

BERRY PETROLEUM CO
Form 10-Q
October 27, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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

For the transition period from to

Commission file number 1-9735

BERRY PETROLEUM COMPANY

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(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation or organization)

77-0079387
(I.R.S. Employer Identification Number)

1999 Broadway, Suite 3700

Denver, Colorado 80202

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(303) 999-4400**

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 15, 2010 the registrant had 53,032,471 shares of Class A Common Stock (\$.01 par value) outstanding. The registrant also had 1,797,784 shares of Class B Stock (\$.01 par value) outstanding on October 15, 2010 all of which is held by an affiliate of the registrant.

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Table of Contents**BERRY PETROLEUM COMPANY****Condensed Balance Sheets****(Unaudited)****(In Thousands, Except Share Information)**

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 54 | \$ 5,311 |
| Short-term investments | 65 | 66 |
| Accounts receivable, net of allowance for doubtful accounts of \$0 and \$38,508, respectively | 84,502 | 74,337 |
| Deferred income taxes | 11,882 | 5,623 |
| Derivative instruments | 5,414 | 11,527 |
| Prepaid expenses and other | 14,854 | 6,612 |
| Total current assets | 116,771 | 103,476 |
| Oil and gas properties (successful efforts basis), buildings and equipment, net | 2,409,225 | 2,106,385 |
| Derivative instruments | 3,082 | 735 |
| Other assets | 24,804 | 29,539 |
| | \$ 2,553,882 | \$ 2,240,135 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 94,756 | \$ 63,096 |
| Revenue and royalties payable | 28,160 | 25,878 |
| Accrued liabilities | 46,075 | 29,320 |
| Derivative instruments | 44,910 | 33,843 |
| Total current liabilities | 213,901 | 152,137 |
| Long-term liabilities: | | |
| Deferred income taxes | 319,279 | 237,161 |
| Senior secured revolving credit facility | 240,000 | 372,000 |
| 8.25% Senior subordinated notes due 2016 | 200,000 | 200,000 |
| 10.25% Senior notes due 2014, net of unamortized discount of \$11,666 and \$13,456, respectively | 438,334 | 436,544 |
| Asset retirement obligation | 51,161 | 43,487 |
| Other long-term liabilities | 18,386 | 19,711 |
| Derivative instruments | 32,566 | 75,836 |
| | 1,299,726 | 1,384,739 |
| Shareholders' equity: | | |
| Preferred stock, \$.01 par value, 2,000,000 shares authorized; no shares outstanding | | |
| Capital stock, \$.01 par value: | | |
| Class A Common Stock, 100,000,000 shares authorized; 53,009,221 and 42,952,499 shares issued and outstanding, respectively | 512 | 430 |
| Class B Stock, 3,000,000 shares authorized; 1,797,784 shares issued and outstanding (liquidation preference of \$899) | 18 | 18 |
| Capital in excess of par value | 322,600 | 89,068 |
| Accumulated other comprehensive loss | (48,533) | (60,372) |
| Retained earnings | 765,658 | 674,115 |
| Total shareholders' equity | 1,040,255 | 703,259 |
| | \$ 2,553,882 | \$ 2,240,135 |

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The accompanying notes are an integral part of these condensed financial statements.

