

GEOPETRO RESOURCES CO
Form 10-Q
May 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-16749

GeoPetro Resources Company

(Exact name of registrant as specified in its charter)

California
(State of incorporation)

94-3214487
(IRS Employer Identification Number)

One Maritime Plaza, Suite 700
San Francisco, CA
(Address of principal executive offices)

94111
(Zip Code)

(415) 398-8186

(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 .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

There were 32,700,970 shares of no par value common stock outstanding on May 13, 2008.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GEOPETRO RESOURCES COMPANY

UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,147,765	\$ 4,294,565
Trade accounts receivable oil and gas sales	848,043	965,188
Accounts receivable other	535,763	345,862
Prepaid expenses	97,869	118,065
Total current assets	4,629,440	5,723,680
Oil and gas properties, at cost (full cost method):		
Unevaluated properties	7,904,289	5,848,195
Evaluated properties	47,584,533	47,428,750
Less accumulated depletion and impairment	(15,447,683)	(14,917,700)
Net oil and gas properties	40,041,139	38,359,245
Furniture, fixtures and equipment, at cost, net of depreciation	23,980	26,727
Other assets deposits and other noncurrent assets	7,436	6,954
Total Assets	\$ 44,701,995	\$ 44,116,606
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Trade payables	\$ 826,036	\$ 666,293
Production taxes payable	168,945	407,246
Other taxes payable	30,726	161,032
Royalty owners payable	1,265,584	979,743
Net profits interest payable	280,147	147,513
Total current liabilities	2,571,438	2,361,827
Asset Retirement Obligations	55,022	53,726
Commitments and Contingencies (Notes 2 and 8)		
Shareholders Equity:		
Common stock, no par value; 100,000,000 shares authorized; 31,950,970 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	52,645,168	52,645,168
Additional paid-in capital	2,249,465	2,219,109
Treasury stock, at cost, 1,257,043 shares held at March 31, 2008 and December 31, 2007, respectively	(1,152,435)	(1,152,435)
Accumulated deficit	(11,666,663)	(12,010,789)

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Total shareholders' equity		42,075,535		41,701,053
Total Liabilities and Shareholders' Equity		\$ 44,701,995	\$	44,116,606

See accompanying notes to these unaudited consolidated financial statements.

GEOPETRO RESOURCES COMPANY

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	March 31, 2008	March 31, 2007
Revenues		
Oil and gas sales	\$ 2,142,598	\$ 1,823,342
Costs and expenses:		
Lease operating expense	343,823	427,277
General and administrative	715,423	759,356
Net profits interest	228,061	184,204
Depreciation and depletion expense	534,430	576,942
Total costs and expenses	1,821,737	1,947,779
Income (loss) from operations	320,861	(124,437)
Other Income and (Expense):		
Interest expense		(86,182)
Interest income	30,065	28,005
Total other expense	30,065	(58,177)
Net Income (Loss) Before Taxes	350,926	(182,614)
Income tax expense	(6,800)	
Net Income (Loss) After Taxes	344,126	(182,614)
Net Income (Loss) Available to Common Shareholders	\$ 344,126	\$ (182,614)
Earnings (Loss) per Share:		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)
Weighted Average Number of Common Shares Outstanding:		
Basic	31,950,970	27,526,895
Diluted	33,210,448	27,526,895

See accompanying notes to these unaudited consolidated financial statements.

GEOPETRO RESOURCES COMPANY

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended	
	March 31, 2008	March 31, 2007
Cash Flows From Operating Activities:		
Net income (loss)	\$ 344,126	\$ (182,614)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and depletion	534,430	576,942
Share-based compensation expense	30,355	34,935
Non-cash interest expense		38,742
Accretion of discount on asset retirement obligations	1,037	707
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	117,145	(381,971)
(Increase) decrease in other receivables	(189,901)	45,370
Decrease in prepaid expenses	20,196	57,475
Deposits and other noncurrent assets	(482)	(750)
Increase in trade payables	159,744	576,900
Decrease in interest payable		(49,162)
Decrease in dividends payable		(133,438)
Decrease in production taxes payable	(238,301)	(524,071)
Decrease in other payable	(130,308)	(5,590)
Increase in royalty owners payable	285,841	119,707
Increase in net profit interest payable	132,636	110,732
Increase in asset retirement obligations	259	471
Net cash provided by operating activities	1,066,777	284,385
Cash Flows from Investing Activities:		
Oil and gas property expenditures	(2,211,876)	(945,895)
Acquisition of furniture, fixtures & equipment	(1,701)	
Net cash used in investing activities	(2,213,577)	(945,895)
Cash Flows from Financing Activities:		
Proceeds from sale of common shares, option and warrant exercises, net		71,729
Proceeds from promissory notes, net		1,000,000
Payments of loan fee		(57,000)
Repayments of promissory notes		(100,000)
Net cash provided by financing activities		914,729
Net Increase (Decrease) in Cash and Cash Equivalents:	(1,146,800)	253,219
Cash and Cash Equivalents:		
Beginning of period	4,294,565	734,561
End of period	\$ 3,147,765	\$ 987,780
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$	\$ 47,440
Cash paid for income taxes	\$ 6,800	\$

