

BERRY PETROLEUM CO
Form 10-K
February 25, 2009

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

FORM 10-K

T Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008
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
Denver, Colorado 80202
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code:
(303) 999- 4400
Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which
registered
Class A Common Stock, \$0.01 par value New York Stock Exchange
(including associated stock purchase
rights)

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 ☒ T

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 ☒ T

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 ☒ T NO ☐ F

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. ☒ F

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ T Accelerated filer ☐ F Non-accelerated filer ☐ F Smaller reporting company ☐ F

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

As of June 30, 2008, the aggregate market value of the voting and non-voting common stock held by non-affiliates

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was \$2,173,457,341. As of February 2, 2009, the registrant had 42,782,521 shares of Class A Common Stock outstanding. The registrant also had 1,797,784 shares of Class B Stock outstanding on February 2, 2009 all of which are 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.

BERRY PETROLEUM COMPANY
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Forward Looking Statements

“Safe harbor under the Private Securities Litigation Reform Act of 1995:” Any statements in this Form 10-K that are not historical facts are forward-looking statements that involve risks and uncertainties. Words or forms of words such as “will,” “might,” “intend,” “continue,” “target,” “expect,” “achieve,” “strategy,” “future,” “may,” “could,” “goal,” “forecast,” comparable words or phrases, or the negative of those words, and other words of similar meaning, indicate forward-looking statements and important factors which could affect actual results. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Berry Petroleum Company. These items are discussed at length on page 14 in Part I, Item 1A in this Form 10-K filed with the Securities and Exchange Commission, under the heading “Risk Factors.”

PART I

Item 1. Business

General. We are an independent energy company engaged in the production, development, acquisition, exploitation of and exploration for, crude oil and natural gas. While we were incorporated in Delaware in 1985 and have been a publicly traded company since 1987, we can trace our roots in California oil production back to 1909. In 2003, we purchased and began operating properties in the Rocky Mountains. In 2008, we purchased and began operating properties in East Texas (E. Texas). Also in 2008, we relocated our corporate headquarters to Denver, Colorado and we have regional offices in Bakersfield, California and Plano, Texas. Information contained in this report on Form 10-K reflects our business during the year ended December 31, 2008 unless noted otherwise.

Our website, located at <http://www.bry.com>, can be used to access recent news releases and Securities and Exchange Commission (SEC) filings, crude oil price postings, hedging summaries, our Annual Report, Proxy Statement, Board committee charters, Corporate Governance Guidelines, code of business conduct and ethics, the code of ethics for senior financial officers, and other items of interest. Information on our website is not incorporated into this report. 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. Our objective is to increase the value of our business through consistent growth in our production and reserves, both through the drill-bit and acquisitions. We strive to operate our properties in an efficient manner to maximize the cash flow and earnings of our assets. The strategies to accomplish these goals include:

Developing our existing resource base. We are focused on the timely and prudent development of our large resource base through developmental and step-out drilling, down-spacing, well completions, remedial work and by application of enhanced oil recovery (EOR) methods, and optimization technologies, as applicable. We also have large potential hydrocarbon resources in place in the San Joaquin Valley, California (diatomite); Piceance, Colorado; Uinta, Utah (Lake Canyon); and Cotton Valley Trend in E. Texas. We have a proven track record of developing reserves and establishing new businesses in the Rocky Mountain and E. Texas regions.

Investing our capital in a disciplined manner and maintaining a strong financial position. We focus on utilizing our available capital on projects where we are likely to have success in increasing production and/or reserves at attractive returns. We believe that maintaining a strong financial position will allow us to capitalize on investment opportunities in all commodity cycles. Our capital programs are developed to be fully funded through internally generated cash flows while our acquisitions have been primarily funded through debt. We hedge a significant portion of our production and utilize long-term sales contracts whenever possible to maintain a strong financial position and provide the cash flow necessary for the development of our assets.

Acquiring additional assets with significant growth potential. We will continue to evaluate oil and gas properties with proved reserves, probable reserves and/or acreage positions that we believe contain substantial hydrocarbons which can be developed at reasonable costs. In July 2008 we completed the acquisition of natural gas producing properties in E. Texas for approximately \$650 million. We will continue to review asset acquisitions that meet our economic criteria with a primary focus on large repeatable development potential in these regions.

