

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

GEOKINETICS INC

CIK: **314606** | IRS No.: **941690082** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-09268** | Film No.: **96666080**
SIC: **1311** Crude petroleum & natural gas

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*MARATHON OIL TOWER
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HOUSTON TX 77056*

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5555 SAN FELIPE SUITE 780
HOUSTON TX 77056
7138507600*

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended SEPTEMBER 30, 1996

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 0-9268

GEOKINETICS INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

94-1690082
(I.R.S. Employer
Identification Number)

5555 SAN FELIPE, SUITE 780 HOUSTON, TEXAS
(Address of principal executive offices)

77056
(Zip Code)

Small Business Issuer's telephone number, including area code (713) 850-7600

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

On September 30, 1996, there were 4,953,288 shares of Registrant's common stock (\$.20 par value) outstanding.

GEOKINETICS INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GEOKINETICS INC.
Condensed Statements of Financial Position

ASSETS

<TABLE>
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	September 30 1996 Unaudited ----- <C>	December 31 1995 (*) ----- <C>
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Current Assets:		
Cash	\$ 58,308	\$ 16,905
Cash - restricted	420,968	0
Receivables	233,342	259,370
Prepaid expenses	68,201	12,775
Oil and gas properties held for resale	607,170	582,202
	-----	-----
Total Current Assets	1,387,989	871,252
Property and Equipment:		
Proved oil and gas Properties (net of depletion) .. (successful efforts method for oil and gas properties)	796,936	876,747
Equipment (net of depreciation)	3,837,395	21,093
Buildings (net of depreciation)	128,106	0
Land	23,450	0
	-----	-----
Total Property and Equipment	4,785,887	897,840
Other Assets:		
Deferred tax benefit	800,000	800,000
Deferred charges	74,445	0
Escrow-property investment	100,000	0
Restricted investments	21,700	101,339
	-----	-----
Total Other Assets	996,145	901,339

Total Assets	\$7,170,021	\$2,670,431
	=====	=====

</TABLE>

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LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

	September 30 1996 Unaudited	December 31 1995 (*)
	<C>	<C>
Current Liabilities:		
Accounts payable	\$ 637,241	\$ 542,510
Accrued liabilities	423,114	198,890
Notes payable	816,226	25,000
Due to officer	106,722	101,722
Advances for lease bank	598,000	600,500
Site restoration costs	6,418	36,185
	-----	-----
Total Current Liabilities	2,587,721	1,504,807
Long -Term Liabilities:		
Long- term debt	4,942,558	420,246
	-----	-----
Total Liabilities	7,530,319	1,925,053
Stockholders' Equity:		
Common stock, \$.20 par value, 15,000,000 shares authorized; 4,953,288 shares issued and outstanding @ 9/30/96 and 4,869,955 shares issued and outstanding @ 12/31/95)	990,657	973,991
Additional paid in capital	3,924,345	3,815,179
Accumulated deficit	(5,275,300)	(4,043,792)
	-----	-----
Total Stockholders' Equity	(360,298)	745,378
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 7,170,021	\$ 2,670,431
	=====	=====

</TABLE>

* CONDENSED FROM AUDITED FINANCIAL STATEMENTS

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GEOKINETICS INC.
Condensed Statement of Operations

<TABLE>

<CAPTION>

	Three Months Ended September 30 (unaudited)		Nine Months Ended September 30 (unaudited)	
	1996	1995	1996	1995
	<C>	<C>	<C>	<C>
Revenues:				
Oil and gas sales	\$ 156,903	\$ 103,986	\$ 413,488	\$ 304,424
Operating fees	59,893	66,122	191,710	207,434

