s Root Beer has won numerous awards and has a reputation among many as one of the best root beers m

Virgil’s is a premium root beer. We use all-natural ingredients, including filtered water, unbleached cane sugar, anise from Spa

We collect these ingredients worldwide and gather them together at the brewing and bottling facilities we use in the United Sta

We sell Virgil’s Root Beer in four packaging styles: 12-ounce bottles in a four-pack, a special ceramic-swing-lid style pint bott

Virgil’s Cream Soda

We launched Virgil’s Cream Soda in January 2004. We make this product with the same attention to quality that makes Virgil’

Virgil’s Cream Soda is a gourmet cream soda. We brew Virgil’s Cream Soda the same way we brew Virgil’s Root Beer. We us

Virgil’s Cream Soda is currently sold in 12-ounce long neck bottles in colorful 4-packs, a 5-liter party keg version and in our d

In 2006, we expanded our product line to include Virgil’s Black Cherry Cream Soda in a 12-ounce bottle.

China Cola

We consider China Cola to be the best tasting and most natural cola in the world. We restored China Cola to its original delicio

Original China Cola is made from filtered water, raw cane sugar, szechwan poeny root, cassia bark, Malaysian vanilla, oils of l

Cherry China Cola is made from the same ingredients as Original China Cola, with the addition of natural cherry flavor.

China Cola and Cherry China Cola sell as singles, in four-packs and in 24-bottle cases.

Reed's Ginger Juice Brews

In May 2002, we launched a new line of ginger brews called Reed's Ginger Juice Brews. They are 100% juice products that are

All four of our Reed's Ginger Juice Brews contain: filtered water, organic fresh ginger root, and organic white grape juice from

Reed's Ginger Juice Brews drinks come in a 16-ounce juice bottle as singles or in cases of 12 and 24 bottles.

Reed's Ginger Candies

Reed's Crystallized Ginger Candy

Reed's Crystallized Ginger was the first crystallized ginger on the market in the United States to be sweetened with raw cane in

The production process is an ancient one that has not changed much over time. After harvesting baby ginger (the most tender k

We sell this product in 3.5-ounce bags, 10-ounce enameled, rolled steel gift tins, 16-ounce re-sealable Mylar bags, and in bulk.

Reed's Ginger Candy Chews

For many years, residents of Southeast Asia from Indonesia to Thailand have enjoyed soft, gummy ginger candy chews. We sel

Reed’s Ginger Candy Chews are made for us in Indonesia from sugar, maltose (malt sugar), ginger, and tapioca starch.

Reed’s Ginger Ice Creams

We make Reed’s Ginger Ice Creams with 100% natural ingredients, using the finest hormone-free cream and milk. We combin

We sell three Reed’s Ginger Ice Cream products:

We sell Reed’s Ginger Ice Creams in pint containers and cases of eight pints. We also intend to supply Reed’s Ginger Ice Crea

New Product Development

We are always working on development to continue expanding from our Reed’s Ginger Brews, Virgil’s product line, Reed’s G

Among the advantages of our owned and self-operated Brewery are the flexibility to try innovative packaging and the capabilit

Manufacture of Our Products

We produce our carbonated beverages at two facilities:

Our west coast Brewery facility is running at 40% of capacity. We have had difficulties with the underutilization of the Brewer

Our Ginger Juice Brews are co-packed for us at H.A. Ryder in Northern California. We supply all the ingredients and packagin

We follow a "fill as needed" manufacturing model to the best of our ability and we have no significant backlog of orders.

Substantially all of the raw materials used in the preparation, bottling and packaging of our products are purchased by us or by

Generally, we obtain the ingredients used in our products from domestic suppliers and each ingredient has several reliable supp

We believe that as we continue to grow, we will be able to keep up with increased production demands. We believe that the Br

Our Primary Markets

We target a niche in the soft drink industry known as New Age beverages. The soft drink industry generally characterizes New

The New Age beverage segment is highly fragmented and includes such competitors as SoBe, Snapple, Arizona, Hansen's and

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We sell the majority of our products in natural food stores, mainstream supermarket chains and foodservice locations, primarily

Natural Food Stores

Our primary and historical marketing source of our products has been natural food and gourmet stores. These stores include Wh

We believe that our products have achieved a leading position in their niche in the fast-growing natural food industry.

With the advent of large natural food store chains and specialty merchants, the natural foods segment continues to grow each ye

Mainstream Supermarkets and Retailers

We sell our products in over 1,000 mainstream supermarkets throughout the United States, and to a lesser extent, in Canada. Th

Supermarkets, particularly supermarket chains and prominent local supermarkets, often impose slotting fees before permitting n

We also sell our products to large national retailers who place our products within their national distribution streams. These reta

Foodservice Placement

We also market our beverage products to industrial cafeterias, bars and restaurants. We intend to place our beverage products in

International Sales

We have developed a limited market for our products in Canada, Europe and Asia. Sales outside of North America currently re

The European Union is an open market for Reed's with access to that market due in part to the ongoing production of Virgil's S

American Trading Corp. in Japan orders our products on a regular basis for distribution in Japan. We are holding preliminary d

53

Distribution, Sales and Marketing

We currently have a national network of mainstream, natural and specialty food distributors in the United States and Canada. W

One of the main goals of our sales and marketing efforts is to increase the number of sales people and distributors focused on g

We currently maintain two separate sales organizations, one of which handles natural food store sales and the other of which ha

Our sales force markets existing products, run promotions and introduce new items. Our in-house sales managers are responsib

We also offer our products and promotional merchandise directly to consumers via the Internet through our website, *www.reed*

