

BERRY PETROLEUM CO  
Form 10-Q  
April 30, 2009

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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 March 31, 2009  
 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  
(Exact name of registrant as specified in its charter)

DELAWARE 77-0079387  
(State of incorporation or organization) (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 April 20, 2009, the registrant had 42,790,536 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 April 20, 2009 all of which

is held by an affiliate of the registrant.

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BERRY PETROLEUM COMPANY  
FIRST QUARTER 2009 FORM 10-Q  
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BERRY PETROLEUM COMPANY  
 Unaudited Condensed Balance Sheets  
 (In Thousands, Except Share Information)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 49	\$ 240
Short-term investments	65	66
Accounts receivable	72,846	65,873
Fair value of derivatives	95,931	111,886
Assets held for sale	142,820	-
Prepaid expenses and other	8,035	11,015
Total current assets	319,746	189,080
Oil and gas properties (successful efforts basis), buildings and equipment, net	2,096,593	2,254,425
Fair value of derivatives	48,641	79,696
Other assets	27,649	19,182
	\$ 2,492,629	\$ 2,542,383
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 51,257	\$ 119,221
Revenue and royalties payable	14,848	34,416
Accrued liabilities	42,088	34,566
Line of credit	-	25,300
Income taxes payable	460	187
Fair value of derivatives	2,983	1,445
Deferred income taxes	35,191	45,490
Liabilities held for sale	4,228	-
Total current liabilities	151,055	260,625
Long-term liabilities:		
Deferred income taxes	272,351	270,323
Long-term debt	1,199,400	1,131,800
Abandonment obligation	40,105	41,967
Other long-term liabilities	4,835	5,921
Fair value of derivatives	12,324	4,203
	1,529,015	1,454,214
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; 42,783,498 shares issued and outstanding (42,782,365 in 2008)	427	427
Class B Stock, 3,000,000 shares authorized; 1,797,784 shares issued and outstanding in 2009 and 2008 (liquidation preference of \$899)	18	18
Capital in excess of par value	82,641	79,653
Accumulated other comprehensive income	64,142	113,697
Retained earnings	665,331	633,749
Total shareholders' equity	812,559	827,544
	\$ 2,492,629	\$ 2,542,383

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

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BERRY PETROLEUM COMPANY  
 Unaudited Condensed Statements of Income  
 Three Months Ended March 31, 2009 and 2008  
 (In Thousands, Except Per Share Data)

	Three months ended March 31,	
	2009	2008
<b>REVENUES AND OTHER INCOME ITEMS</b>		
Sales of oil and gas	\$ 127,869	\$ 151,666
Sales of electricity	10,270	15,927
Gas marketing	7,581	3,231
Gain on derivative terminations	14,270	-
Gain (loss) on ineffective commodity derivatives	22,894	(708)
Interest and other income, net	283	830
	183,167	170,946
<b>EXPENSES</b>		
Operating costs - oil and gas production	37,384	39,340
Operating costs - electricity generation	8,783	16,399
Production taxes	5,652	5,183
Depreciation, depletion & amortization - oil and gas production	36,398	24,207
Depreciation, depletion & amortization - electricity generation	959	693
Gas marketing	7,284	2,982
General and administrative	13,294	11,132
Interest expense	10,050	3,327
Dry hole, abandonment, impairment and exploration	122	2,728
	119,926	105,991
Income before income taxes	63,241	64,955
Provision for income taxes	21,462	25,419
Income from continuing operations	41,779	39,536
(Loss) income from discontinued operations, net of taxes	(6,781)	3,495
	119,926	105,991
Net income	\$ 34,998	\$ 43,031
	119,926	105,991
Basic net income from continuing operations per share	\$ .92	\$ .88
Basic net (loss) income from discontinued operations per share	\$ (.15)	\$ .08
Basic net income per share	\$ .77	\$ .96
	119,926	105,991
Diluted net income from continuing operations per share	\$ .92	\$ .86
Diluted net (loss) income from discontinued operations per share	\$ (.15)	\$ .08
Diluted net income per share	\$ .77	\$ .94
	119,926	105,991
Dividends per share	\$ .075	\$ .075

Unaudited Condensed Statements of Comprehensive Income  
 Three Months Ended March 31, 2009 and 2008

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(In Thousands)

