

BARNWELL INDUSTRIES INC
Form 10-K
December 24, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2007

or

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

Commission File Number 1-5103

BARNWELL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

72-0496921

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

1100 Alakea Street, Suite 2900, Honolulu, Hawaii

(Address of principal executive offices)

96813-2833

(Zip code)

Registrant's telephone number, including area code: **(808) 531-8400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.50 per share

Name of each exchange on which registered
American Stock Exchange

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

The aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of a share of common stock on March 31, 2007 (the last business day of the registrant's most recently completed second fiscal quarter) was \$64,772,000.

As of December 12, 2007 there were 8,196,460 shares of common stock outstanding.

Documents Incorporated by Reference

1. Proxy statement to be forwarded to stockholders on or about January 17, 2008 is incorporated by

reference in Part III hereof.

TABLE OF CONTENTS

PART I

Discussion of Forward-Looking Statements

<u>Item 1.</u>	<u>Business</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Properties</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>

PART II

<u>Item 5.</u>	<u>Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>
<u>Item 9B.</u>	<u>Other Information</u>

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>
<u>Item 11.</u>	<u>Executive Compensation</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>

PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>
-----------------	--

PART I

CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION

**FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This Form 10-K, and the documents incorporated herein by reference, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. A forward-looking statement is one which is based on current expectations of future events or conditions and does not relate to historical or current facts. These statements include various estimates, forecasts, projections of Barnwell Industries, Inc.'s (referred to herein together with its subsidiaries as Barnwell, we, our, us or the Company) future performance, statements of Barnwell's plans and objectives and other similar statements. Forward-looking statements include phrases such as expects, anticipates, intends, plans, believes, predicts, estimates, assumes, projects, may, will, will be, should, or similar expressions. Although Barnwell believes that its current expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such forward-looking statements will be achieved. Forward-looking statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from those contained in such statements. Investors should not place undue reliance on these forward-looking statements, as they speak only as of the date of filing of this Form 10-K, and Barnwell expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein.

Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are domestic and international general economic conditions, such as recessionary trends and inflation; domestic and international political, legislative, economic, regulatory and legal actions, including changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries; military conflict, embargoes, internal instability or actions or reactions of the governments of the United States and/or Canada in anticipation of or in response to such developments; interest costs, restrictions on production, restrictions on imports and exports in both the United States and Canada, the maintenance of specified reserves, tax increases and retroactive tax claims, royalty increases, expropriation of property, cancellation of contract rights, environmental protection controls, environmental compliance requirements and laws pertaining to workers' health and safety; the condition of Hawaii's real estate market, including the level of real estate activity and prices, the demand for new housing and second homes on the island of Hawaii, the rate of increase in the cost of building materials and labor, the introduction of building code modifications, changes to zoning laws, the condition of Hawaii's tourism industry and the level of confidence in Hawaii's economy; levels of land development activity in Hawaii; levels of demand for water well drilling and pump installation in Hawaii; the potential liability resulting from pending or future litigation; the company's acquisition or disposition of assets; the effects of changed accounting rules under generally accepted accounting principles promulgated by rule-setting bodies; and the factors set forth under the heading Risk Factors in this Form 10-K, in other portions of this Form 10-K, in the Notes to Consolidated Financial Statements, and in other documents filed by Barnwell with the Securities and Exchange Commission (SEC). In addition, unpredictable or unknown factors not discussed in this report could also cause actual results to materially and adversely differ from those discussed in the forward-looking statements.

Unless otherwise indicated, all references to dollars in this Form 10-K are to United States dollars.

ITEM 1. BUSINESS

Overview

Fiscal 2007 represented Barnwell's 51 year of operations, having been incorporated in Delaware in 1956. Barnwell has the following four principal business segments:

Oil and Natural Gas Segment. Barnwell engages in oil and natural gas exploration, development, production and sales in Canada.

Land Investment Segment. Barnwell invests in leasehold interests in real estate in Hawaii.

Real Estate Development Segment. Established in January 2007, Barnwell acquires house lots for investment and to construct turnkey single-family homes for sale.

Contract Drilling Segment. Barnwell provides well drilling services and water pumping system installation and repairs in Hawaii.

Barnwell's oil and natural gas activities comprise its largest business segment. Approximately 73% of Barnwell's revenues for the fiscal year ended September 30, 2007 was attributable to its oil and natural gas activities. Barnwell's land investment segment revenues accounted for 12% of fiscal 2007 revenues; Barnwell's contract drilling activities accounted for 13% of fiscal 2007 revenues; and other revenues comprised 2% of fiscal 2007 revenues. There were no revenues generated by Barnwell's real estate development segment during fiscal 2007. Approximately 92% of Barnwell's capital expenditures for the fiscal year ended September 30, 2007 was attributable to its oil and natural gas activities and 8% was applicable to its other activities.

Oil and Natural Gas Segment

Overview

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

Through our wholly-owned subsidiary, Barnwell of Canada, Limited (Barnwell of Canada), we are involved in the acquisition, exploration and development of oil and natural gas properties. Barnwell of Canada initiates and participates in exploratory and developmental operations for oil and natural gas on property in which it has an interest, and evaluates proposals by third parties with regard to participation in such exploratory and developmental operations elsewhere.

Operations

Barnwell's investments in oil and natural gas properties consist of investments in Canada, principally in the Province of Alberta, with minor holdings in the Provinces of Saskatchewan and British Columbia. These property interests are principally held under governmental leases or licenses.

Under the typical Canadian provincial governmental lease, Barnwell must perform exploratory operations and comply with certain other conditions. Lease terms vary with each province, but, in general, the terms grant Barnwell the right to remove oil, natural gas and related substances subject to payment of specified royalties on production.

Barnwell initiates and participates in exploratory and developmental operations for oil and natural gas on property in which it has an interest. Barnwell also evaluates proposals by third parties for participation in other exploratory and developmental opportunities. All exploratory and developmental operations are overseen by Barnwell's Calgary, Alberta staff and Barnwell's Chief Operating Officer located in Honolulu, along with senior management and independent consultants as necessary. In fiscal 2007, Barnwell participated in exploratory and developmental operations primarily in the Canadian Province of Alberta, although Barnwell does not limit its consideration of exploratory and developmental operations to this area.

The Province of Alberta charges oil and gas producers a royalty for production in Alberta. The Province of Alberta determines its royalty share of natural gas and of oil by using reference prices that average all natural gas sales and oil sales, respectively, in Alberta. Royalty rates are calculated on a sliding scale basis, increasing as prices increase up to a maximum royalty rate of 35%. Additionally, Barnwell pays gross overriding royalties and leasehold royalties on a portion of its natural gas and oil sales to parties other than the Province of Alberta.

On October 25, 2007, the Alberta Government announced increases to the royalty rates on oil, natural gas liquids and natural gas production beginning on January 1, 2009. The new plan also intends to simplify royalties and eliminate old and new classifications of oil and natural gas with current maximum royalty rates of 35% with new royalty rates up to 50%. The new proposed 50% royalty rate is reached for oil when oil is selling at or above \$120.00 Canadian dollars per barrel and for natural gas when natural gas is selling at or above \$17.50 Canadian dollars per MCF. Barnwell is awaiting clarification from the Alberta Government on the new program and is in the process of assessing its impact. The new program may reduce Barnwell's natural gas and oil reserve volumes, reported net production, and estimated future revenues and estimated future cash flows from natural gas and oil reserves. The new program may also materially impact the economics of oil and natural gas exploration in the Alberta area. However, the magnitude of the potential impact, which will depend on the final form of legislation upon enactment, cannot be reasonably estimated at this time.

In fiscal 2007 and 2006, the weighted-average rate of all royalties paid on all of Barnwell's natural gas was approximately 24% and 28%, respectively. The weighted-average rate of all royalties paid to governments and others on natural gas from the Dunvegan Unit, Barnwell's principal oil and natural gas property, was approximately 27% and 30% in fiscal 2007 and 2006, respectively. The decrease in royalty rate on all properties was primarily due to higher operating cost royalty credits received from the Alberta Department of Energy for operating expenditures incurred by Barnwell and lower commodity prices. At Dunvegan, the decrease in royalty rate was due to lower prices, lower average gross production per well, and these wells being categorized as lower productivity, decreasing the royalty rate overall for the property.

In fiscal 2007 and 2006, the weighted-average royalty rate paid on oil was approximately 20% and 23%, respectively. The decrease in the weighted-average royalty rate on oil was primarily due to a higher percentage of Barnwell's fiscal 2007 production of oil coming from newer wells where royalties are assessed at a lower rate than on older wells.

Natural gas prices are typically higher in the winter than at other times due to increased heating demand. Oil prices are also subject to seasonal fluctuations, but to a lesser degree. Oil and natural gas unit sales are based on the quantity produced from the properties by the operator. During periods of low demand for natural gas, the operator of the Dunvegan property may re-inject natural gas into underground storage facilities in the Dunvegan property for delivery at a future date.

Well Drilling Activities

During fiscal 2007, Barnwell participated in the drilling of 30 gross development wells and 2 gross exploratory wells, of which management believes 29 should be capable of production and three are dry holes.

The following table sets forth more detailed information with respect to the number of exploratory (Exp.) and development (Dev.) wells drilled for the fiscal years ended September 30, 2007, 2006, and 2005 in which Barnwell participated:

	Productive Oil Wells		Productive Gas Wells		Total Productive Wells		Dry Holes		Total Wells	
	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.	Exp.	Dev.
2007										
Gross*		9.0	2.0	18.0	2.0	27.0		3.0	2.0	30.0
Net*		2.4	0.9	2.3	0.9	4.7		1.1	0.9	5.8
2006										
Gross*	1.0	4.0	2.0	33.0	3.0	37.0	4.0	3.0	7.0	40.0
Net*	0.4	1.1	0.7	9.0	1.1	10.1	1.3	1.0	2.4	11.1
2005										
Gross*	1.0	7.0	4.0	57.0	5.0	64.0	5.0	6.0	10.0	70.0
Net*	0.3	1.7	1.0	7.3	1.3	9.0	1.6	1.6	2.9	10.6

* The term Gross refers to the total number of wells in which Barnwell owns an interest, and Net refers to Barnwell's aggregate interest therein. For example, a 50% interest in a well represents one gross well, but 0.5 net well. The gross figure includes interests owned of record by Barnwell and, in addition, the portion owned by others.

Barnwell invested \$14,164,000 in oil and natural gas properties during fiscal 2007, of which \$1,187,000 (8%) was for acquisition of oil and natural gas leases and lease rentals, \$1,428,000 (10%) was for geological and geophysical costs, \$8,846,000 (63%) was for intangible drilling costs, \$2,410,000 (17%) was for production equipment, and \$293,000 (2%) was for future site restoration and abandonment and other costs. The major areas of investments in fiscal 2007 were in the Progress, Pouce Coupe South, Dunvegan, Bonanza/Balsam, Boundary Lake, Wood River, Cecil and Doris areas of Alberta.

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

The Dunvegan Unit, in which Barnwell holds an 8.9% working interest, is Barnwell's principal oil and natural gas property and is located in Alberta, Canada. At September 30, 2007, the Dunvegan Unit had 203 producing natural gas wells. In fiscal 2007, Barnwell participated in the drilling of 11 gross (1.0 net) development gas wells in the Dunvegan area, all of which were successful. Total capital expenditures at Dunvegan were \$3,524,000 in fiscal 2007 as compared to \$1,781,000 and \$4,299,000 in fiscal 2006 and 2005, respectively. Barnwell expects that fiscal 2008 capital expenditures at Dunvegan will decline slightly from fiscal 2007's level with the anticipated drilling of 10 gross (0.9 net) development gas wells.