Marketing to Distributors

We market to distributors using a number of marketing strategies, including direct solicitation, telemarketing, trade advertising

Marketing to Retail Stores

We market to retail stores by utilizing trade shows, trade advertising, telemarketing, direct mail pieces and direct contact with t

Direct Sales and Distribution

In June 2003, we started Direct Sales and Distribution (DSD) to stores in Southern California, using a direct hired sales team ar

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Southern California sales represented approximately $750,000 and $400,000 in 2005 and 2004, respectively. These new direct-

Marketing to Consumers

Advertising. We utilize several marketing strategies to market directly to consumers. Advertising in targeted consumer magazi

In-Store Draught Displays. As part of our marketing efforts, we have started to offer in-store draught displays, or Kegerators. V

On Draught Program. Our West Coast Brewery has initiated an on-draught program. We have installed draught locations at Fo

Proprietary Coolers. The placement of in-store branded refrigerated coolers by our competitors has proven to have a significan

Competition

The beverage industry is highly competitive. The principal areas of competition are pricing, packaging, development of new pr

Important factors affecting our ability to compete successfully include taste and flavor of products, trade and consumer promot

We believe that our innovative beverage recipes and packaging and use of premium ingredients and a trade secret brewing proc

Our premium New Age beverage products compete generally with all liquid refreshments and in particular with numerous othe

Our Virgil's and China Cola lines compete with a number of other natural soda companies, including Stewarts, IBC, Henry We

We also generally compete with other traditional soft drink manufacturers and distributors, such as Coke and Pepsi.

Reed's Crystallized Ginger Candy competes primarily with other candies and snacks in general and, in particular, with other gi

Reed's Ginger Ice Creams compete primarily with other premium and super-premium ice cream brands. Our principal competi

Proprietary Rights

We own or have made applications for several trademarks that we consider material to our business, including Reed's, Virgil's

In addition, we consider our finished product and concentrate formulae, which are not the subject of any patents, to be trade sec

We generally use non-disclosure agreements with employees and distributors to protect our proprietary rights.

Government Regulation

The production, distribution and sale in the United States of many of our products is subject to the Federal Food, Drug and Cos

Measures have been enacted in various localities and states that require that a deposit be charged for certain non-refillable beve

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Our facilities in the United States are subject to federal, state and local environmental laws and regulations. Compliance with th

Environmental Matters

Our primary cost of environmental compliance is in recycling fees, which approximated $40,000 in 2005. This is a standard co

In California, and in certain other states where we sell our products, we are required to collect redemption values from our cust

In certain other states and Canada where our products are sold, we are also required to collect deposits from our customers and

Employees

We currently have 30 full-time employees, as follows: one in general management, nine in sales and marketing support, five in

We have never participated in a collective bargaining agreement. We believe that the relationship with our employees is good.

Properties

We own an 18,000 square foot warehouse, known as the Brewery, at 13000 South Spring Street in an unincorporated area of Lo

We purchased the facility in December 2000 for a purchase price of $850,000, including a down payment of $102,000. We fina

Legal Proceedings

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Our management e

On January 20, 2006, Consac Industries, Inc. (dba Long Life Teas and Long Life Beverages) filed a lawsuit in the United State

From August 3, 2005 through April 7, 2006, we issued 333,156 shares of our common stock in connection with our initial publ

If this rescission offer is accepted, we could be required to make aggregate payments to the holders of these shares up to $1,332

Federal securities laws do not provide that a rescission offer will terminate a purchaser's right to rescind a sale of stock that wa

Except as set forth above, we believe that there are no material litigation matters at the current time. Although the results of suc

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General

Our directors currently have terms which will end at our next annual meeting of the stockholders or until their successors are el

The following table sets forth certain biographical information with respect to our directors and executive officers:

Name
Christopher J. Reed
Eric Scheffer
Robert T. Reed, Jr.
Robert Lyon
Judy Holloway Reed
Mark Harris
Dr. D.S.J. Muffoletto, N.D.
Michael Fischman

Christopher J. Reed founded our company in 1987. Mr. Reed has served as our Chairman, President, Chief Executive Officer a

Eric Scheffer has been our Vice President and National Sales Manager - Natural Foods since May 2001. From September 2000

Robert T. Reed Jr. has been our Vice President and National Sales Manager - Mainstream since January 2004. Prior to joining u

Robert Lyon has been our Vice President Sales - Special Projects since June 2002. In that capacity, Mr. Lyon directs our South

Judy Holloway Reed has been with us since 1992 and, as we have grown, has run the accounting, purchasing and shipping and

Mark Harris has been a member of our board of directors since April 2005. Mr. Harris is an independent venture capitalist and

Dr. Daniel S.J. Muffoletto, N.D. has been a member of our board of directors since April 2005. Dr. Muffoletto has practiced as

Michael Fischman has been a member of our board of directors since April 2005. Since 1998, Mr. Fischman has been Presiden

Other than the relationships of Christopher J. Reed, Judy Holloway Reed, and Robert T. Reed, Jr., none of our directors or exec

Peter Sharma, III resigned as one of our directors on January 27, 2006.

