

BERRY PETROLEUM CO  
Form 10-K  
March 06, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended **December 31, 2005**  
Commission file number **1-9735**

**BERRY PETROLEUM COMPANY**  
(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State of incorporation or  
organization)

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

**5201 Truxtun Avenue, Suite 300**  
**Bakersfield, California 93309**  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(661) 616-3900**

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

| Title of each class   | Name of each exchange on which<br>registered |
|---|--|
| <b>Class A Common Stock, \$.01 par<br/>value<br/>(including associated stock<br/>purchase rights)</b> | <b>New York Stock Exchange</b>               |

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 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.

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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   
As of June 30, 2005, the aggregate market value of the voting and non-voting common stock held by non-affiliates was \$962,312,197. As of February 10, 2006, the registrant had 21,077,915 shares of Class A Common Stock outstanding. The registrant also had 898,892 shares of Class B Stock outstanding on February 10, 2006 all of which is held by an affiliate of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Part III is incorporated by reference from the registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be filed, pursuant to Regulation 14A, no later than 120 days after the close of the registrant's fiscal year.

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**General.** Berry Petroleum Company, (Berry or Company), is an independent energy company engaged in the production, development, acquisition, exploitation and exploration of crude oil and natural gas. While the Company was incorporated in Delaware in 1985 and has been a publicly traded company since 1987, it can trace its roots in California oil production back to 1909. Currently, Berry's principal reserves and producing properties are located in California, Utah and Colorado. The Company has its corporate headquarters in Bakersfield, California and a regional office in Denver, Colorado. The Company is increasing office space in both locations to accommodate growth. Information contained in this report on Form 10-K reflects the business of the Company during the year ended December 31, 2005 unless noted otherwise.

The Company's website is located at <http://www.bry.com>. The website can be used to access recent news releases and Securities and Exchange Commission (SEC) filings, crude oil price postings, the Company's Annual Report, Proxy Statement, Board committee charters, code of business conduct and ethics, the code of ethics for senior financial officers, and other items of interest. SEC filings, including supplemental schedules and exhibits, can also be accessed free of charge through the SEC website at <http://www.sec.gov>.

**Corporate Strategy.** Berry Petroleum Company's mission is to increase shareholder value, primarily through increasing the net asset value, and maximizing the cash flow and earnings of the Company's assets. The strategies to accomplish these goals include:

- ***Growing production and reserves from existing assets while managing expenses*** - The Company intends to increase production and reserves annually and increase both net income and cash flow in total and per share. The Company will continue to focus on the further development of its properties through developmental drilling, down-spacing, well completions, remedial work and by application of enhanced oil recovery (EOR) methods, and optimization technologies, as applicable. With respect to the California heavy oil reserves, the Company owns three cogeneration facilities which are intended to provide an efficient and secure long-term supply of steam necessary for the economic production of heavy oil.
- ***Acquiring more light oil and natural gas assets with significant growth potential in the Rocky Mountain and Mid-Continent region*** - The Company will compete to acquire oil and gas properties with proved reserves, probable reserves and/or sizeable acreage positions that the Company believes contain substantial reserves which can be developed at reasonable costs. As part of its resource diversification strategy, Berry desires to add natural gas production and reserves to complement its significant crude oil resource base. The Company has identified the Rocky Mountain and Mid-Continent region as its primary areas of interest for diversification.
- ***Appraising the Company's exploitation and exploration projects in an expedient manner*** - The Company has been successful in adding significant acreage positions in the last two years with the intent of drilling exploration wells to test the potential of the acreage for the economic production of hydrocarbons. Its goal is to appraise this potential as quickly as is prudently possible.
- ***Investing the Company's capital in an efficient, disciplined manner*** - Investing the Company's capital prudently is of paramount importance in achieving long-term success. The oil and gas business is very capital intensive so managing the business with a focus on utilizing the available capital on projects where it is likely to have success in increasing production and/or reserves at attractive returns to shareholders. A portion of the Company's capital will be directed to higher risk projects that have the potential for higher reward.
- ***Utilizing joint ventures with respected partners to enter new basins*** - The Company believes that it is beneficial to utilize the skills and knowledge of other industry participants upon entering new basins or areas of operations as it

can reduce the risk and improve the success in the area.

Berry has the industry talent, experience, organization and motivation to accomplish the above strategies to fulfill its mission of increasing shareholder value. Berry also has the financial capacity and skill sets to accomplish these strategies. In addition to internally generated funds, it has a \$500 million unsecured credit facility with a current borrowing base of \$350 million which may be utilized in adding prospective acreage, reserves and/or production through acquisitions.

***Proved Reserves and Revenues.*** As of December 31, 2005, the Company's estimated proved reserves were 126 million barrels of oil equivalent, (BOE), of which 74% are heavy crude oil, 8% light crude oil and 18% natural gas. Nearly 40% of reserves are owned in fee. Geographically, 74% of the Company's reserves are located in California and 26% in the Rocky Mountain and Mid-Continent region. Proved undeveloped reserves make up 28% of the Company's proved total. The projected capital to develop these proved undeveloped reserves is \$201million, at an estimated cost of approximately \$5.54 per BOE. Approximately 77% of the capital to develop these reserves is expected to be expended in the next five years. Production in 2005 was 8.4 million BOE, up 12% from production of 7.5 million BOE in 2004. The Company's reserves-to-production ratio was unchanged at 14.6 years at year-end 2005, compared to year-end 2004.

