BARNWELL INDUSTRIES INC
Form 10-Q
May 11, 2012
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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 March 31, 2012

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	**72-0496921**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1100 Alakea Street, Suite 2900, Honolulu, Hawaii 96813

(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). x Yes o 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 o		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company x

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

As of May 8, 2012 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)

	March 31, 2012	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,599,000**	$ 9,834,000
Accounts receivable, net of allowance for doubtful accounts of: $44,000 at March 31, 2012; $70,000 at September 30, 2011	**3,637,000**	5,760,000
Prepaid expenses	**534,000**	298,000
Real estate held for sale	**10,786,000**	12,640,000
Other current assets	**916,000**	998,000
Total current assets	**24,472,000**	29,530,000
Investments	**4,623,000**	4,623,000
Property and equipment	**249,919,000**	239,036,000
Accumulated depletion, depreciation, and amortization	**(196,939,000)**	(184,417,000)
Property and equipment, net	**52,980,000**	54,619,000
Total assets	**$ 82,075,000**	$ 88,772,000
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**$ 2,470,000**	$ 2,750,000
Accrued capital expenditures	**426,000**	2,492,000
Accrued compensation	**1,602,000**	2,397,000
Payable to joint interest owners	**488,000**	1,012,000
Income taxes payable	**423,000**	199,000
Current portion of long-term debt	**11,044,000**	12,314,000
Other current liabilities	**2,626,000**	2,925,000
Total current liabilities	**19,079,000**	24,089,000
Long-term debt	**12,000,000**	11,400,000
Liability for retirement benefits	**4,728,000**	5,167,000
Asset retirement obligation	**5,038,000**	4,921,000

Deferred income taxes		**4,372,000**		4,481,000
Total liabilities		**45,217,000**		50,058,000
Equity:				
Barnwell Industries, Inc. stockholders equity:				
Common stock, par value $0.50 per share; authorized, 20,000,000 shares:				
8,445,060 issued at March 31, 2012 and September 30, 2011		**4,223,000**		4,223,000
Additional paid-in capital		**1,289,000**		1,289,000
Retained earnings		**30,968,000**		34,231,000
Accumulated other comprehensive income, net		**1,863,000**		290,000
Treasury stock, at cost:				
167,900 shares at March 31, 2012 and September 30, 2011		**(2,286,000)**		(2,286,000)
Total Barnwell Industries, Inc. stockholders equity		**36,057,000**		37,747,000
Non-controlling interests		**801,000**		967,000
Total equity		**36,858,000**		38,714,000
Total liabilities and equity	**$**	**82,075,000**	$	88,772,000

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 March 31,		Six months ended March 31,	
	2012	2011	**2012**	2011
Revenues:				
Oil and natural gas	**$ 6,408,000**	$ 7,063,000	**$ 14,197,000**	$ 13,661,000
Contract drilling	**281,000**	812,000	**706,000**	2,381,000
Sale of interest in leasehold land, net	**353,000**	-	**353,000**	564,000
Sale of development rights, net	**-**	-	**-**	2,497,000
Gas processing and other	**124,000**	1,406,000	**412,000**	1,497,000
	7,166,000	9,281,000	**15,668,000**	20,600,000
Costs and expenses:				
Oil and natural gas operating	**2,792,000**	2,761,000	**5,533,000**	5,480,000
Contract drilling operating	**460,000**	844,000	**1,097,000**	2,211,000
General and administrative	**2,367,000**	3,819,000	**4,213,000**	6,133,000
Depletion, depreciation, and amortization	**2,806,000**	2,443,000	**5,715,000**	4,873,000
Reduction of carrying value of assets	**1,854,000**	311,000	**1,854,000**	311,000
Interest expense	**219,000**	312,000	**438,000**	620,000
	10,498,000	10,490,000	**18,850,000**	19,628,000
(Loss) earnings before income taxes	**(3,332,000)**	(1,209,000)	**(3,182,000)**	972,000
Income tax (benefit) provision	**(3,000)**	393,000	**487,000**	879,000
Net (loss) earnings	**(3,329,000)**	(1,602,000)	**(3,669,000)**	93,000
Less: Net (loss) earnings attributable to non-controlling interests	**(348,000)**	(139,000)	**(406,000)**	471,000
Net loss attributable to Barnwell Industries, Inc.	**$ (2,981,000)**	$ (1,463,000)	**$ (3,263,000)**	$ (378,000)
Basic net loss per common share attributable to Barnwell Industries, Inc. stockholders	**$ (0.36)**	$ (0.18)	**$ (0.39)**	$ (0.05)
	$ (0.36)	$ (0.18)	**$ (0.39)**	$ (0.05)

