

BARNWELL INDUSTRIES INC

Form 10-Q

February 12, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2009

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

96813

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(Address of principal executive offices)

(Zip code)

(808) 531-8400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of February 10, 2010 there were 8,277,160 shares of common stock, par value \$0.50, outstanding.

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BARNWELL INDUSTRIES, INC.

AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2009	September 30, 2009
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,997,000	\$ 6,879,000
Accounts receivable, net of allowance for doubtful accounts of: \$48,000 at December 31, 2009; \$47,000 at September 30, 2009	5,992,000	3,978,000
Current taxes receivable	1,003,000	653,000
Prepaid expenses	1,564,000	1,403,000
Deferred income taxes	212,000	272,000
Real estate held for sale	13,585,000	13,585,000
Other current assets	1,159,000	591,000
TOTAL CURRENT ASSETS	34,512,000	27,361,000
INVESTMENT IN RESIDENTIAL PARCELS	3,800,000	4,598,000
INVESTMENT IN JOINT VENTURES	1,920,000	1,920,000
INVESTMENT IN LAND INTERESTS	538,000	538,000
PROPERTY AND EQUIPMENT	217,826,000	212,215,000
ACCUMULATED DEPRECIATION, DEPLETION, AND AMORTIZATION	(166,674,000)	(160,528,000)
PROPERTY AND EQUIPMENT, NET	51,152,000	51,687,000
TOTAL ASSETS	\$ 91,922,000	\$ 86,104,000
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,940,000	\$ 3,277,000
Accrued capital expenditures	592,000	588,000
Accrued incentive plan costs	1,420,000	1,427,000
Other accrued compensation costs	374,000	546,000
Payable to joint interest owners	1,329,000	1,001,000
Income taxes payable	1,006,000	619,000
Current portion of long-term debt	17,500,000	14,335,000
Other current liabilities	3,206,000	2,212,000
TOTAL CURRENT LIABILITIES	28,367,000	24,005,000
LONG-TERM DEBT	13,500,000	16,665,000
LIABILITY FOR RETIREMENT BENEFITS	4,982,000	4,848,000
ASSET RETIREMENT OBLIGATION	4,665,000	4,508,000
DEFERRED INCOME TAXES	3,815,000	2,858,000
TOTAL LIABILITIES	55,329,000	52,884,000
EQUITY:		
BARNWELL INDUSTRIES, INC. STOCKHOLDERS EQUITY:		
Common stock, par value \$0.50 per share; Authorized, 20,000,000 shares: 8,445,060 issued at December 31, 2009; 8,403,060 issued at September 30, 2009	4,223,000	4,202,000

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Additional paid-in capital	1,289,000	1,227,000
Retained earnings	32,452,000	30,500,000
Accumulated other comprehensive loss, net	(318,000)	(1,349,000)
Treasury stock, at cost:		
167,900 shares at December 31, 2009; 162,900 shares at September 30, 2009	(2,286,000)	(2,262,000)
TOTAL BARNWELL INDUSTRIES, INC. STOCKHOLDERS EQUITY	35,360,000	32,318,000
Non-controlling interests	1,233,000	902,000
TOTAL EQUITY	36,593,000	33,220,000
TOTAL LIABILITIES AND EQUITY	\$ 91,922,000	\$ 86,104,000

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended December 31,	
	2009	2008
Revenues:		
Oil and natural gas	\$ 7,144,000	\$ 7,711,000
Contract drilling	2,288,000	1,134,000
Sale of interest in leasehold land, net	1,091,000	-
Sale of development rights, net	2,497,000	833,000
Gas processing and other	145,000	244,000
	13,165,000	9,922,000
Costs and expenses:		
Oil and natural gas operating	2,309,000	2,418,000
Contract drilling operating	1,632,000	1,141,000
General and administrative	2,387,000	1,944,000
Depreciation, depletion, and amortization	2,341,000	3,368,000
Reduction of carrying value of assets	798,000	-
Interest expense, net	297,000	230,000
	9,764,000	9,101,000
Earnings before income taxes	3,401,000	821,000
Income tax provision	974,000	257,000
NET EARNINGS	2,427,000	564,000
Less: Net earnings attributable to non-controlling interests	475,000	140,000
NET EARNINGS ATTRIBUTABLE TO BARNWELL INDUSTRIES, INC.	\$ 1,952,000	\$ 424,000
BASIC NET EARNINGS PER COMMON SHARE ATTRIBUTABLE TO BARNWELL INDUSTRIES, INC. STOCKHOLDERS	\$ 0.24	\$ 0.05
DILUTED NET EARNINGS PER COMMON SHARE ATTRIBUTABLE TO BARNWELL INDUSTRIES, INC. STOCKHOLDERS	\$ 0.24	\$ 0.05
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
BASIC	8,264,021	8,241,285
DILUTED	8,267,075	8,380,489

