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GULFWEST OIL CO
Form 10-Q
May 10, 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 March 31, 2001

OR

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

Commission file number 1-12108

GULFWEST OIL COMPANY

(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, May 10, 2001, was 18,462,541 shares of Class A Common Stock, \$.001 par value.

GULFWEST OIL COMPANY

FORM 10-Q FOR THE QUARTER ENDED
MARCH 31, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

GULFWEST OIL COMPANY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND DECEMBER 31, 2000
(UNAUDITED)

ASSETS

| | March 31, 2001 | D |
|--|-------------------|-------|
| | ----- | ----- |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 43,919 | |
| Accounts Receivable - trade, net of allowance for doubtful accounts of -0- in 2001 and 2000 | 1,723,543 | |
| Prepaid expenses | 241,769 | |
| | ----- | |
| Total current assets | 2,009,231 | |
| | ----- | |
| OIL AND GAS PROPERTIES, using the successful efforts method of accounting | 32,653,372 | |
| OTHER PROPERTY AND EQUIPMENT | 2,205,161 | |
| Less accumulated depreciation, depletion, and amortization | (4,456,267) | |
| | ----- | |
| Net oil and gas properties and other property and equipment | 30,402,266 | |

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| | | | |
|--------------------|----|------------|-------|
| OTHER ASSETS | | | |
| Deposits | | 27,638 | |
| Investments | | - | |
| Debt issue cost | | 451,086 | |
| | | ----- | |
| Total other assets | | 478,724 | |
| | | ----- | |
| TOTAL ASSETS | \$ | 32,890,221 | \$ |
| | | ===== | ===== |

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

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GULFWEST OIL COMPANY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND DECEMBER 31, 2000
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | |
|---|----|-------------------|--|
| | | March 31, 2001 | |
| | | ----- | |
| CURRENT LIABILITIES | | | |
| Notes payable | \$ | 840,300 | |
| Notes payable - related parties | | 700,000 | |
| Current portion of long-term debt | | 2,601,749 | |
| Current portion of long-term debt - related parties | | 228,763 | |
| Accounts payable - trade | | 2,951,054 | |
| Accrued expenses | | 450,123 | |
| | | ----- | |
| Total current liabilities | | 7,771,989 | |
| | | ----- | |
| LONG-TERM DEBT, net of current portion | | 17,876,110 | |
| | | ----- | |
| LONG-TERM DEBT, RELATED PARTIES | | 293,338 | |
| | | ----- | |
| COMMITMENTS AND CONTINGENCIES | | | |
| STOCKHOLDERS' EQUITY | | | |
| Preferred stock | | 80 | |
| Common stock | | 18,445 | |
| Additional paid-in capital | | 23,537,900 | |
| Retained deficit | | (16,607,641) | |
| Long-term accounts and notes receivable - related parties, net of allowance for doubtful accounts of \$740,478 in 2001 | | | |

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and 2000

| | |
|--|---------------|
| Total stockholders' equity | 6,948,784 |
| <hr/> | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 32,890,221 |
| <hr/> | |

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

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GULFWEST OIL COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

| | 2001 |
|---|--------------|
| | <hr/> |
| OPERATING REVENUES | |
| Oil and gas sales | \$ 2,959,753 |
| Well servicing revenues | 4,030 |
| Operating overhead and other income | 93,956 |
| | <hr/> |
| Total operating revenues | 3,057,739 |
| | <hr/> |
| OPERATING EXPENSES | |
| Lease operating expenses | 1,271,683 |
| Cost of well servicing operations | 23,612 |
| Depreciation, depletion and amortization | 448,551 |
| General and administrative | 383,109 |
| | <hr/> |
| Total operating expenses | 2,126,955 |
| | <hr/> |
| INCOME FROM OPERATIONS | 930,784 |
| | <hr/> |
| OTHER INCOME AND EXPENSE | |
| Interest expense | (681,117) |
| Gain (loss) on sale of assets | (2,654) |
| | <hr/> |
| Total other income and expense | (683,771) |
| | <hr/> |
| INCOME (LOSS) BEFORE INCOME TAXES | 247,013 |
| | <hr/> |
| INCOME TAXES | - |
| | <hr/> |
| NET INCOME (LOSS) | 247,013 |
| | <hr/> |
| DIVIDENDS ON PREFERRED STOCK (PAID 2001 - \$-0-; 2000 - \$4,691) | - |

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| | |
|--|---------|
| NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS | 247,013 |
| | ===== |
| | ===== |
| INCOME (LOSS) PER COMMON SHARE - BASIC AND DILUTED | \$.01 |
| | ===== |
| | ===== |