Diluted net loss per common share attributable to Barnwell Industries, Inc. stockholders				
Weighted-average number of common shares outstanding:				
Basic	**8,277,160**	8,277,160	**8,277,160**	8,277,160
Diluted	**8,277,160**	8,277,160	**8,277,160**	8,277,160

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	**2012**	2011
Net (loss) earnings	**$ (3,329,000)**	$ (1,602,000)	**$ (3,669,000)**	$ 93,000
Other comprehensive income:				
Foreign currency translation adjustments, net of taxes of $0	**662,000**	902,000	**1,443,000**	2,203,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of $0	**65,000**	64,000	**130,000**	127,000
Total other comprehensive income	**727,000**	966,000	**1,573,000**	2,330,000
Total comprehensive (loss) income	**(2,602,000)**	(636,000)	**(2,096,000)**	2,423,000
Less: Comprehensive (loss) income attributable to non-controlling interests	**(348,000)**	(139,000)	**(406,000)**	471,000
Comprehensive (loss) income attributable to Barnwell Industries, Inc.	**$ (2,254,000)**	$ (497,000)	**$ (1,690,000)**	$ 1,952,000

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended March 31, 2012	Six months ended March 31, 2011
Cash flows from operating activities:		
Net (loss) earnings	**$ (3,669,000)**	$ 93,000
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depletion, depreciation, and amortization	**5,715,000**	4,873,000
Reduction of carrying value of assets	**1,854,000**	311,000
Retirement benefits expense	**364,000**	376,000
Accretion of asset retirement obligation	**174,000**	166,000
Share-based compensation payments	**-**	(52,000)
Gain on sale of drilling equipment	**(40,000)**	-
Share-based compensation (benefit) expense	**(68,000)**	1,917,000
Deferred income tax (benefit) expense	**(176,000)**	195,000
Asset retirement obligation payments	**(281,000)**	(24,000)
Retirement plan contributions	**(673,000)**	(253,000)
Sale of interest in leasehold land, net	**(353,000)**	(564,000)
Sale of development rights, net	**-**	(2,497,000)
Increase from changes in current assets and liabilities	**180,000**	2,617,000
Net cash provided by operating activities	**3,027,000**	7,158,000
Cash flows from investing activities:		
Proceeds from sale of development rights, net of fees paid	**-**	2,497,000
Proceeds from sale of interest in leasehold land, net of fees paid	**375,000**	564,000
Proceeds from sale of drilling equipment, net	**59,000**	-
Proceeds from gas over bitumen royalty adjustments	**40,000**	48,000
Capital expenditures - oil and natural gas	**(4,304,000)**	(4,194,000)
Capital expenditures - all other	**(27,000)**	(2,025,000)
Net cash used in investing activities	**(3,857,000)**	(3,110,000)
Cash flows from financing activities:		
Repayments of long-term debt	**(670,000)**	(500,000)
Contributions from non-controlling interests	**240,000**	240,000
Payment of loan commitment fees	**-**	(32,000)
Distributions to non-controlling interests	**-**	(602,000)
Net cash used in financing activities	**(430,000)**	(894,000)
Effect of exchange rate changes on cash and cash equivalents	**25,000**	154,000
Net (decrease) increase in cash and cash equivalents	**(1,235,000)**	3,308,000
Cash and cash equivalents at beginning of period	**9,834,000**	10,674,000
Cash and cash equivalents at end of period	**$ 8,599,000**	$ 13,982,000

