

Edgar Filing: TRI VALLEY CORP - Form 10QSB

TRI VALLEY CORP
Form 10QSB
November 14, 2001

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2001 Commission File No.0-6119

TRI-VALLEY CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE 84-0617433
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

5555 BUSINESS PARK SOUTH, SUITE 200, BAKERSFIELD, CALIFORNIA 93309
(Address of principal executive offices)

(661) 864-0500
(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 of Registrant's common stock outstanding at September 30, 2001 was 19,689,748.

TRI-VALLEY CORPORATION

INDEX

	Page

PART I - FINANCIAL INFORMATION	3
Item 1. Consolidated Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	8

Edgar Filing: TRI VALLEY CORP - Form 10QSB

PART II - OTHER INFORMATION	11
Item 1. Legal Proceedings	11
Item 2. Changes in Securities	11
Item 6. Exhibits and Reports on Form 8-K.	11
SIGNATURES	12

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION CONSOLIDATED BALANCE SHEETS

ASSETS

September 30, 2001. Dec. 31, 2000

	(Unaudited)	(Audited)
	-----	-----
Current Assets		
Cash	\$ 673,919	\$ 1,373,570
Accounts receivable, trade	127,089	813,611
A/R Related Parties	1,000	4,750
Prepaid expenses	12,029	12,029
	-----	-----
Total Current Assets	814,037	2,203,960
	-----	-----
Property and Equipment, Net	1,932,107	1,306,689
	-----	-----
Other Assets		
Deposits	104,705	100,105
Note Receivable	125,000	125,000
Acquisition Costs	51,270	51,270
Investments in partnerships	29,059	29,059
Other	13,913	13,914
Well Database (net of accumulated amortization of \$50,062 at Sept. 30, 2001 and \$44,788 at December 31, 2000.	58,588	63,862
Goodwill (net of accumulated amortization of \$218,728 at		

Edgar Filing: TRI VALLEY CORP - Form 10QSB

Sept 30, 2001 and \$210,593 at December 31, 2000.	215,125	223,260
	-----	-----
Total Other Assets.	597,660	606,470
	-----	-----
Total Assets.	\$ 3,343,804	\$ 4,117,119
	=====	=====

The accompanying notes are an integral part of these condensed financial statements.

3

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2001	Dec. 31, 2000
	-----	-----
CURRENT LIABILITIES		
Notes and contracts payable.	\$ 10,554	\$ 10,672
Trade accounts payable	165,743	581,017
Amounts payable to joint venture participants	95,074	540,142
Advances from joint venture participants	2,408,698	2,517,737
	-----	-----
Total Current Liabilities.	2,680,069	3,649,568
	-----	-----
Long-term Portion of Notes and Contracts Payable.	6,934	12,038
	-----	-----
Commitments		
Shareholders' Equity		
Common stock, \$.001 par value: 100,000,000 shares authorized; 19,689,748 and 19,554,748 issued and outstanding at Sept 30, 2001 and Dec. 31, 2000, respectively.	19,689	19,555
Less: Common stock in treasury, at cost, 163,925 shares	(21,913)	(21,913)
Capital in excess of par value	8,723,554	8,666,688

Edgar Filing: TRI VALLEY CORP - Form 10QSB

Accumulated deficit	(8,064,529)	(8,208,817)
	-----	-----
Total Shareholders' Equity	656,801	455,513
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 3,343,804	\$ 4,117,119
	=====	=====

The accompanying notes are an integral part of these condensed financial statements.

4

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months		For the N
	2001	2000	2001
	-----	-----	-----
Revenues			
Sale of oil and gas	\$ 177,904	\$ 231,055	\$ 1,451,666
Other income	116,351	103,164	190,043
Interest income	4,305	29,948	20,807
	-----	-----	-----
Total Revenues	298,560	364,167	1,662,516
	-----	-----	-----
Cost and Expenses			
Oil and gas lease expense	45,765	22,379	288,309
Mining exploration expenses	70,347	73,719	125,729
Project geology, geophysics, land & administration	54,137	74,668	256,091
Cost of sale of asset	-0-	-0-	-0-
Depletion, depreciation and amortization	16,102	19,860	45,834
Interest	690	4,783	3,446
General administrative	283,691	337,151	798,819
	-----	-----	-----
Total Cost and Expenses	470,732	532,560	1,518,228
	-----	-----	-----
Net Income/(Loss)	\$ (172,172)	\$ (168,393)	\$ 144,288
	=====	=====	=====
Net Income (Loss) per Common Share	\$ (.01)	\$ (.01)	\$.01
	=====	=====	=====
Weighted Average Number of Shares	19,689,748	19,548,081	19,689,748
	=====	=====	=====

Edgar Filing: TRI VALLEY CORP - Form 10QSB

The accompanying notes are an integral part of these condensed financial statements.

