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TRI VALLEY CORP
Form 10-Q
May 12, 2003

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 March 31, 2003 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 ☒ No ☐

The number of shares of Registrant's common stock outstanding at March 31, 2003 was 19,746,348.

TRI-VALLEY CORPORATION

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

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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2003. (Unaudited)	.Dec. 31, 2002 (Audited)
	-----	-----
Current Assets		
Cash	\$ 1,508,370	\$ 1,936,294
Accounts receivable, trade	362,309	151,618
Prepaid expenses	12,029	12,029
	-----	-----
Total Current Assets	1,882,708	2,099,941
	-----	-----
Property and Equipment, Net.	2,077,944	1,974,501
	-----	-----
Other Assets		
Deposits	316,705	316,705
Investments in partnerships.	17,400	17,400
Other.	13,913	13,913
Goodwill (net of accumulated amortization of \$221,439 at December 31, 2002	212,414	212,414
	-----	-----
Total Other Assets	560,432	560,432
	-----	-----

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Total Assets \$ 4,521,084	\$ 4,634,874
	=====	=====

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

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LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2003 (Unaudited)	Dec. 31, 2002 (Audited)
	-----	-----
CURRENT LIABILITIES		
Notes and contracts payable	\$ 2,234	\$ 13,792
Trade accounts payable & accrued expenses	308,790	640,240
Accounts payable to joint venture participants	222,065	74,412
Advances from joint venture participants	3,099,124	2,617,333
	-----	-----
Total Current Liabilities	3,632,213	3,345,777
	-----	-----
Long-term Portion of Notes and Contracts Payable	22,322	26,791
	-----	-----
Commitments		
Shareholders' Equity		
Common stock, \$.001 par value:		
100,000,000 shares authorized;		
19,746,348 and 19,726,348 issued and outstanding at March 31, 2003 and Dec. 31, 2002, respectively	19,747	19,726
Less: Common stock in treasury, at cost, 100,025 shares	(13,370)	(13,370)
Common stock receivable	-0-	(2,250)
Capital in excess of par value	8,903,103	8,879,724
Accumulated deficit	(8,042,931)	(7,621,524)
	-----	-----
Total Shareholders' Equity	866,549	1,262,306
	-----	-----

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Total Liabilities and		
Shareholders' Equity.	\$ 4,521,084	\$ 4,634,874
	=====	=====

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

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TRI-VALLEY CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	For the Three Months	
	Ended March 31,	
	2003	2002
	-----	-----
Revenues		
Sale of oil and gas	\$ 266,647	\$ 165,454
Other income.	6,613	15,071
Interest income	3,520	2,209
	-----	-----
Total Revenues.	276,780	182,734
	-----	-----
Cost and Expenses		
Oil and gas lease expense	56,325	49,723
Mining exploration expense.	30,307	31,124
Project geology, geophysics, land & administration	289,019	91,153
Depletion, depreciation and amortization.	7,233	12,982
Interest.	713	248
General and administrative.	314,590	261,621
	-----	-----
Total Cost and Expenses	698,187	446,851
	-----	-----
Net Loss.	\$ (421,407)	\$ (264,117)
	=====	=====
Net Loss per Common Share	\$ (.02)	\$ (.01)
	=====	=====
Weighted Average Number of Shares	19,731,348	19,689,748
	=====	=====

The accompanying notes are an integral part of these

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condensed financial statements.