Currently our Chief Executive Officer, Christopher J. Reed, serves as our Chief Financial Officer. Mr. Reed does not have any

Corporate Governance

We are committed to having sound corporate governance principles. Such principles are essential to running our business effici

We believe that our directors should have the highest professional and personal ethics and values, consistent with our longstand

The board of directors does not currently have standing audit, nominations or compensation committees. The Board intends to

The Board has determined that three members of our board of directors, Mr. Harris, Dr. Mufoletto and Mr. Fischman are indep

Executive Compensation

The following table sets forth certain information concerning compensation of certain of our executive officers, including our C

Name and Principal Position
Christopher J. Reed. Chief Executive Officer and President

None of our other employees received total compensation in excess of $100,000 during the years ended December 31, 2003-20

Director Compensation

We do not pay any compensation to our non-employee directors for their attendance at board meetings. We have not adopted a

Committee Interlocks and Insider Participation

No interlocking relationship exists between any member of our board of directors and any member of the board of directors or

Option/SAR Grants and Exercises

No options were granted to or exercised by employees during 2004. In 2005, we granted options to purchase up to 218,500 sha

Employment Agreements

There are no written employment agreements with any of our officers or key employees, including Christopher J. Reed. We do

2001 Stock Option Plan

Pursuant to our 2001 Stock Option Plan, we are authorized to issue options to purchase up to 500,000 shares of common stock.

The plan permits the grant of options to our employees, directors and consultants. The options may constitute either "incentive

The plan is currently administered by the board of directors. The plan administrator has full and final authority to select the ind

The exercise price of an option granted under the plan cannot be less than 100% of the fair market value per share of common s

When an option is exercised, the purchase price of the underlying stock shall be paid in cash, except that the plan administrator

If an optionee ceases to be an employee, director, or consultant with us, other than by reason of death, disability, or retirement,

When a stock award expires or is terminated before it is exercised, the shares set aside for that award are returned to the pool of

No option can be granted under the plan after ten years following the earlier of the date the plan was adopted by the Board of D

Indemnification of Directors and Officers

Our amended certificate of incorporation provides that, to the fullest extent permitted by Delaware law, as it may be amended f

Our amended certificate of incorporation also provides discretionary indemnification for the benefit of our directors, officers, a

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Pursuant to our amended bylaws, we are required to indemnify our directors, officers, employees and agents, and we have the c

We have three loans payable to Robert T. Reed, Sr., the father of our founder, President and Chief Executive Officer, Christoph

The first loan was made to us in May 1991 to provide $94,000 in working capital. This loan bears interest at 10% per annum. A

The second loan from Mr. Reed was made to us in June 1999 to provide $250,000 for the acquisition of Virgil's Root Beer. Th

The third loan from Mr. Reed was made to us in October 2003 to provide $50,000 for working capital. This loan bears interest

We had issued warrants to Mr. Reed to purchase up to 262,500 shares at $0.02 for his work in 1991 in helping the start up of ou

In September 2004, Robert T. Reed Jr., our Vice President and National Sales Manager - Mainstream and a brother of Christop

In July 2001, Mark Reed, a brother of Christopher J. Reed, converted a loan he made to us into 8,889 shares of common stock.

We have entered into an agreement with Mark Reed and Robert T. Reed, Jr. (the "designated purchasers") that they would irrev

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We believe that the terms of each of the foregoing transactions were as favorable to us as the terms that would have been availa

Beginning in January 2000, we extended an interest-free line of credit to one of our consultants, Peter Sharma, III who was a m

At the time of each of the transactions listed above, except for the loan in October 2003 from Robert T. Reed, Sr., we did not ha

In 2005, we added three independent directors to our board. The Board of Directors, inclusive of the independent directors, res

The following table reflects, as of the date of this prospectus, the beneficial common stock ownership of: (a) each of our directo

Except as otherwise indicated below, the persons named in the table have sole voting and investment power with respect to all

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Name of Beneficial Owner
Directors and Named Executive Officers
Christopher J. Reed (2)
Judy Holloway Reed (2)
Mark Harris (3)
Dr. Daniel S.J. Muffoletto, N.D.
Michael Fischman
Robert T. Reed, Jr. (4)
Directors and executive officers as a group (8 persons) (5)
5% or greater stockholders
Joseph Grace (6)
Robert T. Reed, Sr. (7)

* Less than 1%.

We have the authority to issue 12,000,000 shares of capital stock, consisting of 11,500,000 shares of common stock, $.0001 pa

As of the date of this prospectus, there were 5,328,109 shares of common stock outstanding, and 58,940 shares of Series A pref

We will not offer preferred stock to promoters, except on the same terms as it is offered to all other existing stockholders or to

The following description of our capital stock does not purport to be complete and is subject to, and is qualified by, our certific

Common Stock

Holders of our common stock are entitled to one vote per share on all matters requiring a vote of stockholders, including the ele

We are a Delaware corporation and our certificate of incorporation does not provide for cumulative voting. However, we may b

Christopher J. Reed, our President and Chief Executive officer, holds a majority of our outstanding common stock and may co

Holders of our common stock are entitled to receive dividends only if we have funds legally available and the Board of Directo

Holders of our common stock do not have any rights to purchase additional shares. This right is sometimes referred to as a pree

Upon a liquidation or dissolution, whether in bankruptcy or otherwise, holders of common stock rank behind our secured and u

There is no public market for our common stock.

Series A Preferred Stock

Holders of our Series A preferred stock are entitled to receive out of assets legally available, a 5% pro-rata annual non-cumulat

As of June 30, 2005, we issued 7,362 shares of our common stock as a dividend to the holders of our Series A preferred stock b

In the event of any liquidation, dissolution or winding up of our operations, or if there is a change of control event, then, subjec

At any time after June 30, 2007, we have the right, but not the obligation, to redeem all or any portion of the Series A preferred

The Series A preferred stock may be converted, at the option of the holder, at any time after issuance and prior to the date upon

Except as provided by law, the holders of our Series A preferred stock do not have the right to vote on any matters, including, v

There is no public market for our Series A preferred stock and we do not intend to register such stock with the SEC or seek to e

Options and Warrants

As of the date of this prospectus, we had outstanding options and warrants to purchase an aggregate of 904,241 shares of our co

Convertible Debt

We have a loan payable to Robert T. Reed, Sr. which was made to us in June 1999 to provide $250,000 for the acquisition of V

We also have a loan payable to Barry and Leslie Sandler pursuant to a promissory note, dated September 26, 1995, in the princ

As of March 31, 2006, these loans were convertible into an aggregate of 136,158 shares of common stock.

