

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-03-31**
SEC Accession No. **0000921182-96-000004**

([HTML Version](#) on secdatabase.com)

FILER

EMPIRIC ENERGY INC

CIK: **921182** | IRS No.: **752455467** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **033-77120** | Film No.: **00000000**
SIC: **1382** Oil & gas field exploration services

Business Address
10300 N CENTRAL
EXPRESSWAY
MEADOW PARK CENTRAL V
STE 426
DALLAS TX 75231
2142658392

ITEM 1. FINANCIAL STATEMENTS

BALANCE SHEETS

ASSETS

	December 31,		March 31, (unaudited)	
	1995	1994	1996	1995
Current assets				
Cash	\$3,198	\$2,554	\$3,811	\$780
Note receivable-Texoil (Note 3)	31,000	-	42,250	-
Total current assets	34,198	2,554	46,061	780
Oil and gas properties, using full cost accounting (Note 3, 4, and 6)				
Properties being amortized	3,601,294	3,244,543	3,601,294	3,244,543
Properties not being amortized (Note 4)	65,000	260,802	85,146	373,885
	3,666,294	3,505,345	3,686,440	3,618,428
Less accumulated depreciation, depletion, amortization and impairment	1,081,871	984,086	1,107,192	992,873
Net oil and gas properties	2,584,423	2,521,259	2,579,248	2,625,555
Other assets				
Costs of public offering	-	-	-	42,061
Other property and equipment, at cost, less accumulated depreciation	8,267	9,921	7,234	8,267
Other	6,213	19,293	5,518	18,598
Total other assets	14,480	29,214	12,751	68,926
Total Assets	\$2,633,101	\$2,553,027	\$2,638,061	\$2,695,261

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,		March 31, (unaudited)	
	1995	1994	1996	1995
Current liabilities				
Current portion of long-term debt (Note 5)	\$ -	\$ -	\$ -	\$ -
Accounts payable	253,037	327,473	293,991	383,699
Due to stockholders	22,628	-	29,178	-
N/P Texas Central Bank (Note 7)	75,000	-	75,000	100,000

N/P Lyon Operating Co. (Note 3)	35,000	-	35,000	-
Total current liabilities	385,664	327,473	433,169	483,699
Long-term debt				
Senior Secured N/P (Note 2 and 6)	267,520	-	267,520	-
Total liabilities	653,184	327,473	700,688	483,699
Stockholders' equity				
Preferred stock, \$0.05 par value; authorized 2,000,000 shares; none issued	-	-	-	-
Common stock, \$0.01 par value; authorized 20,000,000 shares; issued 4,055,500 shares (Note 11)	40,555	38,105	40,555	38,105
Additional paid-in capital	3,508,043	3,510,494	3,508,043	3,510,493
Retained deficits	(1,568,681)	(1,323,044)	(1,611,225)	(1,337,036)
Total stockholders' equity	1,979,918	2,225,554	1,937,372	2,211,561
Total liabilities and stockholders' equity	\$2,633,101	\$2,553,027	\$2,638,061	\$2,695,260

STATEMENT OF OPERATIONS

	Period Ended		Three Months Ended	
	December 31,		March 31 (unaudited)	
	1995	1994	1996	1995
Revenues				
Oil and gas sales	\$ 85,282	\$138,012	\$ 20,567	\$ 33,048
Total revenues	85,282	138,012	20,567	33,048
Expenses				
Production	58,472	80,583	14,544	16,456
Depreciation, depletion, and amortization	97,785	49,733	25,321	8,787
Full cost ceiling adjustment (Note 1)	-	830,969	-	-
Interest (Note 1 and 6)	-	51,516	7,688	-
General and administrative	212,412	124,140	26,808	21,796
Total expenses	368,669	1,136,942	74,363	47,040
Other Income				
Dividend income	33,750	-	11,250	-
Interest income	4,000	-	-	-
Total other income	37,750	-	11,250	-
Loss before provision				

for income taxes	(245,636)	(998,929)	(42,545)	(13,991)
Provision for income taxes (Note 8)	-	-	-	-
NET LOSS	\$ (245,636)	\$ (998,929)	\$ (42,545)	\$ (13,991)
Primary earnings per share (Note 1)	\$ (0.06)	\$ (0.25)	\$ (0.01)	\$ (0.00)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Period Ended December 31,		Three Months Ended March 31 (unaudited)	
	1995	1994	1996	1995
COMMON STOCK				
Balance at beginning of year	\$ 38,105	\$ 60,325	\$ 40,555	\$ 38,105
Par value of shares issued				
TexOil transaction	2,250	-	-	-
Lyon Operating transaction	200	-	-	-
Reverse stock split-1 for 2 3,016,240 shares	-	(30,162)	-	-
Conversion of Notes	-	7,942	-	-
Balance at end of year	40,555	38,105	40,555	38,105
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of year	3,510,494	1,554,684	3,508,044	3,510,494
Reverse stock split-1 for 2 3,016,240 shares	-	30,162	-	-
Issuance of stock for:				
TexOil transaction	(2,250)	-	-	-
Lyon Operating transaction	(200)	-	-	-
Conversion of Notes	-	1,925,647	-	-
Balance at end of year	3,508,044	3,510,494	3,508,044	3,510,495
RETAINED DEFICITS				
Balance at beginning of year	(1,323,044)	(324,115)	(1,568,680)	(1,323,044)
Loss for the year	(245,636)	(998,929)	(42,545)	(13,992)
Balance at end of year	(1,568,680)	(1,323,044)	(1,611,225)	(1,337,036)

