

TRI VALLEY CORP
Form 10-K
March 31, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2004

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 (I.R.S. Employer Identification No.)
or organization)

5555 Business Park South, Suite 200, Bakersfield, California 93309
(Address of Principal Executive Offices)

Registrant's Telephone Number Including Area Code: **(661) 864-0500**

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, \$0.001 par value
(Title of Class)

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 requirement for the past 90 days.

Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, if applicable, or any amendment to this Form 10-K.

The issuer's revenues for the most recent fiscal year were \$4,498,670.

As of February 28, 2005, 22,247,052 common shares were issued and outstanding, and the aggregate market value of the common shares of Tri-Valley Corporation held by non-affiliates on that date was approximately \$309,866,291.

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format (check one): Yes No

Exhibit Index appears on page 57

TABLE OF CONTENTS

PART I		
ITEM 1	Business	1
	Competition	1
	Governmental Regulation	1
	Environmental Regulation	2
	Employees	3
	Available Information	3
ITEM 2	Properties	3
	Oil and Gas Operations	3
	Mining Activity	5
ITEM 4	Submission of Matters To A Vote Of Security Holders	6
PART II		
ITEM 5	Market Price Of The Registrant's Common Stock And Related Security Holder Matters	6
	Recent Sales of Unregistered Securities	7
ITEM 6	Selected Historical Financial Data	7
ITEM 7	Management's Discussion And Analysis Of Financial Condition	7
	Notice Regarding Forward-Looking Statements	7
	Overview	7
	Restatements	8
	Critical Accounting Policies	9
	Results of Operations	12
	Financial Condition	12
	Operating Activities	13
ITEM 8	Financial Statements	15
ITEM 9A	Controls and Procedures	51
	Evaluation of Disclosure Controls	51
	Internal Control over Financial Reporting	51
PART III		
ITEM 10	Directors and Executive Officers of the Registrant	52
ITEM 11	Executive Compensation	55
	Employment Agreement with Our President	56
	Compensation Committee Report	56
	Aggregated 2003 Option Exercises and Year-End Values	56
	Compensation of Directors	56
	Performance Graph	57
ITEM 12	Security Ownership of Certain Beneficial Owners and Management	57
ITEM 14	Principal Accountant Fees and Services	58
ITEM 15	Exhibits and Financial Statement Schedules	58
SIGNATURES		60

PART I

ITEM 1 Business

Tri-Valley Corporation, a Delaware corporation formed in 1971, is in the business of exploring, acquiring and developing prospective and producing petroleum, industrial minerals and precious metals properties and interests therein. Substantially all of our oil and gas reserves are located in northern California. Tri-Valley has three wholly owned subsidiaries. Tri-Valley Oil & Gas Company, Select Resources Corporation Inc., and Tri-Valley Power Corporation.

Tri-Valley Oil & Gas Company (“TVOG”) operates the oil & gas activities. TVOG derives the majority of its revenue from sale of oil and gas properties. 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 is the operator of these co-ventures.

We sell substantially all of our oil and gas production to ConocoPhillips. Other gatherers of oil and gas production operate within our area of operations in California, and we are confident that if ConocoPhillips ceased purchasing our production we could find another purchaser on similar terms with no adverse consequences to our income or operations.

In 1987, we acquired precious metals claims on Alaska state lands. We have conducted exploration operations on these properties and have reduced our original claims to a block of approximately 28,720 acres (44.9 square miles). We have conducted trenching, core drilling, bulk sampling and assaying activities to date and have reason to believe that mineralization exists to justify additional exploration activities. However, to date, we have not identified probable mineral reserves on these properties. There is no assurance that a commercially viable mineral deposit exists on any of these above-mentioned mineral properties. Further exploration is required before a final evaluation as to the economic and legal feasibility can be determined.

In December 2004, we created Select Resources Corporation as a wholly owned subsidiary. In 2004, Select Resources engaged in limited activities associated with its organization. We expect to transfer our existing gold mining properties located near Richardson, Alaska, to this new subsidiary. In addition, the new subsidiary will endeavor to acquire and develop new precious metals and other industrial mineral properties.

Tri-Valley Power Corporation is the third wholly owned subsidiary. However, this subsidiary is inactive at the present time.