Capital expenditures totaled \$1,335,000 in the Boundary Lake area of Alberta in fiscal 2007 as compared to \$739,000 in fiscal 2006. Five gross (1.3 net) wells were drilled in fiscal 2007 of which three gross (1.0 net) wells were successful with one (0.3 net) producing and two (0.7 net) waiting to be tied in, one gross (0.1 net) well was not successful and one gross (0.2 net) well was being evaluated at September 30, 2007. Barnwell did not acquire any undeveloped land in the Boundary Lake area in fiscal 2007. At September 30, 2007, Barnwell's average working interest in its productive wells in the Boundary Lake area was 25%.

Capital expenditures totaled \$1,196,000 in the Pouce Coupe South area in fiscal 2007 as compared to \$2,101,000 in fiscal 2006. One gross (0.5 net) well was drilled in fiscal 2007 which was not successful, and certain wells drilled in prior years required additional development costs. At September 30, 2007 Barnwell's average working interest in its productive wells in the Pouce Coupe South area was 48%.

Capital expenditures totaled \$1,042,000 in the Progress area in fiscal 2007 as compared to \$6,094,000 in fiscal 2006. One gross (0.5 net) well was drilled in fiscal 2007, and as of September 30, 2007, was being evaluated. In fiscal 2007, in the Progress area Barnwell acquired oil and natural gas rights in 640 gross (416 net) acres of undeveloped land and completed development of certain wells drilled in the prior year. At September 30, 2007 Barnwell's average working interest in its productive wells in the Progress area was 39%.

Capital expenditures totaled \$947,000 in the Wood River area in fiscal 2007 as compared to \$867,000 in fiscal 2006. Three gross (0.6 net) wells were successfully drilled in fiscal 2007 with one gross well on production and two gross wells waiting to be tied in at September 30, 2007. In the Wood River area, Barnwell did not acquire any undeveloped land in fiscal 2007. At September 30, 2007 Barnwell's average working interest in its productive wells in the Wood River area was 16%.

Capital expenditures totaled \$807,000 in the Cecil area in fiscal 2007 as compared to \$551,000 in fiscal 2006. One gross (0.4 net) well was successfully drilled. In the Cecil area Barnwell acquired oil and natural gas rights in 1,920 gross (1,120 net) acres of undeveloped land in fiscal 2007.

Capital expenditures totaled \$709,000 in the Doris area in fiscal 2007 as compared to \$917,000 in fiscal 2006. One gross (0.5 net) well was drilled in fiscal 2007 which was not successful. In the Doris area Barnwell acquired oil and natural gas rights in 4,480 gross (2,880 net) acres of undeveloped land in fiscal 2007. At September 30, 2007 Barnwell's average working interest in its productive wells in the Doris area was 47%.

Capital expenditures totaled \$590,000 in the Bonanza/Balsam area in fiscal 2007 as compared to \$850,000 in fiscal 2006. One gross (0.2 net) well was drilled in fiscal 2007 which was successful and waiting to be tied in at September 30, 2007. In the Bonanza/Balsam area Barnwell acquired oil and natural gas rights in 3,200 gross (2,048 net) acres of undeveloped land in fiscal 2007. At September 30, 2007 Barnwell's average working interest in its productive wells in the Bonanza/Balsam area was 30%.

Barnwell participated in 16 gross (5.2 net) wells, 28 gross (11.7 net) wells and 27 gross (8.8 net) wells in fiscal 2007, 2006 and 2005, respectively, that were on prospects developed by Barnwell.

Oil and Natural Gas Production

The following table summarizes (a) Barnwell's net unit production for the last three fiscal years, based on sales of crude oil, natural gas, condensate and other natural gas liquids, from all wells in which Barnwell has or had an interest, and (b) the average sales prices and average production and depletion costs for such production during the same periods. Production amounts reported are net of royalties and the Alberta Royalty Tax Credit, where applicable. As discussed in further detail below, the Alberta Royalty Tax Credit was discontinued effective January 1, 2007. Barnwell's net production in fiscal 2007, 2006, and 2005 was derived primarily from the Province of Alberta.

	Year Ended September 30,		
	2007	2006	2005
Annual net production:			
Natural gas liquids (BBLs)*	114,000	115,000	114,000
Oil (BBLs)*	146,000	145,000	139,000
Natural gas (MCF)*	3,615,000	3,629,000	3,621,000
Annual average sale price per unit of production:			
BBL of natural gas liquids**	\$ 37.36	\$ 40.18	\$ 31.84
BBL of oil**	\$ 56.96	\$ 56.85	\$ 48.11
MCF of natural gas***	\$ 5.88	\$ 6.67	\$ 5.93
Annual average production cost per MCFE produced****	\$ 1.83	\$ 1.45	\$ 1.20
Annual average depletion cost per MCFE produced*****	\$ 2.49	\$ 2.17	\$ 1.66

- * When used in this report, the term BBL(S) means stock tank barrel(s) of oil equivalent to 42 U.S. gallons and the term MCF means 1,000 cubic feet of natural gas at 14.65 pounds per square inch absolute and 60 degrees F.
- ** Calculated on revenues before royalty expense and Alberta Royalty Tax Credit divided by gross production.
- *** Calculated on revenues net of pipeline charges before royalty expense and Alberta Royalty Tax Credit divided by gross production.
- **** Natural gas liquids, oil and natural gas units were combined by converting barrels of natural gas liquids and oil to an MCF equivalent (MCFE) on the basis of 1 BBL = 5.8 MCF. Excludes natural gas pipeline charges.
- ***** Natural gas liquids, oil and natural gas units were combined by converting barrels of natural gas liquids and oil to an MCF equivalent (MCFE) on the basis of 1 BBL = 5.8 MCF.

In fiscal 2007, approximately 63%, 25% and 12% of Barnwell's oil and natural gas revenues were from the sale of natural gas, oil and natural gas liquids, respectively.

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

In fiscal 2007, Barnwell's net production after royalties for natural gas averaged 9,900 MCF per day, a slight decrease from 9,940 MCF per day in fiscal 2006. Gross natural gas production decreased 6% in fiscal 2007, as compared to fiscal 2006. Gross natural gas production decreased 6% while net natural gas production was essentially unchanged due to lower royalties which were due in part to lower natural gas prices. Dunvegan contributed approximately 52% of Barnwell's net natural gas production in fiscal 2007, an increase from 50% in fiscal 2006 due to the lower royalties realized in fiscal 2007.

Barnwell's major oil producing properties are the Red Earth, Chauvin and Bonanza/Balsam areas in Canada. In fiscal 2007 and fiscal 2006, net production after royalties for oil averaged 400 barrels per day; gross oil production declined 2%. The addition of new wells in the Wood River and Progress areas were offset by decreased production from the Red Earth, Chauvin and Manyberries areas caused by natural declines from existing wells.

In fiscal 2007, net production after royalties for natural gas liquids averaged 310 barrels per day, a decrease of 3% from 320 barrels per day in fiscal 2006. Gross natural gas liquids production declined 2%. These decreases were principally due to lower Dunvegan production which decreased 2% or 6 barrels per day. Dunvegan contributed approximately 86% of Barnwell's net natural gas liquids production in fiscal 2007.

The average production cost per MCFE was \$1.83 for fiscal 2007, a 26% increase from \$1.45 for fiscal 2006. Actual field costs increased due to continued industry-wide increases in costs for oilfield services and utilities in Canada and a 3% increase in the average exchange rate of the Canadian dollar to the U.S. dollar in fiscal 2007, as compared to fiscal 2006.

The average depletion cost per MCFE was \$2.49 for fiscal 2007, a 15% increase from \$2.17 for fiscal 2006. The increase was due to a 12% increase in the depletion rate and a 3% increase in the average exchange rate of the Canadian dollar to the U.S. dollar. The 12% increase in the depletion rate was the result of increases over the past several years in Barnwell's costs of finding and developing proven reserves. Barnwell's cost of finding and developing proven reserves has increased due to the costs of oil and natural gas exploration and development having increased along with product prices and the drilling of unsuccessful wells.

In fiscal 2006, approximately 66%, 22% and 12% of Barnwell's oil and natural gas revenues were from the sale of natural gas, oil and natural gas liquids, respectively.

In fiscal 2006, Barnwell's net production after royalties for natural gas averaged 9,940 MCF per day, a slight increase from 9,920 MCF per day in fiscal 2005. Gross natural gas production also increased 1% in fiscal 2006, as compared to fiscal 2005. Dunvegan contributed approximately 50% of Barnwell's net natural gas production in fiscal 2006, an increase from 48% in fiscal 2005 due to the new wells drilled at Dunvegan.

In fiscal 2006, net production after royalties for oil averaged 400 barrels per day, an increase of 5% from 380 barrels per day in fiscal 2005. This increase was principally due to the addition of new wells in the Wood River and Progress areas which offset decreased production from the Bonanza/Balsam and Red Earth areas caused by natural declines from existing wells.

In fiscal 2006, net production after royalties for natural gas liquids averaged 320 barrels per day, an increase of 3% from 310 barrels per day in fiscal 2005. This increase was due to higher Dunvegan production which increased 8% or 19 barrels per day. Dunvegan contributed approximately 87% of Barnwell's net natural gas liquids production in fiscal 2006.

The average production cost per MCFE was \$1.45 for fiscal 2006, a 21% increase from \$1.20 for fiscal 2005. Actual field costs increased by 12% due to industry-wide increases in costs for oilfield services and utilities in Canada and a 7% increase in the average exchange rate of the Canadian dollar to the U.S. dollar in fiscal 2006, as compared to fiscal 2005.

The average depletion cost per MCFE was \$2.17 for fiscal 2006, a 31% increase from \$1.66 for fiscal 2005. The increase was due to a 22% increase in the depletion rate and a 7% increase in the average exchange rate of the Canadian dollar to the U.S. dollar.

Productive Wells

The following table sets forth the gross and net number of productive wells Barnwell has an interest in as of September 30, 2007.

Location	Productive Wells*			
	Gross**		Net**	
	Oil	Gas	Oil	Gas
<u>Canada</u>				
Alberta	159	571	28.2	67.7
Saskatchewan	7	32	0.3	5.3
British Columbia	3	1	0.8	0.2
Total	169	604	29.3	73.2

* Twenty-eight natural gas wells have dual or multiple completions.

** Please see note (2) on the following table.

Developed Acreage and Undeveloped Acreage

The following table sets forth certain information with respect to oil and natural gas properties of Barnwell as of September 30, 2007.

Location	Developed Acreage(1)		Undeveloped Acreage(1)		Developed and Undeveloped Acreage(1)	
	Gross(2)	Net(2)	Gross(2)	Net(2)	Gross(2)	Net(2)
<u>Canada</u>						
Alberta	248,581	38,695	259,940	123,508	508,521	162,203
British Columbia	1,632	488	3,983	1,120	5,615	1,608
Saskatchewan	3,140	426			3,140	426
Total	253,353	39,609	263,923	124,628	517,276	164,237

(1) Developed Acreage includes the acres covered by leases upon which there are one or more producing wells. Undeveloped Acreage includes acres covered by leases upon which there are no producing wells and which are maintained in effect by the payment of delay rentals or the commencement of drilling thereon.

(2) Gross refers to the total number of acres or wells in which Barnwell owns an interest, and Net refers to Barnwell's aggregate interest therein. For example, a 50% interest in a 320 acre lease represents 320 gross acres and 160 net acres. The gross acreage and well figures include interests owned of record by Barnwell and, in addition, the portion owned by others.

Barnwell's leasehold interests in its undeveloped acreage expire over the next fiscal years, if not developed, as follows: 15% expire during fiscal 2008; 27% expire during fiscal 2009; 21% expire during fiscal 2010; 14% expire during fiscal 2011; and 12% expire during fiscal 2012. Eleven percent of Barnwell's undeveloped acreage is related to heavy oil and therefore not subject to expiration. There can be no assurance that Barnwell will be successful in renewing its leasehold interests in the event of expiration.