STATEMENTS OF CASH FLOWS

	Period Ended December 31,		Three Months Ended March 31 (unaudited)	
	1995	1994	1996	1995

Cash flows from operating activities				
Net loss	\$ (245,637)	\$ (998,929)	\$ (42,545)	\$ (13,992)
Adjustments to reconcile net loss to net cash provided by operating activities				
DD&A	97,785	38,317	25,321	8,787
Depreciation and amortization				
(Increase) decrease in:				
Accounts receivable-trade	-	118,172	-	-
Prepaid expenses	-	-	-	-
Other assets	10,298	(9,602)	-	(43,453)
Increase (decrease) in:				
Accounts payable and accrued expenses	(51,809)	(79,030)	40,954	56,226
Net cash provided by operating activities	(184,927)	(924,026)	25,458	14,614
Cash flows from investing activities				
Loan made	(31,000)	-	(12,250)	-
Capital expenditures	(410,949)	336,554	(20,146)	(116,389)
Net cash used by investing activities	(441,949)	336,554	(32,396)	(116,389)
Cash flows from financing activities				
Short-term notes payable	110,000	-	7,551	100,000
Proceeds from issuance of convertible senior notes	267,520	(1,384,991)	-	-
Proceeds from issuance of common stock	-	1,933,590	-	-
Proceeds from sale of oil and gas properties	250,000	-	-	-
Net cash provided by investing activities	627,520	548,599	7,551	100,000
Net increase in cash and cash equivalents				
	644	(38,873)	613	(1,775)
Cash and cash equivalents, at beginning of period				
	2,554	41,428	3,198	2,554
Cash and cash equivalents, at end of period				
	\$ 3,198	\$ 2,555	\$ 3,811	\$ 779

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NAME CHANGE

On January 22, 1993, the Board of Directors voted to change the name of the Company from Emperic Energy, Inc. to Empiric Energy, Inc.

OIL AND GAS PROPERTIES

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicates that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, the capitalized costs are subject to a "ceiling test", which basically limits such costs to the aggregate of the "estimated present value", discounted at a 10-percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

CAPITALIZED INTEREST

The Company capitalizes interest (\$8,126 in 1995 and \$29,577 in 1994, respectively) on expenditures made in connection with development projects that are not subject to current amortization. Interest is capitalized only for the period that activities are in progress to bring these projects to their intended use.

AMORTIZATION

Amortization of origination costs is calculated on the straight-line method over five years.

CASH FLOWS PRESENTATION

For purposes of the statement of cash flows management considers time deposits with original maturities of ninety days or less to be cash.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Maintenance and repair expenses and renewals and betterments which do not enhance the value or increase the basic productive capacity of the assets are charged to expense as incurred. Depreciation is being provided on the straight-line, declining

balance, and accelerated methods over the lives of the assets for tax reporting purposes.

Estimated useful lives are as follows:

Office furniture and equipment	5-7 years
--------------------------------	-----------

Depreciation expense for the year ended December 31, 1995, totaled \$1,653, and \$6,614 for the year ended December 31, 1994.

EARNINGS PER SHARE

Primary earnings per share amounts are computed based on the weighted average number of shares actually outstanding. The number of shares used in the computations were 3,933,019 in 1995 and 3,734,186 in 1994. Fully diluted earnings per share amounts are not presented because they are not materially dilutive.

NOTE 2 - RELATED PARTY TRANSACTIONS

Hill Investors, Inc. ("Hill"), an affiliate of Mr. Ling, has entered into a three year management consulting agreement with the Company whereby Hill provides certain management consulting services, receiving therefor a monthly fee of \$7,500. In the event of the death or disability of Mr. Ling or a reorganization of the Company occurs during the term of the agreement, the agreement shall automatically terminate (in the case of Mr. Ling's death or disability) or, in the case of a reorganization, the agreement may be terminated at Mr. Ling's option. Upon any such termination for the foregoing reasons such payments shall continue for a period of 36 months from the date of such termination. Mr. Ling presently devotes the majority of his working time and efforts to the business and affairs of the Company and expects to continue doing so for the foreseeable future. Under the terms of the agreement the Company is obligated to provide to Hill suitable office facilities and to reimburse it for expenses incurred in connection with Hill's or Mr. Ling's services to the Company including without limitation, the cost of providing an automobile and health and life insurance for Mr. Ling. Pursuant to the agreement, Hill is obligated to certain covenants of confidentiality and non-competition and is entitled to receive the benefits of indemnification against damages and cost of defense of litigation or claims resulting from certain acts in the course of performance of its or Mr. Ling's management duties as provided for in the Company's by-laws. Hill provided consulting services at a cost of \$60,000 in 1995, and \$82,850 in 1994.