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Three months ended March 31, 2012 and 2011

(Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2010	8,277,160	$ 4,223,000	$ 1,289,000	$ 35,425,000	$ 1,413,000	$ (2,286,000)	$ 1,743,000	$ 41,807,000
Distributions to non-controlling interests							(502,000)	(502,000)
Net loss				(1,463,000)			(139,000)	(1,602,000)
Foreign currency translation adjustments, net of taxes of $0					902,000			902,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of $0					64,000			64,000
Balance at March 31, 2011	8,277,160	$ 4,223,000	$ 1,289,000	$ 33,962,000	$ 2,379,000	$ (2,286,000)	$ 1,102,000	$ 40,669,000
Balance at December 31, 2011	8,277,160	$ 4,223,000	$ 1,289,000	$ 33,949,000	$ 1,136,000	$ (2,286,000)	$ 1,029,000	$ 39,340,000
Contributions from non-controlling interests							120,000	120,000
Net loss				(2,981,000)			(348,000)	(3,329,000)
Foreign currency translation adjustments, net of taxes of $0					662,000			662,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of $0					65,000			65,000
Balance at March 31, 2012	**8,277,160**	**$ 4,223,000**	**$ 1,289,000**	**$ 30,968,000**	**$ 1,863,000**	**$ (2,286,000)**	**$ 801,000**	**$ 36,858,000**

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Six months ended March 31, 2012 and 2011

(Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Non-controlling Interests	Total Equity
Balance at September 30, 2010	8,277,160	$ 4,223,000	$ 1,289,000	$ 34,340,000	$ 49,000	$ (2,286,000)	$ 993,000	$ 38,608,000
Contributions from non-controlling interests							240,000	240,000
Distributions to non-controlling interests							(602,000)	(602,000)
Net (loss) earnings				(378,000)			471,000	93,000
Foreign currency translation adjustments, net of taxes of $0					2,203,000			2,203,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of $0					127,000			127,000
Balance at March 31, 2011	8,277,160	$ 4,223,000	$ 1,289,000	$ 33,962,000	$ 2,379,000	$ (2,286,000)	$ 1,102,000	$ 40,669,000
Balance at September 30, 2011	8,277,160	$ 4,223,000	$ 1,289,000	$ 34,231,000	$ 290,000	$ (2,286,000)	$ 967,000	$ 38,714,000
Contributions from non-controlling interests							240,000	240,000
Net loss				(3,263,000)			(406,000)	(3,669,000)
Foreign currency translation adjustments, net of taxes of $0					1,443,000			1,443,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of $0					130,000			130,000
Balance at March 31, 2012	**8,277,160**	**$ 4,223,000**	**$ 1,289,000**	**$ 30,968,000**	**$ 1,863,000**	**$ (2,286,000)**	**$ 801,000**	**$ 36,858,000**

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC.

AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Barnwell Industries, Inc. and all majority-owned subsidiaries (collectively referred to herein as Barnwell, we, our, us, or the Company), includin 77.6%-owned land investment general partnership (Kaupulehu Developments) and two 80%-owned joint ventures (Kaupulehu 2007, LLLP and Kaupulehu Investors, LLC). Barnwell also has a 50% interest in a currently inactive and insignificant entity which Barnwell has the ability to exercise significant influence, but not control, and which is accounted for using the equity method. Kaupulehu Investors, LLC owns 1.5% passive minority interests in various joint ventures and accounts for these passive investments under the cost method. All significant intercompany accounts and transactions have been eliminated.

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 (U.S.) Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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, 2011 Annual Report on Form 10-K. The Condensed Consolidated Balance Sheet as of September 30, 2011 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 March 31, 2012, results of operations, comprehensive (loss) income, and equity for the three and six months ended March 31, 2012 and 2011, and cash flows for the six months ended March 31, 2012 and 2011, have been made. The results of operations for the period ended March 31, 2012 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. GAAP 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.