Barnwell's undeveloped acreage includes concentrations in Alberta, at Doris (9,984 net acres), Bremner (8,640 net acres), Bonanza/Balsam (8,504 net acres), Rycroft (8,440 net acres), Swalwell (6,468 net acres), Mulligan (6,048 net acres), Thornbury (5,949 net acres) and Boundary Lake (5,890 net acres).

Reserves

The amounts set forth in the table below, prepared by Paddock Lindstrom & Associates Ltd., Barnwell's independent reservoir engineering consultants, summarize the estimated net quantities of proved producing reserves and proved reserves of crude oil (including condensate and natural gas liquids) and natural gas as of September 30, 2007, 2006, and 2005 on all properties in which Barnwell has an interest. These reserves are before deductions for indebtedness secured by the properties and are based on constant dollars. No estimates of total proved net oil or natural gas reserves have been filed with or included in reports to any federal authority or agency, other than the United States Securities and Exchange Commission, since October 1, 2004.

Proved Producing Reserves

	2007	September 30, 2006	2005
Oil barrels (BBLs) (including natural gas liquids):			
Dunvegan	387,000	404,000	456,000
All other properties	708,000	665,000	646,000
Total	1,095,000	1,069,000	1,102,000
Natural gas thousand cubic feet (MCF):			
Dunvegan	11,577,000	11,503,000	12,947,000
All other properties	7,281,000	7,055,000	8,895,000
Total	18,858,000	18,558,000	21,842,000

Total Proved Reserves

(Includes Proved Producing Reserves)

	2007	September 30, 2006	2005
Oil barrels (BBLs) (including natural gas liquids):			
Dunvegan	387,000	426,000	489,000
All other properties	1,000,000	877,000	817,000
Total	1,387,000	1,303,000	1,306,000
Natural gas thousand cubic feet (MCF):			
Dunvegan	11,577,000	12,074,000	13,858,000
All other properties	12,441,000	12,752,000	11,376,000
Total	24,018,000	24,826,000	25,234,000

As of September 30, 2007, essentially all of Barnwell's proved producing and total proved reserves were located in the Province of Alberta, with minor volumes located in the Provinces of Saskatchewan and British Columbia.

During fiscal 2007, Barnwell's total net proved reserves, including proved producing reserves, of oil, condensate and natural gas liquids increased by 84,000 barrels, and total net proved reserves of natural gas decreased by 808,000 MCF.

The change in oil, condensate and natural gas liquids reserves during fiscal 2007 was the net result of production during the year of 260,000 barrels, the addition of 168,000 barrels from the drilling of wells, and the independent engineer's 176,000 barrels upward revision of Barnwell's oil reserves.

The change in natural gas reserves during fiscal 2007 was the net result of production during the year of 3,615,000 MCF, the addition of 1,528,000 MCF from the drilling of natural gas wells, and the independent engineer's 1,279,000 MCF upward revision of Barnwell's natural gas

reserves.

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

The upward revisions in reserves in fiscal 2007 were due to improved performance on certain wells drilled in prior years.

Barnwell's working interest in the Dunvegan area accounted for approximately 48% and 49% of its total proved natural gas reserves at September 30, 2007 and 2006, respectively, and approximately 28% and 33% of total proved oil and natural gas liquids reserves at September 30, 2007 and 2006, respectively.

The following table sets forth Barnwell's oil and natural gas reserves at September 30, 2007, by property name, based on information prepared by Paddock Lindstrom & Associates Ltd. Gross reserves are before the deduction of royalties; net reserves are after the deduction of royalties. This table is based on constant dollars where reserve estimates are based on sales prices, costs and statutory tax rates in existence at September 30, 2007, the date of the projection. Oil, which includes natural gas liquids (NGL), is shown in thousands of barrels (MBBL) and natural gas is shown in millions of cubic feet (MMCF).

OIL AND NATURAL GAS RESERVES AT SEPTEMBER 30, 2007

Property Name	Total Proved Producing				Total Proved			
	Oil & NGL		Gas		Oil & NGL		Gas	
	Gross (MBBL)	Net	Gross (MMCF)	Net	Gross (MBBL)	Net	Gross (MMCF)	Net
Dunvegan	566	387	14,473	11,577	566	387	14,473	11,577
Red Earth	269	235	7	5	269	235	7	5
Bonanza/Balsam	91	77	633	520	119	97	1,133	907
Pouce Coupe South	12	8	1,495	1,213	65	54	1,619	1,306
Medicine River	33	22	618	442	33	22	618	442
Doris			827	691			1,259	1,042
Faith South							1,011	822
Wood River	42	37	272	226	71	60	521	419
Progress	111	103	576	467	190	168	2,243	1,741
Pouce Coupe	4	3	317	264	4	3	317	264
Boundary Lake	4	3	548	414	87	70	1,163	900
Other properties	257	220	3,570	3,039	340	291	5,399	4,593
TOTAL	1,389	1,095	23,336	18,858	1,744	1,387	29,763	24,018

Standardized Measure of Estimated Discounted Future Net Cash Flows

The following table sets forth Barnwell's Estimated Future Net Revenues from total proved oil, natural gas and condensate reserves and the present value of Barnwell's Estimated Future Net Revenues (discounted at 10%). Estimated future net revenues for total proved reserves are net of estimated future expenditures of developing and producing the proved reserves, and assume the continuation of existing economic conditions. Net revenues have been calculated using year-end sales prices and current costs, after deducting all royalties, operating costs, future estimated capital expenditures, and income taxes.

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

On October 25, 2007, the Alberta Government announced increases to the royalty rates on oil, natural gas liquids and natural gas production beginning on January 1, 2009. The new plan also intends to simplify royalties and eliminate old and new classifications of oil and natural gas with current maximum royalty rates of 35% with new royalty rates up to 50%. The new proposed 50% royalty rate is reached for oil when oil is selling at or above \$120.00 Canadian dollars per barrel and for natural gas when natural gas is selling at or above \$17.50 Canadian dollars per MCF. Barnwell is awaiting clarification from the Alberta Government on the new program and is in the process of assessing its impact. The new program may reduce Barnwell's natural gas and oil reserve volumes, reported net production, and estimated future revenues and estimated future cash flows from natural gas and oil reserves. The new program may also materially impact the economics of oil and natural gas exploration in the Alberta area. However, the magnitude of the potential impact, which will depend on the final form of legislation upon enactment, cannot be reasonably estimated at this time.

Year ending September 30,	Proved Producing Reserves	Total Proved Reserves
2008	\$ 18,194,000	\$ 20,629,000
2009	14,422,000	19,133,000
2010	11,174,000	14,822,000
Thereafter	39,700,000	54,123,000
	\$ 83,490,000	\$ 108,707,000
Present value (discounted at 10%) at September 30, 2007	\$ 60,135,000*	\$ 78,300,000*

* These amounts do not purport to represent, nor should they be interpreted as, the fair value of Barnwell's natural gas and oil reserves. An estimate of fair value would also consider, among other items, the value of Barnwell's undeveloped land position, the recovery of reserves not presently classified as proved, anticipated future changes in oil and natural gas prices (these amounts were based on a natural gas price of \$5.37 per 1,000 cubic feet as of September 30, 2007) and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

Marketing of Oil and Natural Gas

Barnwell sells substantially all of its oil and natural gas liquids production under short-term contracts between itself and marketers of oil. The price of oil and natural gas liquids is freely negotiated between the buyers and sellers and is largely determined by the world price for oil, which is principally denominated in U.S. dollars.

Natural gas sold by Barnwell is generally sold under both long-term and short-term contracts with prices indexed to market prices. The price of natural gas and natural gas liquids is freely negotiated between buyers and sellers and is principally determined for Barnwell by the North American price for natural gas, which is principally denominated in U.S. dollars. In fiscal 2007, 2006, and 2005, Barnwell took virtually all of its oil and natural gas in kind where Barnwell markets the products instead of having the operator of a producing property market the products on Barnwell's behalf.

In fiscal 2007, natural gas production from the Dunvegan Unit was responsible for approximately 51% of Barnwell's natural gas revenues, as compared to 50% in fiscal 2006. Barnwell's oil and natural gas segment derived 63% of its oil and natural gas revenues in fiscal 2007 from four

individually significant customers, ProGas Limited (27%), Glencoe Resources Ltd. (17%), Plains Marketing Canada, L.P. (10%), and Seminole Canada Gas Company (9%). A substantial portion of Barnwell's Dunvegan natural gas production and natural gas production from other properties is sold to aggregators and marketers under various short-term and long-term contracts, with the price of natural gas determined by negotiations between the aggregators and the final purchasers. In fiscal 2007, over 90% of Barnwell's oil and natural gas revenues were from products sold at spot prices.

Governmental Regulation

The jurisdictions in which the oil and natural gas properties of Barnwell are located have regulatory provisions relating to permits for the drilling of wells, the spacing of wells, the prevention of oil and natural gas waste, allowable rates of production and other matters. The amount of oil and natural gas produced is subject to control by regulatory agencies in each province that periodically assign allowable rates of production. The Province of Alberta and Government of Canada also monitor and regulate the volume of natural gas that may be removed from the province and the conditions of removal.

There is no current government regulation of the price that may be charged on the sale of Canadian oil or natural gas production. Canadian natural gas production destined for export is priced by market forces subject to export contracts meeting certain criteria prescribed by Canada's National Energy Board and the Government of Canada.

Different royalty rates are imposed by the provincial governments, the Government of Canada and private interests with respect to the production and sale of crude oil, natural gas and liquids. In addition, provincial governments receive additional revenue through the imposition of taxes on crude oil and natural gas owned by private interests within the province. Essentially, provincial royalties are calculated as a percentage of revenue and vary depending on production volumes, selling prices and the date of discovery.

As discussed above, on October 25, 2007, the Alberta Government announced increases to the royalty rates on oil, natural gas liquids and natural gas production beginning on January 1, 2009. The new plan also intends to simplify royalties and eliminate old and new classifications of oil and natural gas with current maximum royalty rates of 35% with new royalty rates up to 50%. The new proposed 50% royalty rate is reached for oil when oil is selling at or above \$120.00 Canadian dollars per barrel and for natural gas when natural gas is selling at or above \$17.50 Canadian dollars per MCF. Barnwell is awaiting clarification from the Alberta Government on the new program and is in the process of assessing its impact. The new program may reduce Barnwell's natural gas and oil reserve volumes, reported net production, and estimated future revenues and estimated future cash flows from natural gas and oil reserves. The new program may also materially impact the economics of oil and natural gas exploration in the Alberta area. However, the magnitude of the potential impact, which will depend on the final form of legislation upon enactment, cannot be reasonably estimated at this time.

In May 2006, a bill reducing the Province of Alberta's corporate tax rate from 11.5% to 10.0% effective April 1, 2006 received Royal Assent and was passed into law. In June 2006, Royal Assent was received on a bill passed by the Parliament of Canada which reduces the federal corporate income tax rate to 19% from 21% by 2010 starting January 1, 2008. The federal corporate surtax will also be eliminated effective January 1, 2008. During the year ended September 30, 2006, Barnwell's Canadian

net deferred income tax liabilities were reduced by approximately \$1,094,000 as a result of these reductions in Canadian tax rates. A further minor reduction in Canadian federal tax rates in fiscal 2007 resulted in a \$100,000 reduction in net deferred tax liabilities in fiscal 2007.