Net income	\$	34,998	\$	43,031
Unrealized gains (losses) on derivatives, net of income taxes (benefits) of \$48,160 and (\$40,349), respectively		78,577		(60,523)
Reclassification of realized gains on derivatives included in net income, net of income taxes (benefits) of (\$17,788) and \$11,698, respectively		(29,022)		17,547
Comprehensive income	\$	84,553	\$	55

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



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BERRY PETROLEUM COMPANY  
 Unaudited Condensed Statements of Cash Flows  
 Three Months Ended March 31, 2009 and 2008  
 (In Thousands)

	Three months ended	
	March 31, 2009	2008
Cash flows from operating activities:		
Net income	\$ 34,998	\$ 43,031
Depreciation, depletion and amortization	39,545	27,769
Dry hole and impairment	9,643	2,728
Commodity derivatives	(22,842)	271
Stock-based compensation expense	2,988	2,107
Deferred income taxes	21,059	22,082
Gain on sale of oil and gas properties	-	(415)
Other, net	(3,952)	491
Change in book overdraft	(23,510)	4,609
Cash paid for abandonment	(112)	(971)
Increase in current assets other than cash and cash equivalents	(12,933)	(78)
Decrease in current liabilities other than book overdraft, line of credit and fair value of derivatives	(36,755)	(14,389)
Net cash provided by operating activities	8,129	87,235
Cash flows from investing activities:		
Exploration and development of oil and gas properties	(49,898)	(75,869)
Property acquisitions	(1,173)	(261)
Additions to vehicles, drilling rigs and other fixed assets	(283)	(909)
Proceeds from sale of assets	-	1,809
Deposits on asset sales	14,000	-
Capitalized interest	(5,312)	(4,485)
Net cash used in investing activities	(42,666)	(79,715)
Cash flows from financing activities:		
Proceeds from issuances on line of credit	147,800	100,600
Payments on line of credit	(173,100)	(104,700)
Proceeds from issuance of long-term debt	159,600	69,200
Payments on long-term debt	(92,000)	(69,200)
Debt issuance cost	(4,538)	-
Dividends paid	(3,416)	(3,327)
Proceeds from stock option exercises	-	1,388
Excess tax benefit and other	-	882
Net cash provided by (used in) financing activities	34,346	(5,157)
Net (decrease) increase in cash and cash equivalents	(191)	2,363
Cash and cash equivalents at beginning of year	240	316
Cash and cash equivalents at end of period	\$ 49	\$ 2,679

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



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Berry Petroleum Company  
Notes to the Unaudited Condensed Financial Statements

1. General

All adjustments which are, in the opinion of management, necessary for a fair statement of Berry Petroleum Company's (the Company) financial position at March 31, 2009 and December 31, 2008 and results of operations and other comprehensive income and cash flows for the three months ended March 31, 2009 and 2008 have been included. All such adjustments, except as described below, are of a normal recurring nature. The results of operations and cash flows are not necessarily indicative of the results for a full year.

The accompanying unaudited condensed financial statements have been prepared on a basis consistent with the accounting principles and policies reflected in the December 31, 2008 financial statements. The December 31, 2008 Form 10-K should be read in conjunction herewith. The year-end condensed Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

In the first quarter of 2008, we determined there was an error in computing royalties payable in prior years, accumulating to \$10.5 million as of December 31, 2007. We concluded the error was not material to any individual prior interim or annual period (or to the projected earnings for 2008) and, therefore, the error was corrected during the first quarter of 2008, with the effect of increasing our sales of oil and gas by \$10.5 million and reducing our royalties payable.

Our cash management process provides for the daily funding of checks as they are presented to the bank. Included in accounts payable at March 31, 2009 and December 31, 2008 is \$8.2 million and \$31.8 million, respectively, representing outstanding checks in excess of the bank balance (book overdraft).

2. Recent Accounting Developments

In September 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Positions (FSP) No. 133-1 and FIN 45-4 to amend FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. Further, this FSP clarifies the FASB's intent about the effective date of FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. This FSP became effective for our fiscal year beginning January 1, 2009 and we expanded our disclosures accordingly.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133, which changes the disclosure requirements for derivative instruments and hedging activities. Expanded disclosures are required to provide information about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. We adopted this Statement January 1, 2009 and we expanded our disclosures accordingly.

