TRI VALLEY CORP
Form 10-Q
August 11, 2008
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, 2008 Commission File No. 001-31852

Tri-Valley Corporation

(Exact name of registrant as specified in its charter)

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

4550 California Avenue, Suite 600, 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 o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (as defined in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares of Registrant's common stock outstanding at July 11, 2008, was 27,012,589.

TRI-VALLEY CORPORATION

INDEX

PART I

FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

TRI-VALLEY CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Current assets		
Cash	$ 2,590,505	$ 3,955,610
Cash restricted to OPUS I use	5,235,550	3,712,083
Accounts receivable, trade	4,096,669	313,521
Advances from joint venture participants, net	1,139,390	-
Prepaid expenses	12,029	12,029
Total current assets	13,074,143	7,993,243
Property and equipment, net		
Proved properties	2,127,298	2,143,907
Unproved properties	4,443,369	2,414,843
Rigs	5,368,185	6,731,758
Other property and equipment	5,252,880	4,942,145
Total property and equipment, net	17,191,732	16,232,653
Other assets		
Deposits	159,833	338,772
Invest in marketable securities (Note 4)	302,500	440,000
Investments in partnerships	17,400	17,400
Goodwill	212,414	212,414
Other	20,413	20,413
Total other assets	712,560	1,028,999
Total assets	$ 30,978,435	$ 25,254,895

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Current liabilities		
Notes payable	$ 419,302	$ 402,003
Accounts payable and accrued expenses	10,989,719	5,699,153
Deferred revenue	828,524	242,163
Amounts payable to joint venture participants	3,001,152	281,419
Advances from joint venture participants, net	-	3,671,927
Total current liabilities	15,238,697	10,296,665
Non-Current Liabilities		
Asset retirement obligation	268,395	240,394
Long-term portion of notes payable	2,228,203	2,355,707
Total non-current liabilities	2,496,598	2,596,101
Total liabilities	17,735,295	12,892,766
Minority interest	-	249,945
Stockholders’ equity		
Common stock, $.001 par value; 100,000,000 shares authorized; 26,941,764 and 25,077,184 issued and outstanding at June 30, 2008, and December 31, 2007, respectively	26,942	25,077
Less: common stock in treasury, at cost, 100,025 shares	(13,370)	(13,370)
Capital in excess of par value	43,504,264	37,090,714
Additional paid in capital – warrants	782,729	782,729
Additional paid in capital - stock options	2,194,709	1,800,642
Accumulated deficit	(33,207,578)	(27,586,553)
Accumulated other comprehensive income	(44,556)	12,945
Total stockholders' equity	13,243,140	12,112,184
Total liabilities, minority interest and stockholder's equity	$ 30,978,435	$ 25,254,895

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

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended June 30, 2008	2007	For the Six Months Ended June 30, 2008	2007
Revenues				
Sale of oil and gas	$ 1,245,950	$ 168,015	$ 1,628,374	$ 332,201
Gain on sale of asset (Note 8)	79,972	-	661,222	-
Rig income	567,078	560,366	1,122,384	1,810,869
Other income	347,461	571,329	500,277	672,940
Interest income	21,728	106,240	28,778	200,307
Total Revenues	2,262,189	1,405,950	3,941,035	3,016,317
Costs and expenses				
Oil and gas lease expense	319,469	116,098	377,032	204,493
Mining exploration expenses	126,471	45,662	130,371	113,152
Drilling and development	-	625,593	-	858,089
Rig operations	464,259	335,450	879,581	780,008
Depletion, depreciation and amortization	357,186	233,194	714,370	486,317
Interest	86,426	71,770	154,202	148,666
Impairment loss (Note 9)	870,948	-	870,948	246,862
General and administrative	3,378,098	2,767,609	6,266,853	5,228,219
Total costs and expenses	5,602,857	4,195,376	9,393,357	8,065,806
Loss before minority interest	(3,340,668)	(2,789,426)	(5,452,322)	(5,049,489)
Minority interest	-	-	(3,769)	-
Net Loss	(3,340,668)	(2,789,426)	(5,448,553)	(5,049,489)
Basic net loss per share:				
Loss from operations	$ (.12)	$ (.11)	$ (.21)	$ (.20)
Basic loss per common share	$ (.12)	$ (.11)	$ (.21)	$ (.20)
Weighted average number of shares outstanding	26,731,656	24,627,121	26,521,549	24,278,448
Potentially dilutive shares outstanding	29,459,573	28,032,887	29,510,391	27,555,100