Underwriters' Warrants

We have agreed to issue to our underwriters a five-year warrant, to purchase a number of shares of common stock equal to 10%

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation

Certain provisions of Delaware law and our certificate of incorporation could make more difficult the acquisition of us by mea

Our Certificate of Incorporation includes provisions that:

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In ge

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to t

These provisions of Delaware law and our certificate of incorporation could have the effect of discouraging others from attemp

Certain Historical Information Regarding Securities Issuances

During the five years prior to the date of the prospectus, we sold shares of common stock for prices ranging from $1.00 to $4.0

As an historical reference, we here provide a chart recording all issuances of options and warrants:

Year Issued
1991
1992
2000
2001
2002
2005

For historical reference and analysis, we provide here a reference table of all issuance of common and preferred shares by Reed

Type of Issuance
Founder’s stock
Private investment
Private investment
Private investment
Exempt private placement
SCOR direct public offering
Exempt private placement (existing stockholder)
Note conversion options exercise (from 1991)
Warrant exercise (from 1991)
Employee bonus grants
China Cola acquisition
Options exercise (from 1991)
Employee bonus grants
Vendor payment
Exempt private placement (existing stockholder)
Loan conversion option exercise (from 1991)
Loan conversion option exercise (from 1992)
Exempt private placement (existing stockholder)
Employee bonus grants
Exempt private placement (existing stockholder)
Exempt private placement (existing stockholders)
Corporate note conversion exercised (from 2001)
Exercise of options, exercise price of $0.20
Issuance of shares on preferred stock dividend
Sale of common stock in our public offering

Average share price excluding founder’s shares and initial seed, including conversion of Pr -- $1.81/share
‡ Series A preferred stock at $10 par value convertible to 4 common shares
* Type of share issued C=Common, Pr=Preferred

There has been no public market for our stock. We cannot predict the effect, if any, that market sales of shares or the availabilit

Sale of Restricted Shares

As of the date of this prospectus, there were 5,328,109 shares of common stock outstanding. Upon completion of the public off

Lock-In Arrangements

Our officers, directors and 5% or greater stockholders have entered into a written lock-in agreement placing restrictions on eacl

Rule 144

In general, under Rule 144, as currently in effect, a person who owns shares that were acquired from us or an affiliate of us at le

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of cur

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time

Stock Options

We intend to file a registration statement on Form S-8 under the Securities Act for shares of our common stock subject to optio

Transfer Agent

We have engaged Transfer On-Line, Inc., Portland, Oregon, to act as our registrar and transfer agent.

General

We have filed a registration statement for our initial public offering and intend to continue the process of selling our shares in c

The public offering is a best efforts offering through our underwriters, US EURO Securities, Inc., or US EURO, and Brookstre

No minimum number of shares is required to be sold and as a result, we may only sell a nominal amount of additional shares ur

There is no current market for our shares and there can be no assurance that a public market for our shares will ever develop. Fu

US EURO and Brookstreet are members of the National Association of Securities Dealers, or NASD, and are the underwriters

Peter Sharma, one of our former directors until his resignation on January 27, 2006, also was a registered representative of Bro

The underwriters acknowledge their supervisory responsibility over independent contractor registered representatives. Brookstr

The underwriting agreement also includes the following terms:

At the closing of the public offering, we will sell to the representative or its designees at a purchase price of $0.001 per warrant

Our underwriters may enter into selected dealers agreements with certain NASD licensed brokers to participate in the public of

Under our agreement with our underwriters, we may terminate the public offering at any time, for any reason, after the declared

In compliance with NASD rules, neither the warrants granted to our underwriters or any participating broker-dealer nor the sha

US EURO and Brookstreet are general securities broker/ dealers registered with the SEC and are NASD members. We may de

We are obligated to pay the expenses of the public offering.

We filed a registration statement on Form SB-2 offering 3,000,000 shares at $6.00 through Blue Bay Capital Corp., which was

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Market for Common Equity

We intend to apply for listing of our common stock on the Nasdaq Capital Market or the American Stock Exchange following t

Listing Requirement
Market value of publicly held shares
Number of publicly held shares
Number of public stockholders
Bid price of listed securities
Stockholders' equity
Corporate governance requirements
Market makers

There is no public market for our common stock. Consequently, the offering price for the shares was determined by negotiation

In connection with the public offering, the underwriters may purchase and sell shares of common stock in the open market, if s

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a sy

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They r

Promotional Securities Lock-In Agreements

All of our directors, executive officers and 5% or-greater stockholders, have signed a written lock-in agreement placing restrict

Generally, each such person has agreed not to sell, pledge, hypothecate, assign, grant any option for the sale of, or otherwise tra

Beginning one year from the completion or termination of the public offering, 2.5% of the promotional shares subject to the loc

In the event of a dissolution, liquidation, merger, consolidation, reorganization, sale of exchange of our assets or securities (inc

These restrictions could be waived by the vote of holders of a majority of our outstanding common stock, other than the person

In the event of a dissolution, liquidation, merger, consolidation, reorganization, sale of exchange of our assets or securities (inc

Holders of the securities subject to the lock-in agreements will generally have the same voting rights as similar equity securitie

