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TRI VALLEY CORP
Form 10-Q
August 12, 2002

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

FORM 10-Q

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

For the quarterly period ended June 30, 2002
0-6119

Commission File No.

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 June 30, 2002 was 19,703,748.

TRI-VALLEY CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

| | June 30, 2002 (Unaudited) | Dec 31, 2001 (Audited) |
|--|------------------------------|---------------------------|
| | ----- | ----- |
| Current Assets | | |
| Cash | \$ 2,019,640 | \$ 911,913 |
| Accounts receivable, trade . . | 113,499 | 107,225 |
| A/R Related Parties. | 1,000 | -0- |
| Prepaid expenses | 12,029 | 12,029 |
| | ----- | ----- |
| Total Current Assets | 2,146,168 | 1,031,167 |
| | ----- | ----- |
| Property and Equipment, Net. . . | 1,986,080 | 2,010,457 |
| | ----- | ----- |
| Other Assets | | |
| Deposits | 104,705 | 104,705 |
| Investments in partnerships. . | 9,101 | 9,101 |
| Other. | 13,913 | 13,913 |
| Goodwill (net of accumulated amortization of \$221,439 at at December 31, 2001). | 212,414 | 212,414 |
| | ----- | ----- |
| Total Other Assets | 340,133 | 340,133 |
| | ----- | ----- |
| Total Assets | \$ 4,472,381 | \$ 3,381,757 |

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

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LIABILITIES AND SHAREHOLDERS' EQUITY

| | June 30, 2002 | Dec. 31, 2001 |
|--|---------------|---------------|
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Notes and contracts payable | \$ 7,353 | \$ 8,265 |
| Trade accounts payable | 340,613 | 297,001 |
| Amounts payable to joint venture participants | 62,264 | 59,631 |
| Advances from joint venture participants | 4,311,597 | 2,654,713 |
| | ----- | ----- |
| Total Current Liabilities | 4,721,827 | 3,019,610 |
| | ----- | ----- |
| Long-term Portion of Notes and Contracts Payable | 7,477 | 8,371 |
| | ----- | ----- |
| Shareholders' Equity | | |
| Common stock, \$.001 par value: | | |
| 100,000,000 shares authorized; | | |
| 19,703,748 and 19,689,748 issued and outstanding at June 30, 2002 and Dec. 31, 2001, respectively. | 19,704 | 19,690 |
| Less: Common stock in treasury, at cost, 163,925 shares | (21,913) | (21,913) |
| Capital in excess of par value | 8,760,339 | 8,746,653 |
| Accumulated deficit | (9,015,054) | (8,390,654) |
| | ----- | ----- |
| Total Shareholders' Equity | (256,923) | 353,776 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 4,472,381 | \$ 3,381,757 |
| | ===== | ===== |

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CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Three Months | | For the Six Months | |
|---|----------------------|-------------------|---------------------|-------------------|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues | | | | |
| Sale of oil and gas | \$ 189,942 | \$ 544,648 | \$ 355,396 | \$ 1,273,762 |
| Other income | 24,927 | 64,256 | 39,998 | 73,692 |
| Sale of direct working interest | 637,390 | -0- | 637,390 | -0- |
| Interest income | 4,982 | 5,242 | 7,191 | 16,502 |
| Total Revenues | 857,241 | 614,146 | 1,039,975 | 1,363,956 |
| Cost and Expenses | | | | |
| Oil and gas lease expense | 87,965 | 146,918 | 137,688 | 242,544 |
| Mining Exploration Expenses | 11,693 | 21,586 | 42,817 | 55,382 |
| Project geology, geophysics, Land & administration | 175,035 | 103,983 | 266,188 | 201,954 |
| Cost of Sale of direct working interest | 627,687 | -0- | 627,686 | -0- |
| Depletion, depreciation and amortization | 12,981 | 13,631 | 25,963 | 29,732 |
| Interest | 229 | 435 | 477 | 2,756 |
| General administrative | 301,934 | 263,387 | 563,555 | 515,128 |
| Total Cost and Expenses | 1,217,524 | 549,940 | 1,664,374 | 1,047,496 |
| Net Income (Loss) | \$ (360,283) | \$ 64,206 | \$ (624,399) | \$ 316,460 |
| Diluted Earnings per Share | \$.00 | \$.00 | \$.00 | \$.02 |
| Basic Earnings per Share | \$.00 | \$.00 | \$.00 | \$.02 |
| Weighted Average Number of Shares | 19,703,748 | 19,661,081 | 19,703,748 | 19,661,081 |

