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GULFWEST ENERGY INC
Form 10-Q
August 06, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended June 30, 2001

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from to

Commission file number 1-12108

GULFWEST ENERGY INC.

(Exact name of Registrant as specified in its charter)

Texas
(State or other jurisdiction
of incorporation)

87-0444770
(IRS Employer
Identification No.)

397 North Sam Houston Parkway East
Suite 375
Houston, Texas
(Address of principal executive offices)

77060
(zip code)

(281) 820-1919

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(D) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO ____

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, August 3, 2001, was 18,462,541 shares of Class A Common Stock, \$.001 par value.

GULFWEST ENERGY INC.

FORM 10-Q FOR THE QUARTER ENDED
JUNE 30, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

GULFWEST ENERGY INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND DECEMBER 31, 2000
(UNAUDITED)

ASSETS

	June 30, 2001

CURRENT ASSETS:	
Cash and cash equivalents	\$ 564,331
Accounts Receivable - trade, net of allowance for doubtful accounts of -0- in 2001 and 2000	2,057,938
Prepaid expenses	225,028

Total current assets	2,847,297

OIL AND GAS PROPERTIES, Using the successful efforts method of accounting	32,955,246

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OTHER PROPERTY AND EQUIPMENT	2,301,888
Less accumulated depreciation, depletion And amortization	(4,927,355)

Net oil and gas properties, and other property and equipment	30,329,779

OTHER ASSETS	
Deposits	27,638
Investments	
Debt issue cost	417,901

Total other assets	445,539

TOTAL ASSETS	\$ 33,622,615
	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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GULFWEST ENERGY INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND DECEMBER 31, 2000
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2001

CURRENT LIABILITIES	
Notes payable	\$ 2,717,357
Notes payable - related parties	80,000
Current portion of long-term debt	3,597,073
Current portion of long-term debt - related parties	225,911
Accounts payable - trade	2,284,927
Accrued expenses	294,876

Total current liabilities	9,200,144

LONG-TERM DEBT, net of current portion	16,688,917

LONG-TERM DEBT, RELATED PARTIES	264,583

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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock		80
Common stock		18,463
Additional paid-in capital		23,550,132
Retained deficit		(16,099,704)
Long-term accounts and notes receivable - related parties, net of allowance for doubtful accounts of \$740,478 in 2001 and 2000		
		7,468,971
Total stockholders' equity		7,468,971
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	33,622,615

The Notes to Consolidated Financial Statements are an integral part of these statements.

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GULFWEST ENERGY INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND SIX MONTHS ENDED
JUNE 30, 2001 AND 2000
(UNAUDITED)

	Three Months Ended June 30,	
	2001	2000
OPERATING REVENUES		
Oil and gas sales	\$ 3,304,912	\$ 1,930,127
Well servicing revenues	77,934	97,251
Operating overhead and other income	73,036	96,699
Total operating revenues	3,455,882	2,124,077
OPERATING EXPENSES		
Lease operating expenses	1,159,743	746,690
Cost of well servicing operations	59,744	95,884
Depreciation, depletion and amortization	594,522	299,368
General and administrative	422,871	377,841
Total operating expenses	2,236,880	1,519,783
INCOME FROM OPERATIONS	1,219,002	604,294
OTHER INCOME AND EXPENSE		
Interest Income		15,247
Interest expense	(605,091)	(538,855)

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Gain (loss) on sale of assets	(105,974)	1,500
	-----	-----
Total other income and expense	(711,065)	(522,108)
	-----	-----
INCOME BEFORE INCOME TAXES	507,937	82,186
INCOME TAXES		
	-----	-----
NET INCOME	\$ 507,937	\$ 82,186
	=====	=====
INCOME PER COMMON SHARE - BASIC AND DILUTED	\$.03	\$.00
	=====	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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GULFWEST ENERGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000
(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation, depletion, and amortization	1
Common stock and warrants issued and charged to operations	
Loss (Gain) on sale of assets	
Other non-operating (income)	
(Increase) decrease in accounts receivable - trade, net	
(Increase) decrease in prepaid expenses	
Increase (decrease) in accounts payable and accrued expenses	