Contemporaneously with the formation of the Company in October, 1992, Hill was issued 1,750,000 shares of the Company's common stock (the "Shares") in consideration for Hill's: (i) assignment to the Company of its working interest in the Smith Well in Holmes County, Mississippi; (ii) causing other unaffiliated persons who owned substantially all of the remaining working interest in the Smith Well to assign their interests in the well to the Company in consideration for Hill's transfer to them of a total of 236,422 of the Shares; and (iii) making available to the Company the opportunity to enter into the farmout agreement which had been negotiated

by Hill with Richmond Petroleum, under which the Company subsequently earned its interest in the Richmond acreage. Of the Shares assigned by Hill to owners of interests in the Smith Well, 29,400 shares were transferred to Clyde Skeen Business Consultants, Inc., the majority of the stock of which is owned by Clyde E. Skeen, Secretary, Treasurer and a Director of the Company. Additionally, for services rendered in the formation of the Company, Hill assigned to three persons a total of 87,500 of the Shares, including 50,000 shares to Clyde Skeen Business Consultants, Inc. Clyde Skeen Business Consultants, Inc. provided consulting services at a cost of \$21,000 in 1995, and \$36,000 in 1994.

As a result of the Texoil transaction described in Note 3 below the Company now owns approximately 23 percent of Texoil Energy Limited's common stock and 100 percent of the 6% preferred stock. If the 6% preferred stock were converted into Texoil Energy Limited's common stock, Empiric would own approximately 34 percent of Texoil's outstanding common stock. The Company has no plans to convert the preferred stock into common stock. In addition, the President of the Company is now a director of Texoil Energy Limited.

As explained in Note 6 below, on December 31, 1995, senior secured notes totaling \$267,520, were issued to two stockholders.

NOTE 3 - ACQUISITION AND SALE OF OIL AND GAS PROPERTIES

In 1992 the Company acquired undivided interests in a producing well located in Mississippi. Current production from this well is being retained by the operator of the well to offset costs it incurred in a major reworking program. Upon receipt of full payment and satisfaction of this obligation, future revenue will revert to Empiric Energy, Inc. This property has been recorded at its fair market value of \$1.6 million. This value was based on the discounted value of estimated reserves of the property less a provision for all claims and encumbrances which may be assessed against the property as estimated by management. The estimated reserves were determined in an independent appraisal by outside professional engineers. In exchange for this property and other valuable assets, including the opportunity to acquire the working interests in the Panhandle properties and for obtaining the initial financing to form the company, 1.75 million shares of stock and \$125,000 in convertible senior notes were issued.

In 1993 the Company acquired an additional 28.5% undivided interest in property in the Texas Panhandle. This additional interest was acquired for the assumption of the debts of the former operator (balances still owed to these vendors are included in vendors payable on the balance sheet) and included a substantial amount of supplies. The amount of the debts assumed plus other expenditures related to the transaction totaled approximately \$450,000. Part of this additional interest in the property was sold shortly thereafter for \$450,000. The supplies were used on the Company's projects in the Panhandle.

Also in 1993 the Company acquired a lease on the property

known as the "Brent Ranch" for \$100,000. This transaction is discussed further in Note 9.

Pursuant to an agreement dated March 23, 1995, between the Company and Texoil Energy, Ltd. (Texoil), a Canadian corporation, Texoil acquired one-half of the Company's interest in approximately 9,300 acres of oil and casinghead gas leases in Moore and Potter Counties, Texas, including the 7,000 acres on the Brent Ranch, and 225,000 shares of the Company's Common Stock. In consideration, the Company received \$128,750 cash and a \$121,250 note due in August, 1995, 1,000,000 shares of Texoil Common stock and \$750,000 principal amount of 6% preferred stock, convertible into 750,000 shares of Texoil Common Stock (offsetting for this transaction went to work in process). Under the terms of the agreement, Texoil is required to drill nine wells on the Brent Ranch and four wells on the Richmond acreage at a total estimated cost of approximately \$2,000,000. The proceeds of the \$121,250 note and the proceeds of the private placement will be used to fund the Company's obligations under the Texoil Agreement. Texoil will pay two-thirds of the drilling and testing costs and will share the completion costs equally with the Company. No work is presently being conducted under this agreement due to pending litigation which is discussed in Note 9.

On December 21, 1995, the Company entered into an agreement with Lyon Operating Co., Inc. for the purchase of an undivided 72% of the leasehold or working interest in approximately 1,223 acres of land situated in Clay and Jack Counties, Texas. For this interest the Company paid \$30,000 cash, a promissory note for \$35,000 with interest at eight percent (8%) payable on or before March 21, 1996, and 20,000 shares of the Company's stock.

NOTE 4 - OIL AND GAS PROPERTIES NOT SUBJECT TO
AMORTIZATION

The Company is currently participating in oil and gas development activities in the Texas Panhandle. A determination will not be made about the extent of additional reserves that should be classified as proved reserves as a result of this project until its completion. Consequently, the associated property and development costs have been excluded in computing amortization of the full cost pool. The company will begin to amortize these costs when the project is completed. Costs excluded from amortization consists of the following:

Year Incurred	Acquisition Costs	Property Sale	Development Costs	Capitalized Interest	Total
1995	\$65,000	\$ -	\$ -	\$ -	\$65,000

NOTE 5 - CURRENT PORTION OF LONG-TERM DEBT

This item consisted of 8% convertible senior notes payable which were converted to common stock in 1994.