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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.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update that provides a uniform framework for fair value measurements and related disclosures between GAAP and International Financial Reporting Standards. The amendments clarify or change the application of existing fair value measurements, including: (1) that the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets; (2) that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; (3) for Level 3 fair value measurements, quantitative information about the unobservable inputs used in a fair value measurement, a description of the valuation processes used by the entity, and a discussion about the sensitivity of the fair value measurements to changes in the unobservable inputs should be disclosed; (4) to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; (5) that in the absence of a Level 1 input, a reporting entity should apply premiums or discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; (6) that premiums and discounts related to size as a characteristic of the reporting entity s holding are not permitted in a fair value measurement; (7) for an entity s use of a nonfinancial asset that is different from the asset s highest and best use, the reason for the difference; and (8) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined. The Company adopted the provisions of the accounting standards update effective January 1, 2012. The adoption of this accounting standards update did not have a material impact on our condensed consolidated financial statements.

2. LOSS PER COMMON SHARE

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

Reconciliations between net loss attributable to Barnwell stockholders and common shares outstanding of the basic and diluted net loss per share computations are detailed in the following tables:

	Three months ended March 31, 2012		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	**$ (2,981,000)**	**8,277,160**	**$ (0.36)**
Effect of dilutive securities - common stock options	**-**	**-**	
Diluted net loss per share	**$ (2,981,000)**	**8,277,160**	**$ (0.36)**

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	Six months ended March 31, 2012		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	**$ (3,263,000)**	**8,277,160**	**$ (0.39)**
Effect of dilutive securities - common stock options	**-**	**-**	
Diluted net loss per share	**$ (3,263,000)**	**8,277,160**	**$ (0.39)**

	Three months ended March 31, 2011		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	$ (1,463,000)	8,277,160	$ (0.18)
Effect of dilutive securities - common stock options	-	-	
Diluted net loss per share	$ (1,463,000)	8,277,160	$ (0.18)

	Six months ended March 31, 2011		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	$ (378,000)	8,277,160	$ (0.05)
Effect of dilutive securities - common stock options	-	-	
Diluted net loss per share	$ (378,000)	8,277,160	$ (0.05)

Potentially 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. Potentially dilutive shares are excluded from the computation of loss per share if their effect is antidilutive. Options to purchase 815,375 shares of common stock were excluded from the computation of diluted shares for the three and six months ended March 31, 2012 and options to purchase 819,125 shares of common stock were excluded from the computation of diluted shares for the three and six months ended March 31, 2011 as their inclusion would have been antidilutive.

3. SHARE-BASED PAYMENTS

The Company s share-based compensation expense (benefit) and related income tax effects are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	**2012**	2011
Share-based compensation expense (benefit)	**$ 227,000**	$ 1,677,000	**$ (68,000)**	$ 1,917,000
Income tax effect	**$ -**	$ -	**$ -**	$ -

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Share-based compensation expense (benefit) recognized in losses for the three and six months ended March 31, 2012 and 2011 are reflected in General and administrative expenses in the Condensed Consolidated Statements of Operations. There was no impact on income taxes for the three and six months ended March 31, 2012 and 2011 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 from October 1, 2011 through March 31, 2012 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at October 1, 2011	60,000	$ 8.62		
Granted	-			
Exercised	-			
Expired /Forfeited	-			
Outstanding at March 31, 2012	60,000	$ 8.62	2.7	$ -
Exercisable at March 31, 2012	60,000	$ 8.62	2.7	$ -

There was no share-based compensation expense for equity-classified awards in the three and six months ended March 31, 2012 and 2011.

Liability-classified Awards

As of March 31, 2012, there was $101,000 of total unrecognized compensation cost related to nonvested liability-classified share options. That cost is expected to be recognized over 1.7 years.