Net cash provided by operating activities	2

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of property and equipment	
Purchase of property and equipment	(2)

Net cash used in investing activities	(2)

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase in non-operating receivables	
Proceeds from subscription of common stock	
Payments on debt	(2)
Proceeds from debt issuance	3
Debt issue cost	

Net cash provided by financing activities	

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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, beginning of period

CASH AND CASH EQUIVALENTS, end of period

CASH PAID FOR INTEREST

\$
=====
\$
=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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GULFWEST ENERGY INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000 UNAUDITED)

1. During interim periods, we follow the accounting policies set forth in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. Users of financial information produced for interim periods are encouraged to refer to the footnotes contained in the Annual Report when reviewing interim financial results.

2. The accompanying financial statements include the Company and its wholly-owned subsidiaries: RigWest Well Service, Inc. formed September 5, 1996; GulfWest Texas Company formed September 23, 1996; DutchWest Oil Company formed July 28, 1997; Southeast Texas Oil and Gas Company, L.L.C. acquired September 1, 1998; SETEX Oil and Gas Company formed August 11, 1998; GulfWest Oil & Gas Company formed February 8, 1999; LTW Pipeline Co. formed April 19, 1999; and GulfWest Development Company ("GWD") formed November 9, 2000. All material intercompany transactions and balances are eliminated upon consolidation.

3. In management's opinion, the accompanying interim financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, the results of operations, and the statements of cash flows of GulfWest Energy Inc. for the interim periods.

4. Non-cash Investing and Financing

During the six month period ended June 30, 2001, we acquired \$209,549 in property and equipment through \$197,299 in notes payable to financial institutions and related parties, and by issuing 17,500 shares of common stock valued at \$12,250. Also, we sold \$440,300 in property and equipment, net of depletion and depreciation, in exchange of \$325,000 in accounts receivable. These receivables were collected on August 1, 2001.

5. We entered into an agreement with an energy lender, commencing in May 2000, to hedge a portion of our oil and gas sales for the period of May 2000 through April 2004. The agreement calls for initial volumes of 7,900 barrels of oil and 52,400 Mcf of gas per month, declining monthly thereafter. As a result of this agreement, we realized a reduction in revenues of \$1,044,349 for the six-month period ended June 30, 2001, which is included in oil and gas sales.

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6. During the second quarter of 2001, we secured a \$2,500,000 line of credit from a bank, guaranteed by two of our directors. The line of credit bears interest at the prime rate less one fourth of one percent and is due May 1, 2002. \$2,100,000 of the line was used to retire existing debt and pay down accounts payable. The remainder will be used for the development of our oil and natural gas properties.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

----- OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -----

Overview -----

We are engaged primarily in the acquisition, development, exploitation, exploration and production of crude oil and natural gas. Our focus is on increasing production from our existing crude oil and natural gas properties through the further exploitation, development and optimization of those properties, and on acquiring additional crude oil and natural gas properties. Our gross revenues are derived from the following sources:

1. Oil and gas sales that are proceeds from the sale of crude oil and natural gas production to midstream purchasers;
2. Operating overhead and other income that consists of earnings from operating crude oil and natural gas properties for other working interest owners, and marketing and transporting natural gas. This also includes earnings from other miscellaneous activities.
3. Well servicing revenues that are earnings from the operation of well servicing equipment under contract to third party operators.

Results of Operations -----

The factors which most significantly affect our results of operations are (1) the sales price of crude oil and natural gas, (2) the level of total sales volumes of crude oil and natural gas, (3) the level of and interest rates on borrowings and, (4) the level and success of new acquisitions and development of existing properties.

Comparative results of operations for the periods indicated are discussed below.

Three-Month Period Ended June 30, 2001 compared to Three Month Period Ended June 30, 2000.

Revenues

Oil and Gas Sales. Revenues from the sale of crude oil and natural gas for the quarter increased 71% from \$1,930,100 in 2000 to \$3,304,900 in 2001. This was due to increased oil and gas production as a result of our development activities, higher oil and gas prices and acquisitions of additional properties.