NOTE 6 - LONG TERM DEBT

On December 31, 1995, the Company issued \$267,520, in senior secured notes bearing interest at 8%, payable each six (6) months. The full amount of the principal is due thirty-six (36) months from that date. The notes were issued to two stockholders of the Company.

At December 31, 1993, the Company had issued \$1,384,991 in convertible senior notes payable. However, since the principal of these notes was payable in three equal quarterly payments beginning April 15, 1994 and ending October 15, 1994 they were carried in "current portion of long-term debt" on the December 31, 1993, statements (see Note 5). Interest on the unpaid principal balance was accrued at the rate of 8% per annum and was paid quarterly. These notes were secured by a Deed of Trust covering all rights, titles, and interests of the Company in the Mississippi and certain Texas properties. These notes were convertible, at the holder's option, into common shares of the Company at the Conversion Price of \$2.00 in principal amount for each share of stock. These notes were converted into common stock in 1994.

No interest was paid on these notes in 1995. Interest expense for the period ended December 31, 1994, totaled \$81,093, of which \$29,577 was capitalized.

NOTE 7 - SHORT-TERM NOTES PAYABLE

This note bears interest at 12%, matures on April 30, 1996, and is secured by all of the assets of the company.

NOTE 8 - INCOME TAXES

The Company has a deferred tax asset of \$2,176,145 which they have elected to offset with a valuation reserve of the same amount. Therefore, there is no effect on the Company's books. The net operating loss carry forward available to reduce future taxable income will expire for financial and tax purposes as follows:

	Financial	Tax
December 31, 2007	\$ 37,661	\$ 505,161
December 31, 2008	286,454	823,485
December 31, 2009	998,929	627,142
December 31, 2010	245,636	220,357
	\$1,568,680	\$2,176,145

NOTE 9 - LEGAL PROCEEDINGS

The lessors of the Brent Ranch filed a lawsuit in the District

Court of Moore County, Texas, on July 19, 1995, against Empiric Energy, Inc. for damages and termination of the Oil and Casinghead Gas Lease between the parties dated October 7, 1993, as amended. Plaintiffs allege that the Company breached the terms of the lease by: (i) failing to plug and abandon six wells on the lease drilled by others; (ii) failing to pay liquidated damage payments by July 15, 1995, for four wells that were required to be drilled by June 22, 1995, but were not drilled; (iii) breach of implied covenants and expressed covenants in the lease to reasonably develop the lease; and, (iv) failing to make minimum royalty payments due under the lease. Plaintiffs seek damages, termination of the lease, court costs, attorney's fees, and interest.

The Company received service of process on July 25, 1995, and, based on initial discussions with counsel, believes that the activities undertaken by it, or on its behalf by the operator, with respect to the four wells, including staking the drillsite, signing a drilling contract, obtaining permits from the Texas Railroad Commission, contracting for surface preparation, completion of geological studies and other activities intended in good faith to result in completion of drilling these wells constitutes commencement of drilling as required by the lease. Management intends to vigorously defend the lawsuit. With respect to the claim for damages for failure to plug and abandon the six wells, Management believes that any damages would be minimal. The contractor who has agreed to plug the wells has been paid and is scheduled to complete the work by August 30, 1995. As a safeguard, the Company has a bid from a second contractor to plug the wells at a cost of \$21,000. In either case, the Company is entitled to the usable equipment recovered from the wells.

On September 8, 1995, the Plaintiffs filed a motion seeking partial summary judgment on only the alleged breach of contract issues, i.e., liability and damages resulting from the Company's alleged failure to commence the four required wells, to plug the six inactive wells drilled by others, and to remove surface equipment and debris from portions of the property by certain specified agreed dates. The Company responded to such motion alleging that its activities prior to the agreed deadline date were sufficient to constitute commencement of the wells. Additionally, the Company challenged the amount of damages asserted by the Plaintiffs for alleged failure to plug the inactive wells and the alleged extent of, and asserted damages resulting from, failure to perform the clean-up work.

On October 31, 1995, the Court determined that the Company failed to commence the four required wells by the stated deadline, and, as a result, the Company is liable to the lessors in the amount of \$200,000. The Court further determined that the Company failed to plug the six inactive wells, although the amount of damages resulting from such failure (\$66,000 asserted by the Plaintiffs, and inconsequential as asserted by the Company) are to be determined on trial of the case on its merits. The Court further decided that Plaintiffs are entitled to reasonable attorneys' fees from the suit, the amount of which will be determined at trial. Finally, the Court refused to find the Company liable for any clean-up work other than with regard to the six inactive wells.

The Company intends to appeal the Court's granting of \$200,000 damages for alleged failure to timely commence the four wells.