In Alberta, a producer of oil or natural gas was entitled to a credit against the royalties payable to Alberta called the Alberta Royalty Tax Credit (ARTC). The ARTC was discontinued by the Alberta government effective January 1, 2007. Barnwell received ARTC payments of \$111,000, \$438,000 and \$409,000 in fiscal years 2007, 2006 and 2005, respectively. The ARTC payments were recorded as a credit against oil and natural gas royalties and reported in oil and natural gas revenues.

Competition

The majority of Barnwell's natural gas sales take place in Alberta, Canada. Natural gas prices in Alberta are generally competitive with other major North American areas due to sufficient pipeline capacity into the United States. Barnwell's oil and natural gas liquids are sold in Alberta with prices determined by the world price for oil.

Barnwell competes in the sale of oil and natural gas on the basis of price, and on the ability to deliver products. The oil and natural gas industry is intensely competitive in all phases, including the exploration for new production and reserves and the acquisition of equipment and labor necessary to conduct drilling activities. The competition comes from numerous major oil companies as well as numerous other independent operators. There is also competition between the oil and natural gas industry and other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers. Barnwell is a minor participant in the industry and competes in its oil and natural gas activities with many other companies having far greater financial, technical and other resources.

Land Investment Segment

Overview

Barnwell owns a 77.6% controlling interest in Kaupulehu Developments, a Hawaii general partnership that owns interests in leasehold land and development rights for property located approximately six miles north of the Kona International Airport in the North Kona District of the Island of Hawaii.

Operations

Between 1986 and 1989, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of the Four Seasons Resort Hualalai at Historic Kaupulehu and Hualalai Golf Club, which opened in 1996, a second golf course, and single-family and multi-family residential units. These projects were developed on leasehold land acquired from Kaupulehu Developments by Kaupulehu Makai Venture, an unrelated entity, which was subsequently acquired in June 2006 by Hualalai Investors JV, LLC and Hualalai Investors II, LLC, two entities unrelated to Barnwell (hereinafter referred to as Hualalai Investors). Barnwell acquired a 1.5% passive minority interest, through an 80%-owned joint venture, in Hualalai Investors in the first quarter of fiscal 2007. The development rights held by Kaupulehu Developments are

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

for residentially-zoned leasehold land within and adjacent to the Hualalai Golf Club and are under option to Hualalai Investors.

Between 1993 and 2001, Kaupulehu Developments obtained the state and county zoning changes necessary to permit development of single-family and multi-family residential units, a golf course and a limited commercial area on approximately 870 leasehold acres located adjacent to and north of the Four Seasons Resort Hualalai at Historic Kaupulehu.

In February 2004, Kaupulehu Developments entered into a Purchase and Sale Agreement with WB KD Acquisition, LLC (WB), an unrelated entity. WB is affiliated with RP-Hualalai Investors, LLC, a managing member of Hualalai Investors, owners and current developers of Hualalai Resort, and Westbrook Partners, developers of Kuki'o Resort located adjacent to Hualalai Resort. Under the terms of the Purchase and Sale Agreement, Kaupulehu Developments transferred its leasehold interest in the aforementioned 870 acres zoned for resort/residential development, in two increments (Increment I and Increment II), to WB. Increment I is an area planned for approximately 80 single-family lots and a beach club on the portion of the property bordering the Pacific Ocean. The purchasers of the 80 single-family lots will have the right to apply for membership in the Kuki'o Resort Golf and Beach Club, which is located adjacent to and south of the Four Seasons Resort Hualalai at Historic Kaupulehu. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse.

With respect to Increment I, Kaupulehu Developments received an \$11,550,000 payment in February 2004 and is entitled to receive payments from WB based on the following percentages of the gross receipts from WB's sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of \$100,000,000; 10% of such aggregate gross proceeds greater than \$100,000,000 but less than \$300,000,000; and 14% of such aggregate gross proceeds in excess of \$300,000,000. During the year ended September 30, 2006, WB sold a total of five single-family lots and paid Kaupulehu Developments \$3,660,000 in percentage of sales payments. There were no percentage of sales payments received during the year ended September 30, 2005.

In June 2006, Kaupulehu Developments entered into an agreement with WB and WB KD Acquisition II, LLC (WBKD), whereby Kaupulehu Developments sold its interest in Increment II to WBKD (Increment II Agreement). There is no affiliation between Kaupulehu Developments and WB or WBKD. WB and WBKD are both affiliates of RP-Hualalai Investors, LLC, a managing member of Hualalai Investors, owners and current developers of Hualalai Resort, and Westbrook Partners, developers of Kuki'o Resort located adjacent to Hualalai Resort. Pursuant to the Increment II Agreement, Kaupulehu Developments received a \$10,000,000 closing payment and is entitled to receive future payments from WBKD based on a percentage of the sales prices of the residential lots, ranging from 3.25% to 14%, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. There is no assurance that any future payments will be received.

In addition, under the terms of the Increment II Agreement, WBKD has the exclusive right to negotiate with Kaupulehu Developments with respect to Lot 4C (Lot 4C), which is comprised of approximately 1,000 acres of vacant leasehold land zoned conservation located adjacent to Increment II. This right expires in June 2009 or, if before such date WBKD completes any and all environmental assessments and surveys reasonably required to support a petition to the Hawaii State Land Use Commission for reclassification of Lot 4C zoning, in June 2012.

Activity

WB sold a total of seven single-family lots within Increment I during the year ended September 30, 2007 and paid Kaupulehu Developments \$3,585,000 in percentage of sales payments. Revenue from these percentage of sales payments was reduced by \$215,000 of fees related to the sales, resulting in net revenues of \$3,370,000 and a \$2,633,000 operating profit, after minority interest. There is no assurance that any future percentage of sales payments will be received. Three of the seven lots sold by WB were purchased by Kaupulehu 2007, LLLP (Kaupulehu 2007), a Hawaii limited liability limited partnership 80%-owned by Barnwell and 20%-owned by Nearco, Inc. (Nearco). Nearco is a company controlled by Mr. Terry Johnston, a director of Barnwell and minority interest owner in certain of Barnwell's business ventures (see Real Estate Development Segment below for further discussion of Kaupulehu 2007). The three lots purchased by Kaupulehu 2007 were made under a lot purchase contract executed in January 2007. WB is not affiliated with Barnwell, Kaupulehu Developments or Kaupulehu 2007. Accordingly, the percentage of sales payments received from WB as a result of Kaupulehu 2007's lot purchases have been recorded as revenues and have not been eliminated. Percentage of sales payments received by Kaupulehu Developments as a result of Kaupulehu 2007's lot purchases in fiscal 2007 totaled \$642,000. Recognized revenues, net of fees, and operating profit, net of minority interest and before taxes, resulting from Kaupulehu 2007's lot purchases totaled \$604,000 and \$472,000, respectively, in fiscal 2007.

In December 2006, Hualalai Investors paid Kaupulehu Developments \$2,437,500 upon exercising the balance of its development rights option due on December 31, 2006. The \$2,437,500 of option proceeds was reduced by \$146,000 of fees related to the sale, resulting in net revenues of \$2,292,000 and a \$1,791,000 operating profit, after minority interest. There were no other costs deducted from revenues from the sale of development rights in fiscal 2007 as all capitalized costs associated with the development rights were expensed in previous years.

The total amount of remaining future option receipts, if all options are fully exercised, was \$10,625,000 as of September 30, 2007, comprised of four payments of \$2,656,250 due on each December 31 of years 2007 to 2010. In October 2007, Kaupulehu Developments received a \$1,927,000 development rights option payment for a portion of the seventh payment due on December 31, 2007. If any annual option payment is not made, the then remaining development right options will expire. There is no assurance that any portion of the remaining options will be exercised.

During the first quarter of fiscal 2007, Kaupulehu Mauka Investors, LLC, a limited liability company wholly-owned by Barnwell, purchased 14 lot acquisition rights within the approximately 5,000 acres of agricultural-zoned leasehold land in the upland area of Kaupulehu (Mauka Lands) situated between the Queen Kaahumanu Highway and the Mamalahoa Highway at Kaupulehu, North Kona, Island and State of Hawaii, for \$1,400,000. The lot acquisition rights give Barnwell the right to acquire residential lots which may be developed on the Mauka Lands. These lands are currently classified as agricultural by the State of Hawaii and, accordingly, the developer of these lands (Hualalai Investors) will need to pursue both State and County of Hawaii approvals for reclassification and rezoning to permit a residential subdivision and negotiate development terms. There is no assurance that the developer of the Mauka Lands will obtain the necessary land use reclassification, rezoning,

permits, approvals, and development terms and agreements needed to develop the Mauka Lands. The investment is evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable.

The land interests held by Barnwell at September 30, 2007 include the development rights under option, the rights to receive percentage of sales payments on Increment I and Increment II of the aforementioned 870 acres, Lot 4C, which is under a right of negotiation with WBKD, and lot acquisition rights in agricultural-zoned leasehold land. There is no assurance that any future development rights option payments or percentage of sales payments will be received, nor is there any assurance that WBKD will enter into an agreement with Kaupulehu Developments regarding Lot 4C. Furthermore, there is no assurance that the required land use reclassification and rezoning from regulatory agencies will be obtained nor is there any assurance that the necessary development terms and agreements will be successfully negotiated.

Competition

Barnwell's land investment segment is subject to intense competition in all phases of its operations including the acquisition of new properties, the securing of approvals necessary for land rezoning, and the search for potential buyers of property interests presently owned. The competition comes from numerous independent land development companies and other industries involved in land investment activities. The principal factors affecting competition are the location of the project and pricing. Kaupulehu Developments is a minor participant in the land development industry and competes in its land investment activities with many other entities having far greater financial and other resources.

For the past few years, Hawaii's economy has experienced positive growth and the South Kohala/North Kona area of the island of Hawaii, the area in which Kaupulehu Developments' property is located, has experienced strong demand for residential real estate. This trend continued through fiscal 2007, but at a diminished rate, and it is not expected to decline significantly in the near term, although there can be no assurance this trend will in fact continue. The price and market for real estate in the South Kohala/North Kona area of the island of Hawaii has historically been cyclical and if the demand for real estate in the area Kaupulehu Developments' interests are located were to decrease, Barnwell's operating results could be negatively affected. During periods when demand for real estate is low, inventory may turn at slower rates than expected or may be sold at prices lower than anticipated. This could potentially impair Barnwell's liquidity and impede its ability to proceed with other planned projects or activities.

Real Estate Development Segment

Overview

During the second quarter of fiscal 2007, Kaupulehu 2007, LLLP (Kaupulehu 2007), a Hawaii limited liability limited partnership 80%-owned by Barnwell and 20%-owned by Nearco was established for the purpose of acquiring house lots for investment and to construct turnkey single-family homes for future sale.

Activity

During the second quarter of fiscal 2007, Kaupulehu 2007 made nonrefundable initial deposits of \$200,000 each to secure the right to purchase seven parcels in the Lot 4A Increment I area of Kaupulehu, North Kona, Hawaii from WB, an unrelated entity. Each lot under contract has a purchase price of \$2,378,000 and the deposit for each lot will be applied to the purchase price of each lot. If any of the parcels are not purchased, the deposit related to any such parcels will be forfeited and Barnwell will incur an expense as a result of the write-off of its 80% share of any forfeited deposits.

In April 2007, Kaupulehu 2007 purchased two of the aforementioned parcels and paid \$4,356,000 for the balance of the purchase price of those parcels and in September 2007, Kaupulehu 2007 purchased one additional lot and paid \$2,178,000 for the balance of the purchase price of that parcel. \$600,000 of the previously paid deposits was applied to the purchase prices of the parcels. As of September 30, 2007, Barnwell estimates that it will develop two residences for sale on two parcels and that the third parcel purchased will be held for investment purposes. The purchase of each of the remaining four lots is scheduled to close in December 2007, March 2008, June 2008 and September 2008.