In December 2007, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 was issued to establish accounting and reporting standards for the noncontrolling interests in a subsidiary (formerly called minority interests) and for the deconsolidation of a

subsidiary. We adopted this Statement January 1, 2009 and it did not have a material effect on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, which expands the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interests in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply the statement before that date. We may experience a financial statement impact depending on the nature and extent of any new business combinations entered into after the effective date of SFAS No. 141(R).

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In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF 03-6-1"), which clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments should be included in the earnings allocation in computing basic earnings per share under the two-class method described in SFAS No. 128, Earnings per Share. All prior period earnings per share data presented shall be adjusted retrospectively to conform with the provisions of this pronouncement. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We implemented EITF 03-06-1 during the first quarter of 2009. See Note 10 to the condensed financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1, Interim Disclosures about Fair Value of Financial Instruments. FSP 107-1 requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. FSP 107-1 will be effective for us for the quarter ending June 30, 2009. The adoption of FSP 107-1 will not have an impact on our financial position and results of operations.

3. Fair Value Measurements

In September 2006, SFAS No. 157, Fair Value Measurements was issued by the FASB. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. We adopted this Statement for financial instruments on January 1, 2008.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This Statement delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities. We adopted SFAS 157 for nonfinancial assets and nonfinancial liabilities on January 1, 2009 and it did not have a material effect on our financial statements.

In February of 2007, the FASB issued SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets and financial liabilities not previously carried at fair value. We adopted this Statement at January 1, 2008, but did not elect fair value as an alternative for any financial assets or liabilities.

Determination of fair value

We have established and documented a process for determining fair values. Fair value is based upon quoted market prices, where available. We have various controls in place to ensure that valuations are appropriate. These controls include: identification of the inputs to the fair value methodology through review of counterparty statements and other supporting documentation, determination of the validity of the source of the inputs, corroboration of the original source of inputs through access to multiple quotes, if available, or other information and monitoring changes in valuation methods and assumptions. The methods described above may produce a fair value calculation that may not be indicative of future fair values. Furthermore, while we believe these valuation methods are appropriate and consistent with that used by other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value.

Valuation hierarchy

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology that are unobservable and significant to the fair value measurement. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Our oil swaps, natural gas swaps and interest rate swaps are valued using the counterparties' mark-to-market statements which are validated by our internally developed models and are classified within Level 2 of the valuation hierarchy. The observable inputs include underlying commodity and interest rate levels and quoted prices of these instruments on actively traded markets. Derivatives that are valued based upon models with significant unobservable market inputs (primarily volatility), and that are normally traded less actively are classified within Level 3 of the valuation hierarchy. Level 3 derivatives include oil collars, natural gas collars and natural gas basis swaps.

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Assets and ( liabilities) measured at fair value on a recurring basis

March 31, 2009 (in millions)	Total carrying value on the condensed Balance Sheet	Level 2	Level 3
Commodity derivative assets	143.5	6.0	137.5
Interest rate swaps	(14.7)	(14.7)	-
<b>Total fair value</b>	<b>128.8</b>	<b>(8.7)</b>	<b>137.5</b>

Included in the total \$128.8 million asset above is a \$0.5 million liability associated with our DJ liabilities which are classified as "Liabilities held for sale" as of March 31, 2009.

December 31, 2008 (in millions)	Total carrying value on the condensed Balance Sheet	Level 2	Level 3
Commodity derivatives assets	198.4	25.9	172.5
Interest rate swap liabilities	(12.5)	(12.5)	-
<b>Total fair value of derivative assets</b>	<b>185.9</b>	<b>13.4</b>	<b>172.5</b>

#### Changes in Level 3 fair value measurements

The table below includes a rollforward of the condensed Balance Sheet amounts (including the change in fair value) for financial instruments classified by us within Level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources).

(in millions)	Three months ended March 31, 2009
Fair value of Level 3 derivative assets, beginning of period	\$ 172.5
Total realized and unrealized gains and (losses) included in sales of oil and gas	(22.9)
Purchases, sales and settlements, net	(15.5)
Transfers in and/or out of Level 3	3.4
<b>Fair value of Level 3 derivative assets, March 31, 2009</b>	<b>\$ 137.5</b>

Total unrealized gains and (losses) included in income related to financial assets and liabilities still on the condensed balance sheet at March 31, 2009	\$ 22.8
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The fair value of our DJ basin asset sale determined by our Board of Directors was confirmed by the sales price paid to us. The following nonrecurring fair value measurements were recorded during the three months ended March 31, 2009 in conjunction with the sale of our DJ basin assets:

	Three Months Ended March 31, 2009	Significant Unobservable Inputs Level 3	Total Gains (Losses)
Long lived assets and liabilities held for sale (in millions)	\$ 138,592	\$ 138,592	\$ (9,637)



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4. Hedging

To minimize the effect of a downturn in oil and gas prices and protect our profitability and the economics of our development plans, we enter into crude oil and natural gas hedge contracts from time to time. The terms of contracts depend on various factors, including management's view of future crude oil and natural gas prices, acquisition economics on purchased assets and our future financial commitments. This price hedging program is designed to moderate the effects of a severe crude oil and natural gas price downturn while allowing us to participate in some commodity price increases. We benefit from lower natural gas pricing as we are a consumer of natural gas in our California operations and in the Rocky Mountains and East Texas, we benefit from higher natural gas pricing. We have hedged, and may hedge in the future, both natural gas purchases and sales as determined appropriate by management. Management regularly monitors the crude oil and natural gas markets and our financial commitments to determine if, when, and at what level some form of crude oil and/or natural gas hedging and/or basis adjustments or other price protection is appropriate in accordance with policy established by our board of directors. Currently, our hedges are in the form of swaps and collars. However, we may use a variety of hedge instruments in the future to hedge WTI or the index gas price. We also utilize interest rate derivatives to protect against changes in interest rates on our floating rate debt.

The related cash flow impact of all of our hedges is reflected in cash flows from operating activities. At March 31, 2009, our net fair value of derivative assets was \$128.8 million as compared to \$185.9 million at December 31, 2008 which reflects decreases in commodity prices in the period. Based on NYMEX strip pricing as of March 31, 2009, we expect to receive hedge proceeds under the existing derivatives of \$104.4 million during the next twelve months. At March 31, 2009, Accumulated Other Comprehensive Income consisted of \$64.1 million, net of tax, of unrealized gains from our crude oil and natural gas swaps and collars that qualified for hedge accounting treatment at March 31, 2009. Deferred net gains recorded in "Accumulated Other Comprehensive Income" at March 31, 2009 and subsequent mark-to-market changes in the underlying hedging contracts are expected to be reclassified to earnings in the same period that the forecasted transaction impacts earnings.

We present our derivative assets and liabilities in our Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, whenever we have a legally enforceable master netting agreement with a counterparty to a derivative contract. We use these agreements to manage and substantially reduce our potential counterparty credit risk.

The following table disaggregates our net derivative assets and liabilities into gross components on a contract-by-contract basis before giving effect to master netting arrangements. Finally, we identify the line items in our Condensed Balance Sheets in which these fair value amounts are included. The gross asset and liability values in the table below are segregated between those derivatives designated in qualifying hedge accounting relationships and those not designated in hedge accounting relationships. We use the end of period accounting designation to determine the classification for each derivative position.

As of March 31, 2009				
Derivative Assets			Derivative Liabilities	
(in millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity – Oil	Current assets	94.6	Current liability	2.3
Commodity – Natural Gas	Current assets	4.1	Current liability	0.3

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Commodity – Oil	Long term assets	52.4	Long term liabilities	6.5
Commodity – Natural Gas	Long term assets	0.7		-
Commodity – Natural Gas	Long term liabilities	1.1		-
Interest rate contracts		-	Current assets	2.9
Interest rate contracts		-	Long term assets	4.4
Interest rate contracts		-	Current liabilities	0.4
Interest rate contracts		-	Long term liabilities	7.0
Total derivatives designated as				
hedging instruments under Statement				
133		152.9		23.8
Commodity – Oil	Current assets	0.2	Current liabilities	-
Commodity – Natural Gas	Liabilities held for sale	0.8	Liabilities held for sale	1.3
Total derivatives not designated as				
hedging instruments under Statement				
133		1.0		1.3
Total Derivatives		153.9		25.1

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Notes to the Unaudited Condensed Financial Statements

The tables below summarize the Statement of Income impacts on our derivative instruments:

Derivatives in Statement 133 cash flow hedging relationships	Amount of gain (loss) Recognized in OCI on Derivative (Effective portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
					Excluded from Effectiveness Testing)
	Three Months Ended March 31, 2009		Three Months Ended March 31, 2009		