5

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months	
	----- Ended Sept. 30, -----	
	2001	2000
	-----	-----
Cash Flows from Operating Activities		
Net loss/profit	\$ 144,288	\$ 137,895
Adjustments to reconcile net income to net cash used from operating activities:		
Depreciation, depletion and amortization	45,834	59,582
Changes in operating capital:		
Amounts receivable	690,272	(123,039)
Deposits	(4,600)	(105)
Trade accounts payable	(420,496)	419,595
Amounts payable to joint venture participants and related parties	(445,068)	105,589
Advances from joint venture participants	(109,039)	(6,130,746)
	-----	-----
Net Cash Used by Operating Activities	(98,809)	(5,531,229)
	-----	-----
Cash Flows from Investing Activities		
Capital expenditures	(652,738)	(206,330)
	-----	-----
Cash Flows from Financing Activities		
Principal payments on long-term debt	(5,104)	(6,589)
Proceeds from issuance of common stock	57,000	256,100
	-----	-----
Net Cash Provided (used) by Financing Activities	51,896	249,511
	-----	-----
Net Decrease in Cash and Cash Equivalents	(699,651)	(5,488,048)
Cash and Cash Equivalents at Beginning Of Period	1,373,570	8,050,469
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 673,919	\$ 2,562,421
	=====	=====

Edgar Filing: TRI VALLEY CORP - Form 10QSB

Supplemental Information:

Cash paid for interest	\$ 3,446	\$ 12,581
	=====	=====
Cash paid for taxes.	\$ 7,779	\$ 6,678
	=====	=====

The accompanying notes are an integral part of these condensed financial statements.

6

TRI-VALLEY CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2001 AND 2000
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim periods. The results of operations for the nine-month period ended September 30, 2001, are not necessarily indicative of the results to be expected for the full year.

The accompanying consolidated financial statements do not include footnotes and certain financial presentations normally required under generally accepted accounting principles; and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000.

NOTE 2 - PER SHARE COMPUTATIONS

Per share computations are based upon the weighted average number of common shares outstanding during each year. Common stock equivalents are not included in the computations since their effect would be anti-dilutive.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." This standard becomes effective for fiscal years beginning after December 15, 2001. Beginning in the first quarter of fiscal 2002, goodwill will no longer be amortized but will be subject to annual impairment tests. All

Edgar Filing: TRI VALLEY CORP - Form 10QSB

other intangible assets will continue to be amortized over their estimated useful lives. Goodwill existing at September 30, 2001, will continue to be amortized through the end of fiscal 2001. Through the end of fiscal 2001, the company will test goodwill for impairment using the current method, which uses an un-discounted cash flow test.

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

BUSINESS REVIEW

Notice Regarding Forward-Looking Statements -----

This report contains forward-looking statements. The words, "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "could," "may," "foresee," and similar expressions are intended to identify forward-looking statements. These statements include information regarding expected development of the Company's business, lending activities, relationship with customers, and development in the oil and gas industry. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated.

Petroleum Activities -----

For the nine months ended September 30, 2001 we have continued to evaluate the Ekho No. 1 with the assistance of a team of experts. We currently are in the process of finding interested parties to invest in the project to hopefully bring it into completed, producing status.

We continue to endeavor to bring the appropriate parties into the Sunrise Natural Gas Project. Our efforts will require one or more horizontal wells to be drilled. We anticipate initially four wells will be drilled to determine the aerial extent of the project. Ultimately this project could require as many as forty wells for full development.

We are planning on drilling at least one well in our Sonata gas prospect this year, which is west of the Sunrise Project Area. With the Sunrise and Sonata projects, Tri-Valley has over 12,000 acres in the middle of the McClure Shale.

Natural gas prices began the year at historic highs but have more recently fallen. We sold gas for as much as \$14.64 per Mcf early in the year, but in the third quarter we also sold for as low as \$2.71. We believe that natural gas prices will continue to be volatile (especially in California) for the remainder of 2001 and possibly for years.

Precious Metals -----

The Russian scientists from TsNIGRI, the Russian Mineral Institute in Moscow began this year's activity for Tri-Valley the latter part of July. Our efforts continue to obtain sufficient data to enable a joint venture with a major mining company for exploration of our Alaska claims, similar to the Placer Dome arrangement of the previous two years that ended at the end of 2000. Placer Dome withdrew from the joint venture primarily due to the continued low price for gold, which led to a reduction in most exploratory project worldwide by

Edgar Filing: TRI VALLEY CORP - Form 10QSB

almost all large mining companies.