These lock-in agreements are in addition to and supplement the 12-month lock-up agreements that any of these persons have si

The promotional shares lock-in agreements relate to the following individuals and securities owned or possessed by such perso

Security Holder
Christopher J. Reed and Judy Holloway Reed
Robert T. Reed, Jr. (1)
Robert T. Reed, Sr. (2)
Peter Sharma III
Joseph Grace
Eric Scheffer
Mark Harris
Total

(1) Robert T. Reed, Jr. also may purchase shares of common stock in connection with the rescission offer. Notwithstanding the

(2) Includes 127,065 shares of common stock, which can be converted from principal and accrued interest on certain convertib

The validity of the shares of common stock we are offering to purchase hereby will be passed upon for us by Jenkens & Gilchr

Weinberg & Company, P.A., independent registered public accounting firm, have audited our financial statements (and schedu

We have filed with the SEC a registration statement on Form SB-2 under the Securities Act with respect to the shares of comm

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A copy of the registration statement and the exhibits and schedules filed therewith may be inspected without charge at the publ

We are subject to the information and periodic reporting requirements of the Exchange Act, and, in accordance therewith, will

This prospectus includes statistical data obtained from industry publications. These industry publications generally indicate tha

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Index to Financial Statements

Report of Independent Registered Accounting Firm
Balance Sheets
Statements of Operations
Statements of Changes In Stockholders' Equity
Statements of Cash Flows
Notes to Financial Statements

We have audited the accompanying balance sheet of Reed’s, Inc. as of December 31, 2005 and the related statements of operat

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States)

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Reed’s,

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. How

/s/ WEINBERG & COMPANY, P.A.

Weinberg & Company, P.A.

Los Angeles, California
April 7, 2006

Cash
Inventory
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of $82,000 at March 31, 2006 and $70,000 at December 31, 2005
Receivable from sale of common stock
Other receivables
Prepaid expenses
Total Current Assets
Property and equipment, net of accumulated depreciation of $542,867 at March 31, 2006 and $508,136 at December 31, 2005
Brand names
Other intangibles, net of accumulated amortization of $3,909 at March 31, 2006 and $3,723 at December 31, 2005
Deferred stock offering costs
Total Other Assets
TOTAL ASSETS
CURRENT LIABILITIES
Accounts payable
Lines of credit
Current portion of long term debt
Accrued interest
Accrued expenses
Total Current Liabilities
Notes payable, related party
Long term debt, less current portion
Total Liabilities
COMMITMENTS AND CONTINGENCIES
STOCKHOLDERS' EQUITY
Preferred stock, $10.00 par value, 500,000 shares authorized, 58,940 shares issued and outstanding
Common stock, $.0001 par value, 11,500,000 shares authorized, 5,281,247 and 5,042,197 shares issued and outstanding at Mar 2006 and December 31, 2005, respectively
Common stock to be issued (7,362 shares)
Additional paid in capital
Accumulated deficit
Total stockholders' equity
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

SALES
COST OF SALES
GROSS PROFIT
OPERATING EXPENSES
Selling
General & Administrative
Provision for amounts due from director
Legal Fees
LOSS FROM OPERATIONS
OTHER EXPENSES
Interest Expense
Loss on extinguishment of debt
NET LOSS
Preferred stock dividend
Net Loss Attributable to Common Stockholders
LOSS PER SHARE Available to common stockholders — Basic and Fully Diluted
WEIGHTED AVERAGE SHARES OUTSTANDING, Basic and Fully Diluted

Balance, January 1, 2004
Issuance of preferred stock
Conversion of debt to preferred stock
Recognition of beneficial conversion feature on issuance of preferred stock
Net loss for year ended 2004
Balance, December 31, 2004
Exercise of warrants
Preferred Stock Dividend
Common stock issued for cash
Deferred stock offering costs charged to additional paid in capital
Net loss for year ended December 31, 2005
Balance, December 31, 2005
Common stock issued for cash and receivable from common stock
Deferred stock offering costs charged to additional paid in capital
Net loss for the three months ended March 31, 2006
Balance, March 31, 2006 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES
Net Loss
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:
Depreciation and amortization
Provision for amounts due from director
Loss on extinguishment of debt
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:
Accounts receivable
Inventory
Prepaid expenses
Other receivables
Accounts payable
Accrued expenses
Accrued interest
Net cash (used in) provided by operating activities
CASH FLOWS FROM INVESTING ACTIVITIES:
Purchase of property and equipment
Due from director
Net cash used in investing activities
CASH FLOWS FROM FINANCING ACTIVITIES:
Payments for deferred offering costs
Principal payments on debt
Proceeds from issuance of common stock
Proceeds received from issuance of preferred stock
Proceeds from borrowings
Net borrowings (payments) on lines of credit
Proceeds on debt to related parties
Net cash provided by (used in) financing activities
NET INCREASE (DECREASE) IN CASH
CASH — Beginning of period
CASH — End of period
Supplemental Disclosures of Cash Flow Information
Cash paid during the period for:
Interest
Taxes
Non cash Investing and Financing Activities
Notes payable converted to preferred stock
Accrued interest converted to preferred stock

Beneficial conversion feauture

Common stock issued in settlement of accrued interest on related party debt upon exercise of warrants

Common stock to be issued in settlement of preferred stock dividend (7,362 shares)

Conversion of a line of credit to term loan

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REED'S, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Operations and Summary of Significant Accounting Policies

A) Nature of Operations

Reed's, Inc. (the "Company") was organized under the laws of the state of Florida in January 1991. In 2001, the Company char

The Company sells its products primarily in upscale gourmet and natural food stores and supermarket chains in the United Stat

B) Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the

C) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to m

D) Accounts Receivable

The Company evaluates the collectibility of its trade accounts receivable based on a number of factors. In circumstances where

The allowance for doubtful accounts and returns and discounts is established through a provision for returns and discounts char

E) Property and Equipment and Related Depreciation

Property and equipment is stated at cost. Depreciation is calculated using accelerated and straight-line methods over the estima

Property and Equipment Type
Building
Machinery and equipment
Computer
Automobile
Office equipment

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REED’S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Management regularly reviews property, equipment and other long-lived assets for possible impairment. This review occurs qu

F) Intangible Assets

The Company records intangible assets in accordance with Statement of Financial Accounting Standard (SFAS) Number 142, “

Management applies the impairment tests contained in SFAS number 142 to determine if an impairment has occurred. Accordi

Management believes that the accounting estimate related to impairment of its intangible assets, is a “critical accounting estima

G) Concentrations

The Company’s cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to $100,0

During the years ended December 31, 2005 and 2004 the Company had two customers, which accounted for approximately 39

REED’S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

The Company currently relies on a single contract packer for a majority of its production and bottling of beverage products. Th

H) Fair Value of Financial Instruments

The carrying amount of the Company’s financial instruments including cash, accounts and other receivables, accounts payable,

I) Cost of sales

The Company, with one exception, classifies shipping and handling costs of the sale of its products as a component of cost of s

In addition, the Company classifies purchasing and receiving costs, inspection costs, warehousing costs, freight costs, internal t

Expenses not related to the production of our products are classified as operating expenses.

J) Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax a

K) Deferred Stock Offering Costs

The Company capitalizes costs incurred related to an initial public offering and future issuance of common stock until such tim

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

L) Stock Options

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), establis

For the year ended December 31, 2005, 218,500 options were issued that immediately vested. The pro forma disclosure related

Net loss as reported
Stock based compensation
Pro forma loss
Primary and fully diluted loss per share, as reported
Proforma fully and diluted loss per share

No options were granted during 2004, or for the three months ended March 31, 2006 and 2005, (Unaudited) therefore, pro form

M) Revenue Recognition

Revenue is recognized on the sale of a product when the product is shipped, which is when the risk of loss transfers to our cust

N) Net Loss Per Share

Loss per share calculations are made in accordance with SFAS No. 128, "Earnings Per Share." Basic loss per share is calculate

For the years ended December 31, 2005 and 2004 and for the three months ended March 31, 2006 and 2005 the calculations of

The potentially dilutive securities consisted of the following as of December 31, 2005 and March 31, 2006 (Unaudited):

Warrants
Convertible notes
Preferred Stock
Options
Total

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

O) Advertising Costs

The Company accounts for advertising production costs by expensing such production costs the first time the related advertisin

Advertising costs are expensed as incurred and are included in selling expense in the amount of $90,176 and $42,828 for the ye

The Company accounts for certain sales incentives, including slotting fees, as a reduction of gross sales, in accordance with Em

P) Reporting Segment of the Company

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information"

Q) Comprehensive Income

A statement of comprehensive income is not presented in our financial statements since we did not have any of the items of oth

R) Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amend

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 2

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment." Statement 123(R) will provide inv

In May 2005 the FASB issued SFAS Number 154, "Accounting Changes and Error Corrections." This SFAS provides guidanc

The Company does not believe that the adoption of the above recent pronouncements will have a material effect on the Compar

(The rest of this page left blank intentionally)

REED’S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(2) Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market, and is comprised of the following as of December 31, 200

Raw Materials
Finished Goods

(3) Fixed Assets

Fixed assets are comprised of the following as of December 31, 2005 and March 31, 2006 (Unaudited):

Land
Building
Vehicles
Machinery and equipment
Office equipment
Accumulated depreciation

Depreciation expense for the years ended December 31, 2005 and 2004 was $117,773 and $96,585, respectively. Depreciation

(4) Intangible Assets

Brand Names

Brand Names consist of two (2) trademarks for natural beverages which the Company acquired in previous years. As long as th

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REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Other Intangible Assets

Other Intangible Assets as of December 31 ,2005 consist of:

Asset
Building Loan Fees

Other Intangible Assets as of March 31 ,2006 (Unuadited) consist of:

Asset
Building Loan Fees

The estimated aggregate amortization as of December 31, 2005 for each of the next five years is:

Year
2006
2007
2008
2009
2010

(5) ***Lines of Credit***

The Company had outstanding borrowings of $1,539,946 (Unaudited) and $1,445,953 and as of March 31, 2006 and December

The Company has an unsecured $50,000 line of credit with a bank. Interest is payable monthly at the prime rate, as published i

The Company has a line of credit in the amount of $642,209 (Unaudited) and $482,264 at March 31, 2006 and December 31, 2

The Company has a line of credit with a finance company. This line of credit allows the Company to borrow a maximum amou

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REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(6) Notes Payable to Related Parties

The Company has three unsecured loans payable to Robert T. Reed, Sr., the father of the Company's founder Christopher J. Re

The first loan bears interest at 10% per annum and matures in October 2007. The outstanding principal balance of the loan as o

The second loan bears interest at 8% per annum and matures in October 2007. The outstanding principal balance of this loan as

The third loan bears interest at 8% per annum and matures in October 2007. The outstanding principal balance of this loan as o

(7) Long-term Debt

Long-term debt consists of the following:

Note payable to SBA in the original amount of $748,000 with interest at the Wall Street Journal prime rate plus 1% per adjusted monthly with no cap or floor. The combined monthly principal and interest payments are $5,851, subject to adjustments. The interest rate in effect at December 31, 2005 was 8%. The note is secured by land and building and guarantee majority stockholder. The note matures November 2025.