The following assumptions were used in estimating fair value for all liability-classified share options outstanding:

	Six months ended March 31, 2012	2011
Expected volatility range	59.2% to 64.5%	53.6% to 73.0%
Weighted-average volatility	61.1%	62.5%
Expected dividends	0.0%	0.0%
Expected term (in years)	2.7 to 7.7	0.2 to 8.7
Risk-free interest rate	0.4% to 1.6%	0.1% to 3.2%
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.

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A summary of the activity in Barnwell s liability-classified share options from October 1, 2011 through March 31, 2012 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at October 1, 2011	755,375	$ 8.40		
Granted	-			
Exercised	-			
Expired/Forfeited	-			
Outstanding at March 31, 2012	755,375	$ 8.40	5.9	$ -
Exercisable at March 31, 2012	537,875	$ 9.34	5.4	$ -

The following table summarizes the components of the total share-based compensation for liability-classified awards:

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	**2012**	2011
Due to vesting	**$ 25,000**	$ 142,000	**$ 67,000**	$ 359,000
Due to remeasurement	**202,000**	1,535,000	**(135,000)**	1,558,000
Total share-based compensation expense (benefit) for liability-based awards	**$ 227,000**	$ 1,677,000	**$ (68,000)**	$ 1,917,000

No liability-classified options were exercised during the three and six months ended March 31, 2012. In the three and six months ended March 31, 2011, the cash feature of 39,375 shares of non-qualified options were exercised. The total intrinsic value of the liability-classified options exercised during the three and six months ended March 31, 2011 was $118,000. There was no estimated tax benefit related to the options exercised during the three and six months ended March 31, 2011 due to a full valuation allowance on the related deferred tax asset.

4. REAL ESTATE HELD FOR SALE

Kaupulehu 2007, LLLP (Kaupulehu 2007) is a Hawaii limited liability limited partnership jointly owned by Barnwell. Kaupulehu 2007 owns two luxury residences that are available for sale in the Lot 4A Increment I area located in the North Kona District of the island of Hawaii, north of Hualalai Resort at Historic Ka upulehu, between the Queen Kaahumanu Highway and the Pacific Ocean.

In April 2012, Kaupulehu 2007 entered into a contract to sell one of the luxury residences at a price below carrying value. Accordingly, during the three and six months ended March 31, 2012, Barnwell recorded a $1,854,000 reduction in the carrying values of both houses held for sale to reflect this decline in the estimated market value of the two luxury residences. No reduction was necessary during the three and six months ended March 31, 2011. The sale is currently in escrow and is estimated to close in the quarter ending June 30, 2012. There is no assurance that this transaction will be consummated.

5. INVESTMENTS

A summary of Barnwell s investments as of March 31, 2012 and September 30, 2011 is as follows:

Investment in two residential parcels	$	2,331,000
Investment in joint ventures		1,754,000
Investment in land interests:		
Leasehold land zoned conservation Lot 4C		50,000
Lot acquisition rights Mauka Lands		488,000
Total investments	$	4,623,000

Investment in two residential parcels

Kaupulehu 2007 owns two residential parcels in the Lot 4A Increment I area located in the North Kona District of the island of Hawaii, north of Hualalai Resort at Historic Ka upulehu, between the Queen Kaahumanu Highway and the Pacific Ocean.

During the prior year s three and six months ended March 31, 2011, Barnwell recorded a $190,000 reduction of the carrying value of its investment in residential parcels as a result of changes in fair values for real estate in the Lot 4A Increment I area of Kaupulehu, North Kona, Hawaii. No reduction was necessary during the three and six months ended March 31, 2012.

Investment in joint ventures

Kaupulehu Investors, LLC, a limited liability company jointly owned by Barnwell, owns passive minority interests in Hualalai Investors JV, LLC and Hualalai Investors II, LLC (hereinafter collectively referred to as Hualalai Investors), owners of Hualalai Resort, and a passive minority interest in Kona Village Investors, LLC, owner of Kona Village

Resort. Kaupulehu Investors, LLC accounts for these passive investments under the cost method.

Kona Village Resort sustained considerable damage as a result of the March 2011 tsunami and subsequently shutdown indefinitely. As such, Barnwell wrote-off its remaining investment in Kona Village Investors, LLC of $121,000 during the three and six months ended March 31, 2011.