See accompanying notes to these unaudited consolidated financial statements.

GEOPETRO RESOURCES COMPANY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND USE OF ESTIMATES:

The interim consolidated financial statements of GeoPetro Resources Company (we, us, our, GeoPetro or the Company) are unaudited and contain all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for a full year or for previously reported periods due in part, but not limited to, the volatility in crude oil and natural gas commodity prices, interest rates, estimates of reserves, drilling risks, geological risks, transportation restrictions, the timing of acquisitions, product demand, market competition, interruption in production and our ability to obtain additional capital. You should read these consolidated interim financial statements in conjunction with the audited consolidated financial statements and notes thereto included in GeoPetro's Annual Report on Form 10-K for the year ended December 31, 2007.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of GeoPetro and its wholly-owned subsidiaries. Intercompany accounts and transactions are eliminated. In preparing the accompanying financial statements, management has made certain estimates and assumptions that affect reported amounts in the financial statements. Actual results may differ from those estimates. Significant assumptions are required in the valuation of proved oil and natural gas reserves, which may affect the amount at which oil and natural gas properties are recorded. The computation of share-based compensation expense requires assumptions such as volatility, expected life and the risk-free interest rate. It is at least reasonably possible these estimates could be revised in the near term, and these revisions could be material.

2. LIQUIDITY:

We hold working interests in undeveloped leases, seismic options, lease options and foreign concessions and we have participated in seismic surveys and the drilling of test wells on undeveloped properties. Further leasehold acquisitions and seismic operations are planned for 2008 and future periods. In addition, exploratory and developmental drilling is scheduled during 2008 and future periods on our undeveloped properties. We anticipate that these exploration activities together with others that may be entered into may impose financial requirements which may exceed our existing working capital. We may need to raise additional equity or enter into new borrowing arrangements to finance our continued participation in planned activities. Further, we have farmed-out certain of our projects. However, if additional financing is not available, we may be compelled to reduce the scope of our business activities. If we are unable to fund planned expenditures, it may be necessary to forfeit our interest in proposed wells, farm-out our interest in proposed wells, sell a portion of our interests in prospects and use the sale proceeds to fund participation for a lesser interest, reduce general and administrative expenses, or a combination of all of these factors.

3. Recently Issued Accounting Pronouncements:

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which we adopted on January 1, 2008. SFAS 157 provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements for future transactions. The adoption of this pronouncement did not impact our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R, which among other things, establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. This standard will change our accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. It also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary and requires expanded disclosures. This statement is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. We do not expect the adoption of this statement will have a material impact on our financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133. SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statement with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and the related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect and entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for years and interim periods beginning after November 15, 2008. We do not expect the adoption of SFAS No. 161 to have a significant effect on our reported financial position or results of operations.

4. EARNINGS (LOSS) PER COMMON SHARE:

Basic earnings per share excludes dilution and is calculated by dividing net income or loss by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared from the earnings of the entity. Potential common shares of 2,906,777 for the three months ended March 31, 2007 were excluded from the earnings per share computation because the Company incurred a net loss and were anti-dilutive. There were 2,196,230 outstanding common stock warrants as well as 170,000 outstanding common stock options on March 31, 2008 that were not included in the diluted EPS calculation because the warrants and options exercise prices were greater than the average market price of the common shares.

	Three Months Ended March 31,	
	2008	2007
Numerator:		
Net Income (Loss) Available to Common Shareholders	\$ 344,126	\$ (182,614)
Denominator:		
Weighted Average Shares Outstanding	31,950,970	27,526,895
Outstanding Options	1,192,800	Anti-dilutive
Outstanding Warrants	66,678	Anti-dilutive
Average Number of Shares for Diluted Calculation		