Notes payable, unsecured, with interest at 10% per annum. Principal and accrued interest are payable in full at the end of term. Theses notes were issued with warrants, exercisable at issuance. The warrants have an exercise price of $3 and a term of Principal and any unpaid interest are due in June 2006.

Building improvement loan with a maximum draw of $168,000. The interest rate is at the Wall Street Journal prime rate p adjusted monthly with no cap or floor. The combined monthly principal and interest payments are $1,186; subject to adjustments. The rate in effect at December 31, 2005 was 8% per annum. The note is secured by land and building and guara the majority stockholder and matures November 2025.

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Notes payable, due on demand, unsecured, with interest at 10% per annum. The note is convertible to common stock at 60
initial public offering price or 100% of a private offering price.

Note payable to a bank, unsecured, interest rate is prime plus 3.25%. The interest rate in effect at December 31, 2005 was 10.
note matures in December 2009.

Notes payable to GMAC, secured by automobiles, payable in monthly installments of $758 including interest at 0.0%, with ma
2008.

Notes payable to Chrysler Financial Corp., secured by automobiles, payable in monthly installments of $658, including in
1.9% per annum, with maturity in 2008.

Equipment line of credit up to a maximum of $150,000, secured by certain plant equipment. Payable in ratable monthly insta
of principal and applicable interest. This loan bears interest at prime plus 2.75% per annum. The interest rate in effect at Decer
2005 was 10.00%. This loan matures in May 2009.

Installment loan secured by certain plant equipment. Payable in monthly installments of $3,167 plus interest. This loan bears in
prime plus 2.75% per annum. The interest rate in effect at December 31, 2005 was 10.00%. This loan matures in June 2010.

Total

Less current portion

The aggregate maturities of long-term debt for each of the next five years and thereafter are as follows as of December 31, 200

2006
2007
2008
2009
2010
Thereafter
Total

(8) Stockholders' Equity

Common stock consists of $.0001 par value, 11,500,000 shares authorized, 5,281,247 (Unaudited) and 5,042,197 shares issued

Preferred stock consists of 500,000 shares authorized to Series A, $10.00 par value, 5% non-cumulative, participating, preferre

These preferred shares have a 5% pro-rata annual non-cumulative dividend. The dividend can be paid in cash or, in the sole and

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REED’S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

In the event of any liquidation, dissolution or winding up of the Company, or if there is a change of control event, then, subject

At any time after June 30, 2007, we have the right, but not the obligation, to redeem all or any portion of the Series A preferred

The Series A preferred stock may be converted, at the option of the holder, at any time after issuance and prior to the date such

Except as provided by law, the holders of our Series A preferred stock do not have the right to vote on any matters, including,

During 2004, the Company sold its preferred stock in a private placement. 33,440 shares were issued in connection with this of

In addition, during 2004 the Company negotiated with certain of its debt holders to convert debt and accrued interest to preferr

During the year ended December 31, 2005, the Company accrued a $29,740 dividend payable to the preferred shareholders, wh

For the three months ended March 31, 2006, the Company issued 239,050 (Unaudited) shares of its common stock in connectio

From August 3, 2005 through April 7 2005, the Company issued 333,156 shares of it common stock in connection with its initi

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(9) Stock Options and Warrants

A) Stock Options

The Company has granted certain employees and other individuals stock options to purchase the Company's common stock un

In 2001, the Company adopted the Original Beverage Corporation 2001 Stock Option Plan. The options shall be granted from t

Balance January 1, 2004
Options granted in 2004
Options exercised in 2004
Balance December 31, 2004
Options granted in 2005
Options exercised in 2005
Balance December 31, 2005

No option activity occurred during the three months ended March 31, 2006 (Unaudited)

Exercise Price Range
$2.00
$3.00
$4.00
$6.00
Total options

All options are vested and exercisable as of December 31, 2005.

B) Warrants

A summary of the warrants outstanding and exercisable at December 31, 2005 is as follows:

Exercise Price Range
$2.00
$3.00

The warrants expire at various dates in 2009 and all are fully exercisable.

No warrant activity occurred during the three months ended March 31, 2006 (Unaudited)

REED’S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(10) Income Taxes

At December 31, 2005, the Company had available Federal and state net operating loss carryforwards to reduce future taxable i

Accordingly, the Company has not recognized a deferred tax asset for this benefit. Upon the attainment of taxable income by th

Significant components of the Company’s deferred income tax assets as of December 31, 2005 are as follows:

Deferred income tax asset:
Net operating loss carry forward
Valuation allowance
Net deferred income tax asset

Reconciliation of the effective income tax rate to the U.S. statutory rate is as follows:

Tax expense at the U.S. statutory income tax
Increase in the valuation allowance
Effective tax rate

(11) Commitments and Contingencies

Lease Commitments

The Company leases machinery under non-cancelable operating leases. Rental expense for the years ended December 31, 2005

Future payments under these leases as of December 31, 2005 are as follows:

Year Ending December 31,
2006
2007
2008
2009
Total

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(12) Legal Proceedings

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. The Company i

During 2005 and 2004 the Company incurred $30,901 and $80,156, respectively, of legal costs associated with a lawsuit which

On January 20, 2006, Consac Industries, Inc. (dba Long Life Teas and Long Life Beverages) filed a lawsuit in the United State

(13) Related Party Activity

The Company has notes payable to related parties. See Note 6.