Competition

The oil and gas industry is highly competitive in all its phases. Competition is particularly intense with respect to the acquisition of desirable producing properties, the acquisition of oil and gas prospects suitable for enhanced production efforts, and the hiring of experienced personnel. Our competitors in oil and gas acquisition, development, and production include the major oil companies in addition to numerous independent oil and gas companies, individual proprietors and drilling programs. Many of these competitors possess and employ financial and personnel resources substantially greater than those which are available to us and may be able to pay more for desirable producing properties and prospects and to define, evaluate, bid for, and purchase a greater number of producing properties and prospects than we can. Our financial or personnel resources to generate reserves in the future will be dependent on our ability to select and acquire suitable producing properties and prospects in competition with these companies.

Governmental Regulation

Domestic exploration for the production and sale of oil and gas is extensively regulated at both the federal and state levels. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations affecting the oil and gas industry which often are difficult and costly to comply with and which carry substantial penalties for noncompliance. State statutes and regulations require permits for drilling operations, drilling bonds, and reports concerning operations. Most states in which we will operate also have statutes and regulations governing conservation matters, including the unitization or pooling of properties and the establishment of maximum rates of production from wells. Many state statutes and regulations may limit the rate at which oil and gas could otherwise be produced from acquired properties. Some states have also enacted statutes prescribing ceiling prices for natural gas sold within their states. Our operations are also subject to numerous laws and regulations governing plugging and abandonment, the discharge of materials into the environment or otherwise relating to environmental protection. The heavy regulatory burden on the oil and gas industry increases its costs of doing business and consequently affects its profitability. We cannot be sure that a change in such laws, rules, regulations, or interpretations, will not harm our financial condition or operating results.

Environmental Regulation

Mining Activities

Mining activities in the United States are subject to federal and state laws and regulations covering mining safety and environmental quality. However, because we do not have active mining operations at present, these regulations have little impact on our current activities. In 2004, 2003 and 2002, the regulatory requirements had no significant effect on our precious metals activity as we continued our exploration efforts.

Should we seek to develop our precious metals claims, development efforts would require compliance with mining laws and regulations. State and federal laws impose minimum safety standards to protect workers in the construction and development of mines and conduct of mining operations. Mining activities are subject to environmental regulation of the output of mines, particularly in the storage and disposal of waste from mining operations. Environmental regulations restrict the storage, use and disposal of both the materials used in mining operations and the waste contained in mineral ore, all of which contain toxic materials that would damage the surrounding land and ground water if not carefully handled.

In addition, federal and state regulations call for reclamation of land which has been altered by mining activities. These regulations may require significant expenditures to clean up a mining site during and after mining.

Before we could begin actual mining operations on our claims, we would have to develop a feasibility study which would, among other things, address the potential costs of labor, safety and environmental regulation on any proposed mining activity.

Energy Operations

Our energy operations are subject to risks of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards, such as oil spills, natural gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. In accordance with customary industry practice, we maintain insurance against these kinds of risks, but we cannot be sure that our level of insurance will cover all losses in the event of a drilling or production catastrophe. Insurance is not available for all operational risks, such as risks that we will drill a dry hole, fail in an attempt to complete a well or have problems maintaining production from existing wells.

Oil and gas activities can result in liability under federal, state, and local environmental regulations for activities involving, among other things, water pollution and hazardous waste transport, storage, and disposal. Such liability can attach not only to the operator of record of the well, but also to other parties that may be deemed to be current or prior operators or owners of the wells or the equipment involved. Numerous governmental agencies issue rules and regulations to implement and enforce such laws, which are often difficult and costly to comply with and which carry substantial administrative, civil and criminal penalties and in some cases injunctive relief for failure to comply. Some laws, rules and regulations relating to the protection of the environment may, in certain circumstances, impose "strict liability" for environmental contamination. These laws render a person or company liable for environmental and natural resource damages, cleanup costs and, in the case of oil spills in certain states, consequential damages without regard to negligence or fault. Other laws, rules and regulations may require the rate of oil and gas production to be below the economically optimal rate or may even prohibit exploration or production activities in environmentally sensitive areas. In addition, state laws often require some form of remedial action, such as closure of inactive pits and plugging of abandoned wells, to prevent pollution from former or suspended operations.

The federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the "Superfund" law, imposes liability, without regard to fault, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the current or prior owner or operator of the disposal site or sites where the release occurred and companies that transported, disposed or arranged for the transport or disposal of the hazardous substances found at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for the federal or state government to pursue such claims. It is also not uncommon for neighboring landowners and other third parties to file claims for personal injury or property or natural resource damages allegedly caused by the hazardous substances released into the environment. Under CERCLA, certain oil and gas materials and products are, by definition, excluded from the term "hazardous substances." At least two federal courts have held that certain wastes associated with the production of crude oil may be classified as hazardous substances under CERCLA. Similarly, under the federal Resource, Conservation and Recovery Act, or RCRA, which governs the generation, treatment, storage and disposal of "solid wastes" and "hazardous wastes," certain oil and gas materials and wastes are exempt from the definition of "hazardous wastes." This exemption continues to be subject to judicial interpretation and increasingly stringent state interpretation. During the normal course of operations on properties in which we have an interest, exempt and non-exempt wastes, including hazardous wastes, that are subject to RCRA and comparable state statutes and implementing regulations are generated or have been generated in the past. The federal Environmental Protection Agency and various state agencies continue to promulgate regulations that limit the disposal and permitting options for certain hazardous and non-hazardous wastes.

Compliance with environmental requirements, including financial assurance requirements and the costs associated with the cleanup of any spill, could have a material adverse effect on our capital expenditures or earnings. These laws and regulations have not had a material affect on our capital expenditures or earnings to date. Nevertheless, changes in environmental laws have the potential to adversely affect operations. At this time, we have no plans to make any material capital expenditures for environmental control facilities.

Employees

We had a total of five full-time employees, one part-time bookkeeper, and three consultants on December 31, 2004.

Available Information

We file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission using SEC's EDGAR system. The SEC maintains a site on the Internet at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding us and other registrants that file

reports electronically with the SEC. You may read and copy any materials that we file with the SEC at its Public Reference Room at 450 5th Street, N.W., Washington, D.C. 20549. Our common stock is listed on the American Stock Exchange, under the symbol TIV. Please call the SEC at 1-800-SEC-0330 for further information about their public reference rooms. Our website is located at <http://www.tri-valleycorp.com>.

We furnish our shareholders with a copy of our annual report on Form 10-K, which contains audited financial statements, and such other reports as we, from time to time, deem appropriate or as may be required by law. We use the calendar year as our fiscal year.

ITEM 2 Properties

Our headquarters and administrative offices are located at 5555 Business Park South, Suite 200, Bakersfield, California 93309. We lease approximately 4,500 square feet of office space at that location. Our principal properties consist of proven and unproven oil and gas properties, mining claims on unproven precious metals properties, maps and geologic records related to prospective oil and gas and unproven precious metal properties, office and other equipment. TVOG has a worldwide geologic library with data on every continent except Antarctica including over 700 leads and prospects in California, our present area of emphasis.

Oil and Gas Operations

The oil and gas properties in which we hold interests are primarily located in the area of central California known as the Sacramento Valley. We also lease exploration acreage in the San Joaquin and Santa Maria Valleys. Tri-Valley contracts for the drilling of all wells and do not own any drilling equipment, bulk storage facilities, or refineries. Tri-Valley do own a small segment of pipeline at Tracy, California.

Tri-Valley has retained the services of Cecil Engineering, an independent engineer qualified to estimate our net share of proved developed oil and gas reserves on all of our oil and gas properties at December 31, 2004 for SEC filing. We do not include any undeveloped reserves in these reserve studies. Only proved developed reserves are listed in our reserve report. Price is a material factor in our stated reserves, because higher prices permit relatively higher-cost reserves to be produced economically. Higher prices generally permit longer recovery, hence larger reserves at higher values. Conversely, lower prices generally limit recovery to lower-cost reserves, hence smaller reserves. The process of estimating oil and gas reserve quantities is inherently imprecise. Ascribing monetary values to those reserves, therefore, yields imprecise estimated data at best.