Included in the Consolidated Balance Sheet as of September 30, 2007 under the caption Residential Lots Under Development are capitalized costs, which include the costs of acquiring land, development and construction costs, interest, property taxes and general and administrative expenses related to the development of land and home construction. Costs that relate to a specific lot or home are assigned to that lot or home while common costs related to multiple lots or homes will be allocated to each in proportion to their anticipated sales value.

Kaupulehu 2007 capitalizes interest costs during development and construction and intends to include these costs in cost of sales when homes are sold. Capitalized interest costs totaled \$142,000 for the year ended September 30, 2007.

Residential lots under development, investment in residential parcel and deposits on residential parcels are reported at the lower of the asset carrying value or fair value. The recorded balances are evaluated for impairment whenever events or changes in circumstances indicate that the balance may not be fully recoverable.

As of the date of this filing, Kaupulehu 2007 is negotiating agreements with a project management company affiliated with Mr. Johnston and an unrelated building contractor for home building services for Kaupulehu 2007's lots. It is anticipated that a significant provision of such agreements will be that each such service provider will receive 20% of the profit on the sale of each lot on which a house is constructed. In addition, Kaupulehu 2007 intends to enter into contracts, one with the project management company affiliated with Mr. Johnston and one with the building contractor, wherein each will be granted the right to purchase from WB one of the four remaining lots Kaupulehu 2007 has agreed to acquire. It is anticipated that any such agreement will specify the lot that will be acquired by such service provider and require such service provider to reimburse Kaupulehu 2007 for both the \$200,000 deposit on such lot and interest costs incurred by Kaupulehu 2007 related to the initial deposit on such lot.

Competition

Barnwell's real estate development segment is subject to intense competition in all phases of its operations including the acquisition of land, the building of residential homes, including the need for raw materials and skilled labor, and the search for potential purchasers of completed homes. The competition comes from numerous independent real estate developers. The principal factors affecting competition are the location of the project, reputation, design, quality and pricing. Kaupulehu 2007 is a newcomer and a minor participant in the real estate development industry and competes with many other entities having far greater financial and other resources.

For the past few years, Hawaii's economy has experienced positive growth and the South Kohala/North Kona area of the island of Hawaii, the area in which Kaupulehu 2007 will build residential homes, has experienced strong demand for residential real estate. This trend continued through fiscal 2007, but at a diminished rate, and, although we cannot be certain, it is not expected to decline significantly in the near term, although there can be no assurance this trend will in fact continue. The price and market for real estate in the South Kohala/North Kona area of the island of Hawaii has historically been cyclical and if the demand for real estate in the Lot 4A Increment I area of Kaupulehu were to decrease, Barnwell's operating results could be negatively affected. During periods when demand for real estate is low, inventory may turn at slower rates than expected or may be sold at prices lower than anticipated. This could potentially impair Barnwell's liquidity and impede its ability to proceed with other planned projects or activities.

Contract Drilling Segment

Overview

Barnwell's wholly-owned subsidiary, Water Resources International, Inc. (Water Resources), drills water, water monitoring and geothermal wells of varying depths in Hawaii, installs and repairs water pumping systems, and is the state of Hawaii's distributor for Floway pumps and equipment.

Operations

Water Resources owns and operates three Spencer-Harris portable rotary drill rigs capable of drilling up to approximately 6,000 feet, an IDECO H-35 rotary drill/workover rig, a GEFCO 40-T portable rotary drill rig and pump installation and service equipment. Additionally, Water Resources leases a three-quarter of an acre maintenance facility in Honolulu, Hawaii and a one acre maintenance and storage facility with 2,800 square feet of interior space in Kawaihae, Hawaii, and maintains an inventory of drilling materials and pump supplies. As of September 30, 2007, Water Resources employed 24 drilling, pump and administrative employees, none of whom are union members.

The demand for Water Resources' services is primarily dependent upon land development activities in Hawaii. Water Resources markets its services to land developers and government agencies, and identifies potential contracts through public notices, its officers' involvement in community activities and referrals. Contracts are usually fixed price per lineal foot drilled or day rate contracts and are negotiated with private entities or obtained through competitive bidding with private entities or local, state and federal agencies. Contract revenues are not dependent upon the discovery of water, geothermal production zones or other similar targets, and contracts are not subject to renegotiation of profits or termination at the election of the governmental entities involved. Contracts provide for arbitration in the event of disputes.

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

Water Resources derived 47%, 37%, and 63% of its contract drilling revenues in fiscal 2007, 2006, and 2005, respectively, pursuant to federal, State of Hawaii and county contracts. At September 30, 2007, Barnwell had accounts receivable from the State of Hawaii and county entities totaling approximately \$696,000. Barnwell has lien rights on wells drilled and pumps installed for federal, State of Hawaii, county and private entities.

Water Resources currently operates in Hawaii and is not subject to seasonal fluctuations.

Activity

In fiscal 2007, Water Resources started six well drilling contracts and 10 pump installation contracts and completed four well drilling contracts and 11 pump installation contracts. One of the completed well drilling contracts and one of the completed pump installation contracts were started in the prior year. Fifty-three percent (53%) of well drilling and pump installation jobs, representing 47% of total contract drilling revenues in fiscal 2007, have been pursuant to government contracts.

At September 30, 2007, Water Resources had a backlog of seven well drilling contracts and nine pump installation and repair contracts, of which five, four well drilling and one pump installation and repair, were in progress as of September 30, 2007.

The dollar amount of Water Resources' backlog of firm well drilling and pump installation and repair contracts at November 30, 2007 and 2006 was as follows:

	2007	2006
Well drilling	\$ 7,860,000	\$ 3,760,000
Pump installation and repair	1,480,000	1,140,000
	\$ 9,340,000	\$ 4,900,000

Approximately two-thirds of the contracts in backlog at November 30, 2007 are expected to be completed within fiscal year 2008 with the remainder completed in fiscal year 2009.

Competition

Water Resources utilizes rotary drill rigs and competes with other drilling contractors in Hawaii which use drill rigs similar to Water Resources drilling rigs or drilling rigs that drill as quickly as Water Resources' equipment but require less labor. These competitors are also capable of installing and repairing vertical turbine and submersible water pumping systems in Hawaii. These contractors compete actively with Water Resources for government and private contracts. Pricing is Water Resources' major method of competition; reliability of service is also a significant factor.

Competitive pressures are expected to remain high, thus there is no assurance that the quantity of available or awarded jobs which occurred in fiscal 2007 will continue.

Summary Financial Information For all Industry Segments

Revenues of each industry segment for the fiscal years ended September 30, 2007, 2006, and 2005 are summarized as follows (all revenues were from unaffiliated customers with no intersegment sales or transfers):

	2007		2006		2005	
Oil and natural gas	\$ 34,599,000	73%	\$ 37,904,000	66%	\$ 32,724,000	74%
Contract drilling	5,993,000	13%	5,866,000	10%	7,644,000	17%
Land investment	5,662,000	12%	12,339,000	21%	3,047,000	7%
Other	867,000	2%	765,000	1%	652,000	2%
Revenues from segments	47,121,000	100%	56,874,000	98%	44,067,000	100%
Interest income	315,000	0%	386,000	1%	143,000	0%
Gain on sale of drill rig		0%	700,000	1%		0%
Total revenues	\$ 47,436,000	100%	\$ 57,960,000	100%	\$ 44,210,000	100%

For further discussion see Note 12 (SEGMENT AND GEOGRAPHIC INFORMATION) and Note 17 (CONCENTRATIONS OF CREDIT RISK) of Notes to Consolidated Financial Statements in Item 8.

Employees

As of December 6, 2007, Barnwell employed 68 employees, 65 of which are on a full-time basis. Thirty-three are employed in contract drilling activities, 20 are employed in oil and natural gas activities, and 15 are members of the corporate and administrative staff.

Financial Information about geographic areas

Revenues and long-lived assets by geographic area for the three years ended and as of September 30, 2007, 2006 and 2005 are set forth in Note 12 (SEGMENT AND GEOGRAPHIC INFORMATION) of Notes to Consolidated Financial Statements in Item 8.

Available Information

We are required to file annual, quarterly and current reports and other information with the Securities and Exchange Commission. These filings are not deemed to be incorporated by reference in this report. You may read and copy any documents filed by us at the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public through the SEC's website at <http://www.sec.gov>. We also maintain an Internet site at www.brninc.com. We make available on our Internet website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K as soon as practicable after we electronically file

such reports with the SEC.

ITEM 1A. RISK FACTORS

The business of Barnwell and its subsidiaries face numerous risks, including those set forth below or those described elsewhere in this Form 10-K or in Barnwell's other filings with the SEC. The risks described below are not the only risks that Barnwell faces, nor are they necessarily listed in order of significance.

Risks Related to Oil and Gas Segment

The oil and natural gas industry is highly competitive.

We compete for capital, acquisitions of reserves, undeveloped lands, skilled personnel, access to drilling rigs, service rigs and other equipment, access to processing facilities, pipeline and refining capacity and in many other respects with a substantial number of other organizations, many of which may have greater technical and financial resources than we do. Some of these organizations explore for, develop and produce oil and natural gas, carry on refining operations and market oil and other products on a worldwide basis. As a result of these complementary activities, some of our competitors may have competitive resources that are greater and more diverse than ours. Furthermore, many of our competitors may have a competitive advantage when responding to factors that affect demand for oil and natural gas production, such as changing prices and production levels, the cost and availability of alternative fuels and the application of government regulations. If our competitors are able to capitalize on these competitive resources, it could adversely affect our revenues.

Our results of operations and financial condition are dependent on the prices received for our oil and natural gas production.

Oil and natural gas prices are volatile and have fluctuated widely during recent years in response to many factors that are beyond our control. These factors include, but are not limited to, minor changes in supply and demand, market uncertainty, worldwide political instability, foreign supply of oil and natural gas, the level of consumer product demand, government regulations and taxes, the price and availability of alternative fuels and the overall economic environment. Any decline in crude oil or natural gas prices may have a material adverse effect on our operations, financial condition, borrowing ability, reserves and amount of capital that we are able to allocate for the development of oil and natural gas reserves.

Energy prices are also subject to other political and regulatory actions outside our control, which may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, or actions or reactions of the government of the United States in anticipation of or in response to such developments.

An increase in operating costs or a decline in our production level could have a material adverse effect on our results of operations and financial condition.

Higher operating costs for our underlying properties will directly decrease the amount of cash flow received by us and, therefore, may reduce the price of our common stock. Electricity, supplies, and labor costs are a few of the operating costs that are susceptible to material fluctuation.

The level of production from our existing properties may decline at rates greater than anticipated due to unforeseen circumstances, many of which are beyond our control. A significant decline in our production could result in materially lower revenues and cash flow.

Our operating results are affected by our ability to market the oil and natural gas that we produce.

Our business depends in part upon the availability, proximity and capacity of gas gathering systems, pipelines and processing facilities. Canadian federal and provincial, as well as United States federal and state, regulation of oil and gas production, processing and transportation, tax and energy policies, general economic conditions, and changes in supply and demand could adversely affect our ability to produce and market oil and natural gas. If market factors change and inhibit the marketing of our production, overall production or realized prices may decline.

We are not the operator and have limited influence over the operations of the majority of our oil and natural gas properties.

We hold minority interests in the majority of our oil and natural gas properties. As a result, we cannot control the pace of exploration or development or major decisions affecting the drilling of wells or the plan for development and production at non-operated properties, although contract provisions give Barnwell certain consent rights in some matters. The operator's influence over these matters can affect the pace at which we incur capital expenditures.

Our operations are subject to domestic and foreign government regulation and other risks, particularly in the United States and Canada.