No dilution is reported since net income is a loss per SFAS 128

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

5

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30, 2008	2007
Cash Flows from Operating Activities		
Net loss	$ (5,448,553)	$ (5,049,489)
Adjustments to reconcile net income to net cash used from operating activities:		
Depreciation, depletion and amortization	714,370	486,317
Impairment, dry hole and other disposals of property	-	258,862
Loss on Impairment of Fixed Assets	870,948	-
Minority interest	(3,769)	-
Stock options	394,067	653,210
Gain on sale of property	(661,222)	-
Warrants	-	316,852
Changes in operating capital:		
Increase in prepaids	-	(368,881)
Decrease in deposits and other assets	178,939	150,000
Increase in accounts receivable	(3,783,148)	(69,261)
Increase (decrease) in accounts payable, deferred revenue and accrued expenses	5,834,272	(939,490)
Increase (decrease) accounts payable to joint venture participants and related parties	2,719,733	(142,206)
Increase (decrease) in advances from joint venture participants	(4,811,317)	3,161,076
Net Cash Used by Operating Activities	(3,995,680)	(1,543,010)
Cash Flows from Investing Activities:		
Proceeds from sale of property	2,587,500	-
Proceeds from the sale of marketable securities	79,999	-
Investment in marketable securities	-	(380,000)
Buy back of minority interest in GVPS	(418,648)	(1,494,000)
Capital expenditures	(4,442,674)	(2,515,667)
Net Cash Used by Investing Activities	(2,193,823)	(4,389,667)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(67,550)	(3,847)
Net proceeds from additional paid in capital – stock options	293,514	496,547
Net proceeds from additional paid in capital – warrants	-	658,400
Net proceeds from minority interest holders – Great Valley Drilling/Great Valley Production	-	(400,551)
Stock issuance costs	(939,885)	(787,900)

Net proceeds from issuance of common stock	7,061,786	5,934,956
Net Cash Used by Financing Activities	$ 6,347,865	$ 5,897,605

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

TRI-VALLEY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30, 2008	2007
Net Increase in Cash and Cash Equivalents	158,362	(35,072)
Cash and Cash Equivalents at Beginning of Period	7,667,693	15,598,215
Cash and Cash Equivalents at End of Period	$ 7,826,055	$ 15,563,143

	For the Six Months Ended June 30, 2008	2007
Supplemental Information:		
Cash paid for interest	$ 154,202	$ 148,667

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

TRI-VALLEY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

June 30, 2008 and 2007

(Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Tri-Valley Corporation ("TVC" or the Company), a Delaware corporation formed in 1971, is in the business of exploring, acquiring and developing petroleum and metal and mineral properties and interests therein.

The Company identifies reportable segments by product. The Company includes revenues from both external customers and revenues from transactions with other operating segments in its measure of segment profit or loss. The Company also includes interest revenue, DD&A, and other operating expenses in its measure of segment profit or loss. The results of these four segments are presented in Note 7 to the Consolidated Financial Statements.

The Company's four industry segments are:

- *Oil and gas operations* include our share of revenues from oil and gas wells on which Tri-Valley Oil and Gas Company serves as operator, royalty income and production revenue from other partnerships in which we have operating or non-operating interests. It also includes revenues for consulting services for oil and gas related activities.

- *Rig operations* began in 2006, when the Company acquired drilling rigs and began operating them through subsidiaries Great Valley Production Services, LLC, and Great Valley Drilling Company, LLC. Rig operations include income from rental of oil field equipment and income received from refurbishing and selling oilfield equipment.

- *Minerals* include the Company's mining and mineral prospects and operations, and expenses associated with those operations.

- *Drilling and development* includes revenues received from oil and gas drilling and development operations performed for joint venture partners, including the Opus-I drilling partnership.

The Company has five subsidiaries:

- Tri-Valley Oil & Gas Company ("TVOG") operates the oil & gas activities. TVOG derives the majority of its revenue from oil and gas drilling and turnkey development. TVOG primarily generates its own exploration prospects from its internal database, and also screens prospects from other geologists and companies. TVOG generates these geological "plays" within a certain geographic area of mutual interest. The prospect is then presented to potential co-ventures. The company deals with both accredited individual investors and energy industry companies. TVOG serves as the operator of these co-ventures. TVOG operates both the oil and gas production segment and the drilling and development segment of our business lines.

- Select Resources Corporation (“Select”) was created in late 2004 to manage, grow and operate the minerals segment of our business lines.

- Great Valley Production Services, LLC, (“GVPS”) was formed in 2006 to operate oil production services, well work over and drilling rigs, primarily for TVOG. Tri-Valley currently owns 100% of GVPS. In July of 2008, the drilling rigs were sold so that going forward the primary operations of GVPS will be to refurbish oilfield equipment for use in the Company’s operations and for sale to outside third parties.

- Great Valley Drilling Company, LLC ("GVDC") was formed in 2006 to operate oil drilling rigs, primarily in Nevada where Tri-Valley has 17,000 acres of prospective oil leases. However, because rig availability is scarce in Nevada, GVDC has an opportunity to do contract drilling for third parties in both petroleum and geothermal projects. For the time being GVDC, whose operation began in the first quarter of 2007, expects its primary activity will be contract drilling for third parties. GVDC is 100% owned by TVC.

- Tri-Valley Power Corporation is inactive at the present time.

