TRI VALLEY CORP
Form 10-Q
November 13, 2002

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 September 30, 2002   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 incorporation or organization)   (I.R.S. Employer Identification No.)

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, 2002 was 19,710,748.

TRI-VALLEY CORPORATION

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

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

TRI-VALLEY CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2002. (Unaudited)	.Dec. 31, 2001 (Audited)
Current Assets		
Cash	$ 2,371,479	$ 911,913
Accounts receivable, trade .	112,867	107,225
Prepaid expenses	12,029	12,029
Total Current Assets . . .	2,496,375	1,031,167
Property and Equipment, Net. .	2,089,471	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 December 31, 2001 . . .	212,414	212,414
Total Other Assets . . .	340,133	340,133

Total Assets	$ 4,925,979	$ 3,381,757

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2002	Dec. 31, 2001
CURRENT LIABILITIES		
Notes and contracts payable.	$ 1,743	$ 8,265
Trade accounts payable	1,038,002	297,001
Amounts payable to joint venture participants	55,917	59,631
Advances from joint venture participants	2,968,658	2,654,713
Total Current Liabilities.	4,064,320	3,019,610
Long-term Portion of Notes and Contracts Payable.	41,029	8,371
Commitments		
Shareholders' Equity		
Common stock, $.001 par value: 100,000,000 shares authorized; 19,710,748 and 19,689,748 issued and outstanding at Sept 30, 2002 and Dec. 31, 2001, respectively. .	19,716	19,555
Less: Common stock in treasury, at cost, 163,925 shares	(21,913)	(21,913)
Capital in excess of par value . . .	8,766,327	8,746,653
Accumulated deficit.	(7,943,500)	(8,390,654)
Total Shareholders' Equity	820,630	353,776
Total Liabilities and		

Shareholders' Equity	$ 4,925,979	$ 3,381,757

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

TRI-VALLEY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months		For the N
	2002	2001	2002
Revenues			
Sale of oil and gas	$ 178,218	$ 177,904	$ 533,614
Other income	19,293	116,351	59,291
Sale of direct working interest	3,720,657	-0-	4,358,047
Interest income	5,707	4,305	12,898
Total Revenues	3,923,875	298,560	4,963,850
Cost and Expenses			
Oil and gas lease expense	23,572	45,765	161,260
Mining exploration expenses	33,538	70,347	76,355
Project geology, geophysics, land & administration	1,027,213	54,137	1,293,401
Cost of sale of asset	1,487,689	-0-	2,115,375
Depletion, depreciation and amortization	12,982	16,102	38,945
Interest	602	690	1,079
General administrative	266,726	283,691	830,281
Total Cost and Expenses	2,852,322	470,732	4,516,696
Net Income/(Loss)	$ 1,071,553	$ (172,172)	$ 447,154
Net Income (Loss) per Common Share	$ .05	$ (.01)	$ .02
Weighted Average Number of Shares	19,707,248	19,689,748	19,707,248

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

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

	For the Nine Months Ended Sept 30, 2002	For the Nine Months Ended Sept 30, 2001
Cash Flows from Operating Activities		
Net loss/profit	$ 447,154	$ 144,288
Adjustments to reconcile net income to net cash used from operating activities:		
Depreciation, depletion and amortization	38,945	45,834
Shares issued officer compensation	11,700	-0-
Changes in operating capital:		
Amounts receivable-(Increase)decrease	(5,642)	690,272
Trade accounts payable-Increase(decrease)	767,137	(425,096)
Amounts payable to joint venture participants and related parties-Increase(decrease)	(3,714)	(445,068)
Advances from joint venture Participants-Increase(decrease)	313,945	(109,039)
Net Cash Used by Operating Activities	1,569,525	(98,809)
Cash Flows from Investing Activities		
Capital expenditures	(117,959)	(652,738)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(135)	(5,104)
Proceeds from issuance of common stock	8,135	57,000
Net Cash Provided (used) by Financing Activities	8,000	51,896
Net Increase (Decrease) in Cash and Cash Equivalents	1,459,566	(699,651)
Cash and Cash Equivalents at Beginning Of Period	911,913	1,373,570
Cash and Cash Equivalents at End of Period	$2,371,479	$ 673,919
Supplemental Information:		
Cash paid for interest	$ 1,079	$ 3,446
Cash paid for taxes	$ 5,137	$ 7,779

TRI-VALLEY CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 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 nine-month period ended September 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-KSB 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.

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.

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.

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

We began drilling the Sunrise-Mayel No. 2-H on July 12, 2002. Next, we hydraulically fractured the well, which was done on September 7, 2002. We are cleaning out the "frac" fluids and evaluating the results.