As of December 31, 2005, the Company was owed $124,210 from Peter Sharma, a former director. For financial reporting pur

In June 2005, Robert T. Reed, Sr. converted 262,500 of warrants to 262,500 shares of common stock. In lieu of receiving cash

Item 24. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law (the "DGCL"), as the same exists or may hereafter be amended, provide

Section 145 of the DGCL further authorizes a corporation to purchase and maintain insurance on behalf of any person who is o

Our amended certificate of incorporation provides that, to the fullest extent permitted by Delaware law, as it may be amended f

Our amended certificate of incorporation also provides discretionary indemnification for the benefit of our directors, officers, a

Pursuant to our bylaws, we are required to indemnify our directors, officers, employees and agents, and we have the discretion

We do not currently provide liability insurance coverage for our directors and officers. However, we intend to use a portion of

These indemnification provisions and the indemnification agreements which we may enter into with our officers and directors

Item 25. Other Expenses of Issuance and Distribution

The following is a schedule of the estimated expenses (all of which will be borne by us) incurred in connection with the resciss

Description
SEC registration fee
Postage and printing expenses
Legal Fees
Accounting fees
Blue sky fees and expenses
TOTAL

Item 26. Recent Sales of Unregistered Securities

The following sets forth information regarding securities sold by us since January 1, 2003:

In January 2003, we issued 1,500 shares of common stock as a year-end bonus to our employees. We recognized $4,500 of con

In July 2003, we sold 3,000 shares of common stock at $3.50 per share to an existing stockholder who was at the time one of o

From March 2004 through October 2004, we conducted a private placement and raised $334,400 from the sale of 33,440 share

Also, in October 2004, 12 holders of our debt converted a total of $255,002 of debt into 25,500 shares of Series A preferred sto

On May 31, 2005, Robert T. Reed, Sr., the father of our Chief Executive Officer, Christopher J. Reed, converted warrants prev

In December 2005, we issued options to purchase up to 218,500 shares of common stock to nine of our employees pursuant to

In September 2005, we declared a dividend of 7,362 shares of our common stock as a dividend to the holders of our Series A p

From August 3, 2005 through April 7, 2006, we issued 333,156 shares of common stock in connection with the public offering

Item 27. Exhibits

The following exhibits are included herein or incorporated herein by reference:

1.1
1.2
1.3
3.1
3.2
3.3
3.4
3.5
4.1
4.2
4.3
4.4
4.5
5.1
10.1
10.2
10.3
10.4
10.5
10.6
10.7
10.7(a)
10.7(b)
10.7(c)
10.7(d)
10.7(e)
10.7(f)
10.7(g)
10.7(h)
10.8
10.9
10.10

10.11

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10.12
10.13
10.14
10.15
10.16
10.17
10.18
10.19
10.20

14.1
23.1
23.2
24

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* Previously filed as part of the registrant’s Registration Statement on Form SB-2 (File No. 333-120451) and incorporated here

Previously filed as part of this Registration Statement on Form SB-2 (File No. 333-135186).

Item 28. Undertakings

The undersigned registrant will:

(a)(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act of 1933, treat each post-effective amendment as a new registration statem

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offeri

(4) For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial dis

(e) Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, o

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant expenses incurred

(g) That, for purposes of determining liability under the Securities Act to any purchaser:

(1) If the small business issuer is relying on Rule 430B:

(2) If the small business issuer is subject to Rule 430C, include the following:

II-5

Each prospectus filed pursuant to Rule 424(b)as part of a registration statement relating to an offering, other than registration st

II-6

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to belie

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ch

In accordance with the requirements of the Securities Act of 1933, as amended, this Registration Statement was signed by the f

Signature

/s/ Christopher J. Reed
Christopher J. Reed

/s/ Judy Holloway Reed
Judy Holloway Reed

/s/ Mark Harris
Mark Harris

/s/ Daniel S.J. Muffoletto
Daniel S.J. Muffoletto

/s/ Michael Fischman
Michael Fischman

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1.1
1.2
1.3
3.1
3.2
3.3
3.4
3.5
4.1
4.2
4.3
4.4
4.5
5.1
10.1
10.2
10.3
10.4
10.5
10.6
10.7
10.7(a)
10.7(b)
10.7(c)
10.7(d)
10.7(e)
10.7(f)
10.7(g)
10.7(h)
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10.20

14.1
23.1
23.2
24

* Previously filed as part of the registrant's Registration Statement on Form SB-2 (File No. 333-120451) and incorporated here

Previously filed as part of this Registration Statement on Form SB-2 (File No. 333-135186).

Reed’s, Inc.
13000 South Spring Street
Los Angeles, California 90061
Attn: Christopher J. Reed

Dear Mr. Reed:

I have received the prospectus of Reed’s, Inc. (“Reed’s”) relating to its rescission offer, dated ___________, 2006, pursuant to

Shares of Common Stock

.. 1.

.. 2.

Date of Purchase
(The date you were issued stock. If you do not know, leave blank.)

IF PERSONS DESIRING TO ACCEPT THIS RESCISSION OFFER INTEND TO MAKE USE OF THE MAILS TO RETUR

TO THE EXTENT I HAVE ACCEPTED THE OFFER, I AGREE I WILL NOT HAVE ANY FURTHER RIGHT, TITLE OR

For California residents:

THIS OFFER OF REPURCHASE HAS BEEN APPROVED BY THE CALIFORNIA COMMISSIONER OF CORPORATIO

Dated: ______________, 2006

Print name of stockholder:

Authorized signature:

Title of authorized signatory (if applicable):

Address of stockholder:

Fax number of stockholder:

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto Reed's, Inc., a Delaware corporation or it

Dated: _____________, 2006

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[1] Trustees, officers and other fiduciaries or agents should indicate their title or ca