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

	For the Three Months	
	Ended March 31,	
	2003	2002
Cash Flows from Operating Activities		
Net loss/profit	\$ (421,407)	\$ (264,117)
Adjustments to reconcile net income to net cash used from operating activities:		
Depreciation, depletion and amortization.	7,233	12,982
Shares issued officer compensation.	-0-	14,500
Changes in operating capital:		
Accounts receivable-(Increase)decrease.	(210,691)	(10,069)
Trade accounts payable-Increase(decrease)	(347,477)	(36,543)
Accounts payable to joint venture participants and related parties-Increase(decrease)	147,653	2,799
Advances from joint venture Participants-Increase(decrease)	481,791	728,930
Net Cash Used by Operating Activities	(342,898)	448,482
Cash Flows from Investing Activities		
Capital expenditures.	(94,649)	(229,571)
Cash Flows from Financing Activities		
Principal payments on long-term debt.	(16,027)	(894)
Proceeds from issuance of common stock.	25,650	-0-
Net Cash Provided (used) by Financing Activities. . .	9,623	(894)
Net Increase (Decrease) in Cash and Cash Equivalents. . .	(427,924)	218,017
Cash and Cash Equivalents at Beginning Of Period	1,936,294	911,913
Cash and Cash Equivalents at End of Period	\$1,508,370	\$1,129,930
Supplemental Information:		
Cash paid for interest.	\$ 713	\$ 248
Cash paid for taxes	\$ 5,446	\$ -0-

TRI-VALLEY CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2003 AND 2002
(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 three-month period ended March 31, 2003, 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, 2002.

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

On January 1, 2002, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). Under SFAS 142, goodwill is a nonamortizable asset, and is subject to an annual review for impairment, and an interim review when certain events or circumstances occur that indicate the carrying value may not be recoverable. Under SFAS 142, we had a transitional period of six months from the date of adoption to complete our goodwill impairment testing. We evaluated the recoverability of the recorded amount of goodwill based on certain operating and financial factors. Such impairment testing included discounted cash flow tests which require broad assumptions and significant judgment to be exercised by management. As a result of this analysis, no impairment of goodwill was identified.

On January 1, 2002, we adopted SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (SFAS 144). Under SFAS 144, long-lived assets to be disposed of are measured at the lower of carrying amount or fair value less costs to sell, whether reported in continuing operations or in discontinued operations. Discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. A long-lived asset must be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may be impaired. The implementation of this standard had no effect on results of operations.

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In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). Under SFAS 143, the fair value of a liability for an asset retirement obligation should be recorded in the period in which it is incurred. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss if the settled amount differs from the liability recorded. SFAS 143 is effective for fiscal years beginning after June 15, 2002. We are currently evaluating this guidance and have not determined the impact on our financial position, results of operations, or net cash flows, however, such impact could be material.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 states that a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period when the liability is incurred. A liability is established only when present obligations to others are determined. SFAS 146 does not apply to costs associated with the retirement of long-lived assets covered in SFAS 143 (see above). It applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144 (see above). We will apply SFAS 146 for exit or disposal activities initiated after December 31, 2002. We are evaluating this guidance and do not believe that it will have a material impact on our financial position, results of operations, or net cash flows.

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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 -----

During the first quarter of 2003 we performed a work over on the Pimental 1-15, which resulted in limited success. We are planning further work on this well in the second quarter to increase production. We continue to prepare for the drilling of the Sunrise-Mayel 2HR in the second quarter.

Precious Metals

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We had no activity on our Alaska claims block this quarter. The Company is no longer looking for gold on its 42 square mile claim block at Richardson, Alaska. Rather it is preparing programs to measure the gold it has already found. We estimate it will take about \$1.25 million to drill two lode (hard rock) targets and one placer (stream gravels) target to further define the boundaries of the deposits and the grade of contained gold (ounces per ton for lode and ounces per yard for placer). Hopefully, we will be able to secure financing to allow us to implement the designed programs by the end of the third quarter.

Three Months Ended March 31, 2003 as compared with Three Months ended March 31,

2002

In the quarter ended March 31 revenue was \$276,780 compared to \$182,734 for the same quarter in 2002. This increase resulted from an increase in price for our natural gas.