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

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| | For the Six Months | |
|---|--------------------|------------|
| | ----- | |
| | Ended June 30, | |
| | ----- | |
| | 2002 | 2001 |
| | ----- | |
| Cash Flows from Operating Activities | | |
| Net loss/profit | \$ (624,399) | \$ 316,460 |
| Adjustments to reconcile net income to net cash used from operating activities: | | |
| Depreciation, depletion and amortization | 25,963 | 29,732 |
| Shares issued officer compensation | 11,700 | -0- |
| Changes in operating capital: | | |
| Amounts receivable-(Increase)decrease | (7,274) | 391,647 |
| Trade accounts payable-Increase(decrease) | 42,700 | (459,834) |
| Amounts payable to joint venture participants and related parties-Increase(decrease) | 2,633 | (266,967) |
| Advances from joint venture Participants-Increase(decrease) | 1,656,884 | (382,913) |
| | ----- | |
| Net Cash Used by Operating Activities | 1,108,207 | (371,875) |
| | ----- | |
| Cash Flows from Investing Activities | | |
| Capital expenditures | (1,586) | (259,446) |
| | ----- | |
| Cash Flows from Financing Activities | | |
| Principal payments on long-term debt | (894) | (4,248) |
| Proceeds from issuance of common stock | 2,000 | 54,500 |
| | ----- | |
| Net Cash Provided (used) by Financing Activities | 1,106 | 50,252 |
| | ----- | |
| Net Decrease in Cash and Cash Equivalents | 1,107,727 | (581,069) |
| Cash and Cash Equivalents at Beginning Of Period | 911,913 | 1,373,570 |
| | ----- | |
| Cash and Cash Equivalents at End of Period | \$2,019,640 | \$ 792,501 |
| | ===== | |
| Supplemental Information: | | |
| Cash paid for interest | \$ 477 | \$ 2,756 |
| Cash paid for taxes | \$ 5,137 | \$ 7,779 |

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NOTES TO CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 (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 six-month period ended June 30, 2002, 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-K for the year ended December 31, 2001.

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.

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ITEM 2. MANAGEMENT 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 -----

We drilled the Sonata 3-1 in May and began testing and evaluating the results. We have determined that the Sonata 3-1 is a dry hole and will be abandoned. Subsequent to June 30, 2002, we decided that we have thoroughly tested and

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evaluated this Sonata prospect and do not believe it will be a successful project. Therefore, we are discontinuing operations on the Sonata project and writing off all costs associated with this play as of June 30, 2002.

We spudded the Sunrise-Mayel No. 2-H on July 12, 2002. We expect the drilling to take approximately 20 days after which we will begin testing which will take another 6 or 7 weeks.

In the second quarter we continued to focus on the OPUS-I private placement memorandum. The documentation was completed in mid May and we are currently pursuing the capital formation for this partnership. The OPUS-I is a partnership to drill up to 23 individual prospects in California's San Joaquin Valley and up to three prospects in Nevada's Railroad Valley.

Precious Metals

There has been no physical activity on our Alaska claim block during the first two quarters of this year. We do have plans to drill one deep placer and two lode targets in the third quarter pending funding. However, we did spend \$42,816 on mining claims and miscellaneous expenses during this period.

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

Three Months Ended June 30, 2002 as compared with Three Months ended June 30,

2001

In the quarter ended June 30, 2002, we recorded a net loss of \$360,283, compared to a net gain of \$64,206 in the second quarter of 2001. The main reason for the loss was a decrease of \$354,706 (65%) in oil and gas revenue due to lower natural gas prices in 2002. In the second quarter of 2002 we received an average price of \$2.23 per mcf (thousand cubic feet) of our natural gas compared to \$12.42 per mcf for the same period in 2001. The decrease in oil and gas income approximately equaled our net loss for the quarter.

Total revenues and total expenses rose in the second quarter of 2002 compared to 2001 because of our drilling results on the Sonata project. In the second quarter of 2002, we drilled the Sonata 3-1 well and determined it was a dry hole. Shortly after the end of the quarter, we decided to cease further development efforts on the Sonata project. Because of this decision, as of June 30, 2002, we recognized all previously unrecorded revenue and capitalized expenditures pursuant to our joint operating agreement for the Sonata 3-1, as sale of direct working interest of \$637,390, and we recorded an offsetting expense of \$627,687 associated with the well, as cost of sale of direct working interest.

In the second quarter 2002 we had a decrease of \$39,329 in other income, compared to the second quarter of 2001, due to receiving no distribution from a gas partnership in which we are a non-operating partner.