On February 1, 1996, the Company executed a Compromise and Settlement Agreement which is being circulated for signature by the numerous Plaintiffs. It is scheduled for closing on February 29, 1996, but it cannot be determined whether it will be closed on that time, or under the terms in the agreement. The major terms of the agreement are: the Company will release all interests in the Brent Ranch; the Company will pay \$25,000 cash at Closing; the Company will complete plugging and site clean-up of the six "Inactive Wells" drilled by others; and the suit will be dismissed and mutual global releases will be signed.

NOTE 10 - OIL AND GAS DATA

The following tables provide additional information about the Company's oil and gas development and production activities.

CAPITALIZED COSTS

Following is a summary of costs incurred in oil and gas property acquisition and development activities:

	1995	1994
Unproved Properties		
Acquisitions - Texas	\$130,000	\$ 62,500
Development	144,823	96,302
Proved Properties		
Acquisitions	-	-
Development Costs-Texas	-	348,683
Total capitalized costs	\$274,823	\$507,485

RESULTS OF OPERATIONS

Following is a summary of oil and gas producing activities for the year ended December 31, 1995:

	Mississippi	Texas	Total
Oil and gas sales	\$ -	\$ 85,282	\$ 85,282
Production costs	-	(58,472)	(58,472)
Depreciation, depletion, and amortization	-	(97,785)	(97,785)
Income tax expense	-	-	-
Results of operations for oil and gas producing activities (excluding corporate overhead and	\$ -	\$ (70,975)	\$ (70,975)

financing costs)

Following is a summary of oil and gas producing activities for the year ended December 31, 1994:

	Mississippi	Texas	Total
Oil and gas sales	\$ -	\$ 138,012	\$ 138,012
Production costs	-	(80,583)	(80,583)
Depreciation, depletion, and amortization	-	(49,733)	(49,733)
Income tax expense	-	7,696	7,696
Results of operations for oil and gas producing activities (excluding corporate overhead and financing costs)	\$ -	\$ 7,696	\$ 7,696

NOTE: There was no production on the Mississippi property in 1994, or 1995, and no production is expected until 1997.

RESERVE INFORMATION (UNAUDITED)

The following estimates of proved and proved developed reserve quantities and related standardized measure of discounted net cash flow are estimates only, and do not purport to reflect realizable values or fair market values of the Company's reserves. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. All of the Company's reserves are located in the United States.

Proved reserves are estimated reserves of crude oil (including condensate and natural gas liquids) and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment, and operating methods.

The standardized measure of discounted future net cash flows is computed by applying year-end prices of oil and gas (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses (based on year-end statutory tax rates, with consideration of future tax rates already legislated) to be incurred on pretax net cash flows less tax basis of properties and available credits, and assuming continuation of existing economic conditions. The estimated future net cash flows are then discounted using a rate of 10 percent a year to reflect the estimated timing of the future cash flows.

RESERVE QUANTITY INFORMATION (UNAUDITED)

The following table is a summary of the reserve quantity information (oil reserves are stated in barrels and gas reserves are stated in thousand cubic feet):

	1995	1994	Change
Proved reserves - Oil (Barrels)			
Texas - Developed	7,014	25,960	(18,946)
Undeveloped	141,806	160,993	(19,187)
Texas total	148,820	186,953	(38,133)
Mississippi - Developed	91,722	91,722	-
Total proved reserves - Oil (Barrels)	240,542	278,675	(38,133)
Proved reserves - Gas (MCF)			
Texas - Developed	15,448	58,211	(42,763)
Undeveloped	356,363	403,219	(46,856)
Texas total	371,811	461,430	(89,619)
Mississippi - Developed	2,620,649	2,620,649	-
Total proved reserves - Gas (Mcf)	2,992,460	3,082,079	(89,619)

The decrease in the oil reserves in Texas during 1995 consists of production of 16,257 (Barrels) and a revision of previous estimate of (21,876) (Barrels) for a net decrease in oil reserves of 38,133 (Barrels). The decrease in the gas reserves in Texas during 1995 consists of production of 49,260 (MCF) and a revision of previous estimates of (40,359) (MCF) for a net decrease in gas reserves of 89,619 (MCF).

There was no change in the oil or gas reserves in Mississippi for 1995.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET
CASH FLOWS (UNAUDITED)

	Amount	Discounted at 10%
Texas - Developed		
Future cash inflows - Oil	\$ 113,974	
Gas	21,164	
	135,137	
Less future cash outflows	105,240	
Net future cash inflows	29,897	\$ 28,206
Texas - Undeveloped		
Future cash inflows - Oil	2,304,350	
Gas	488,217	
	2,792,568	

Less future cash outflows	1,943,430	
Net future net cash inflows	849,138	477,376
Mississippi - Developed		
Future cash inflows - Oil	1,513,414	
Gas	2,358,585	
	3,871,999	
Less future cash outflows	419,274	
Net future cash inflows	3,452,725	2,233,415
	4,331,760	2,738,997
*Less estimated income taxes	-	-
Total net future cash inflows	\$4,331,760	\$2,738,997

*No income tax is anticipated because of offsetting net operating losses.