Lot 4C

Barnwell owns a controlling interest in Kaupulehu Developments, a Hawaii general partnership that owns interests in leasehold land located in the North Kona District of the island of Hawaii.

Lot 4C is an area of approximately 1,000 acres of vacant leasehold land zoned conservation and is located adjacent to Lot 4A. WB KD Acquisition, LLC (WB) and/or WB KD Acquisition II, LLC (WBKD), entities not affiliated with Barnwell and its subsidiaries, have the exclusive right to negotiate with Kaupulehu Developments with respect to Lot 4C until June 2015. However, this right to negotiate will terminate in June 2013 if WB and/or WBKD have not completed all environmental assessments and surveys reasonably required to support a petition to the Hawaii State Land Use Commission for reclassification of Lot 4C.

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There is no assurance that the required land use reclassification and rezoning from regulatory agencies will be obtained, that the necessary development terms and agreements will be successfully negotiated for Lot 4C, or that WB and/or WBKD will enter into an agreement with Kaupulehu Developments regarding Lot 4C.

Lot acquisition rights

Barnwell, through wholly-owned Kaupulehu Mauka Investors, LLC, owns acquisition rights as to 14 lots within agricultural-zoned leasehold land in the upland area of Kaupulehu (Mauka Lands) situated between the Queen Kaahumanu Highway and the Mamalahoa Highway at Kaupulehu, on the island of Hawaii. The acquisition rights give Barnwell the right to acquire the aforementioned residential lots, currently estimated to be two to five acres in size, 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 the development of residential lots 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. If the developer of the Mauka Lands is unable to obtain such required land use changes, development terms and agreements with respect to the Mauka Lands and Barnwell is therefore unable to fully recover its investment in the Mauka Lands, we will incur an expense resulting from a write-off of the lot acquisition rights.

6. LONG-TERM DEBT

A summary of Barnwell s long-term debt is as follows:

	March 31, 2012	September 30, 2011
Canadian revolving credit facility	**$ 12,000,000**	$ 12,000,000
Real estate loan	**11,044,000**	11,714,000
	23,044,000	23,714,000
Less: current portion	**(11,044,000)**	(12,314,000)
Total long-term debt	**$ 12,000,000**	$ 11,400,000

Canadian revolving credit facility

In February 2012, Barnwell s credit facility at Royal Bank of Canada, a Canadian bank, was renewed through April 2013 for $20,000,000 Canadian dollars, unchanged from the prior year amount, or US$20,018,000 at the March 31, 2012 exchange rate. Unused credit available under this facility was US$8,018,000 and the interest rate on the facility was 3.0% at March 31, 2012.

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The renewed facility is available in U.S. dollars at the London Interbank Offer Rate plus 2.50%, at the Royal Bank U.S. base rate plus 1.50%, or in Canadian dollars at the Royal Bank prime rate plus 1.50%. A standby fee of 0.6250% per annum is charged on the unused facility balance. Under the financing agreement with Royal Bank of Canada, the facility is reviewed annually, with the next review planned for April 2013. Subject to that review, the facility may be extended one year with no required debt repayments for one year or converted to a two-year term loan by the bank. If the facility is converted to a two-year term loan, Barnwell has agreed to the following repayment schedule of the then outstanding loan balance: first year of the term period 20% (5% per quarter), and in the second year of the term period 80% (5% per quarter for the first three quarters and 65% in the final quarter). Based on the terms of this agreement, if Royal Bank of Canada were to convert the facility to a two-year term loan upon its next review in April 2013, Barnwell would be obligated to make quarterly principal and interest repayments beginning in July 2013. As no debt repayments will be required on or before March 31, 2013, the entire outstanding loan balance at March 31, 2012 is classified as long-term debt.

Real estate loan

Barnwell, together with its real estate joint venture, Kaupulehu 2007, has a non-revolving real estate loan with a Hawaii financial institution. Principal and interest are paid monthly and are determined based on a loan amortization schedule.