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Overall, mainly as a result of ceasing operations on the Sonata project, both total revenues and expenses rose in the second quarter of 2002. Our total revenues rose by \$243,095 to \$857,241 in the three months ended June 30, 2002, compared to the same period in 2001. Total expenses rose by \$667,584 to \$1,217,524 in the quarter, compared to the same period in 2001.

Oil and gas lease expenses were \$58,953 less in the current quarter compared to the same quarter last year due to less well work over expenses in 2002. Our project geology, geophysics, land and administration costs were higher in the quarter ended June 30, 2002 because of increased land acquisition costs and geologic work over the same period last year. Our mining costs are reduced this year over last year because we did not have any active Alaska exploration activities this year due to lack of funds available. Finally, general and administrative expenses rose by 15% over the same quarter last year mainly due to increased legal costs associated with the private placement memorandum and office lease expenses.

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

Six Months Ended June 30, 2002 as compared to Six Months Ended June 30, 2001

We had a loss of \$624,399 for the current six-month period compared to a profit of \$316,460 for the same six-month period in 2001. This loss is due mainly from lower natural gas prices in 2002 compared to 2001. Oil and gas sales revenues fell by \$918,276 (72%) in the first half of 2002 compared to the first half of 2001. In the first six months of 2002 we averaged \$2.55 for our natural gas compared to an average of \$11.27 for the six months ended June 30, 2001.

Because of the discontinuation of the Sonata project, discussed in the preceding section, we reported sales of direct working interest of \$637,390 for the six months ended June 30, 2002. Similarly, and we recorded a cost of sale of direct working interest on the Sonata project of \$627,687 in the six month period in 2002.

We had reduced other income by \$33,694 in the first half of 2002 compared to the first half of 2001 because of reduced income from a gas partnership in which we are a non-operating partner.

We had a decrease in oil and gas lease expense of \$104,856 because we had reduced work over expenses and an increase of \$64,234 in geology and land acquisition costs. Our general and administrative costs are \$48,427 higher in the period ending June 30, 2002 compared to the same period in 2001. This is due to increased legal costs associated with the private placement memorandum and increased rent for office facilities.

Capital Resources and Liquidity

Current assets are \$2,146,168 at June 30, 2002 compared to \$1,031,167 as of December 31, 2001. This is due to an increase of \$1,107,727 in cash from our

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capital formation program OPUS I. Current liabilities are \$4,721,827 for the six months ended June 30, 2002 compared to \$3,019,610 for the period ended December 31, 2001. This increase is due to advances from joint venture participants in our drilling programs.

Operating Activities. We had a positive cash flow of \$1,108,207 for the six months ended June 30, 2002 compared to a negative cash flow of \$371,875 for the same period in 2001. This change is due to funds acquired in 2002 from joint venture participants for drilling activity. Our primary source of funds is comprised of selling prospects and oil and gas sales.

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

Investing Activities. In the second quarter of 2002, we expensed \$227,985 of capital expenditures that had been capitalized related to the Sonata project, which reduced our total capital expenditures (which result from lease acquisitions) for the first six months of 2002 to \$1,586 compared to \$259,446 for the first half of 2001

Financing Activities. Net cash provided by financing activities was \$1,106 compared to \$50,252 for the same period in 2001. This \$49,146 decline was due to us receiving \$54,500 dollars from sales of our common stock in the first six months of 2001 compared to \$2,000 this year.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

During the quarter ended June 30, 2002, we issued 2,000 shares of our common stock to an individual in a private transaction pursuant to the exemption contained in Section 4(2) of the Securities Act of 1933, for aggregate consideration of \$1,000. These shares were from options exercised by an ex-employee. The shares 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. The exercise price for these shares was \$.50 each.

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
(Registrant)

August 12, 2001 /s/ F. Lynn Blystone

F. Lynn Blystone
President and Chief Executive Officer

August 12, 2001 /s/ Thomas J. Cunningham

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Thomas J. Cunningham
Secretary, Treasurer, Chief Financial Officer

CERTIFICATION

Each of the undersigned hereby certifies that this Quarterly Report on Form 10-Q complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in such report fairly represents, in all material respects, the financial condition and results of operations of the Company.

August 12, 2001 /s/ F. Lynn Blystone

F. Lynn Blystone
President and Chief Executive Officer

August 12, 2001 /s/ Thomas J. Cunningham

Thomas J. Cunningham
Secretary, Treasurer, Chief Financial Officer