NOTE 11 - REVERSE STOCK SPLIT

On March 24, 1994, the Board of Directors authorized a 1-for-2 reverse stock split of common stock to stockholders of record on March 24, 1994. Per-share amounts in the accompanying financial statements have been adjusted for the split.

NOTE 12 - EVENT SUBSEQUENT TO THE DATE OF THE REPORT OF INDEPENDENT AUDITOR (unaudited)

Taureaux Agreement

The Company has signed an agreement with Taureaux Corporation to purchase a 20 percent net revenue interest in 198.5 acres in Jack County, Texas, for \$70,000. The transaction will be recorded on the Company's books by decreasing cash and increasing oil and gas properties.

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

OVERVIEW - HISTORY THE COMPANY

The Company is an independent oil and gas exploration and production company operating primarily in the Panhandle Field, which extends from West Texas through Central Oklahoma into Western Kansas. During 1992 and 1993, the Company participated in a 20 well drilling program on leases in Moore and Potter Counties, north of Amarillo, Texas resulting in wells producing from the Red Cave Sandstone Formation. As a result, the Company earned a 41.5 percent working interest in approximately 26,755 gross acres covered by oil and casinghead gas leases (the "Richmond acreage").

In December 1995, the Company acquired 72 percent working

interest in a 1240 acre tract in Clay and Jack Counties, Texas, on which there is one producing oil well and eleven non-producing wells. The Company intends to enhance production of the producing well by rework or repair and to re-establish production on the shut-in wells. In February 1996, the Company also acquired from the same operator 20 percent net revenue interest in 198.5 acres in Jack County, Texas, which contains two wells, one of which has been drilled to 8700 feet and is awaiting completion and one which produces minimal gas at a shallower level. The Company intends to complete the 8700 foot well awaiting completion and to drill to a lower level the producing well to search for oil.

In October 1993, the Company acquired a 100 percent working interest in approximately 7,000 gross acres on leases on the Brent Ranch, adjacent to the Richmond acreage. In October 1994 and June 1995, the Company drilled three wells on the Brent Ranch which were determined to be non-commercial. Under the terms of the lease, the Company was required to drill four additional wells by June 22, 1995 and five additional wells by October 1995 and to plug and abandon six inactive wells on the leases which had been drilled by other parties. The lessors of the Brent Ranch filed a lawsuit in July 1995 against the Company for damages, termination of the lease, costs and attorneys' fees, alleging, among other things, failure to timely drill the four wells required to be drilled by June 22, 1995. Pursuant to a partial summary judgment proceeding in October 1995, the Court determined that the Company was liable to the lessors for \$200,000 for liquidated damages, costs and attorneys' fees. The Company and the lessors settled the matter in February 1996 upon the following terms: The Company released all of its interest in the Brent Ranch leases, paid \$25,000 in cash and agreed to complete plugging and clean-up of the six inactive wells drilled by others. The Company was released from its obligation to drill eight additional wells on the Brent Ranch lease and has the right for 60 days to sell the last well drilled to a third-party who has the gas rights and keep the sale proceeds.

The Company plans to develop its existing acreage as funds become available or through farmout arrangements with other oil and gas operators.

The Company is actively seeking the acquisition of producing oil and gas leases directly or through the acquisition of and/or business combinations with other energy companies. The Company has completed or is in the process of completing the transactions described below.

TEXOIL AGREEMENT

Pursuant to an agreement dated March 23, 1995 between the Company and Texoil Energy, Ltd. ("Texoil"), a Canadian corporation, Texoil acquired one-half of the Company's interest in approximately 9,300 acres of oil and casinghead gas leases in Moore and Potter Counties, Texas, including the 7,000 acres on the Brent Ranch and 225,000 shares of the Company's Common Stock. In consideration therefor, the Company received \$128,750 cash and a \$121,250 note due in July 1995, 1,000,000 shares of

Texoil Common Stock and \$750,000 principal amount of 6% preferred stock (the "6% Preferred Stock"), convertible into 750,000 shares of Texoil Common Stock. Under the terms of the agreement, Texoil was required to fulfill the Company's obligation to drill nine wells on the Brent Ranch and four wells on the Richmond acreage. The proceeds of the \$121,250 note were used to partially fund the Company's obligations under the Texoil Agreement. Texoil paid two-thirds of the drilling and testing costs and shared the completion costs equally with Empiric on the two wells drilled on the Brent Ranch in 1995. Empiric retained 50 percent of its working interest in the leases and any production therefrom. These leases have been canceled as a part of the overall settlement with the Brent Ranch Lessors.

The Company and Texoil jointly plan to develop the 9100 acres of the Richmond acreage. Under the Texoil Agreement, Texoil is required to pay 66 2/3 percent of the drilling and testing costs of eleven new wells at locations to be mutually agreed upon. Texoil and the Company will share equally the completion costs of, and revenues from, such wells. Texoil may also participate with the Company in the enhancement and development of the Taureaux/Lyon properties described below on mutually agreeable terms.

The Company owns approximately 23 percent of Texoil's outstanding common stock and 100 percent of the 6% Series A Preferred Stock. If the 6% Series A Preferred Stock were converted into Texoil common stock, the Company would own approximately 34 percent of Texoil's outstanding common stock. The Company has no plans to convert the Series A Preferred Stock into the common stock of Texoil.