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net earnings	\$ 2,427,000	\$ 564,000
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation, depletion, and amortization	2,341,000	3,368,000
Deferred income tax expense	956,000	369,000
Reduction of carrying value of assets	798,000	-
Retirement benefits expense	202,000	144,000
Share-based compensation expense (benefit)	171,000	(481,000)
Accretion of asset retirement obligation	77,000	65,000
Retirement benefits payments	(1,000)	(1,000)
Asset retirement obligation payments	(30,000)	(81,000)
Sale of interest in leasehold land, net	(1,091,000)	-
Sale of development rights, net	(2,497,000)	(833,000)
Additions to residential lots under development	-	(1,644,000)
Decrease from changes in current assets and liabilities	(2,290,000)	(5,179,000)
Net cash provided by (used in) operating activities	1,063,000	(3,709,000)
Cash flows from investing activities:		
Proceeds from sale of development rights	2,656,000	886,000
Proceeds from sale of interest in leasehold land, net of fees paid	1,091,000	-
Proceeds from sale of oil and natural gas property	539,000	-
Proceeds from gas over bitumen royalty adjustments	22,000	67,000
Refund of deposits on residential parcels	-	200,000
Investment in joint ventures	-	(16,000)
Capital expenditures - oil and natural gas	(1,179,000)	(3,281,000)
Capital expenditures - all other	(30,000)	(7,000)
Net cash provided by (used in) investing activities	3,099,000	(2,151,000)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	-	3,111,000
Contributions from non-controlling interests	87,000	15,000
Proceeds from exercise of stock options	59,000	-
Payment of loan commitment fee	-	(60,000)
Purchases of common stock for treasury	-	(97,000)
Distributions to non-controlling interests	(231,000)	-
Net cash (used in) provided by financing activities	(85,000)	2,969,000
Effect of exchange rate changes on cash and cash equivalents	41,000	(617,000)
Net increase (decrease) in cash and cash equivalents	4,118,000	(3,508,000)

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Cash and cash equivalents at beginning of period	6,879,000	13,618,000
Cash and cash equivalents at end of period	\$ 10,997,000	\$ 10,110,000

See Notes to Condensed Consolidated Financial Statements

Table of Contents**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME (LOSS)****Three months ended December 31, 2009 and 2008**

(Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Comprehensive Income (Loss)	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-controlling Interests	Total Equity
Balance at September 30, 2008	8,252,860	\$ 4,202,000	\$ 1,222,000		\$ 54,862,000	\$ 3,143,000	\$ (2,165,000)	\$ 1,067,000	\$ 62,331,000
Share-based compensation costs			5,000						5,000
Purchases of 12,700 common shares for treasury	(12,700)						(97,000)		(97,000)
Contributions from non-controlling interests								15,000	15,000
Comprehensive loss:									
Net earnings				\$ 564,000	424,000			140,000	564,000
Other comprehensive loss									
foreign currency translation adjustments, net of \$2,177,000 tax benefit				(6,247,000)		(6,247,000)			(6,247,000)
Other comprehensive income									
retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of \$12,000 of taxes				24,000		24,000			24,000
Total comprehensive loss				(5,659,000)					(5,659,000)
Comprehensive income attributable to non-controlling interests				(140,000)					(140,000)
Comprehensive loss attributable to Barnwell Industries, Inc.				\$ (5,799,000)					\$ (5,799,000)

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At December 31, 2008	8,240,160	\$ 4,202,000	\$ 1,227,000		\$ 55,286,000	\$ (3,080,000)	\$ (2,262,000)	\$ 1,222,000	\$ 56,595,000
Balance at September 30, 2009	8,240,160	\$ 4,202,000	\$ 1,227,000		\$ 30,500,000	\$ (1,349,000)	\$ (2,262,000)	\$ 902,000	\$ 33,220,000
Exercise of stock options - 42,000 shares, net of 5,000 shares tendered and placed in treasury	37,000	21,000	62,000				(24,000)		59,000
Contributions from non-controlling interests								87,000	87,000
Distributions to non-controlling interests								(231,000)	(231,000)
Comprehensive income:									
Net earnings				\$ 2,427,000	1,952,000			475,000	2,427,000
Other comprehensive income:									
Foreign currency translation adjustments, net of taxes of \$0				964,000		964,000			964,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0				67,000		67,000			67,000
Total comprehensive income				3,458,000					
Comprehensive income attributable to non-controlling interests				(475,000)					
Comprehensive income attributable to Barnwell Industries, Inc.				\$ 2,983,000					
At December 31, 2009	8,277,160	\$ 4,223,000	\$ 1,289,000		\$ 32,452,000	\$ (318,000)	\$ (2,286,000)	\$ 1,233,000	\$ 36,593,000

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC.

AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Barnwell Industries, Inc. and all majority-owned subsidiaries, including an indirect 77.6%-owned land investment general partnership and two 80%-owned joint ventures (collectively referred to herein as Barnwell, we, our, us, or the Company). All significant intercompany accounts and transactions have been eliminated. Investments in companies over which Barnwell has the ability to exercise significant influence, but not control, are accounted for using the equity method.