Sale of oil and gas leases	4,011	0	4,011	0
Gain on sale of assets	0	13,290	0	199,709
	-----	-----	-----	-----
Total Revenues	220,807	183,398	609,209	711,567
Expenses:				
General and administrative	\$ 262,590	\$ 271,551	\$ 1,075,626	\$ 1,017,699
Lease operating expenses	72,928	95,931	233,301	310,479
Cost of oil and gas leases sold	61,924	0	61,924	0
Amortization expense	3,321	4,983	13,287	19,931
Depletion expense	17,798	25,768	51,170	72,278
Depreciation expense	671	673	2,017	3,358
	-----	-----	-----	-----
Total Expenses	419,232	399,906	1,437,325	1,423,745
	-----	-----	-----	-----
Loss from operations	\$ (198,425)	\$ (216,508)	\$ (828,116)	\$ (712,178)
Other Income (Expense)				
Interest income	1,716	5,453	10,365	1,553
Interest expense	164,243	36,155	413,756	73,522
	-----	-----	-----	-----
Total Other Expense	(162,527)	(30,702)	(403,391)	(71,969)
Loss before provision for income tax	\$ (360,952)	\$ (247,210)	\$ (1,231,507)	\$ (784,147)
Provision for income tax	0	0	0	0
	-----	-----	-----	-----
Total income tax	0	0	0	0
	-----	-----	-----	-----
Net Loss	\$ (360,952)	\$ (247,210)	\$ (1,231,507)	\$ (784,147)
	=====	=====	=====	=====
Loss per share	\$ (0.07)	\$ (0.05)	\$ (0.25)	\$ (0.17)
	=====	=====	=====	=====
Weighted average common shares and equivalents outstanding	4,953,288	4,620,320	4,953,288	4,620,320
	=====	=====	=====	=====

</TABLE>

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GEOKINETICS INC.
Condensed Statements of Cash Flows

	Three Months Ended September 30 (unaudited)	
	----- 1996 -----	----- 1995 -----
Cash flows from operating activities:		
Cash received from customers	\$ 246,001	\$ 154,139
Interest and dividends received	1,969	1,398
Cash paid to suppliers and employees	(265,390)	(398,954)
Interest paid	(161,467)	(30,980)
	-----	-----
Net cash (used) by operating activities	(178,887)	(274,397)
	-----	-----
Cash flows from investing activities:		
Cash payments for purchase of property and equipment	(40,122)	(77,500)
Cash proceeds from redemption of certificate of deposit	79,639	0
Cash proceeds from sale of property	0	17,344

Cash payment for escrow deposit equipment investment	(320,968)	0
	-----	-----
Net cash (used) by investing activities	(281,451)	(60,156)
	-----	-----
Cash flows from financing activities:		
Advances for lease bank	2,500	321,333
Proceeds from short term debt	65,000	0
Principal payments on long-term debt	(75,918)	0
	-----	-----
Net cash (used) by financing activities	(8,418)	321,333
	-----	-----
Net (decrease) in cash	(468,756)	(13,220)
Cash, beginning of period	527,064	15,713
	-----	-----
Cash, end of period	\$ 58,308	\$ 2,493
	=====	=====

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NOTES TO INTERIM FINANCIAL STATEMENTS

1. METHOD OF PRESENTATION.

The interim financial statements contained herein have been prepared in accordance with the instructions to Form 10-QSB and include all adjustments which are, in the opinion of management, necessary to provide a fair statement of the financial position and results of operations for the interim period reported. The financial statements are condensed and should be read in conjunction with the financial statements and related notes included in the Registrant's Form 10-KSB filed with the Securities and Exchange Commission for the fiscal year ended December 31, 1995, as well as the three-month transition period ended December 31, 1995. A summary of accounting policies and other significant information is included therein.

2. LIABILITY RELATING TO COMPANY LEASE BANK

The Company's wholly-owned subsidiary, Geokinetics Production Co., Inc. ("Production") has established a revolving credit facility (the "Lease Bank") that receives cash deposits from private individuals and entities in order to acquire oil and gas prospects. In exchange for such deposits, Production issues promissory notes in principal amounts equal to the deposited cash amounts. These notes bear a floating interest rate, currently at 12.25% per annum for the quarter ended September 30, 1996, and are guaranteed by the Company. The Company's liabilities indicated on the interim financial statements reflect the aggregate principal amounts of the promissory notes payable to the private individuals and entities that have made cash deposits with the Lease Bank.

3. NOTES PAYABLE

The Company's notes payable currently valued at \$816,226 reflect, in part, (i) the current (i.e., one year) maturities, totaling \$326,226, in connection with the Quantum loan, (ii) that certain promissory note payable to Input/Output, Inc., dated January 8, 1996, in the principal amount of \$300,000

representing indebtedness incurred by the Company incident to its geophysical operations, (iii) a certain \$100,000 loan from an unaffiliated lender to finance an escrow deposit made by the company incident to the proposed acquisition of Green Mountain Geophysics, Inc. (iiii) a \$65,000 loan from an outside director of the Company.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(Nine Months Ended September 30, 1996)