TAUREAUX/LYON AGREEMENTS

Pursuant to an agreement dated December 21, 1995 with Lyon Operating Co., Inc. ("Lyon"), the Company acquired from Lyon 72 percent working interest in 1223.2 acres in Clay and Jack Counties, Texas, which includes one producing oil well and eleven non-producing oil wells. As consideration for the Lyon acquisition, the Company paid \$30,000 cash, issued its \$35,000 8% Note due March 21, 1996 and 20,000 shares of its Common Stock.

In February 1996, the Company agreed to acquire from Taureaux Corporation ("Taureaux"), an affiliate of Lyon, for \$75,000 cash 20 percent net revenue interest in 198.5 acres in Jack County, Texas, which contains two wells, one of which has been drilled to the lower Ellenberger level at 8700 feet and is awaiting completion and one of which produces minimal gas at a shallower level.

The Company plans to enhance production on the producing well on the Lyon acreage by rework and repair at an estimated cost of approximately \$20,000 and to re-establish production on the shut-in wells. The cost to re-establish production is not known and depends on the condition of and ability to use the downhole equipment.

On the Taureaux acreage, the Company plans to complete the well which has already been drilled to the 8700 foot Lower Ellenberger depth and is awaiting completion and to also drill the producing gas well to the Lower Ellenberger formation to search for oil. The \$75,000 original cost of this transaction includes an acquisition of 20 percent working interest in the wells and will also pre-pay the Company's portion of the completion costs on such well.

WESTAR JOINT VENTURE

Pursuant to a Definitive Agreement dated April 15, 1996, the Company and Westar Energy, Inc. ("Westar") agreed to jointly participate in the drilling, completion, equipping and operating of approximately 100 oil and/or gas wells in Indiana and Westmoreland Counties, Pennsylvania (the Agreement). Westar currently owns and operates approximately 500 oil and gas wells in Western Pennsylvania and Northern West Virginia. The Agreement provides for the drilling and completion of a minimum of twenty and a maximum of 100 "infill" wells on the subject acreage, to a depth sufficient to test and obtain production from the Lower Bradford Kane Sands at approximately 4,000 feet. The First Phase will consist of four segments of five wells, beginning on or about May 15, 1996. The remaining four wells of the First Phase will be commenced at the rate of one well each 21 calendar days with the objective of completing all 20 wells by December 31, 1996. The Company shall have the right, based upon information provided by Westar, at least 30 days prior to completion of the last of the five wells in each segment, to evaluate and determine whether it elects to participate in the drilling of the five wells in the next segment. If, within 20 days after receiving the Westar information as to the next segment, the Company elects not to participate in the drilling of any wells in the Westar proposal, the Agreement will terminate, except as to the wells in which the Company has theretofore participated.

For the consideration set forth below, the Company will acquire a 75 percent working interest in the leases, wells, equipment and all contractual rights of Westar pertaining to each well, including contracts for the sale of production from the wells. Westar agreed to drill, complete, fracture and equip each well for a fixed cost price of \$180,000 to 100 percent of the working interest or \$135,000 per well to the 75 percent working interest of the Company. If a well is determined to be not capable of commercial production, Westar will repay or credit the Company against the cost of the next well the amount of the Company's portion of the unexpended cost in the non-commercial well. As each well is completed as capable of commercial production, Westar shall execute an assignment to the Company of 50 percent of the working interest in the well and deliver to an escrow agent an additional assignment for 25 percent working interest. The 25 percent working interest will be held by an escrow agent subject to a Value Guaranty, described below. Proceeds from the sale of oil and gas attributable to the 25 percent working interest held in escrow shall be held in suspense by the oil and/or gas purchaser or by the escrow agent until the Company's interest in the 25 percent working interest is finally determined under the Value Guaranty. Westar will reserve a reversionary interest in

each well equal to 15 percent of the working interest conveyed to the Company (or 11.25 percent of the Company's 75 percent working interest) which shall become effective as to each well in a five well segment only when the Company has received proceeds from production from all five wells in a segment equal to 110 percent of the Company's cost of drilling, completing, equipping, reworking and operating all five wells in the segment, plus all taxes attributable to production (except income taxes).

Following completion of the First Phase, subject to Westar's ability to identify additional mutually agreeable drilling locations, the parties intend to drill up to an additional 80 wells, in 20 well phases, in 1997 and 1998. Provided the Company has participated in the drilling of all 20 wells in the First Phase, the Company will have the right to participate in subsequent phases on substantially the same terms and conditions as in the First Phase.