Unless otherwise indicated, all references to dollars in this Form 10-Q are to U.S. dollars.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements and notes have been prepared by Barnwell in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Barnwell's September 30, 2009 Annual Report on Form 10-K. The Condensed Consolidated Balance Sheet as of September 30, 2009 has been derived from audited consolidated financial statements.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at December 31, 2009, results of operations for the three months ended December 31, 2009 and 2008, and cash flows for the three months ended December 31, 2009 and 2008, have been made. The results of operations for the period ended December 31, 2009 are not necessarily indicative of the operating results for the full year.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management of Barnwell to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ significantly from those estimates.

Significant Accounting Policies

Barnwell's significant accounting policies are described in the Notes to Consolidated Financial Statements included in Item 8 of the Company's most recently filed Annual Report on Form 10-K.

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Certain prior year amounts within this Form 10-Q have been reclassified to conform to the presentation adopted in the current year.

2. EARNINGS PER COMMON SHARE

Basic earnings per share excludes dilution and is computed by dividing net earnings attributable to Barnwell stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share includes the potentially dilutive effect of outstanding common stock options.

Reconciliations between net earnings attributable to Barnwell stockholders and common shares outstanding of the basic and diluted net earnings per share computations for the three months ended December 31, 2009 and 2008 are as follows:

	Three months ended December 31, 2009		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net earnings per share	\$ 1,952,000	8,264,021	\$ 0.24
Effect of dilutive securities - common stock options	-	3,054	
Diluted net earnings per share	\$ 1,952,000	8,267,075	\$ 0.24

	Three months ended December 31, 2008		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net earnings per share	\$ 424,000	8,241,285	\$ 0.05
Effect of dilutive securities - common stock options	-	139,204	
Diluted net earnings per share	\$ 424,000	8,380,489	\$ 0.05

Potential dilutive shares consist of the common shares issuable upon the exercise of outstanding stock options (both vested and non-vested) using the treasury stock method. Potential dilutive shares are excluded from the computation of earnings per share if their effect is antidilutive. Options to purchase 556,000 and 171,033 shares of common stock were excluded from the computation of diluted shares for the three months ended December 31, 2009 and 2008, respectively, as their inclusion would have been antidilutive.

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The Company's share-based compensation expense (benefit) and the related income tax effects for the three months ended December 31, 2009 and 2008 are as follows:

	Three months ended December 31,	
	2009	2008
Share-based compensation expense (benefit)	\$ 171,000	\$ (481,000)
Income tax effect - provision	\$ -	\$ 165,000

Share-based compensation expense (benefit) recognized in earnings for the three months ended December 31, 2009 and 2008 are reflected in General and administrative expenses in the Condensed Consolidated Statements of Operations. There was no impact on income taxes for the three months ended December 31, 2009 due to a full valuation allowance on the related deferred tax asset.

Equity-classified Awards

A summary of the activity in Barnwell's equity-classified share options as of the beginning and end of the three months ended December 31, 2009 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at October 1, 2009	222,000	\$ 7.83		
Granted	-			
Exercised	(42,000)	\$ 1.98		
Expired	(120,000)	\$ 9.48		
Forfeited	-			
Outstanding at December 31, 2009	60,000	\$ 8.62	4.9	\$ -

Exercisable at December 31, 2009	60,000	\$	8.62	4.9	\$	-
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Total share-based compensation expense for equity-classified awards vested in the three months ended December 31, 2009 and 2008 was nil and \$5,000, respectively.

The total intrinsic value of equity options exercised during the three months ended December 31, 2009 was \$115,000. No equity options were exercised during the three months ended December 31, 2008.

Liability-classified Awards

As of December 31, 2009, there was \$1,093,000 of total unrecognized compensation cost related to nonvested liability-classified share options. That cost is expected to be recognized over 3.6 years. In December 2009, Barnwell granted stock options to acquire 337,500 shares of Barnwell's common stock under a non-qualified plan at a purchase price of \$4.32 per share (market price on date)

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of grant). The stock options were issued under the 2008 Equity Incentive Plan. These options vest annually over four years commencing one year from the date of grant and expire in December 2019. These options have stock appreciation rights that permit the holders to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price.

The following assumptions were used in estimating fair value for all liability-classified share options outstanding during the three months ended December 31, 2009 and 2008:

	Three months ended December 31,	
	2009	2008
Expected volatility range	45.2% to 60.6%	41.3% to 49.2%
Weighted-average volatility	49.5%	43.8%
Expected dividends	None	0.9% to 1.4%
Expected term (in years)	4.9 to 9.9	5.9 to 9.4
Risk-free interest rate	2.7% to 3.9%	1.7% to 2.1%
Expected forfeitures	None	None

The application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation, and consequently, the related costs reported in the Condensed Consolidated Statements of Operations.

A summary of the activity in Barnwell's liability-classified share options as of the beginning and end of the three months ended December 31, 2009 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at October 1, 2009	496,000	\$ 10.89		
Granted	337,500			