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

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GULFWEST OIL COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

| | 2001 |
|---|-------------|
| | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net income (loss) | \$ 247,013 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | |
| Depreciation, depletion, and amortization | 448,551 |
| Common stock and warrants issued and charged to operations | |
| (Gain) loss on sale of assets | 2,654 |
| (Increase) decrease in accounts receivable - trade, net | 435,147 |
| (Increase) decrease in prepaid expenses | (158,418) |
| Increase (decrease) in accounts payable and accrued expenses | 855,907 |
| | ----- |
| Cash provided by operating activities | 1,830,854 |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Proceeds from sale of property and equipment | 21,423 |
| Purchase of property and equipment | (1,682,125) |
| | ----- |
| Net cash used in investing activities | (1,660,702) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Payments on debt | (1,014,126) |
| Proceeds from debt issuance | 230,000 |
| Debt issue cost | (5,139) |
| | ----- |
| Net cash provided (used) by financing activities | (789,265) |
| | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (619,113) |
| CASH AND CASH EQUIVALENTS, beginning of period | 663,032 |
| | ----- |
| CASH AND CASH EQUIVALENTS, end of period | \$ 43,919 |
| | ===== |
| | ===== |

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CASH PAID FOR INTEREST

\$ 729,483
=====

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

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GULFWEST OIL COMPANY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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., formerly VanCo 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 Oil Company for the interim periods.

4. Non-cash Investing and Financing

During the three month period ended March 31, 2001, we acquired \$197,299 of other property and equipment through notes payable to financial institutions and related parties.

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 \$726,077 for the three-month period ended March 31, 2001, which is included in oil and gas sales.

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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,

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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 March 31, 2001 compared to Three Month Period Ended March 31, 2000.

Revenues

Oil and Gas Sales. Revenues from the sale of crude oil and natural gas for the first quarter increased 97% from \$1,500,400 in 2000 to \$2,959,800 in 2001. This was due to increased oil and gas production, higher oil and gas prices and acquisitions of additional properties.

Well Servicing Revenues. Revenues from well servicing operations decreased 95% from \$74,000 in 2000 to \$4,000 in 2001. In 2001, we primarily used our rigs to develop the properties that we operate and did significantly less work for third parties than in 2000.

Operating Overhead and Other Income. Revenues from these activities increased 114% from \$44,000 in 2000 to \$94,000 in 2001. This was due to an increase in Other Income from natural gas gathering and marketing fees.

Costs and Expenses

Lease Operating Expenses. Lease operating expenses increased 89% from \$673,900 in 2000 to \$1,271,700 in 2001. This was primarily due to the acquisition of additional properties and increased costs related to 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 73% from \$87,400 in 2000 to \$23,600 in 2001. In 2001, we primarily used our rigs to develop the properties that we operate and did significantly less work for third

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parties than in 2000.

Depreciation, Depletion and Amortization (DD&A). DD&A increased 146% from \$182,100 in 2000 to \$448,600 in 2001, due to significantly higher production as a result of successful field development activities and acquisitions.

General and Administrative (G&A) Expenses. Our G&A expenses increased 4% from \$366,800 in 2000 to \$383,100 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 78% from \$383,400 in 2000 to \$680,700 in 2001, primarily due to interest on debt associated with additional acquisitions and our capital development program.

Financial Condition and Capital Resources

At March 31, 2001, our current liabilities exceeded our current assets by \$5,762,758. We had a profit of \$247,000 for the quarter compared to a loss of \$70,300 for the period in 2000. The increased profit was a result of significantly increased production and higher oil and natural gas prices.

During the first quarter of 2001, we sold 53,176 barrels of crude oil and 318,082 Mcf of natural gas compared to 35,262 barrels of crude oil and 210,851 Mcf of natural gas in the first quarter of 2000. Revenue for crude oil sales for the quarter was \$1,284,200 in 2001 compared to \$924,800 in 2000 and for natural gas sales was \$1,675,600 in 2001 compared to \$575,600 in 2000.

During the first quarter of 2001, we received a distribution of oil and natural gas properties from a partnership in which we had invested. The value of the distributed assets was \$152,516, which included \$29,731 in receivables due us from the partnership.

In a subsequent event on April 26, 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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PART II. OTHER INFORMATION

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

No matter was submitted to a vote of our security holders during the first quarter.

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

(a) Exhibits -

Number Description

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

*3.2 Bylaws of the Registrant.

#10.1 GulfWest Oil Company 1994 Stock Option and Compensation Plan,
amended and restated as of April 15, 1998 and approved by the
shareholders on May 28,1998.

* Previously filed with the Company's Registration Statement (on Form
S-1, Reg. No. 33-53526), filed with the Commission on October 21,
1992.

Previously filed with the Company's Definitive Proxy Statement
dated April 24, 1998, filed with the Commission on April 24, 1998.

(b) Form 8-K - None.

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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 OIL COMPANY
(Registrant)

Date: May 10, 2001

By: /s/ Thomas R. Kaetzer

Thomas R. Kaetzer
President

Date: May 10, 2001

By: /s/ Jim C. Bigham

Jim C. Bigham
Executive Vice President and Secretary

Date: May 10, 2001

By: /s/ Richard L. Creel

Richard L. Creel
Vice President of Finance