Well Servicing Revenues. Revenues from well servicing operations decreased

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by 20% from \$97,300 in 2000 to \$77,900 in 2001. We had greater utilization of our rigs in the development of our properties rather than working for third parties in 2001 compared to 2000.

Operating Overhead and Other Income. Revenues from these activities decreased 25% from \$96,700 in 2000 to \$73,000 in 2001.

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Costs and Expenses

Lease Operating Expenses. Lease operating expenses increased 55% from \$746,700 in 2000 to \$1,159,700 in 2001. This was primarily due to the acquisition of additional properties and increased costs related to greater oil and gas production; and, to a lesser extent, higher vendor and contractor costs, as well as additional field activity to increase production on existing and acquired properties under the favorable product price environment.

Cost of Well Servicing Operations. Well servicing expenses decreased 38% from \$95,900 in 2000 to \$59,700 in 2001. We had greater utilization of our rigs in the development of our properties rather than working for third parties in 2001 compared to 2000.

Depreciation, Depletion and Amortization (DD&A). DD&A increased 99% from \$299,400 in 2000 to \$594,500 in 2001, due to significantly higher production as a result of successful field development activities and acquisitions.

General and Administrative (G&A) Expenses. G&A expenses increased 12% for the period from \$377,800 in 2000 to \$422,900 in 2001, due to expenses associated with an increase in the number of oil and natural gas assets that we manage.

Interest Expense. Interest expense increased 12% from \$538,900 in 2000 to \$605,100 in 2001, primarily due to interest on debt associated with additional acquisitions and our capital development program.

Six-Month Period Ended June 30, 2001 compared to Six-Month Period Ended June 30, 2000.

Revenues

Oil and Gas Sales. Revenues from the sale of crude oil and natural gas for the period increased 83% from \$3,430,600 in 2000 to \$6,264,700 in 2001. This was due to increased oil and gas production from development projects, higher oil and gas prices, and acquisitions of additional properties.

Well Servicing Revenues. Revenues from well servicing operations decreased by 52% from \$171,300 in 2000 to \$82,000 in 2001. We had greater utilization of our rigs in the development of our properties rather than working for third parties in 2001 compared to 2000.

Operating Overhead and Other Income. Revenues from these activities increased 19% from \$140,700 in 2000 to \$167,000 in 2001.

Costs and Expenses

Lease Operating Expenses. Lease operating expenses increased 71% from \$1,420,600 in 2000 to \$2,431,400 in 2001, due to the acquisitions of additional properties, greater oil and gas production, and the costs related to such production.

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Cost of Well Servicing Operations. Well servicing expenses decreased 55% from \$183,300 in 2000 to \$83,400 in 2001. This was due to higher rig utilization on properties where we have 100% working interest and less on working for third parties.

Depreciation, Depletion and Amortization (DD&A). DD&A increased 117% from \$481,400 in 2000 to \$1,043,100 in 2001, due to significantly higher production resulting from successful field development activities and acquisitions.

General and Administrative (G&A) Expenses. G&A expenses increased 8% for the period from \$744,700 in 2000 to \$ 806,000 in 2001.

Interest Expense. Interest expense increased 39% from \$922,200 in 2000 to \$1,286,200 in 2001, due to debt associated with additional acquisitions and our capital development program.

Financial Condition and Capital Resources

At June 30, 2001, our current liabilities exceeded our current assets by \$6,352,800. We had a profit of \$507,900 for the quarter compared to a profit of \$82,200 for the period in 2000. The increased profit was a result of significantly increased production and higher oil and natural gas prices.

During the second quarter of 2001, we sold 71,647 barrels of crude oil and 406,288 Mcf of natural gas compared to 40,645 barrels of crude oil and 285,636 Mcf of natural gas in the second quarter of 2000. Revenue for crude oil sales for the quarter was \$1,729,700 in 2001 compared to \$1,020,100 in 2000 and for natural gas sales was \$1,575,300 in 2001 compared to \$910,000 in 2000.