We are planning to commence drilling the Aurora #1-19 well in November. The well is a 5,800' deep test well. It is estimated to take 19 days to drill and another 12 days to complete.

Precious Metals

We had no activity on our Alaska claims block this season. We were unable to secure funding timely enough to allow any significant work to be performed. Hopefully, we will be able to secure financing earlier in 2003 to allow us to do some of the additional work that is needed.

Three Months Ended Sept. 30, 2002 as compared with Three Months ended Sept. 30, 2001

In the quarter ended September 30, 2002 total revenue was $3,923,875 compared to $298,500 for the same quarter in 2001. This increase was from the sale of turnkey drilling interests in the Sunrise-Mayel #2H. Sale of oil and gas income this quarter was approximately the same as this same period in 2001. Other income was $97,058 less this quarter due to distribution in 2001 from a non-operated drilling partnership.

Costs and expenses increased $2,381,590 for the period ending September 30, 2002 compared to the same period last year. Oil and gas lease expenses were $23,572 in the third quarter of 2002 compared to $45,765 in the same quarter last year due to less well workover expenses in 2002. Mining costs are $36,809 less this quarter due to decreased activity on our Alaska mining claims this year. Our project geology, geophysics, land and administration costs were $973,076 higher in the quarter ended September 30, 2002 because of increased land acquisition costs and geologic work over the same period last year. Cost of sales in this quarter of $1,487,689 is the cost related to the sale of turnkey drilling prospects.

For the quarter ended September 30, 2002 we had income of $1,071,553 compared to a loss of $172,172 for the third quarter ended September 30, 2001. This was due to the sale of a prospect.

Nine Months Ended Sept. 30, 2002 as compared to September 30, 2001

Total revenue was $4,963,850 for the nine months ended September 20, 2002, which is an increase of $3,301,334 compared to the same period in 2001. This increase was due to the sale of turnkey drilling interests in several prospects. We had a decrease of $130,752 in other income the first nine months of 2002 compared to the same period in 2001 due to distribution in 2001 from a non-operated drilling partnership.

We had costs and expenses of $4,516,696 for this nine-month period compared to $1,518,228 in the same period in 2001. This increase of $2,998,468 is due to the cost of the sale of turnkey drilling interests in prospects we sold this first nine months. We had a decrease in oil and gas lease expense of $127,049 because of reduced workover expenses. Mining expenses were $459,374 less for the nine months ending September 30, 2002 compared to the same period in 2001 due to reduced activity on our mining claims. We were unable to get the necessary funding in a timely manner to enable us to perform any significant activity. Project geology, geophysics and land costs are $1,037,310 higher this year due to increased land acquisition and related geologic work. We had cost of sales of $2,115,375 associated with the sale of direct working interests the same period in 2001.

We had net income of $447,154 for the nine months ended September 30, 2002 compared to $144,288 for the same period in 2001. This is due mainly from the profit generated from the sale of direct working interests in our drilling projects.

Capital Resources and Liquidity

Current assets are $2,496,375 at September 30, 2002 compared to $1,031,167 as of December 31, 2001. This is due to an increase in cash from our capital formation program Opus 1. Current liabilities are $4,064,320 for the nine months ended September 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 $1,569,525 for the nine months ended September 30, 2002 compared to a negative cash flow of $98,809 for the same period in 2001. This change is due to funds acquired in 2002 from joint venture participants for drilling activity. Our primary sources of operating funds are comprised of selling prospects and oil and gas sales.

Investing Activities. In the first nine months of 2002, we spent $117,959 on capital expenditures compared to $652,738 for the same period in 2001. 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 provided by investing activities was $8,000 compared to $51,896 for the same period in 2001. This decline was due to the issuance of $57,000 dollars of common stock in the first nine months of 2001 compared to $8,135 this year for sales of restricted company stock in private transactions.

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 September 30, 2002, 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 September 30, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to September 30, 2002.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

During the quarter ended September 30, 2002, we issued 5,000 shares of our 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 13, 2002 /s/ F. Lynn Blystone
F. Lynn Blystone
President and Chief Executive Officer

November 13, 2002 /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;

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: November 13, 2002

/s/ F. Lynn Blystone

Chief Executive Officer

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;

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: November 13, 2002

/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.

November 13, 2002 /s/ F. Lynn Blystone

F. Lynn Blystone
President and Chief Executive Officer

November 13, 2002 /s/ Thomas J. Cunningham

Thomas J. Cunningham
Secretary, Treasurer, Chief Financial Officer