Barnwell's oil and gas operations are affected by political developments and laws and regulations, particularly in the United States and Canada, such as restrictions on production, restrictions on imports and exports, the maintenance of specified reserves, tax increases and retroactive tax claims, expropriation of property, cancellation of contract rights, environmental protection controls, environmental compliance requirements and laws pertaining to workers' health and safety. Further, the right to explore for and develop oil and natural gas on lands in Alberta, Saskatchewan and British Columbia is controlled by the governments of each of those provinces. Changes in royalties and other terms of provincial leases, permits and reservations may have a substantial effect on Barnwell's operations. We derive a significant portion of our revenues from our operations in Canada. In fiscal 2007, we derived approximately 73% of our operating revenues from operations in Canada.

Additionally, our ability to compete in the Canadian oil and natural gas industry may be adversely affected by governmental regulations or other policies that favor the awarding of contracts to contractors in which Canadian nationals have substantial ownership interests. Furthermore, we may face governmentally imposed restrictions or fees from time to time on the transfer of funds to the U.S.

Government regulations control and often limit access to potential markets and impose extensive requirements concerning employee safety, environmental protection, pollution control and remediation of environmental contamination. Environmental regulations, in particular, prohibit access to some markets and make others less economical, increase equipment and personnel costs and often impose liability without regard to negligence or fault. In addition, governmental regulations may discourage our customers' activities, reducing demand for our products and services.

Compliance with foreign tax and other laws may adversely affect our operations.

Tax and other laws and regulations are not always interpreted consistently among local, regional and national authorities. It is also possible that in the future we will be subject to disputes concerning taxation and other matters in Canada, and these disputes could have a material adverse effect on our financial performance.

We are dependent upon future discoveries or acquisitions of oil and gas to maintain our reserves.

We actively explore for oil and natural gas reserves. However, future exploration and drilling results are uncertain and may involve substantial costs. Despite this uncertainty or potential cost, discoveries or acquisitions of additional reserves are needed to avoid a material decline in reserves and production. As a result, future oil and natural gas reserves may be dependent on our success in exploiting existing properties and acquiring additional reserves. If our access to capital becomes limited or unavailable, our ability to make the necessary capital investments to maintain or expand our oil and gas reserves will be impaired. Additionally, we cannot guarantee that we will be successful in developing additional reserves or acquiring additional reserves on terms that meet our investment objectives. Without these reserve additions, our reserves will deplete and as a consequence, either production from, or the average reserve life of, our properties will decline.

Actual reserves will vary from reserve estimates.

The value of our common stock depends upon, among other things, the level of reserves of oil and gas. Estimating reserves is inherently uncertain, and the figures herein are only estimates. Ultimately, actual reserves attributable to our properties will vary from estimates, and those variations may be material. The estimation of reserves involves a number of factors and assumptions, including, among others:

- historical production from our wells compared with production rates from similar producing wells in the area;
- future commodity prices, production and development costs, royalties and capital expenditures;
- initial production rates;
- production decline rates;
- ultimate recovery of reserves;
- success of future development activities;
- marketability of production;
- effects of government regulation; and
- other government levies that may be imposed over the producing life of reserves.

Reserve estimates are based on the relevant factors, assumptions and prices as of the date on which the evaluations are prepared. Many of these factors are subject to change and are beyond our control. If these factors, assumptions and prices prove to be inaccurate, actual results may vary materially from reserve estimates.

Delays in business operations could adversely affect our distributions.

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of our properties, and the delays of those operators in remitting payment to us, payments between any of these parties may also be delayed by:

- restrictions imposed by lenders;
- accounting delays;
- delays in the sale or delivery of products;
- delays in the connection of wells to a gathering system;
- blowouts or other accidents;
- adjustments for prior periods;
- recovery by the operator of expenses incurred in the operation of the properties; or
- the establishment by the operator of reserves for these expenses.

Any of these delays could expose us to additional third party credit risks.

The industry in which we operate exposes us to potential liabilities that may not be covered by insurance.

Our operations are subject to all of the risks associated with the operation and development of oil and natural gas properties, including the drilling of oil and natural gas wells, and the production and transportation of oil and natural gas. These risks include encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, other environmental risks, fires and spills. A number of these risks could result in personal injury, loss of life, or environmental and other damage to our property or the property of others.

While we maintain reserves for anticipated liabilities and carry various levels of insurance, we could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings. We cannot fully protect against all of the risks listed above, nor are all of these risks insurable. There is no assurance that any applicable insurance or indemnification agreements will adequately protect us against liability for the risks listed above. We could face substantial losses, if an event occurs for which we are not fully insured or are not indemnified against, or a customer or insurer fails to meet its indemnification or insurance obligations. In addition, there can be no assurance that insurance will continue to be available to cover any or all of these risks, or, even if available, that insurance premiums or other costs will not rise significantly in the future, so as to make the cost of such insurance prohibitive.

We may incur material costs to comply with or as a result of health, safety, and environmental laws and regulations.

The oil and natural gas industry is subject to extensive environmental regulation pursuant to local, provincial and federal legislation. A violation of that legislation may result in the imposition of fines or the issuance of clean up orders. Legislation regulating the oil and natural gas industry may be changed to impose higher standards and potentially more costly obligations. For example, the 1997 Kyoto Protocol to the United Nations Framework Convention on Climate Change, known as the Kyoto

Protocol, was ratified by the Canadian government in December 2002 and will require, among other things, significant reductions in greenhouse gases. The impact of the Kyoto Protocol on us is uncertain and may result in significant additional costs for our future operations. Although we record a provision in our financial statements relating to our estimated future environmental and reclamation obligations, we cannot guarantee that we will be able to satisfy our actual future environmental and reclamation obligations.

We are not fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time, as opposed to sudden and catastrophic damages, is not available on economically reasonable terms. Accordingly, any site reclamation or abandonment costs actually incurred in the ordinary course of business in a specific period could negatively impact our cash flow. Should we be unable to fully fund the cost of remedying an environmental problem, we might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

We may have difficulty financing our planned capital expenditures, which could have an adverse affect on our business.

We make and will continue to make substantial capital expenditures in our exploration and development projects. Without adequate capital resources, our drilling and other activities may be limited and our business, financial condition and results of operations may suffer. We may not be able to secure necessary financing on reasonable terms or at all and financing may not continue to be available to us under our existing financing arrangements. If capital resources are unavailable, we may curtail our drilling, development and other activities or be forced to sell some of our assets under untimely or unfavorable terms. Any such curtailment or sale could have a material adverse effect on our business, financial condition and results of operation.

Our future level of indebtedness and the terms of our financing arrangements may adversely affect operations and limit our growth.

At September 30, 2007, we had long-term indebtedness, net of the \$0.4 million current portion long-term debt, of approximately \$22.1 million, including \$14.5 million in outstanding borrowings drawn under our revolving credit facility. However, we may need to incur additional indebtedness in order to fund a portion of future capital expenditures. See also our risk factor headed "We may have difficulty financing our planned capital expenditures which could adversely affect our growth," above.

The terms of our revolving credit facility impose restrictions on our ability and, in some cases, the ability of our subsidiaries to take a number of actions that we may otherwise desire to take, including one or more of the following:

- incurring additional debt, including guarantees of indebtedness;
- making investments;
- creating liens on our assets; and
- selling assets.

Our level of indebtedness and the covenants contained in our financing agreements, could have important consequences for our operations, including:

- a substantial portion of our cash flow from operations may be required to service our indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;
- our debt level may limit our ability to obtain additional financing in the future, through equity offerings or debt financings, for working capital, capital expenditures, acquisitions and general corporate and other activities, or refinancing of indebtedness;
- we may be at a competitive disadvantage as compared to similar companies that have less debt;
- additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and more restrictive covenants;
- our revolving credit facility is subject to variable interest rates which makes us vulnerable to interest rate increases;
- detracting from our ability to successfully withstand a downturn in our business or the economy generally; and
- our debt level makes us more vulnerable to general economic downturns and adverse developments in our industry, especially declines in natural gas and crude oil prices, and the economy in general.

We may incur additional debt, including significant secured indebtedness, or issue additional stock in order to make future acquisitions or to develop our properties. A higher level of indebtedness increases the risk that we may default on our obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness depends on our future performance. General economic conditions, oil and natural gas prices and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. Factors that will affect our ability to raise cash through a refinancing of our debt include financial market conditions, the value of our assets and our performance at the time we need capital.

In addition, our bank borrowing base is subject to periodic redetermination. A lowering of our borrowing base could require us to repay indebtedness in excess of the borrowing base, or we may need to further secure the lenders with additional collateral.

Unforeseen title defects may result in a loss of entitlement to production and reserves.

Although we conduct title reviews in accordance with industry practice prior to any purchase of resource assets or property, such reviews do not guarantee that an unforeseen defect in the chain of title will not arise and defeat our title to the purchased assets. If such a defect were to occur, our entitlement to the production from such purchased assets could be jeopardized.

Changes in tax and other legislation may adversely affect stockholders.

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

Income tax laws, other legislation or government incentive programs relating to the oil and gas industry may in the future be changed or interpreted in a manner that adversely affects us and our stockholders. Tax authorities having jurisdiction over us may disagree with the manner in which we calculate our income for tax purposes or could change their administrative practices to our detriment.

Risks Related to Land Investment Segment

A downturn in economic conditions and demand for real estate could adversely affect our business.

The real estate investment industry is cyclical in nature and is particularly vulnerable to shifts in local, regional, and national economic conditions outside of our control such as interest rates, housing demand, population growth, employment levels and job growth and property taxes. Further, a weakening of the economic drivers in Hawaii, which include tourism, military spending, construction starts and employment, or a decrease in market demand may adversely impact the level of real estate activity in Hawaii. As a result, revenues, operating results and cash inflows may fluctuate significantly. In particular, the timing and amount of land investment segment percentage of sales proceeds are unpredictable, may be sporadic, and are not under our control. Accordingly, if estimated cash inflows from land investment segment percentage of sales proceeds do not occur on a timely basis or are less than current expectations, our revenues, operating results, cash inflows and financial condition could be materially impacted.

Considerable economic and political uncertainties currently exist that could have adverse effects on consumer buying habits, construction costs, availability of labor and materials and other factors affecting us and the real estate industry in general. Significant expenditures associated with investment in real estate, such as real estate taxes, insurance, maintenance costs and debt payments, cannot generally be reduced even though changes in Hawaii's or the nation's economy may cause a decrease in revenues from our properties.

Our real estate business is primarily concentrated in the state of Hawaii. As a result, our financial results are dependent on the economic growth and health of Hawaii, particularly the island of Hawaii.

Barnwell's land investment business segment is affected by the condition of Hawaii's real estate market. The Hawaii real estate market is affected by Hawaii's economy and Hawaii's tourism industry, as well as the United States' economy in general. Any future cash flows from Barnwell's land development activities are subject to, among other factors, the level of real estate activity and prices, the demand for new housing and second homes on the island of Hawaii, the rate of increase in the cost of building materials and labor, the introduction of building code modifications, changes to zoning laws, and the level of confidence in Hawaii's economy. The future economic growth in certain portions of the island of Hawaii may be adversely affected if its infrastructure, such as roads, airports, medical facilities and schools, are not improved to meet increased demand. There can be no assurance that these improvements will occur.

The occurrence of natural disasters in Hawaii could adversely affect our business.

The occurrence of natural disasters in Hawaii could have a material adverse effect on our ability to develop and sell properties or realize income from our projects. The occurrence of natural disasters could also cause increases in property and flood insurance rates and deductibles, which could reduce demand for our properties.

Increases in interest rates could reduce demand for our real estate.

Continued increases in interest rates could reduce the demand for development, particularly land. Increased interest rates could also negatively impact pricing for our products. A reduction in demand or pricing would materially adversely affect our profitability.

Our business is subject to extensive regulation which makes it difficult and expensive for us to conduct our operations.