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, 2008, 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 in the United States of America; and, therefore, should be read in conjunction with our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 14, 2008, for the year ended December 31, 2007.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, TVOG, Select, GVDC, GVPS, Tri-Valley Power Corporation, since their inception. Other partnerships in which the Company has an operating or nonoperating interest in which the Company is not the primary beneficiary and owns less than 51%, are proportionately combined. This includes Opus I, Martins-Severin, Martins-Severin Deep, and Tri-Valley Exploration 1971-1 partnerships. All material intra and intercompany accounts and transactions have been eliminated in combination and consolidation.

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 – SUMMARY OF RECENTLY ISSUED ACCOUNTING PRONOUCEMENTS

Accounting for Uncertainty in Income Taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes* – An interpretation of FASB Statement No. 109" ("FIN 48"). This Interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. We adopted this Interpretation in 2007 with no effect to the Company and the adoption has not had a material impact on our financial position or results of operations.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements."* This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair

NOTE 3 - Recently Issued Accounting Pronouncements (Continued)

value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning subsequent to November 15, 2007. We adopted this Statement in the first quarter of 2008, and we do not expect the adoption to have a material impact on our financial position or results of operations.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*," which permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of SFAS No. 159 is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. Under SFAS No. 159, entities that elect the fair value option (by instrument) will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. The Company adopted this statement effective beginning January 1, 2008, and we do not expect the adoption to have a material impact on our financial position or results of operations.

Noncontrolling Interest in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51"*. SFAS No. 160 establishes new accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements. The amount of net income attributable to a noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 requires that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosures regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. We do not expect the adoption of SFAS No. 160 to have a material impact on our financial position or results of operations.

The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles".* SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The new standard becomes effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. SFAS No. 162 is not expected to have a material impact on our consolidated financial position or results of operations.

NOTE 4 – INVESTMENT

In the second quarter of 2007, the Company received 150,000 stock options for Duluth Metals common stock for providing executive and geological services for Duluth Metals. The stock options are exercisable at $0.30 Canadian. During the fourth quarter of 2007, the options were exercised and converted into stock at a cost of $47,055. During the second quarter, 30,000 shares of stock were sold at an average price of $2.82 Canadian. The market value of the stock on June 30, 2008, was $2.53 Canadian. The Company follows the provisions of Statement of Financial Accounting Standards No. 115 (SFAS 115), "*Accounting for Certain Investments in Debt and Equity Securities*." SFAS 115 requires companies to classify their investments as trading, available-for-sale or held-to-maturity. The

Company’s securities consist of stock which has been classified as available-for-sale. These are recorded in the financial statements at fair market value and any unrealized gains (losses) will be reported as a component of shareholder equity. At June 30, 2008, the cost basis net of write-downs, unrealized gains, unrealized losses and fair market value of the Company's holdings are as follows:

	June 30, 2008
Net cost of equities	$ 341,644
Unrealized Losses	(39,144)
Fair Market Value	$ 302,500

SFAS 115 requires that for each individual security classified as available-for-sale, a company shall determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged as such, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be reflected in other comprehensive income of the equity section. At June 30, 2008, the company's marketable securities had a fair market value of $302,500. The unrealized loss of $28,500 for the second quarter of 2008 is reported as other comprehensive income bringing the net unrealized loss inception to date to $39,144.

This investment was translated into U.S. Dollars in accordance with SFAS No. 52,*“Foreign Currency Translation*.” The investment was translated at the rate of exchange on the balance sheet date.

NOTE 5 - CHANGES IN SECURITIES

Common Stock

During the second quarter of 2008, the Company issued 950,575 shares of common stock. An employee exercised employee stock options issued in previous years to purchase 10,500 shares of common stock totaling $5,250. A former officer exercised his stock options in a cashless exercise and was issued 412,920 shares of common stock. The remaining 527,155 shares were issued in private placements at prices of $5.00 to $8.00 per share, for a total consideration of $ 2,981,002. Total stock issuance cost for the second quarter was $544,485.

NOTE 6 – STOCK BASED COMPENSATION EXPENSE

Stock Based Compensation

Compensation expense charged against income for stock based awards in the second quarter of 2008 and 2007 was $186,104 and $401,411, pre-tax, respectively, and is included in general and administrative expense in the Consolidated Statement of Operations.

For further information regarding stock based compensation, please refer to Note 5 of the Notes to the Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2007.

NOTE 7 - FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS

The Company reports operating segments according to SFAS No. 131, *"Disclosure about Segments of an Enterprise and Related Information."*

The Company identifies four principal industry segments by products and services, which are described in *Note 1 – Description of Business and Basis of Presentation – Description of Business*. The Company includes revenues from both external customers and revenues from transactions with other operating segments in its measure of segment profit or loss.

The following table sets forth our revenues by segment for the six months ended June 30, 2008 and the six months ended June 30, 2007, in thousands:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Sales and Other Revenues				
Oil & Gas	$ 1,508	$ 302	$ 2,531	$ 594
Rigs & refurbishing operations	611	631	1,267	1,944
Minerals	143	473	143	478
Consolidated Sales and Other Revenues	$ 2,262	$ 1,406	$ 3,941	$ 3,016