With regard to the Company's 75 percent share of the turnkey cost of drilling, completing and equipping each of the 20 wells in the First Phase, the Company shall pay Westar \$135,000 per well, \$90,000 of which shall be paid in cash prior to commencement of the well, which shall represent payment for 50 percent of the working interest in such well. The remaining \$45,000 cost per well for the 20 wells in the First Phase shall be paid by delivery to an escrow agent of 300,000 shares of the Company's Common Stock (15,000 shares per well) (the "Shares") which shall constitute payment for the remaining 25 percent of the working interest in the wells. The Company will agree to register the Shares under the Securities Act of 1933 to enable Westar to sell such Shares in an underwritten offering or from time to time in the open market. Pursuant to a Value Guaranty in the Agreement, Westar will receive \$900,000 from the sale of its 300,000 shares. In the event the sale of the 300,000 Shares is not completed by December 31, 1996 or Westar does not receive \$900,000 from the sale of the Shares, the Company must compensate Westar for the difference between the Value Guaranty and the net consideration, if any, received by Westar (the "Shortfall"): (i) by purchasing from Westar all or any part of the Shares not sold by Westar or arranging for the purchase by others, or (ii) by issuing to Westar additional shares to make up the Shortfall, or (iii) by reconveying to Westar a portion of the 25 percent working interest in the wells in the First Phase based on the amount of the Shortfall or (iv) if the Shortfall is satisfied by any means other than the issuance of additional shares of Common Stock, all of the unsold Shares held by the escrow agent shall be retransferred to the Company. In the event that the Company elects not to participate in all 20 wells in the First Phase, the Value Guaranty shall be proportionately reduced by \$45,000 or 15,000 shares per well.

Under the Agreement, the Company has the right until December 31, 1996, to request Westar to sell any part of the Shares in escrow, but not less than 100,000 shares, to any party designated by the Company. In such event, the total sales price will be credited against the Value Guaranty, whether or not Westar elects to sell such Shares.

For its assistance in identifying and participating in the

negotiations of the Westar transaction, the Company has agreed to assign to an unaffiliated third party 6.25 percent working interest from its 50 percent working interest in each of the wells acquired by the Company, but not from the 25 percent working interest, which was acquired subject to the value guaranty described above.

FINANCIAL RESULTS FOR FISCAL YEAR 1995 - FIRST QUARTER ENDED MARCH 31, 1996

Revenues of \$85,282 for fiscal year ended December 31, 1995 resulted in a loss from operations of \$245,636 as compared with revenues of \$138,012 and an operating loss of \$998,929 for the preceding fiscal year ended December 31, 1994. The loss of \$998,929 for the fiscal year ended December 31, 1994 included a special "non-cash" charge of \$830,969 of depletion/amortization to adjust the value of oil and gas properties to the discounted value of oil and gas reserves at December 31, 1994, as determined by independent engineering reserve evaluations.

Revenues of \$20,567 for the three month period ended March 31, 1996 produced an operating loss of \$42,545 as compared with revenues of \$33,048 and a corresponding loss of \$13,991 for the similar three month period ended March 31, 1995. The general trend of declining revenues and increasing operating losses as described for the periods set forth above has been caused in substantial part by the fact that the decline in production from the producing wells has not been offset by the discovery of additional production. This downward trend will continue until expanded drilling programs and/or acquisition of production and reserves can be successfully achieved. Such programs will require additional financing, as will be discussed later.

FINANCIAL CONDITION DISCUSSION

As of March 31, 1995, the Company had a net worth of \$2,211,561 and a working capital deficit of \$482,919.

As of March 31, 1996, the Company had a net worth of \$1,937,372 and a working capital deficit of \$385,099. The decrease in net worth at March 31, 1996 as compared to March 31, 1995 was caused by the operating losses sustained during the period. The reduction of the working capital deficit for the same comparative periods was caused primarily by the Texoil Transaction in which the Company received cash and a note receivable.

STRATEGY AND BUSINESS PLANS

The Company's business strategy is to increase its cash flow and oil and gas reserves through exploratory and development drilling and the acquisition of all or a portion of producing properties or energy-related companies. In implementing this strategy the Company plans to do the following:

- Initiate the infill drilling and completion program in the Westar Joint Venture;
- Develop the Richmond acreage by drilling development wells and infill location wells. Certain of the Richmond acreage will be developed in conjunction with Texoil;
- Continue the development and enhancement of the Taureaux/Lyon properties; and,
- Actively pursue business combinations with or the acquisition of producing properties or other energy companies with producing properties. Although the Company is continually seeking business combinations and producing properties for acquisition, no such transactions have been finalized as of the date of this Prospectus.

NEED FOR THE INFUSION OF CAPITAL

Each of the Company's business strategy objectives delineated above will require investments in excess of capital funds now available to the Company. These funds must be generated from financial institutions through the placement or sale of Empiric's equity or indebtedness. In this regard, the Company made a revised filing of a Registration Statement on April 12, 1996 with the Securities and Exchange Commission seeking to register 1,500,000 shares of the Company's Common Stock for ultimate sale and the infusion of up to \$4.5 million, less offering expenses of new equity funds. This Registration Statement has not been approved by the Securities and Exchange Commission which has responded with comments concerning the proposed financing and the Company is currently engaged in the preparation of responses to these comments. The Company has not secured an underwriting firm for this proposed financing and is in the process of obtaining an underwriter under terms favorable to the Company.

PART II. OTHER INFORMATION

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

There were no reports filed.

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMPIRIC ENERGY, INC.

Date: September 17, 1996

By: Signed by Clyde E. Skeen
Clyde E. Skeen
Chief Financial Officer