

BARNWELL INDUSTRIES INC  
Form 10-K  
December 15, 2009  
Table of Contents

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, 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**  
(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:

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

**Name of each exchange on which registered**  
NYSE Amex

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

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, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was \$18,084,000.

As of December 1, 2009 there were 8,277,160 shares of common stock outstanding.

Documents Incorporated by Reference

1. Proxy statement to be forwarded to stockholders on or about January 22, 2010 is incorporated by reference in Part III hereof.
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Table of Contents**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>PART I</u></b>	
	<u>Discussion of Forward-Looking Statements</u>
<u>Item 1.</u>	<u>Business</u> 4
<u>Item 1A.</u>	<u>Risk Factors</u> 20
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 36
<u>Item 2.</u>	<u>Properties</u> 36
<u>Item 3.</u>	<u>Legal Proceedings</u> 36
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 36
<b><u>PART II</u></b>	
<u>Item 5.</u>	<u>Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 37
<u>Item 6.</u>	<u>Selected Financial Data</u> 37
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 38
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 62
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 63
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 114
<u>Item 9A(T).</u>	<u>Controls and Procedures</u> 114
<u>Item 9B.</u>	<u>Other Information</u> 115
<b><u>PART III</u></b>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u> 115
<u>Item 11.</u>	<u>Executive Compensation</u> 115
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 116
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u> 116

<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	116
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PART IV

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	117
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	<u>Signatures</u>	118
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	<u>Index to Exhibits</u>	120
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Table of Contents

**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.*

Table of Contents

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

**ITEM 1. BUSINESS**

**Overview**

Barnwell was incorporated in Delaware in 1956 and fiscal 2009 represented Barnwell's 53rd year of operations. Barnwell operates in 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 land and other real estate interests in Hawaii.
- *Residential Real Estate Segment.* Established in January 2007, Barnwell acquires house lots for investment and development of homes for sale in Hawaii.
- *Contract Drilling Segment.* Barnwell provides well drilling services and water pumping system installation and repairs in Hawaii.

**Oil and Natural Gas Segment**

*Overview*



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.

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 2009, 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.

Table of Contents

The Province of Alberta charges oil and natural gas producers a royalty for production in Alberta. The Province of Alberta determines its royalty share of natural gas and oil by using reference prices that average all natural gas sales and oil sales, respectively, in Alberta. Through December 31, 2008, royalty rates were calculated on a sliding scale basis, increasing as prices increase up to a maximum royalty rate of 35%. Barnwell also 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.

In October 2007, the Alberta Government announced a New Royalty Framework ( NRF ) that took effect on January 1, 2009. The NRF changes royalty rates on conventional oil and natural gas production to be both price-sensitive and production-sensitive, and may increase up to a maximum royalty rate of 50%. The price-sensitive maximum 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. Approximately 96% of Barnwell s gross revenues are derived from properties located within Alberta. Approximately 74% of all fiscal 2009 royalties related to crown charges, and 26% of Barnwell s fiscal 2009 royalties related to freehold and override charges which are not directly affected by the NRF.

In November 2008, the Alberta Government announced a one-time option of selecting new transitional rates or NRF rates when drilling a new natural gas or conventional oil well 1,000 to 3,500 meters in depth. All wells drilled between January 1, 2009 and December 31, 2013 that adopt the transitional rates will be shifted to the NRF on January 1, 2014. As of January 1, 2009, all of Barnwell s wells in Alberta pay royalties under the NRF and all new commercial wells adopted the transitional royalty rates.

In fiscal 2009 and 2008, the weighted-average royalty rate paid on all of Barnwell s natural gas was approximately 16% and 23%, 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 18% and 25% in fiscal 2009 and 2008, respectively. The decrease in royalty rate on all properties and the Dunvegan Unit were primarily due to the lower royalties paid under the NRF due to significantly lower prices.

In fiscal 2009 and 2008, the weighted-average royalty rate paid on oil was approximately 20% and 21%, respectively.

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 2009, Barnwell participated in the drilling of 12 development wells, ten of which management believes should be capable of production and two which were dry holes. Barnwell did not participate in the drilling of any exploratory wells during fiscal 2009. Of the 12 wells Barnwell participated in the drilling of in fiscal 2009, six (1.3 net) wells were on prospects developed by Barnwell.

Table of Contents

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, 2009, 2008 and 2007 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.

**2009**