On June 29, 2001, we entered into a letter of intent to purchase several oil and natural gas properties located in four fields in Texas and Louisiana. The effective date of the acquisition will be July 1, 2001 and the closing is scheduled for early August. The acquisition will result in an increase in the company's year-end 2000 proved reserves by approximately 20%, as well as provide additional acreage for development. The acquired properties are currently producing an aggregate 600 barrels of oil and 1,200 Mcf of natural gas per day, with total proved reserves (net to the acquired interests) estimated at 1.1 million barrels of oil and 5.5 billion cubic feet of natural gas. There are additional possible reserves estimated at 10 billion cubic feet of natural gas. The purchase price of the acquisition is \$14.5 million in a combination of cash and preferred stock. Financing is being arranged through an existing credit facility and will include expanding the company's current line to continue the development of its properties through the year 2002.

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PART II. OTHER INFORMATION

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

The annual meeting of shareholders was held on May 18, 2001, at which the following proposals were considered and acted upon: first, to consider the election of seven persons to the board of directors of the Company (the "Board"); second, to consider the amendment of the Company's Articles of Incorporation to change the name of the Company to "GulfWest Energy Inc.";

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third, to consider the amendment and restatement of the Company's 1994 Stock Option and Compensation Plan, with an effective date of April 1, 2001; and, last to transact such other business as may properly come before the meeting. Of the 18,445,041 outstanding shares of Common Stock, there were present, in person or by proxy, shareholders holding a total of 15,083,800 (81.8%) of the shares.

Seven candidates for director were presented by the Board: Marshall A. Smith III, Thomas R. Kaetzer, J. Virgil Waggoner, John E. Loehr, Jim C. Bigham, Anthony P. Towell, and Steven M. Morris. Of the 15,083,800 shares of Common Stock present in person or by proxy and entitled to be voted at the meeting, 15,077,465 votes were cast for each of the nominees for director of the Corporation (except for Mr. Bigham for whom 400 of those votes were withheld). All seven candidates were declared duly and validly elected members of the Board, each to serve until the next annual meeting of shareholders or until his respective successor has been elected and qualified.

Of 15,083,800 shares of Common Stock present in person or by proxy and entitled to be voted at the meeting, 15,080,600 votes were cast for approval of the amendment to change the name of the Company to "GulfWest Energy Inc." and the amendment was declared approved.

Regarding the third proposal to amend and restate the Company's 1994 Stock Option and Compensation Plan, brokers did not have discretionary voting power on the proposal and therefore only reported proxies actually received from shareholders. Of 12,188,932 shares present in person or by proxy and entitled to be voted on the proposal, 12,076,256 votes were cast for approval. The amendment and restatement of the Company's 1994 Stock Option and Compensation Plan, with an effective date of April 1, 2001, was declared approved.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits -

Number Description

*3.1 Articles of Incorporation of the Registrant and Amendments thereto.

#3.2 Amendment to the Articles of Incorporation of the Registrant changing the name of the Registrant to "GulfWest Energy Inc.", approved by the Shareholders on May 18, 2001 and filed with the Secretary of Texas on May 21, 2001.

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&3.3 Amendment to the Company's Articles of Incorporation to increase the number of shares of Class A Common Stock that the Company will have authority to issue from 20,000,000 to 40,000,000 shares, approved by the Shareholders on November 19, 1999 and filed with the Secretary of State of Texas on December 3, 1999.

*3.4 Bylaws of the Registrant.

#10.1 GulfWest Oil Company 1994 Stock Option and Compensation Plan, amended and restated as of April 1, 2001, and approved by the shareholders on May 18, 2001.

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- * Previously filed with the Registrant's Registration Statement (on Form S-1, Reg. No. 33-53526), filed with the Commission on October 21, 1992.
- # Previously filed with the Registrant's Definitive Proxy Statement, filed with the Commission on April 16, 2001.
- & Previously filed with the Registrant's Definitive Proxy Statement, filed with the Commission on October 18, 1999.

SIGNATURES

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

GULFWEST ENERGY INC.
(Registrant)

Date: August 3, 2001

By: /s/ Thomas R. Kaetzer

Thomas R. Kaetzer
President

Date: August 3, 2001

By: /s/ Jim C. Bigham

Jim C. Bigham
Executive Vice President and Secretary

Date: August 3, 2001

By: /s/ Richard L. Creel

Richard L. Creel
Vice President of Finance