Table of Contents**BERRY PETROLEUM COMPANY****Condensed Statements of Income (Loss)****(Unaudited)****(In Thousands, Except Per Share Data)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| REVENUES AND OTHER INCOME ITEMS | | | | |
| Sales of oil and gas | \$ 151,671 | \$ 127,455 | \$ 451,003 | \$ 374,117 |
| Sales of electricity | 9,451 | 9,137 | 27,313 | 26,032 |
| Gas marketing | 4,918 | 5,217 | 18,194 | 17,646 |
| Realized and unrealized (loss) gain on derivatives, net | (27,178) | 531 | 30,482 | 6,565 |
| Settlement of Flying J bankruptcy claim | | | 21,992 | |
| Gain on sale of assets | | 828 | | 828 |
| Interest and other income, net | 362 | 287 | 2,320 | 1,375 |
| | 139,224 | 143,455 | 551,304 | 426,563 |
| EXPENSES | | | | |
| Operating costs - oil and gas production | 46,782 | 39,195 | 140,269 | 111,317 |
| Operating costs - electricity generation | 7,220 | 6,892 | 24,729 | 22,071 |
| Production taxes | 6,215 | 3,874 | 16,484 | 14,411 |
| Depreciation, depletion & amortization - oil and gas production | 49,367 | 33,502 | 128,976 | 104,271 |
| Depreciation, depletion & amortization - electricity generation | 819 | 951 | 2,407 | 2,938 |
| Gas marketing | 4,067 | 4,633 | 16,209 | 16,149 |
| General and administrative | 12,399 | 10,686 | 38,389 | 37,143 |
| Interest | 15,586 | 14,562 | 49,373 | 35,201 |
| Extinguishment of debt | | 329 | | 10,823 |
| Transaction costs on acquisitions | | | 2,635 | |
| Dry hole, abandonment, impairment and exploration | 586 | 69 | 2,221 | 209 |
| Bad debt recovery | | | (38,508) | |
| | 143,041 | 114,693 | 383,184 | 354,533 |
| Income (loss) before income taxes | (3,817) | 28,762 | 168,120 | 72,030 |
| Income tax (benefit) provision | (794) | 10,423 | 64,450 | 24,681 |
| Income (loss) from continuing operations | (3,023) | 18,339 | 103,670 | 47,349 |
| Income (loss) from discontinued operations, net of taxes | | 668 | | (6,323) |
| Net income (loss) | \$ (3,023) | \$ 19,007 | \$ 103,670 | \$ 41,026 |
| Basic net (loss) income from continuing operations per share | | | | |
| | \$ (0.06) | \$ 0.41 | \$ 1.94 | \$ 1.04 |
| Basic net income (loss) from discontinued operations per share | | | | |
| | \$ | \$ 0.01 | \$ | \$ (0.14) |
| Basic net (loss) income per share | \$ (0.06) | \$ 0.42 | \$ 1.94 | \$ 0.90 |
| Diluted net (loss) income from continuing operations per share | | | | |
| | \$ (0.06) | \$ 0.40 | \$ 1.93 | \$ 1.03 |

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|--|----|--------|----|-------|----|-------|----|--------|
| Diluted net income (loss) from discontinued operations per share | \$ | | \$ | 0.01 | \$ | | \$ | (0.14) |
| Diluted net (loss) income per share | \$ | (0.06) | \$ | 0.41 | \$ | 1.93 | \$ | 0.89 |
| Dividends per share | \$ | 0.075 | \$ | 0.075 | \$ | 0.225 | \$ | 0.225 |

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents**BERRY PETROLEUM COMPANY****Condensed Statements of Cash Flows****(Unaudited)****(In Thousands)**

| | Nine months ended September 30, | |
|--|--|-------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 103,670 | \$ 41,026 |
| Depreciation, depletion and amortization | 131,383 | 109,397 |
| Extinguishment of debt | | 10,823 |
| Amortization of debt issue costs and net discount | 6,383 | 4,891 |
| Dry hole and impairment | 1,477 | 9,643 |
| Unrealized (gain) loss on derivatives | (8,999) | 4,796 |
| Stock-based compensation expense | 7,134 | 7,054 |
| Deferred income taxes | 67,533 | 13,546 |
| Loss on sale of oil and natural gas properties | | 79 |
| Other, net | | (5,253) |
| Cash paid for abandonment | (1,830) | (293) |
| Bad debt recovery | (38,508) | |
| Change in book overdraft | 8,309 | (20,199) |
| Decrease (increase) in current assets other than cash and cash equivalents | 19,852 | (9,828) |