We are subject to a wide variety of federal, state and local laws and regulations relating to land use and development and to environmental compliance and permitting obligations, including those related to the use, storage, discharge, emission, and disposal of hazardous materials. Any failure to comply with these laws could result in capital or operating expenditures or the imposition of severe penalties or restrictions on operations that could adversely affect present and future operations, or jeopardize our ability to sell the leasehold interest currently held.

A portion of future percentage of sales payments could be impaired if the developer of the property is unable to negotiate fee simple interests.

In 2006 we sold our leasehold interest in the second of two increments of resort/residential zoned property to an unrelated developer. As a part of the sale, we are entitled to receive future payments based on a percentage of the sales prices of residential lots sold in this second increment. Receipt of these percentage of sales payments will be contingent upon the ability of the developer of the leasehold interest in the resort/residential zoned property to successfully negotiate fee simple prices within this second increment. If the developer is unsuccessful in such negotiations, our ability to receive percentage of sales payments on the sales of those lots would be impaired.

If we are unable to obtain required land use entitlements at reasonable costs, or at all, our operating results could be adversely affected.

We hold the leasehold interest to approximately 1,000 acres of vacant land that is currently zoned conservation. Our success in selling this interest may be contingent upon obtaining the necessary reclassification from the State of Hawaii Land Use Commission and County of Hawaii. Obtaining the necessary reclassification and ministerial approvals is often difficult, costly and may take several years, or more, to complete. Delays or failures to obtain the necessary reclassification approvals may adversely affect our financial results.

Environmental and other regulations may have an adverse effect on our business.

Our properties are subject to federal, state and local environmental regulations and restrictions that may impose significant limitations. In most cases, approval to develop requires multiple permits which involve a long, uncertain and costly regulatory process.

General economic conditions in the lodging industry could adversely affect our overall financial results.

We own a 1.5% passive minority interest in Hualalai Resort, which includes the Four Seasons Resort Hualalai at Historic Kaupulehu, two golf courses and a clubhouse, and Kona Village Resort, an

80-acre oceanfront hotel property. Soft economic conditions and reduced travel to North Kona, Hawaii could adversely affect our results from these properties and, therefore, our overall financial results. The aforementioned properties are also subject to risks that generally relate to investments in commercial real estate, including governmental regulations; real estate, insurance, zoning, tax and eminent domain laws; the ongoing need for capital improvements to maintain or upgrade properties; fluctuations in real estate values; and the relative illiquidity of real estate compared to other investments.

The value of the lot acquisition rights we recently purchased could be impaired if the developer of the property is unable to obtain required land use entitlements or successfully negotiate development terms and agreements.

We recently purchased the acquisition rights to 14 lots in agricultural-zoned leasehold lands in the upland area of Kaupulehu (Mauka Lands) situated between the Queen Kaahumanu Highway and the Mamalahoa Highway at Kaupulehu, North Kona, Island and State of Hawaii. The lot acquisition rights give us the right to purchase residential lots which may be developed on the Mauka Lands. The ability to purchase residential lots and the value of such lots in the future is contingent upon the developer of the property obtaining the necessary land use reclassification, zoning and development approvals from regulatory entities. Obtaining the necessary reclassification and ministerial approvals is often difficult, costly and may take several years, or more, to complete. Delays or failures to obtain the necessary reclassification and rezoning approvals may adversely affect our financial results. Our ability to purchase lots and the value of such lots is also contingent upon the ability of the developer of the property to successfully negotiate development terms and agreements within the Mauka Lands. If the developer is unsuccessful in such negotiations, our ability to purchase residential lots in the Mauka Lands would be impaired.

Risks Related to Real Estate Development Segment

Significant competition in the real estate industry could have an adverse effect on our business.

We face competition from other developers on the island of Hawaii, and from other luxury residential properties in Hawaii and the mainland United States. In many cases, our competitors have greater financial and other resources than us. If we are unable to compete with these larger competitors, our financial results could be adversely affected.

We have limited experience in the homebuilding industry.

Homebuilding is a new business segment for us and we are relying to a material extent on our business partners to help us execute our business plan.

We will need additional financing to fund our property acquisition and homebuilding activities, and if we are unable to obtain sufficient financing or such financing is obtained on adverse terms, we may not be able to operate our business as planned, which could adversely affect our results of operations and future growth.

Barnwell, through its 80%-owned real estate joint venture (Kaupulehu 2007), made nonrefundable initial deposits of \$200,000 each to secure the right to purchase seven parcels in the Lot 4A Increment I area of Kaupulehu, North Kona, Hawaii from WB KD Acquisition, LLC, an unrelated entity, during the second quarter of fiscal 2007. Each lot under contract has a purchase price of \$2,378,000 and the deposit for each lot will be applied to the purchase price of each lot. The purchase of each of the remaining four lots is scheduled to close in December 2007, March 2008, June 2008 and September 2008. Additionally, if any of the parcels are not purchased, the deposit related to any such parcels will be forfeited and Barnwell will incur an expense as a result of the write-off of its 80% share of any forfeited deposits.

The real estate development industry is capital intensive and homebuilding requires significant up-front expenditures to acquire land and begin development. Accordingly, we will incur substantial indebtedness to finance our homebuilding activities. Although we believe that internally generated funds and borrowing capacity under our credit facilities will be sufficient to fund our development and construction activities, the amounts available from such sources may not be adequate to meet our needs. Additionally, we will need to establish new funding sources to finance our land acquisition capital expenditures. If such sources are not sufficient, we would seek additional capital in the form of debt or equity financing from a variety of potential sources, including additional bank financing, joint venture partner financing, and/or securities offerings. The amount and types of indebtedness which we may incur are limited by the terms of the agreements governing our existing debt. In addition, the availability of borrowed funds to be utilized for land acquisition, development and construction, may be greatly reduced, and the lending community may require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans. The failure to obtain sufficient capital to fund our planned capital and other expenditures could have a material adverse effect on our business. Further, if we are unable to obtain sufficient capital and thus are unable to purchase the remaining parcels when due, we may be required to forfeit the remaining balance of the initial deposits and write off the carrying cost of such deposits.

Because of the cyclical nature of the homebuilding industry, changes in general economic, real estate construction or other business conditions could adversely affect our business or our financial results.

The residential homebuilding industry historically has been cyclical and is sensitive to changes in economic conditions such as employment levels, consumer confidence, consumer income, availability of financing and interest rate levels. Adverse changes in any of these conditions generally, or in the market in which we operate, could decrease demand and pricing for new homes in these areas or result in customer cancellations of pending contracts, which could adversely affect the number of home deliveries we make or reduce the prices we can charge for homes, either of which could result in a reduction in our revenues or deterioration of our margins.

Our operating results from homebuilding are expected to be variable.

Due to the cyclical nature of the real estate development industry, we expect to experience variability in our future operating results on a quarterly and an annual basis. Factors expected to contribute to this variability include, among other things:

- the timing of land acquisitions and zoning and other regulatory approvals;
- the timing of home closings, land sales and level of home sales;
- our ability to continue to acquire additional land or options thereon on acceptable terms;

- the condition of the real estate market and the general economy; and
- delays in construction due to natural disasters, adverse weather, reduced contractor availability and strikes.

For example, the timing of land acquisitions, zoning and other regulatory approvals impacts our ability to pursue the development of new housing projects in accordance with our business plan. If the timing of land acquisitions or zoning or regulatory approvals is delayed, we will be delayed in our ability to develop housing projects, which would likely decrease our backlog. Furthermore, these delays could result in a decrease in our revenues and earnings for the periods in which the delays occur and possibly subsequent periods until the planned housing projects can be completed. A delay in a significant number of home closings or land sales due to natural disasters, adverse weather, contractor availability or strikes would have a similar impact on revenues and earnings for the period in which the delays occur. Further, revenues may increase in subsequent periods over what would normally be expected as a result of increased home closings as the delays described above are resolved.

Changes in the government regulations applicable to homebuilders could restrict our business activities, increase our operating expenses and cause our revenues to decline.

Regulatory requirements applicable to homebuilders could cause us to incur significant liabilities and operating expenses and could restrict our business activities. We are subject to local, state and federal statutes and rules regulating, among other things certain developmental matters, building and site design, and matters concerning the protection of worker health and safety, and the environment. Our operating expenses may be increased by governmental regulations, such as building permit allocation ordinances, impact and other fees and taxes, which may be imposed to defray the cost of providing certain governmental services and improvements. Other governmental regulations, such as building moratoriums and no growth or slow growth initiatives, which may be adopted in communities which have developed rapidly, may cause delays in our home projects or otherwise restrict our business activities resulting in reductions in our revenues. Any delay or refusal to grant us necessary licenses, permits or approvals from government agencies could cause substantial increases to development costs or cause us to abandon the project and to sell the affected land at a potential loss, which in turn could harm our operating results.

Our real estate development segment is dependent on the continued availability and satisfactory performance of our building contractors, which, if unavailable, could have a material adverse effect on our business.

We will conduct our construction operations through unaffiliated building contractors. As a consequence, we depend on the continued availability of and satisfactory performance by the contractors for the construction of our homes. There may not be sufficient availability of and satisfactory performance by the contractors. If the contractors' quality of work is not sufficient to assist us in home construction, our ability to construct homes on the schedule we have planned would be affected. This could result in an increase in our costs to construct homes in a timely manner, which could result in an increase in our overall costs and thus a decline in our margins and in our net income. Further, non-timely completion of work could affect our ability to sell homes based upon our projected timeline thus possibly affecting our ability to obtain additional financing to continue our homebuilding efforts.

Labor and material shortages could delay or increase the cost of home construction and reduce our sales and earnings.

The homebuilding business has from time to time experienced building material and labor shortages, as well as shortages of materials and volatility in the prices of certain materials, including lumber, framing, drywall and cement, which are significant components of home construction costs. These labor and material shortages can be more severe during periods of strong demand for housing or during periods where the area in which we operate experiences natural disasters that have a significant impact on existing residential and commercial structures. Shortages and price increases could cause delays in and increase our costs of home construction, which in turn could harm our operating results.

Our financial condition and results of operations may be adversely affected by a decrease in the value of our residential lots under development inventory and residential parcel investment, as well as by the associated carrying costs.

The risk of owning developed and undeveloped land can be substantial for homebuilders. Homebuilding requires that we acquire land for replacement and expansion of land inventory within our existing and new markets. The risks inherent in purchasing and developing land increase as consumer demand for housing decreases. Thus, we may have bought and developed land which we cannot profitably sell or on which we cannot profitably build and sell homes. The market value of land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic market conditions. It is possible that the measures we employ to manage inventory risks will not be successful and as a result our operations may suffer. In addition, inventory carrying costs can be significant and can result in losses in a poorly performing market. In the event of significant changes in economic or market conditions, we may have to sell homes or land inventory at significantly lower margins or at a loss.

Severe weather and other natural conditions or disasters may disrupt or delay construction and may impair the value of our real estate property.

Severe weather and other natural conditions or disasters, such as, but not limited to, earthquakes, landslides, hurricanes, tornadoes, volcanic activity, droughts, floods, and heavy or prolonged rain, can negatively affect our operations by requiring us to delay or halt construction or to perform potentially costly repairs to our projects under construction and to unsold homes. Further, these conditions can delay home closings, adversely affect the cost or availability of materials or labor, or impair the value of the property on a temporary or permanent basis.

The homebuilding industry is highly competitive and, with more limited resources than some of our competitors, we may not be able to compete effectively.

The homebuilding industry is highly competitive. Homebuilders compete for, among other things, desirable land, financing, raw materials, skilled labor and purchasers. We compete for residential sales on the basis of a number of interrelated factors, including location, reputation, amenities, design, quality and price, with numerous homebuilders, including some homebuilders with greater financial resources and/or lower costs than us. Increased competition could also reduce the number of homes we deliver, reducing our revenues, or cause us to accept reduced margins to maintain sales volumes. A reduction in our revenue or margins due to competitive factors could affect our ability to service our debt, including the credit facilities.