Accumulating significant acreage positions near our producing operations. We have been successful in adding significant acreage positions in our producing areas. This strategy allows us to leverage our operating and technical expertise within the area and build on established core operations.

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Business strengths.

Balanced high quality asset portfolio with a long reserve life. Since 2002, we have grown our asset base and diversified our California heavy oil through a number of acquisitions in the Rocky Mountain and East Texas regions that have significant growth potential. Our diverse asset base provides us with the flexibility to reallocate capital among our assets depending on fluctuations in natural gas and oil prices as well as area economics. Our production based asset teams are focused around S.Midway-Sunset, Southern California and DJ assets. Our resource based asset teams are focused around diatomite, Piceance, Uinta and our newly acquired E. Texas assets. Our base of legacy California assets provides us with a steady stream of cash flow to fund our significant drilling inventory and the appraisal of our prospects. Our wells are generally characterized by long production lives and predictable performance.

Low-risk multi-year drilling inventory in established resource plays. Most of our drilling locations are located in proven resource plays that possess low geologic risk leading to predictable drilling results. Our historical drilling success rate for the three years ended December 31, 2008 has averaged 98%.

Experienced management and operational teams. Our core team of technical staff and operating managers have broad industry experience, including experience in heavy oil thermal recovery operations and tight gas sands development and completion. We continue to utilize technologies and steam practices that we believe will allow us to improve the ultimate recoveries of crude oil on our mature California properties.

Track record of efficient proved reserve and production growth. For the three years ended December 31, 2008, our proved reserves and production increased at an annualized compounded rate of 25% and 12%, respectively. We apply our operational expertise to improve the efficiency and profitability of our drilling projects. For example, in the Piceance we have decreased our well drilling time from 40 days in 2006 to under 10 days in 2008, while at the same time increasing our initial production rates from 1,250 Mcfe/d to 1,350 Mcfe/d. We believe we can continue to deliver strong and efficient growth through the drill bit by exploiting our drilling inventory. We also plan to complement this drill bit growth through selective and focused acquisitions.

Operational control and financial flexibility. We exercise operating control over approximately 99% of our proved reserve base. We generally prefer to retain operating control over our properties, allowing us to more effectively control operating costs, timing of development activities and technological enhancements, marketing of production, and allocation of our capital budget. In addition, the timing of most of our capital expenditures is discretionary which allows us a significant degree of flexibility to adjust the size of our capital budget. We finance our drilling budget primarily through our internally generated operating cash flows.

Long Lived Proved Reserves. Our properties generally have long reserve lives and reasonably stable and predictable well production characteristics with a ratio of proved reserves to production (based on the year ended December 31, 2008) of approximately 19 years as compared to 16.5 years at year end 2007. Our estimated proved reserves as of December 31, 2008 were 246 million BOE, of which 45% are heavy crude oil, 6% light crude oil and 49% natural gas. We have a geographically diverse asset base with 45% of our proved reserves located in California, 35% in the Rocky Mountains and 20% in East Texas. Of our proved reserves 55% were proved developed, while proved undeveloped reserves make up 45% of our proved total. The projected future capital to develop these proved undeveloped reserves is \$950 million at an estimated cost of approximately \$8.55 per BOE. Approximately 61% of the capital to develop these reserves is expected to be expended in the next five years.

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We have organized our operations into seven asset teams as follows: South Midway-Sunset (S. Midway), North Midway-Sunset including diatomite (N. Midway), Southern California including Poso Creek and Placerita (S. Cal), Piceance, Uinta, DJ and E. Texas. The following table sets forth the estimated quantities of proved reserves and production attributable to our asset teams as of December 31, 2008.

State	Name	Type	Average Daily Production (BOE/D)	% of Daily Production	Proved Reserves (BOE) in millions	% of Proved Reserves	Oil & Gas Revenues before hedging (in millions)	% of Oil & Gas Revenues before hedging
CA	S. Midway	Heavy oil	8,798	28%	52.7	22%	\$ 278	34%
		Light oil/Natural gas						
UT	Uinta	gas	6,142	19	23.3	9	136	17
CA	S. Cal	Heavy oil	5,117	16	17.7	7	173	21
CO	Piceance	Natural gas	3,511	11	41.8	17	53	6
CO	DJ	Natural gas	3,295	10	21.5	9	49	6
CA	N. Midway	Heavy oil	2,714	9	38.9	16	91	11
TX	E. Texas	Natural gas						