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The following table depicts all of the Company's producing assets as of December 31, 2005. Berry operates all of the assets, except Wyoming:

| State         | Name          | Type                     | Daily<br>Production<br>(BOE/D) | % of Daily<br>Production | Proved<br>Reserves<br>(BOE) in<br>thousands | % of Proved<br>Reserves | Oil & Gas<br>Revenues<br>before<br>hedging<br>(in<br>millions) | % of Oil &<br>Gas<br>Revenues |
|---------------|---------------|--------------------------|--------------------------------|--------------------------|---|-------------------------|--|-------------------------------|
| CA            | Midway-Sunset | Heavy oil                | 12,214                         | 53%                      | 68,071                                      | 54%                     | \$ 199   | 50%                           |
|               | Brundage      | Light<br>oil/Natural gas | 5,079                          |                          |   |                         |  |                               |
| UT            | Canyon        | oil/Natural gas          |                                | 22                       | 15,116                                      | 12                      | 98   | 25                            |
| CA            | Placerita     | Heavy oil                | 2,654                          | 12                       | 16,592                                      | 13                      | 48   | 12                            |
| CO            | Tri-State     | Natural gas              | 1,600                          | 7                        | 17,442                                      | 14                      | 26   | 7                             |
| CA            | Montalvo      | Heavy oil                | 728                            | 3                        | 6,869                                       | 5                       | 12   | 3                             |
| CA            | Poso Creek    | Heavy oil                | 544                            | 2                        | 2,046                                       | 2                       | 10   | 3                             |
| WY/CA         | Various       | Various                  | 196                            | 1                        | 149   | -                       | 2  | -                             |
| <b>Totals</b> |               |                          | <b>23,015</b>                  | <b>100%</b>              | <b>126,285</b>                              | <b>100%</b>             | <b>\$ 395</b>  | <b>100%</b>                   |

The Company continued to engage DeGolyer and MacNaughton (D&M) to appraise the extent and value of its proved oil and gas reserves and the future net revenues to be derived from properties of the Company for the year ended December 31, 2005. D&M is an independent oil and gas consulting firm located in Dallas, Texas. In preparing their reports, D&M reviewed and examined geologic, economic, engineering and other data considered applicable to properly determine the reserves of the Company. They also examined the reasonableness of certain economic assumptions regarding forecasted operating and development costs and recovery rates in light of the economic environment on December 31, 2005. See Supplemental Information About Oil & Gas Producing Activities (Unaudited) for the Company's oil and gas reserve disclosures.

**Acquisitions.** See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Operations.** In California, Berry operates all of its principal oil and gas producing properties. The Midway-Sunset, Placerita and Poso Creek fields contain predominantly heavy crude oil which requires heat, supplied in the form of steam, injected into the oil producing formations to reduce the oil viscosity which allows the oil to flow to the wellbore for production. Berry utilizes cyclic steam and/or steam flood recovery methods in all of these fields in addition to primary recovery methods at its Montalvo field. Berry is able to produce its heavy oil at its Montalvo field without steam since the majority of the producing reservoir is at a depth in excess of 11,000 feet and the reservoir temperature is high enough to produce the oil without the assistance of additional heat from steam. Field operations related to oil production include the initial recovery of the crude oil and its transport through treating facilities into storage tanks. After the treating process is completed, which includes removal of water and solids by mechanical, thermal and chemical processes, the crude oil is metered through automatic custody transfer units or gauged before sale and subsequently transferred into crude oil pipelines owned by other companies or transported via truck.

In the Rocky Mountain and Mid-Continent region, crude oil produced from the Brundage Canyon field is transported by truck, while its gas production, net of field usage, is transported by gathering or distribution systems to the Questar Pipeline. Natural gas produced from the eastern Colorado Niobrara gas assets is transported by Company and third party gathering lines to one of two main pipelines. The Company has a pipeline gathering system and gas compression facilities for delivery into these two interstate gas lines in this region.

**Crude Oil and Natural Gas Marketing**

**Economy.** The global and California crude oil markets continue to remain strong. Product prices continued to exhibit an overall-strengthening trend through 2005. The range of West Texas Intermediate (WTI) crude prices for 2005, based upon NYMEX settlements, was a low of \$42.12 and a high of \$69.81. The Company expects that crude prices will continue to be volatile in 2006.

|   | 2005     | 2004     | 2003     |
|---|----------|----------|----------|
| Average NYMEX settlement price for WTI                    | \$ 56.70 | \$ 41.47 | \$ 30.99 |
| Average posted price for Berry's:                         |          |          |          |
| Utah light crude oil                                      | 53.03    | 38.60    | 27.63    |
| California 13 degree API heavy crude oil                  | 44.36    | 32.84    | 25.33    |
| Average crude price differential between WTI and Berry's: |          |          |          |