Monthly payments of principal and interest are due on the first day of each month and will change as a result of an annual change in the interest rate, the sale of a house or the sale of a residential parcel. The interest rate adjusts each April for each of the remaining six 1-year periods of the loan term to the lender s then prevailing interest rate for similarly priced commercial mortgage loans or a floating rate equal to the lender s base rate. The interest rate on the loan at March 31, 2012 was 3.67%. Any unpaid principal balance and accrued interest will be due and payable on April 1, 2018.

The loan is collateralized by, among other things, a first mortgage on Kaupulehu 2007 s lots together with all improvements thereon. Kaupulehu 2007 will be required to make a principal payment upon the sale of a house or a residential parcel in the amount of the net sales proceeds of the house or residential parcel; the loan agreement defines net sales proceeds as the gross sales proceeds for the house or residential parcel, less reasonable commissions and normal closing costs.

The loan agreement contains provisions requiring us to maintain compliance with certain covenants including a consolidated debt service coverage ratio, a consolidated total liabilities to tangible net worth ratio, and a maximum loan to value ratio. As of March 31, 2012, we were in compliance with the loan covenants.

Both houses collateralizing the loan are currently available for sale, therefore, the entire balance outstanding at March 31, 2012 under the term loan has been classified as a current liability.

7. RETIREMENT PLANS

Barnwell sponsors a noncontributory defined benefit pension plan (Pension Plan) covering substantially all of its U.S. employees. Additionally, Barnwell sponsors a Supplemental Employee Retirement Plan (SERP), a noncontributory supplemental retirement benefit plan which covers certain current and former employees of Barnwell for amounts exceeding the limits allowed under the defined benefit pension plan, and a postretirement medical insurance benefits plan (Postretirement Medical) covering eligible U.S. employees.

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The following tables detail the components of net periodic benefit cost for Barnwell s retirement plans:

	Pension Plan		SERP		Postretirement Medical	
	Three months ended March 31,					
	2012	2011	**2012**	2011	**2012**	2011
Service cost	**$ 76,000**	$ 74,000	**$ 12,000**	$ 11,000	**$ 3,000**	$ 4,000
Interest cost	**81,000**	77,000	**15,000**	15,000	**12,000**	17,000
Expected return on plan assets	**(82,000)**	(74,000)	**-**	-	**-**	-
Amortization of prior service cost	**2,000**	2,000	**-**	1,000	**34,000**	34,000
Amortization of net actuarial loss (gain)	**27,000**	22,000	**4,000**	3,000	**(2,000)**	2,000
Net periodic benefit cost	**$ 104,000**	$ 101,000	**$ 31,000**	$ 30,000	**$ 47,000**	$ 57,000

	Pension Plan		SERP		Postretirement Medical	
	Six months ended March 31,					
	2012	2011	**2012**	2011	**2012**	2011
Service cost	**$ 151,000**	$ 149,000	**$ 25,000**	$ 22,000	**$ 6,000**	$ 8,000
Interest cost	**162,000**	155,000	**30,000**	29,000	**24,000**	34,000
Expected return on plan assets	**(164,000)**	(148,000)	**-**	-	**-**	-
Amortization of prior service cost	**3,000**	3,000	**-**	2,000	**68,000**	68,000
Amortization of net actuarial loss (gain)	**56,000**	43,000	**8,000**	7,000	**(5,000)**	4,000
Net periodic benefit cost	**$ 208,000**	$ 202,000	**$ 63,000**	$ 60,000	**$ 93,000**	$ 114,000

Barnwell contributed $670,000 to the Pension Plan during the six months ended March 31, 2012 and does not expect to make any further contributions during the remainder of fiscal 2012. The SERP and Postretirement Medical plans are unfunded, and Barnwell will fund benefits when payments are made. Barnwell does not expect to make any benefit payments under the Postretirement Medical plan during fiscal 2012 and expected payments under the SERP for fiscal 2012 are not material. Fluctuations in actual equity market returns as well as changes in general interest rates will result in changes in the market value of plan assets and may result in increased or decreased retirement benefits costs and contributions in future periods.