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

Three Months Ended Sept. 30, 2001 as compared with Three Months ended Sept. 30,

2000

In the quarter ended September 30, 2001 total revenue decreased \$65,607 compared to the same quarter in the year 2000. This decrease was due to a reduction in natural gas sales in the period ending September 30, 2001. We had oil and gas sales of \$231,055 in the third quarter of 2000 compared to \$177,904 for the same period in 2001 a reduction of \$53,151. Other income was \$13,187 higher this period compared to the same period in 2000. Interest income was \$25,643 less for this period versus the same period in 2000 because we had less funds on deposit in interest bearing accounts, awaiting expenditures on drilling and completion of wells

Costs and expenses decreased to \$470,732 for the quarter ending September 30, 2001 from \$532,560 for the same period in 2000. Oil and gas lease expenses were \$23,386 higher in the period ending September 30, 2001, due to work over expenses on the Hanson wells. Geologic, geophysical, land and administration costs were \$20,531 less this period compared to the same period in 2000. General and Administrative costs were \$53,460 less for this quarter compared to the same period last year due to reduced legal expenses related to a lawsuit that ended in 2000.

We had a loss of \$172,172 for the three months ended September 30, 2001 compared to a loss of \$168,393 for the same period in 2000.

Nine Months Ended Sept. 30, 2001 as compared to September 30, 2000

We had total revenue of \$1,662,516 for the nine months ended September 30, 2001 compared to revenue of \$2,174,390 for the same period in 2000. Revenue for the period in 2000 included revenue from the sale of the Sunrise Prospect in 2000; we have not had a corresponding sale in 2001. For the nine months ended September 30, 2001, we had a 254% increase in oil and gas sales due to increased natural gas prices for the nine months ended September 30, 2001, compared to the same period in 2000. Other income was \$1,341,398 less for the nine months ended September 30, 2001 compared to the same period last year. This decrease is due to revenue received in 2000 for the sale of a prospect. We have not sold any prospects in 2001. Interest income was down \$52,003 for the current year to date nine months because we had less funds on deposit in interest bearing accounts, awaiting expenditures on drilling and completion of wells.

Costs and expenses were \$1,518,228 in the period ending September 30, 2001 compared to \$2,036,495 for the same period in 2000. Oil and gas lease expenses were up for the first nine months due to the Company doing re-works of several of its wells. Project geology, geophysics, land and administration were \$139,900 less this year due to costs in 200 related to the Sunrise Project. Cost of sale of assets is \$394,240 less this period compared to the same period in 2000 due to the sale of the Sunrise prospect in 2000. Interest expense is \$9,135 less this period ending September 30, 2001 compared to the same period in 2000. General and Administrative costs were \$166,571 less due to reduced legal expenses related

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

Edgar Filing: TRI VALLEY CORP - Form 10QSB

OF OPERATIONS, CONTINUED

to the lawsuit.

Net income, for the nine months ended September 30, 2001, is \$144,288 compared to \$137,895 for the same period in 2000.

Capital Resources and Liquidity

We had current assets at September 30, 2001 of \$814,037 compared to \$2,203,960 for the period ending December 31, 2000. This decrease was due to reduction of cash and reduction in accounts receivable. Current liabilities were \$2,680,069 for the period ended September 30, 2001 compared to \$3,649,568 for the year ending December 31, 2000. This reduction was due to a reduction in accounts payable and reduction in advances from joint venture participants.

Operating Activities. Cash provided by operations were deficit of \$98,809 for the nine months ended September 30, 2001 compared to a deficit of \$5,531,229 for the same period in 2000. This was due to reduced expenditures of the drilling operations for the Sunrise well. The \$389,169 decrease in advances from joint venture participants at September 30, 2001 is due to the expenditure of funds used for the drilling activity on the Sunrise Project and Project Ekho.

Financing Activities. Net cash provided by financing activities decreased \$197,615 for the period ended September 30, 2001, over the same period in 2000 due to the reduced amount of sales of the Company's common stock in private transactions.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

During the quarter ended September 30, 2001, we issued 5,000 shares of our

Edgar Filing: TRI VALLEY CORP - Form 10QSB

common stock to one ex-employee who exercised stock options in a private transaction pursuant to the exemption contained in Section 4(2) of the Securities Act of 1933, for aggregate consideration of \$2,500. The shares sold/issued are restricted securities, which bear a legend restricting transfer of the shares unless registered or sold under an exemption from registration requirements under the Securities Act.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits
None

(b) Reports on Form 8-K:
None

SIGNATURES

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

TRI-VALLEY CORPORATION

November 14, 2001

/s/ F. Lynn Blystone

F. Lynn Blystone
President and Chief Executive Officer

November 14, 2001

/s/ Thomas J. Cunningham

Thomas J. Cunningham
Secretary, Treasurer, Chief Financial Officer