Our debt could adversely affect our financial condition.

As of September 30, 2007, our consolidated debt was \$22.5 million. In the ordinary course of business, we may incur significant additional debt, to the extent permitted by our revolving credit facility and our debt facilities. The amount of our debt could have important consequences. For example, it could:

- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements;
- require us to dedicate a substantial portion of our cash flow from operations to payment of our debt and reduce our ability to use our cash flow for other purposes;
- limit our flexibility in planning for, or reacting to, the changes in our business;
- place us at a competitive disadvantage because we have more debt than some of our competitors; and
- make us more vulnerable in the event of a downturn in our business or in general economic conditions.

Risks Related to Contract Drilling Segment

Demand for water well drilling and/or pump installation is volatile. A decrease in demand for our services would result in a decrease in our revenues.

Demand for services is highly dependent upon land development activities in the state of Hawaii. As also noted above, the real estate investment industry is cyclical in nature and is particularly vulnerable to shifts in local, regional, and national economic conditions outside of our control such as interest rates, housing demand, population growth, employment levels and job growth and property taxes. If we experience a decrease in water well drilling and/or pump installation contracts, we may experience decreased revenues and operating results.

A significant portion of our contract drilling business is dependent on municipalities and a decline in municipal spending could adversely impact our business.

A significant portion of our contract drilling division revenues are derived from water and infrastructure contracts with governmental entities or agencies. Reduced tax revenues in certain regions may limit spending and new development by local municipalities which in turn will affect the demand for our services in these regions. Material reductions in spending by a significant number of municipalities or local governmental agencies could have a material adverse effect on our business, results of operations, liquidity and financial position.

Our contract drilling operations face significant competition from companies with greater financial resources.

We face competition for our services from a variety of competitors. Many of our competitors utilize drilling rigs that drill as quickly as our equipment but require less labor. Our strategy is to compete based on pricing and to a lesser degree, quality of service. If we are unable to compete effectively with our competitors, our financial results could be adversely affected.

The loss of or damage to key vendor, customer or sub-contractor relationships would adversely affect our operations.

Our business is dependent on our relationships with key vendors, customers and subcontractors. The loss of or damage to any of our key relationships could negatively affect our business.

Entity-Wide Risks

The price of our common stock has been volatile and could continue to fluctuate substantially.

The market price of our common stock has been volatile and could fluctuate based on a variety of factors, including:

- fluctuations in commodity prices;
- variations in results of operations;
- announcements by us and our competitors;
- legislative or regulatory changes;
- general trends in the industry;
- general market conditions; and
- analysts' estimates and other events in the oil and natural gas industry.

Failure to retain key personnel could hurt our operations.

We require highly skilled and experienced personnel to operate our business. In addition to competing in highly competitive industries, we compete in a highly competitive labor market. Our business could be adversely affected by an inability to retain personnel or upward pressure on wages as a result of the highly competitive labor market.

A small number of stockholders, including our executive officers, own a significant amount of our common stock and have influence over our business regardless of the opposition of other stockholders.

Edgar Filing: BARNWELL INDUSTRIES INC - Form 10-K

As of September 30, 2007, three of our investors and our executive officers held approximately 53% of our common stock. The interests of these stockholders may not always coincide with the interests of other stockholders. These stockholders, acting together, have significant influence over all matters submitted to our stockholders, including the election of our directors, and could accelerate, delay, deter or prevent a change of control of us. These stockholders are able to exercise significant control over our business, policies and affairs.

We may be required to comply with Section 404 of the Sarbanes-Oxley Act in 2008, which we believe will result in additional expenses and may divert management's attention.

The Company may become an accelerated filer as defined in Rule 12b-2 of the Exchange Act, which would require the Company to comply with Section 404 of the Sarbanes-Oxley Act for fiscal 2008. In such event, management would be required to provide with the Company's Annual Report on Form 10-K for the year ending September 30, 2008, its assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2008 and our independent

registered public accounting firm would be required to provide its attestation of the adequacy of the Company's internal controls. If such compliance is required, the Company anticipates incurring additional general and administrative expenses and anticipates that its compliance efforts may divert management's time and attention away from other aspects of our business.

Adverse changes in actuarial assumptions used to calculate retirement plan costs due to economic or other factors, or lower returns on plan assets could adversely affect Barnwell's results and financial condition.

Retirement plan cash funding obligations and plan expenses and obligations are subject to a high degree of uncertainty and could increase in future years depending on numerous factors, including the performance of the financial markets, specifically the equity markets, and the levels of interest rates.

We are involved in joint ventures and are subject to risks associated with joint venture partnerships.

We are involved in joint venture relationships and may initiate future joint venture projects. Entering into a joint venture involves certain risks which include:

- the inability to exercise voting control over the joint venture;
- economic or business interests which are not aligned with our venture partner; and
- the inability for the venture partner to fulfill its commitments and obligations due to financial or other difficulties.

ITEM 2. PROPERTIES

Oil and Gas and Real Estate Investment Properties.

The location and character of Barnwell's oil and natural gas properties, and its land investment and real estate development properties, are described above under Item 1, Business.

Corporate Offices

Barnwell owns, and uses as its corporate office, 4,600 square feet on the 29th floor of an office building in downtown Honolulu located at 1100 Alakea Street, Suite 2900, Honolulu, Hawaii 96813.

ITEM 3. LEGAL PROCEEDINGS

Barnwell is occasionally involved in routine litigation and is subject to governmental and regulatory controls that are incidental to the business. Barnwell's management believes that routine claims and litigation involving Barnwell are not likely to have a material adverse effect on its financial position, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

In December 2004, Barnwell declared a two-for-one stock split in the form of a stock dividend. The new shares were distributed on January 28, 2005 to all stockholders of record as of January 11, 2005.

In October 2005, Barnwell declared a three-for-one stock split in the form of a stock dividend. The new shares were distributed on November 14, 2005 to all stockholders of record as of October 28, 2005. All information in this Form 10-K has been adjusted to reflect the stock splits for all periods presented.

The principal market on which Barnwell's common stock is being traded is the American Stock Exchange (AMEX) under the symbol BRN. The following tables present the quarterly high and low sales prices, on the American Stock Exchange, for Barnwell's common stock during the periods indicated:

Quarter Ended	High	Low	Quarter Ended	High	Low
December 31, 2005	\$ 28.25	\$ 19.50	December 31, 2006	\$ 24.00	\$ 16.82
March 31, 2006	25.68	20.71	March 31, 2007	23.96	19.26
June 30, 2006	24.45	18.75	June 30, 2007	22.43	18.30
September 30, 2006	24.30	18.45	September 30, 2007	22.00	14.37

Holdings

As of December 12, 2007, there were 8,196,460 shares of common stock, par value \$0.50, outstanding. There were approximately 1,500 holders of the common stock of the registrant as of December 12, 2007.

Dividends

In December 2007, Barnwell declared a cash dividend of \$0.05 per share payable January 22, 2008, to stockholders of record on January 7, 2008.

The table below sets forth the cash dividends paid per share of common stock for 2007 and 2006.

Record Date	Payable Date	Dividend Paid
September 7, 2007	September 21, 2007	\$ 0.05
June 1, 2007	June 15, 2007	\$ 0.05
March 1, 2007	March 15, 2007	\$ 0.05
December 28, 2006	January 15, 2007	\$ 0.10
September 1, 2006	September 15, 2006	\$ 0.05
June 1, 2006	June 15, 2006	\$ 0.05
March 1, 2006	March 15, 2006	\$ 0.05
December 20, 2005	January 4, 2006	\$ 0.025

Securities Authorized for Issuance Under Equity Compensation Plans

See the information included in Part III, Item 12, under the caption Equity Compensation Plan Information.

Share Repurchase Program

In December 2005, Barnwell's Board of Directors authorized the purchase of up to 250,000 shares of its common stock from time to time in the open market or in privately negotiated transactions, depending on market conditions. On September 20, 2007, the Board of Directors authorized a stock repurchase program in the open market of up to 150,000 shares of these 250,000 shares during the period commencing on September 24, 2007 and ending on March 24, 2008. During the period from September 24, 2007 through September 30, 2007, Barnwell repurchased 10,000 shares for an aggregate purchase price of \$155,000 or approximately \$15.50 per share pursuant to the plan. The remaining 100,000 shares of the 250,000 shares of common stock originally authorized may be purchased in the open market or in privately negotiated transactions.

Stock Performance Graph and Cumulative Total Return

The graph below compares the five-year cumulative total return, assuming the reinvestment of dividends, on Barnwell Common Stock with that of the AMEX Composite Index, the Dow Jones Exploration and Production Index and the Dow Jones Real Estate Holding and Development Index. This graph assumes \$100 was invested on September 30, 2002, in each of Barnwell Common Stock, the companies in the AMEX Composite Index, the companies in the Dow Jones Exploration and Production Index, and the companies in the Dow Jones Real Estate Holding and Development Index.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN *
AMONG BARNWELL INDUSTRIES, INC., THE AMEX COMPOSITE INDEX,
THE DOW JONES EXPLORATION AND PRODUCTION INDEX
AND THE DOW JONES REAL ESTATE HOLDING AND DEVELOPMENT INDEX

*\$100 INVESTED ON 9/30/02 IN STOCK OR INDEX-INCLUDING REINVESTMENT OF DIVIDENDS

Total Return to Stockholders

(Includes reinvestment of dividends)

Company / Index	INDEXED RETURNS											
	Sept. 30, 2002		2003		2004		2005		2006		2007	
Barnwell Industries, Inc.	\$	100	\$	125	\$	238	\$	660	\$	608	\$	525
AMEX Composite		100		120		154		210		231		291
Dow Jones Exploration & Production Index		100		116		186		340		324		429
Dow Jones Real Estate Holding & Development Index		100		125		157		232		290		301

ITEM 6. SELECTED FINANCIAL DATA

The following financial data as of and for the years ended is derived from the Consolidated Financial Statements. The data should be read in conjunction with the Consolidated Financial Statements and related Notes to Consolidated Financial Statements, and other financial information included herein. See Financial Statements and Supplementary Data in Item 8 and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

FINANCIAL AND OPERATING HIGHLIGHTS**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**

	Years ended September 30,				
	2007	2006	2005	2004	2003
FINANCIAL:					
Revenues	\$ 47,436,000	\$ 57,960,000	\$ 44,210,000	\$ 38,540,000	\$ 24,160,000
Net earnings	\$ 3,516,000	\$ 14,637,000	\$ 6,027,000	\$ 8,710,000	\$ 2,320,000
Net earnings per share - diluted	\$ 0.41	\$ 1.68	\$ 0.70	\$ 1.03	\$ 0.28
Total assets	\$ 124,565,000	\$ 104,555,000	\$ 84,977,000	\$ 65,087,000	\$ 52,337,000
Long-term debt, excluding current portion	\$ 22,104,000	\$ 11,735,000	\$ 11,576,000	\$ 10,165,000	\$ 10,477,000
Dividends declared per share	\$ 0.25	\$ 0.18	\$ 0.10	\$ 0.14	\$
OPERATING:					
Production -					
Oil and natural gas liquids (barrels)	260,000	260,000	253,000	259,000	227,000
Natural gas (MCF)	3,615,000	3,629,000	3,621,000	3,383,000	3,175,000
Average price -					
Oil and natural gas liquids, per barrel	\$ 48.37	\$ 49.48	\$ 40.78	\$ 29.57	\$ 25.37
Natural gas, per MCF	\$ 5.88	\$ 6.67	\$ 5.93		