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8. INCOME TAXES

The components of (loss) earnings before income taxes, after adjusting (loss) earnings for non-controlling interests, are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	**2012**	2011
(Loss) earnings before income taxes in:				
Canada	**$ (12,000)**	$ 2,360,000	**$ 1,526,000**	$ 3,005,000
United States	**(2,972,000)**	(3,430,000)	**(4,302,000)**	(2,504,000)
	$ (2,984,000)	$ (1,070,000)	**$ (2,776,000)**	$ 501,000

The components of the income tax (benefit) provision are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	**2012**	2011
Current	**$ 105,000**	$ 329,000	**$ 663,000**	$ 684,000
Deferred	**(108,000)**	64,000	**(176,000)**	195,000
	$ (3,000)	$ 393,000	**$ 487,000**	$ 879,000

Barnwell s effective consolidated income tax rate for the three and six months ended March 31, 2012, after adjusting (loss) earnings before income taxes for non-controlling interests, was 0% and (18%), respectively, as compared to (37%) and 175% for the three and six months ended March 31, 2011, respectively.

Consolidated taxes do not bear a customary relationship to pretax (losses) earnings due mainly to the fact that Canadian income taxes are not sheltered by current period U.S. source losses, Canadian income taxes are not estimated to have a current or future benefit as foreign tax credits or deductions for U.S. tax purposes, and U.S. consolidated net operating loss carryovers generated in the current year periods are not estimated to have any future U.S. tax benefit prior to expiration.

Included in the income tax provision for the six months ended March 31, 2011 is a $130,000 benefit primarily from the lapsing of the statute of limitations for uncertain tax positions related to Canadian income taxes. There were no lapses of the statute of limitations for uncertain tax positions in the three months ended March 31, 2011 or in the three and six months ended March 31, 2012. Offsetting this benefit were increases in the effective tax rate due to the increase in stock appreciation rights expense during the period that did not have a corresponding tax benefit as the related deferred tax asset has a full valuation allowance.

9. SEGMENT INFORMATION

Barnwell operates four segments: 1) exploring for, developing, producing and selling oil and natural gas in Canada (oil and natural gas); 2) investing in land interests in Hawaii (land investment); 3) drilling wells and installing and repairing water pumping systems in Hawaii (contract drilling); and 4) developing homes for sale in Hawaii (residential real estate).

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The following table presents certain financial information related to Barnwell s reporting segments. All revenues reported are from external customers with no intersegment sales or transfers.

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	**2012**	2011
Revenues:				
Oil and natural gas	**$ 6,408,000**	$ 8,389,000	**$ 14,197,000**	$ 14,987,000
Land investment	**353,000**	-	**353,000**	3,061,000
Contract drilling	**281,000**	812,000	**706,000**	2,381,000
Other	**121,000**	74,000	**397,000**	157,000
Total before interest income	**7,163,000**	9,275,000	**15,653,000**	20,586,000
Interest income	**3,000**	6,000	**15,000**	14,000
Total revenues	**$ 7,166,000**	$ 9,281,000	**$ 15,668,000**	$ 20,600,000
Depletion, depreciation, and amortization:				
Oil and natural gas	**$ 2,649,000**	$ 2,278,000	**$ 5,402,000**	$ 4,541,000
Contract drilling	**128,000**	140,000	**257,000**	285,000
Other	**29,000**	25,000	**56,000**	47,000
Total depletion, depreciation, and amortization	**$ 2,806,000**	$ 2,443,000	**$ 5,715,000**	$ 4,873,000
Reduction of carrying value of assets:				
Land investment	**$ -**	$ 190,000	**$ -**	$ 190,000
Residential real estate	**1,854,000**	-	**1,854,000**	-
Other	**-**	121,000	**-**	121,000
Total reduction of carrying value of assets	**$ 1,854,000**	$ 311,000	**$ 1,854,000**	$ 311,000