GENERAL

At September 30, 1996, the Company continues to incur various costs and expenses related to its efforts to diversify the Company's business activities. On March 6, 1996, the Company obtained a \$5,000,000 loan from an unaffiliated lender to finance the initial operations of Quantum Geophysical, Inc. ("Quantum"). Quantum was formed as a wholly-owned subsidiary to perform 3-D seismic data acquisition services for the energy industry in the United States. Quantum has not yet commenced operations. The Company is currently negotiating with a third party to provide management and marketing services to Quantum. If negotiations with such third party are successful, the Company believes that Quantum may commence operations by January, 1997. In addition, the Company has continued its efforts towards developing geoscience technology and software development capabilities. The Company is currently negotiating the acquisition of 80% of the outstanding capital stock of Green Mountain Geophysics, Inc., a Boulder, Colorado-based manufacturer of specialized software for the petroleum industry. The financial requirements of the oil and gas business as well as the start-up costs incurred in diversifying the Company's business activities continues to require the Company to utilize a substantial portion of its current assets and incur additional indebtedness in order to acquire additional operating assets. As a result, the Company expects that it will be required to raise substantial additional funds during the remainder of fiscal 1996 from the sale of equity and/or debt securities in order to finance the Company's operations.

LIQUIDITY AND CAPITAL RESOURCES

CLOSING OF \$5,000,000 QUANTUM LOAN

The Company's financial position at September 30, 1996 substantially reflects the proceeds received by the Company in connection with the \$5,000,000 Quantum loan and the Company's use of such proceeds. Current assets at September 30, 1996, totaled \$1,387,989 as compared with \$871,252 at December 31, 1995. Cash at September 30, 1996 totaled \$58,308 as compared to \$16,905 at December 31, 1995. Restricted cash reflects the proceeds from the Quantum loan that is restricted for use in the Company's seismic operations and is, therefore not available to meet the Company's working capital needs. In addition, the Company's property and equipment at September 30, 1996, totaled \$4,785,887 up from \$897,840 at December 31, 1995.

OIL AND GAS OPERATIONS

The Company (through its subsidiaries, HOC Operating Co., Inc. and Geokinetics Production Co., Inc.) continues to conduct its oil and gas operations consisting of acquiring, exploring, exploiting and developing oil and gas properties. However, the oil and gas industry is a highly capital-intensive business, especially in the initial stages of development of any venture. The Company, therefore, requires capital principally to fund the following expenses: (i) purchases of

leases and other interests in oil and gas properties; (ii) capital expenditures under agreements for geological, geophysical and seismic costs as well as drilling and completion costs of wells; and (iii) general and administrative expenses. The capital expenditures required by the Company to establish oil and gas production are generally incurred prior to the commencement of production revenues. As a result, the Company expects its oil and gas operations to operate with a working capital deficiency during fiscal 1996. The Company is not currently acquiring any additional oil and gas leases or drilling additional wells.

RESULTS OF OPERATIONS

During the three months ended September 30, 1996, the Company incurred a loss from operations of \$360,952 compared to a loss of \$247,210 during the comparable period in 1995. This loss is primarily due to operating expenses the Company incurred in connection with (i) the development of the Company's geoscience and software development capabilities, and (ii) expenses in oil and gas operations. General and administrative expenses during the three-months ended September 30, 1996, decreased to \$262,590 compared with \$271,551 during the comparable period in 1995. In addition, lease operating expenses from oil and gas operations during the three-months ended September 30, 1996, totaled \$72,928 an approximate 24% decrease of such expenses during the comparable period in 1995.

DEFERRED TAX BENEFIT

The Company is reporting an \$800,000 asset relating to deferred tax benefits as a result of the closing of the Quantum loan and the expected commencement of Quantum's operations. This asset consists primarily of differences in reporting Quantum's pre-operating costs and amortization and of net operating losses. The value of such deferred tax benefits reflects the amount that the Company believes to be realizable at this time. As Quantum's operations commence and additional revenues are generated, the company will review its valuation of deferred tax benefits and make adjustments when necessary.

PLANNED PLACEMENT

The Company is continuing to negotiate the acquisition of 80% of the capital stock of Green Mountain Geophysics, Inc. In order to finance this acquisition, the Company plans to sell approximately \$4,000,000 - \$5,000,000 in equity and debt securities (the "Green Mountain Placement"). There can be no assurance that the Green Mountain acquisition or the Green Mountain Placement will be completed. If the Green Mountain Placement is not completed, the Company will be forced to seek other sources of financing to continue its operations.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

No Exhibits Required

(b) Reports on Form 8-K

There were no Form 8-K Reports filed during the quarter ended September 30, 1996.

SIGNATURE

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.

GEOKINETICS INC.
(Registrant)

Date: November 14, 1996

Jay D. Haber
PRESIDENT

Paul Miles
CONTROLLER

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