Costs and expenses increased \$251,336 for the period ending March 31, 2003 compared to the same period in 2002. Project geology, geophysics, land and administration expenses are \$197,866 higher for the quarter ended March 31, 2003 compared to the same quarter in 2002. This increase is due to increased activity to better define our projects and develop new ones. General and administration costs were \$52,969 higher for the quarter ended March 31, 2003 compared to the same quarter in 2002. This was due to increased investor relation costs and salaries.

For the quarter ended March 31, 2003, we had a loss of \$421,407 compared to a loss of \$264,117 for the quarter ended March 31, 2002. This increase was due primarily to the increased spending on geology, geophysics and general and administration expenses.

ITEM 2. (CONTINUED)

Capital Resources and Liquidity -----

Current assets are \$1,882,708 at March 31, 2003 compared to \$2,099,941 as of December 31, 2002. This is due to expenditures for property acquisition and delay rentals. Current liabilities are \$3,632,213 for the three months ended March 31, 2003, compared to \$3,345,777 for the period ended December 31, 2002. This increase is due to advances from joint venture participants in our drilling programs.

OPERATING ACTIVITIES. We had a negative cash flow of \$342,898 for the three months ended March 31, 2003 compared to a positive cash flow of \$448,482 for the same period in 2002. This change is due to an increase in accounts receivable and a decrease in accounts payable. Our primary sources of funds are comprised of selling prospect and oil and gas sales.

INVESTING ACTIVITIES. In the first three months of 2003 we spent \$94,649 on capital expenditures compared to \$229,571 for the same period in 2002. These expenditures were the result of leasing activities to acquire leases for our drilling program. We expect to recoup these amounts as the drilling prospects are sold to drilling programs.

FINANCING ACTIVITIES. Net cash used by financing activities was \$9,623 for the quarter ended March 31, 2003 compared to (\$894) for the same period in 2002.

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This change was due to increased principal payments on long-term debt and proceeds from issuance of common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Tri-Valley Corporation does not engage in hedging activities and does not use commodity futures or forward contracts in its cash management functions.

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2003, an evaluation was performed under the supervision and with the participation of the Company's management, including the Company's CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2003.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

During the quarter ended March 31, 2003, we issued a total of 20,000 shares of our common stock in a private transaction pursuant to the exemption contained in Section 4(2) of the Securities Act of 1933. These shares are restricted securities, which bear a legend restricting transfer of the shares unless registered or sold under exemption from registration requirements under the Securities Act. A summary of these share issuances follows:

We issued 5,000 shares for aggregate consideration of \$2,500.00. These shares were issued on exercise of options by non-affiliated third party who acquired the options from an ex-employee. The exercise price for these shares was \$.50 each.

We issued 15,000 shares to three officers of the Company. These shares were awarded for service by the Board of Directors and in accordance with employment contract provisions. The price of these shares was \$1.36 per share on March 24, 2003, the date of the award.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 99.1. Certifications Pursuant to 18 U.S.C. 1350

(b) Reports on Form 8-K:

On March 31, 2003 we filed an 8-K to announce a significant revenue increase and a profitable year ending December 31, 2002.

SIGNATURES

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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

May 6, 2003 /s/ F. Lynn Blystone

F. Lynn Blystone
President and Chief Executive Officer

May 6, 2003 /s/ Thomas J. Cunningham

Thomas J. Cunningham
Secretary, Treasurer, Chief Financial Officer

CIVIL CERTIFICATION

I, F. Lynn Blystone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tri-Valley Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrants other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 6, 2003

/s/ F. Lynn Blystone

Chief Executive Officer

EXHIBIT 99.1

CIVIL CERTIFICATION

I, Thomas J. Cunningham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tri-Valley Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrants other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 6, 2003

/s/ Thomas J. Cunningham

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.

May 6, 2003 /s/ F. Lynn Blystone

F. Lynn Blystone
President and Chief Executive Officer

May 6, 2003 /s/ Thomas J. Cunningham

Thomas J. Cunningham
Secretary, Treasurer, Chief Financial Officer