Our estimated future net recoverable oil and gas reserves from proved developed properties as of December 31, 2004, December 31, 2003 and December 31, 2002 were as follows:

	BBL		MCF
December 31, 2004	Condensate	150	Natural Gas 818,919
December 31, 2003	Condensate	150	Natural Gas 1,319,887
December 31, 2002	Condensate	150	Natural Gas 1,492,245

Using year-end oil and gas prices and current levels of lease operating expenses, the estimated present value of the future net revenue to be derived from our proved developed oil and gas reserves, discounted at 10%, was \$1,958,238 at December 31, 2004, \$2,270,632 at December 31, 2003, and \$2,224,270 at December 31, 2002. The unaudited supplemental information attached to the consolidated financial statements provides more information on oil and gas reserves and estimated values.

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The following table sets forth the net quantities of natural gas and crude oil that we produced during:

	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Natural Gas (MCF)	126,942	162,314	232,578
Crude Oil (BBL)	22	25	29

The following table sets forth our average sales price and average production (lifting) cost per unit of oil and gas produced during:

	Year Ended December 31, 2004		Year Ended December 31, 2003		Year Ended December 31, 2002	
	Gas (Mcf)	Oil*	Gas (Mcf)	Oil*	Gas (Mcf)	Oil*
Sales Price	\$5.66	\$40.60	\$5.07	\$29.46	\$3.07	\$19.13
Production Costs	\$1.14	0	\$0.78	0	\$0.98	0
Net Profit	\$4.52	\$40.60	\$4.29	\$29.46	\$2.09	\$19.13

* Amount represents total sales price of associated condensate, unable to determine price per barrel.

As of December 31, 2004 we had the following gross and net position in wells and developed acreage:

Wells (1)		Acres (2)	
Gross	Net	Gross	Net
11	4.537	2,192	645

(1) "Gross" wells represent the total number of producing wells in which we have a working interest. "Net" wells represent the number of gross producing wells multiplied by the percentages of the working interests which we own. "Net wells" recognizes only those wells in which we hold an earned working interest. Working interests earned at payout have not been included.

(2) "Gross" acres represent the total acres in which we have a working interest; "net" acres represent the aggregate of the working interests which we own in the gross acres.

The following table sets forth the number of productive and dry exploratory and development wells which we drilled during:

	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Exploratory Producing	-0-	-0-	-0-
Recompleting			1
Dry	1		2
Total	-1-	-0-	3

Development			
Producing	-0-	-0-	-0-
Dry	-0-	-0-	-0-
Total	-0-	-0-	-0-

We drilled 1 well in 2004, which was determined to be non-commercial.

The following table sets forth information regarding undeveloped oil and gas acreage in which we had an interest on December 31, 2004:

State	Gross Acres	Net Acres
California	34,879	29,971
Nevada	21,737	21,737

Some of our undeveloped acreage is held pursuant to leases from landowners. Such leases have varying dates of execution and generally expire one to five years after the date of the lease. In the next three years, the following lease gross acreage expires:

Expires in 2005	7,151 acres
Expires in 2006	4,260 acres
Expires in 2007	160 acres

Mining Activity

The precious metals properties are located in interior Alaska. They are comprised of 626 40-acre claims and 15 160-acre claims, of which 104 claims are leased from others, all are located solely on State owned lands requiring annual assessment work, and an annual per claim fee. All fees are current. During 2004, the Company staked 12 new 40-acre claims and 5 new 160-acre claims for a total of 1,280 additional acres.

The mining claim block covers about 44.9 square miles or 28,720 acres of land, all of which is owned by the State of Alaska. The claims lie within T-5-6-7 S, R 5-6-7-8 E, Fairbanks Meridian, immediately north of the Richardson Highway, an all-weather paved highway that connects Fairbanks, Alaska, with points south and east. Fairbanks is approximately 65 miles northwest of Richardson, and Delta Junction, also on the highway, is about 30 miles to the southeast. The Trans Alaska Pipeline corridor is near the northeastern edge of the claim block and the service road along the pipeline provides access to the claims from the north. Numerous good to fair dirt roads traverse the claims.

The following table sets forth the information regarding the acreage position we have under lease in Alaska as of December 31, 2004: