BARNWELL INDUSTRIES INC
Form 10-Q
August 14, 2007

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 June 30, 2007

or

o 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 (State or other jurisdiction of incorporation or organization)	**72-0496921** (I.R.S. Employer Identification No.)
1100 Alakea Street, Suite 2900, Honolulu, Hawaii (Address of principal executive offices)	**96813** (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. Yes x No o

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 o Accelerated filer o Non-accelerated filer x

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

As of August 10, 2007 there were 8,234,660 shares of common stock, par value $0.50, outstanding.

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)

	June 30, 2007	September 30, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 6,617,000**	$ 11,972,000
Accounts receivable, net	**6,830,000**	5,965,000
Deferred income taxes	**2,849,000**	4,173,000
Current taxes receivable	**871,000**	1,787,000
Other current assets	**1,527,000**	1,441,000
TOTAL CURRENT ASSETS	**18,694,000**	25,338,000
DEPOSITS ON RESIDENTIAL PARCELS	**1,000,000**	
RESIDENTIAL LOTS UNDER DEVELOPMENT	**4,835,000**	
INVESTMENT IN JOINT VENTURES	**2,765,000**	
INVESTMENT IN LAND INTERESTS	**1,450,000**	50,000
PROPERTY AND EQUIPMENT	**186,716,000**	166,414,000
ACCUMULATED DEPRECIATION, DEPLETION, AND AMORTIZATION	**(101,640,000)**	(87,247,000)
PROPERTY AND EQUIPMENT, NET	**85,076,000**	79,167,000
TOTAL ASSETS	**$ 113,820,000**	$ 104,555,000
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	**$ 5,047,000**	$ 3,628,000
Accrued capital expenditures	**1,851,000**	4,832,000
Accrued stock appreciation rights	**2,230,000**	3,326,000
Accrued incentive plan costs	**1,826,000**	1,650,000
Other accrued compensation costs	**2,133,000**	4,096,000
Drilling advances	**743,000**	1,971,000
Current portion of long-term debt	**976,000**	
Other current liabilities	**4,158,000**	2,609,000
TOTAL CURRENT LIABILITIES	**18,964,000**	22,112,000
LONG-TERM DEBT	**18,719,000**	11,735,000
ASSET RETIREMENT OBLIGATION	**4,409,000**	3,753,000
DEFERRED INCOME TAXES	**17,583,000**	16,350,000
MINORITY INTEREST	**549,000**	
STOCKHOLDERS EQUITY:		
Common stock, par value $0.50 per share:		
Authorized, 20,000,000 shares;		

8,236,560 issued at June 30, 2007,		
8,169,060 issued at September 30, 2006	**4,118,000**	4,085,000
Additional paid-in capital	**379,000**	144,000
Retained earnings	**45,000,000**	43,524,000
Accumulated other comprehensive income, net	**4,139,000**	2,852,000
Treasury stock, at cost, 1,900 shares at June 30, 2007	**(40,000**)	
TOTAL STOCKHOLDERS EQUITY	**53,596,000**	50,605,000
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 113,820,000**	$ 104,555,000

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three months ended June 30, 2007	2006	Nine months ended June 30, 2007	2006
Revenues:				
Oil and natural gas	**$ 9,342,000**	$ 8,577,000	**$ 26,370,000**	$ 29,702,000
Contract drilling	**1,747,000**	1,039,000	**4,092,000**	4,687,000
Sale of interest in leasehold land, net	**402,000**	7,287,000	**2,619,000**	9,637,000
Sale of development rights, net			**2,292,000**	2,702,000
Gas processing and other	**322,000**	244,000	**871,000**	787,000
Gain on sale of drill rig				700,000
	11,813,000	17,147,000	**36,244,000**	48,215,000
Costs and expenses:				
Oil and natural gas operating	**2,576,000**	1,968,000	**7,407,000**	5,888,000
Contract drilling operating	**1,579,000**	926,000	**3,677,000**	3,560,000
General and administrative	**2,300,000**	4,085,000	**8,250,000**	10,488,000
Depreciation, depletion and amortization	**3,373,000**	3,029,000	**9,762,000**	8,333,000
Interest expense	**282,000**	219,000	**738,000**	638,000
Minority interest in earnings	**39,000**	1,794,000	**903,000**	2,786,000
	10,149,000	12,021,000	**30,737,000**	31,693,000
Earnings before income taxes	**1,664,000**	5,126,000	**5,507,000**	16,522,000
Income tax provision	**921,000**	2,094,000	**2,392,000**	3,727,000
NET EARNINGS	**$ 743,000**	$ 3,032,000	**$ 3,115,000**	$ 12,795,000
BASIC EARNINGS PER COMMON SHARE	**$ 0.09**	$ 0.37	**$ 0.38**	$ 1.57
DILUTED EARNINGS PER COMMON SHARE	**$ 0.09**	$ 0.35	**$ 0.36**	$ 1.47
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
BASIC	**8,224,605**	8,169,060	**8,196,030**	8,169,060
DILUTED	**8,613,386**	8,738,768	**8,630,606**	8,720,846

See Notes to Condensed Consolidated Financial Statements

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended June 30, 2007	2006
Cash flows from operating activities:		
Net earnings	**$ 3,115,000**	$ 12,795,000
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion, and amortization	**9,762,000**	8,333,000
Minority interest in earnings	**903,000**	2,786,000
Deferred income taxes	**746,000**	(881,000)
Accretion of asset retirement obligation	**176,000**	138,000
Asset retirement obligation payments	**(109,000)**	(38,000)
Share-based compensation, net of payments	**(982,000)**	1,017,000
Gain on sale of drill rig		(700,000)
Sale of development rights, net	**(2,292,000)**	(2,702,000)
Sale of interest in leasehold land, net	**(2,619,000)**	(9,637,000)
Additions to residential lots under development	**(4,835,000)**	
(Decrease) increase from changes in current assets and liabilities	**(599,000)**	1,878,000
Net cash provided by operating activities	**3,266,000**	12,989,000
Cash flows from investing activities:		
Proceeds from sale of interest in leasehold land, net	**2,619,000**	12,620,000
Proceeds from sale of development rights, net	**2,292,000**	2,702,000
Return of capital distribution from joint venture	**525,000**	
Proceeds from gas over bitumen royalty adjustments	**160,000**	301,000
Proceeds from matured certificates of deposit		1,300,000
Proceeds from sale of drill rig		712,000
Deposits on residential parcels	**(1,000,000)**	
Purchase of lot acquisition rights	**(1,400,000)**	
Investment in joint ventures	**(3,290,000)**	
Capital expenditures - oil and gas	**(13,223,000)**	(21,058,000)
Capital expenditures - all other	**(494,000)**	(320,000)
Net cash used in investing activities	**(13,811,000)**	(3,743,000)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	**7,168,000**	
Contributions from minority interest partner	**558,000**	
Proceeds from exercise of stock options	**168,000**	
Repayments of long-term debt	**(25,000)**	
Distributions to minority interest partners	**(912,000)**	(3,095,000)
Payment of dividends	**(1,639,000)**	(1,021,000)
Net cash provided by (used in) financing activities	**5,318,000**	(4,116,000)
Effect of exchange rate changes on cash and cash equivalents	**(128,000)**	185,000
Net (decrease) increase in cash and cash equivalents	**(5,355,000)**	5,315,000
Cash and cash equivalents at beginning of period	**11,972,000**	5,492,000
Cash and cash equivalents at end of period	**$ 6,617,000**	$ 10,807,000

See Notes to Condensed Consolidated Financial Statements

BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME
Three months ended June 30, 2007 and 2006
(Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at March 31, 2006	8,169,060	$ 4,085,000	$ 82,000		$ 39,468,000	$ 1,535,000	$	$ 45,170,000
Share-based compensation costs			31,000					31,000
Dividends declared, $0.05 per share					(409,000)			(409,000)
Comprehensive income:								
Net earnings				$ 3,032,000	3,032,000			3,032,000
Other comprehensive income foreign currency translation adjustments, net of $558,000 of taxes				1,415,000		1,415,000		1,415,000
Total comprehensive income				$ 4,447,000				
At June 30, 2006	8,169,060	$ 4,085,000	$ 113,000		$ 42,091,000	$ 2,950,000	$	$ 49,239,000
Balance at March 31, 2007	8,217,160	$ 4,110,000	$ 261,000		$ 44,669,000	$ 1,810,000	$ (40,000)	$ 50,810,000
Exercise of stock options, 17,500 shares	17,500	8,000	101,000					109,000
Share-based compensation costs			17,000					17,000
Dividends declared, $0.05 per share					(412,000)			(412,000)
Comprehensive income:								
Net earnings				$ 743,000	743,000			743,000
Other comprehensive income foreign currency translation adjustments, net of $1,797,000 of taxes				2,329,000		2,329,000		2,329,000
Total comprehensive income				**$ 3,072,000**				
At June 30, 2007	**8,234,660**	**$ 4,118,000**	**$ 379,000**		**$ 45,000,000**	**$ 4,139,000**	**$ (40,000)**	**$ 53,596,000**

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME
Nine months ended June 30, 2007 and 2006
(Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at September 30, 2005	8,169,060	$ 4,085,000	$		$ 30,317,000	$ 1,624,000	$	$ 36,026,000
Share-based compensation costs			113,000					113,000
Dividends declared, $0.125 per share					(1,021,000)			(1,021,000)
Comprehensive income:								
Net earnings				$ 12,795,000	12,795,000			12,795,000
Other comprehensive income foreign currency translation adjustments, net of $476,000 of taxes				1,326,000		1,326,000		1,326,000
Total comprehensive income				$ 14,121,000				
At June 30, 2006	8,169,060	$ 4,085,000	$ 113,000		$ 42,091,000	$ 2,950,000	$	$ 49,239,000
Balance at September 30, 2006	8,169,060	$ 4,085,000	$ 144,000		$ 43,524,000	$ 2,852,000	$	$ 50,605,000
Exercise of stock options, 67,500 shares net of 1,900 shares tendered and placed in treasury	65,600	33,000	175,000				(40,000)	168,000
Share-based compensation costs			60,000					60,000
Dividends declared, $0.20 per share					(1,639,000)			(1,639,000)
Comprehensive income:								
Net earnings				$ 3,115,000	3,115,000			3,115,000
Other comprehensive income foreign currency translation adjustments, net of $1,220,000 of taxes				1,287,000		1,287,000		1,287,000
Total comprehensive income				**$ 4,402,000**				
At June 30, 2007	**8,234,660**	**$ 4,118,000**	**$ 379,000**		**$ 45,000,000**	**$ 4,139,000**	**$ (40,000)**	**$ 53,596,000**

See Notes to Condensed Consolidated Financial Statements

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BARNWELL INDUSTRIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

Basis of Consolidation

The condensed consolidated financial statements include the accounts of Barnwell Industries, Inc. and all majority-owned subsidiaries, including an indirect 77.6%-owned land investment general partnership and two 80%-owned joint ventures (collectively referred to herein together with its subsidiaries as Barnwell, we, our, us, or the Company). All significant intercompany accounts and transactions have been eliminated. Investments in companies over which Barnwell has the ability to exercise significant influence, but not control, are accounted for using the equity method.

Unless otherwise indicated, all references to dollars in this Form 10-Q are to U.S. dollars.

Unaudited Interim Financial Information

The Condensed Consolidated Balance Sheet as of June 30, 2007, the Condensed Consolidated Statements of Earnings for the three and nine months ended June 30, 2007 and 2006, the Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2007 and 2006, and the Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income for the three and nine months ended June 30, 2007 and 2006 have been prepared by Barnwell and are unaudited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows at June 30, 2007 and for all periods presented have been made. The Condensed Consolidated Balance Sheet as of September 30, 2006 has been derived from audited consolidated financial statements.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in Barnwell s September 30, 2006 annual report on Form 10-K. The results of operations for the period ended June 30, 2007 are not necessarily indicative of the operating results for the full year.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Significant Accounting Policies

The following is an update to Barnwell s disclosure of Significant Accounting Policies in its annual report on Form 10-K for the year ended September 30, 2006.

Oil and Natural Gas Properties

Barnwell uses the full cost method of accounting under which all costs incurred in the acquisition, exploration and development of oil and natural gas reserves, including costs related to unsuccessful wells and estimated future site restoration and abandonment, are capitalized until such time as the aggregate of such costs net of accumulated depletion and oil and gas related deferred income taxes, on a country-by-country basis, equals the sum of 1) the discounted present value (at 10%), using prices as of the end of each reporting period on a constant basis, of Barnwell s estimated future net cash flows from estimated production of proved oil and natural gas reserves as determined by independent petroleum engineers, less estimated future expenditures to be incurred in developing and producing the proved reserves but excluding future cash outflows associated with settling asset retirement obligations accrued on the balance sheet; plus 2) the cost of major development projects and unproven properties not subject to depletion, if any; plus 3) the lower of cost or estimated fair value of unproven properties included in costs subject to depletion; less 4) related income tax effects. If net capitalized costs exceed this limit, the excess is expensed unless subsequent market price changes eliminate or reduce the indicated write-down in accordance with U.S. Securities and Exchange Commission Staff Accounting Bulletin Topic 12D. Depletion is computed using the units-of-production method whereby capitalized costs, net of salvage values, plus estimated future costs to develop proved reserves and satisfy asset retirement obligations, are amortized over the total estimated proved reserves on a country-by-country basis. Investments in major development projects are not depleted until either proved reserves are associated with the projects or impairment has been determined. At June 30, 2007 and September 30, 2006, Barnwell had no investments in major oil and natural gas development projects that were not being depleted. General and administrative costs related to oil and natural gas operations are expensed as incurred. Proceeds from the disposition of minor producing oil and natural gas properties are credited to the cost of oil and natural gas properties. Gains or losses are recognized on the disposition of significant oil and natural gas properties.

Revenues associated with the sale of oil, natural gas and natural gas liquids are recognized in the Condensed Consolidated Statements of Earnings when the oil, natural gas and natural gas liquids are delivered and title has passed to the customer.

Barnwell s sales reflect its gross working interest share. Barnwell s production is delivered and sold at the plant gate and Barnwell does not hold any transportation contracts with pipelines. Additionally, Barnwell does not have contractual obligations related to the physical amount of natural gas to be delivered nor does Barnwell have natural gas imbalances related to natural gas-balancing arrangements with its partners.

Investment in Land Interests

Barnwell accounts for sales of development rights under option and the Increment I and Increment II leasehold land interest sales under the full accrual method pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 66, Accounting for Sales of Real Estate.

Gains from such sales are recognized when the buyer s investments are adequate to demonstrate a commitment to pay for the property, risks and rewards of ownership have been transferred to the buyer, and Barnwell does not have a substantial continuing involvement with the property sold. The cash proceeds received by Barnwell for the sales of development rights and leasehold land interests were adequate to demonstrate a commitment to pay for the property, and Barnwell conveyed the related development rights and leasehold land interests upon consummation of the sales with no substantial continuing involvement with the property. With regard to the sales of Increment I and Increment II leasehold land interests, in accordance with SFAS No. 66, the percentage of sales payments are contingent future profits which will be recognized when they are realized, and all costs of the sales were recognized at the time of sale and none were deferred to future periods when any contingent profits will be recognized. Costs incurred for the acquisition and improvement of leasehold land interests and lot acquisition rights not yet sold are included in the Condensed Consolidated Balance Sheets under the caption Investment in Land Interests. Investment in land interests is reported at the lower of the asset carrying value or fair value, less costs to sell, and is evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable.

2. EARNINGS PER COMMON SHARE

Basic earnings per share excludes dilution and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. The weighted-average number of common shares outstanding was 8,224,605 and 8,196,030 for the three and nine months ended June 30, 2007, respectively, and 8,169,060 for the three and nine months ended June 30, 2006.

Diluted earnings per share includes the potentially dilutive effect of outstanding common stock options and securities that are convertible to common shares. The weighted-average number of common shares and dilutive potential common shares outstanding was 8,613,386 and 8,630,606 for the three and nine months ended June 30, 2007, respectively, and 8,738,768 and 8,720,846 for the three and nine months ended June 30, 2006, respectively.

Reconciliations between the numerator and denominator of the basic and diluted earnings per share computations for the three and nine months ended June 30, 2007 and 2006 are as follows:

	Three months ended June 30, 2007		
	Net Earnings (Numerator)	**Shares (Denominator)**	**Per-Share Amount**
Basic earnings per share	**$ 743,000**	**8,224,605**	**$ 0.09**
Effect of dilutive securities - common stock options		**388,781**	
Diluted earnings per share	**$ 743,000**	**8,613,386**	**$ 0.09**

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	Nine months ended June 30, 2007 Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share	**$ 3,115,000**	**8,196,030**	**$ 0.38**
Effect of dilutive securities - common stock options		**434,576**	
Diluted earnings per share	**$ 3,115,000**	**8,630,606**	**$ 0.36**

	Three months ended June 30, 2006 Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share	$ 3,032,000	8,169,060	$ 0.37
Effect of dilutive securities - common stock options		569,708	
Diluted earnings per share	$ 3,032,000	8,738,768	$ 0.35

	Nine months ended June 30, 2006 Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic earnings per share	$ 12,795,000	8,169,060	$ 1.57
Effect of dilutive securities - common stock options		551,786	
Diluted earnings per share	$ 12,795,000	8,720,846	$ 1.47

3. SHARE-BASED PAYMENTS

Barnwell has outstanding stock options issued to certain employees under both a qualified plan approved by shareholders (the 1998 Stock Option Plan) and non-qualified plans. The qualified options were granted in accordance with the 1998 Stock Option Plan with an exercise price equal to the closing market price of Barnwell s stock on the date preceding the date of grant (110% of the closing market price on the date preceding the date of grant for options granted to affiliates), vest annually over four years of continuous service, and expire ten years from the date of grant (five years from date of grant for options granted to affiliates). The qualified plan permits the grant of share options to employees for up to 780,000 shares of common stock. A total of 774,000 share options have been granted under this plan, leaving 6,000 option shares available for grant under the qualified plan at June 30, 2007. The non-qualified options were granted with an exercise price equal to the closing market price of Barnwell s stock on the date of grant, vest annually over five years of continuous service, and expire ten years from the date of grant. The non-qualified options have stock appreciation rights features that permit the holder to receive stock, cash or a combination thereof equal to the amount by which the fair market value, at the time of exercise of the option, exceeds the option price. Barnwell currently has a policy of issuing new shares to satisfy share option exercises under the qualified plan and under the non-qualified plans when the optionee requests shares.

Effective October 1, 2005, Barnwell adopted the provisions of SFAS No. 123(R), Share-Based Payment, and Securities and Exchange Commission Staff Accounting Bulletin No. 107, Share-Based Payment, for its share-based compensation plans using the modified prospective method. Under SFAS No. 123(R), share-based compensation cost is measured at fair value. Barnwell utilizes a closed-form valuation model to determine the fair value of each option award. Expected volatilities are based on the historical volatility of Barnwell s stock over a period consistent with that of the expected terms of the options. The expected terms of the options represent expectations of future employee exercise and are estimated based on factors such as vesting periods, contractual expiration dates, historical trends in Barnwell s stock price, and historical exercise behavior. The risk-free interest rates for periods within the contractual life of the options are based on the yields of U.S. Treasury instruments with terms comparable to the estimated option terms. Expected dividends are based on current and historical dividend payments. Share-based compensation expense recognized in earnings for the three and nine months ended June 30, 2007 and 2006 are reflected in General and administrative expenses in the Condensed Consolidated Statements of Earnings.

Equity-classified Awards

Compensation cost for equity-classified awards, such as Barnwell s stock options issued under the qualified plan, is measured at the grant date based on the fair value of the award and is recognized as an expense in earnings over the requisite service period using a graded vesting method.

A summary of the activity in Barnwell s equity-classified share options as of the beginning and end of the three and nine months ended June 30, 2007 is presented below:

Three months ended June 30, 2007

Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at April 1, 2007	406,000	$ 5.73		
Granted				
Exercised	(17,500)	$ 6.26		
Forfeited/Expired				
Outstanding at June 30, 2007	388,500	$ 5.71	3.2	$ 5,864,000
Exercisable at June 30, 2007	283,500	$ 4.40	3.0	$ 4,649,000

Nine months ended June 30, 2007

Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at October 1, 2006	456,000	$ 5.32		
Granted				
Exercised	(67,500)	$ 3.09		
Forfeited/Expired				
Outstanding at June 30, 2007	388,500	$ 5.71	3.2	$ 5,864,000
Exercisable at June 30, 2007	283,500	$ 4.40	3.0	$ 4,649,000

Total share-based compensation expense for equity-classified awards vested in the three and nine months ended June 30, 2007 was $17,000 and $60,000, respectively, as compared to $31,000 and $113,000 during the three and nine months ended June 30, 2006, respectively. There was no impact on income taxes as the expense relates to qualified options.

During the three months ended June 30, 2007, 17,500 stock options were exercised by executive officers resulting in an $8,000 increase in common stock and a $101,000 increase in additional paid-in capital. Additionally, during the nine months ended June 30, 2007, 30,000 stock options were exercised by non-executive officers resulting in a $15,000 increase in common stock and a $44,000 increase in additional paid-in capital. Also during the nine months ended June 30, 2007, 20,000 stock options were exercised by a non-executive officer by tendering 1,900 shares of Barnwell stock at an average market value of $21.09 per share, resulting in a $10,000 increase in common stock, a $30,000 increase in additional paid-in capital and a $40,000 increase in treasury stock.

Liability-classified Awards

Compensation cost for liability-classified awards, such as Barnwell s non-qualified stock options with stock appreciation rights features, is remeasured at each period-end using a closed-form valuation model based on current values and is recognized as an expense over the requisite service period.

The following assumptions were used in estimating fair value for all liability-classified share options previously granted prior to October 1, 2005 and outstanding during the three and nine months ended June 30, 2007 and 2006:

	Three and nine months ended June 30, 2007	2006
Expected volatility range	32.8% to 36.0%	28.0% to 41.0%
Weighted-average volatility	33.5%	34.5%
Expected dividends	1.0% to 1.2%	0.8%
Expected term (in years)	0.9 to 5.0	1.0 to 6.0
Risk-free interest rate	4.9%	5.1% to 5.2%
Expected forfeitures	None	None

The application of alternative assumptions could produce significantly different estimates of the fair value of stock-based compensation, and consequently, the related costs reported in the Condensed Consolidated Statements of Earnings.

A summary of the activity in Barnwell s liability-classified share options as of the beginning and end of the three and nine months ended June 30, 2007 is presented below:

Three months ended June 30, 2007

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at April 1, 2007	196,000	$ 7.54		
Granted				
Exercised				
Forfeited/Expired				
Outstanding at June 30, 2007	196,000	$ 7.54	6.1	$ 2,600,000
Exercisable at June 30, 2007	70,000	$ 5.26	3.7	$ 1,088,000

Nine months ended June 30, 2007

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at October 1, 2006	300,000	$ 6.32		
Granted				
Exercised	(104,000)	$ 4.03		
Forfeited/Expired				
Outstanding at June 30, 2007	196,000	$ 7.54	6.1	$ 2,600,000
Exercisable at June 30, 2007	70,000	$ 5.26	3.7	$ 1,088,000

Total share-based compensation expense for liability-classified awards was $138,000 and $982,000 for the three and nine months ended June 30, 2007, respectively, as compared to $223,000 and $1,393,000 for the three and nine months ended June 30, 2006, respectively. The related income tax benefits for the three and nine months ended June 30, 2007 were $46,000 and $338,000, respectively, as compared to $79,000 and $430,000 for the three and nine months ended June 30, 2006, respectively. Included in share-based compensation for liability-classified awards for the three and nine months ended June 30, 2007 were $108,000 and $372,000, respectively, of compensation expense related to shares that vested during each respective period and $30,000 and $610,000, respectively, of compensation expense due to remeasurement at June 30, 2007 of the fair value of previously vested shares. The share-based compensation expense for liability-classified awards for the three and nine months ended June 30, 2006 included $221,000 and $769,000, respectively, of compensation expense related to shares that vested during each respective period and $2,000 and $624,000, respectively, of compensation expense due to remeasurement at June 30, 2006 of the fair value of previously vested shares.

In January 2007, the stock appreciation rights features of 104,000 shares of non-qualified options were exercised and $836,000 and $2,024,000 were paid as a result of these exercises during the three and nine months ended June 30, 2007, respectively. The estimated current tax benefit to be realized for the tax deduction of this exercise was $292,000 and $705,000 for the three and nine months ended June 30, 2007, respectively. In January 2006, the stock appreciation rights features of 30,000 shares of non-qualified options were exercised and $489,000 was paid in the nine months ended June 30, 2006.

Summary

As of June 30, 2007, there was $601,000 of total unrecognized compensation cost related to nonvested equity-classified and liability-classified share options. That cost is expected to be recognized over a weighted-average period of 2.0 years. Total share-based compensation expense related to the vesting of awards in the three and nine months ended June 30, 2007 was $124,000 and $432,000, respectively, as compared to $252,000 and $882,000 during the same periods of the prior year. Total share-based compensation expense for all awards, including the impact of changes in fair values for liability-classified awards, was $155,000 and $1,042,000 for the three and nine months ended June 30, 2007, respectively, as compared to $254,000 and $1,506,000 for the three and nine months ended June 30, 2006, respectively. The income tax benefits on total compensation of all awards were $46,000 and $338,000 for the three and nine months ended June 30, 2007, respectively, as compared to $79,000 and $430,000 for the three and nine months ended June 30, 2006, respectively.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less.

5. DEPOSITS ON RESIDENTIAL PARCELS AND RESIDENTIAL LOTS UNDER DEVELOPMENT

During the second quarter of fiscal 2007, Kaupulehu 2007, LLLP (the Venture), a Hawaii limited liability limited partnership 80%-owned by Barnwell and 20%-owned by Nearco, Inc., a company controlled by Mr. Terry Johnston, a director of Barnwell and minority interest owner in certain of Barnwell s business ventures (see further discussion on related party interests at Note 8 below), was established for the purpose of acquiring house lots for investment and to construct turnkey single-family homes for future sale. Also during the second quarter of fiscal 2007, the Venture made nonrefundable initial deposits of $200,000 each to secure the right to purchase seven parcels in the Lot 4A Increment I area of Kaupulehu, North Kona, Hawaii from WB KD Acquisition, LLC (WB), an unrelated entity. WB is affiliated with RP-Hualalai Investors, LLC, a managing member of Hualalai Investors, owners and current developers of Hualalai Resort, and Westbrook Partners, developers of Kuki o Resort located adjacent to Hualalai Resort. Each lot under contract has a purchase price of $2,378,000 and the deposit for each lot will be applied to the purchase price of each lot. If any of the parcels are not purchased, the deposit related to any such parcels will be forfeited and Barnwell will incur an expense as a result of the write-off of its 80% share of any forfeited deposits.

In April 2007, the Venture purchased two of the aforementioned parcels and paid a total of $4,356,000 for the balance of the purchase price of those parcels. $400,000 of the previously paid deposits was applied to the purchase price of $4,756,000. The purchase of two additional lots is scheduled to close in October 2007 and the purchase of the remaining three lots is scheduled to close in April 2008. The residential parcels acquired are classified as Residential Lots Under Development on the Condensed Consolidated Balance Sheet at June 30, 2007. The deposits on the remaining five lots the Venture has agreed to acquire are classified as Deposits on Residential Parcels on the Condensed Consolidated Balance Sheet at June 30, 2007.

Included in residential lots under development are capitalized costs, which include the costs of acquiring land, development and construction costs, interest, property taxes and overhead related to the development of land and home construction. Costs that relate to a specific lot or home are assigned to that lot or home while common costs related to multiple lots or homes will be allocated to each in proportion to their anticipated sales value.

The Venture capitalizes interest costs during development and construction and intends to include these costs in cost of sales when homes are sold. Capitalized interest costs totaled $56,000 for the three and nine months ended June 30, 2007.

Residential lots under development and deposits on residential parcels are reported at the lower of the asset carrying value or fair value, less costs to sell, and are evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable.

As of the date of this filing, the Venture is negotiating agreements with a project management company affiliated with Mr. Johnston and a building contractor for home building services for the Venture s lots. It is anticipated that a significant provision of such agreements will be that each such service provider will receive 20% of the profit on the sale of each lot on which a house is constructed. In addition, the Venture intends to enter into contracts, one with the project management company affiliated with Mr. Johnston and one with the building contractor, wherein each will be granted the right to purchase from WB one of the five additional lots the Venture has agreed to acquire. It is anticipated that any such agreement will specify the lot that will be acquired by such service provider and require such service provider to reimburse the Venture for both the $200,000 deposit on such lot and interest costs incurred by the Venture related to the initial deposit on such lot.

6. INVESTMENT IN JOINT VENTURES

In November 2006, Kaupulehu Investors, LLC (Kaupulehu Investors), a limited liability company then wholly-owned by Barnwell, invested $2,379,000 in Hualalai Investors JV, LLC, and $621,000 in Hualalai Investors II, LLC, two limited liability companies unrelated to Barnwell (hereinafter referred to as Hualalai Investors) to acquire a 1.5% passive minority interest in Hualalai Resort, located at Kaupulehu, North Kona, Hawaii. The Hualalai Resort property includes the Four Seasons Resort Hualalai at Historic Ka upulehu, two golf courses and a clubhouse, undeveloped residential property, and approximately 7,000 acres of agricultural-zoned leasehold land in the upland area of Kaupulehu situated between the Queen Kaahumanu Highway and the Mamalahoa Highway. The $3,000,000 investment was reduced by a $525,000 cash distribution in December 2006 from Hualalai Investors representing a return of capital.

In May 2007, Kaupulehu Investors invested $290,000 in Kona Village Investors, LLC (Kona Village Investors), a limited liability company unrelated to Barnwell, to acquire a 1.5% passive minority interest in Kona Village Resort, an oceanfront hotel property situated on an 80-acre area adjacent to Hualalai Resort and Kaupulehu Lot 4A. The partners of Kona Village Investors are ostensibly the same as the partners of Hualalai Investors.

In June 2007, Nearco, Inc., a company controlled by Mr. Terry Johnston, a director of Barnwell and minority interest owner in certain of Barnwell s business ventures (see further discussion on related party interests at Note 8 below), paid Barnwell $553,000 to acquire a 20% minority interest in Kaupulehu Investors. No gain or loss was recognized by Barnwell and Barnwell s interest in Kaupulehu Investors was reduced to 80% as a result of this transaction.

Kaupulehu Investors accounts for its 1.5% passive investments in Hualalai Investors and Kona Village Investors under the cost method. The investments are evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable. The accounts of Kaupulehu Investors are included in the consolidated financial statements of Barnwell net of minority interest. The investments in Hualalai Investors and Kona Village Investors are reflected in the Condensed Consolidated Balance Sheet as of June 30, 2007 as Investment in Joint Ventures.

7. INVESTMENT IN LAND INTERESTS

Barnwell accounts for sales of development rights under option and the Increment I and Increment II leasehold land interest sales under the full accrual method pursuant to the provisions of SFAS No. 66, Accounting for Sales of Real Estate. Gains from such sales are recognized when the buyer s investments are adequate to demonstrate a commitment to pay for the property, risks and rewards of ownership have been transferred to the buyer, and Barnwell does not have a substantial continuing involvement with the property sold. The cash proceeds received by Barnwell for the sales of development rights and leasehold land interests were adequate to demonstrate a commitment to pay for the property, and Barnwell conveyed the related development rights and leasehold land interests upon consummation of the sales with no substantial continuing involvement with the property. With regard to the sales of Increment I and Increment II leasehold land interests, in accordance with SFAS No. 66, the percentage of sales payments are contingent future profits which will be recognized when they are realized, and all costs of the sales were recognized at the time of sale and none were deferred to future periods when any contingent profits will be recognized. Costs incurred for the acquisition and improvement of leasehold land interests and lot acquisition rights not yet sold are included in the Condensed Consolidated Balance Sheets under the caption Investment in Land Interests. Investment in land interests is reported at the lower of the asset carrying value or fair value, less costs to sell, and is evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable.

Development Rights Under Option

In December 2006, Hualalai Investors, an unrelated entity in which Barnwell acquired a 1.5% passive minority interest in the first quarter of fiscal 2007 (see further discussion in Note 6 above), paid Kaupulehu Developments, a general partnership in which Barnwell has a 77.6% controlling interest, $2,437,500 upon exercising the balance of its development rights option due on December 31, 2006. Revenue from the development rights sale was reduced by $146,000 of fees related to the sale. There were no other expenses related to the sale. Accordingly, this $2,292,000 of option revenue, net of fees, is recorded in the Condensed Consolidated Statement of Earnings for the nine months ended June 30, 2007 as Sale of development rights, net. The total amount of remaining future option receipts, if all options are fully exercised, is $10,625,000 as of June 30, 2007, comprised of four payments of $2,656,250 due on each December 31 of years 2007 to 2010. If any annual option payment is not made, the then remaining development right options will expire. There is no assurance that any portion of the remaining options will be exercised.

Lot 4A Increments I and II

In February 2004, Kaupulehu Developments entered into a Purchase and Sale Agreement with WB KD Acquisition, LLC (WB), an unrelated entity. WB is affiliated with RP-Hualalai Investors, LLC, a managing member of Hualalai Investors, owners and current developers of Hualalai Resort, and Westbrook Partners, developers of Kuki o Resort located adjacent to Hualalai Resort. Under the terms of the Purchase and Sale Agreement, Kaupulehu Developments transferred its leasehold interest in approximately 870 acres zoned for resort/residential development, in two increments (Increment I and Increment II), to WB.

With respect to Increment I, Kaupulehu Developments is entitled to receive payments from WB based on the following percentages of the gross receipts from WB s sales of single-family residential lots in Increment I: 9% of the gross proceeds from single-family lot sales up to aggregate gross proceeds of $100,000,000; 10% of such aggregate gross proceeds greater than $100,000,000 but less than $300,000,000; and 14% of such aggregate gross proceeds in excess of $300,000,000. WB sold a total of five single-family lots and paid Kaupulehu Developments $3,660,000 in percentage of sales payments during the year ended September 30, 2006. WB also sold five single-family lots during the nine months ended June 30, 2007. In December 2006, WB paid Kaupulehu Developments a percentage of sales payment of $1,340,000, which was reduced by $80,000 of fees. In March 2007, WB paid Kaupulehu Developments a percentage of sales payment of $1,018,000, which was reduced by $61,000 of fees. In May 2007, WB paid Kaupulehu Developments a percentage of sales payment of $428,000, which was reduced by $26,000 of fees. Accordingly, $402,000 and $2,619,000 of percentage of sales payment revenues, net of fees, are recorded in the Condensed Consolidated Statements of Earnings for the three and nine months ended June 30, 2007, respectively, as Sale of interest in leasehold land, net.   There is no assurance that any future payments will be received.

In June 2006, Kaupulehu Developments entered into an agreement (Increment II Agreement) with WB and WB KD Acquisition II, LLC (WBKD), whereby Kaupulehu Developments sold its interest in Increment II to WBKD. There is no affiliation between Kaupulehu Developments and WB or WBKD. WB and WBKD are both affiliates of RP-Hualalai Investors, LLC, a managing member of Hualalai Investors, owners and current developers of Hualalai Resort, and Westbrook Partners, developers of Kuki o Resort located adjacent to Hualalai Resort. Increment II of the approximately 870-acre property is zoned for single-family and multi-family residential units and a golf course and clubhouse. Pursuant to the Increment II Agreement, Kaupulehu Developments received a $10,000,000 closing payment and is entitled to receive future payments from WBKD based on a percentage of the sales prices of the residential lots, ranging from 3.25% to 14%, to be determined in the future depending upon a number of variables, including whether the lots are sold prior to improvement. There is no assurance that any future payments will be received.

The purchaser has continued to develop Lot 4A, including the mass grading of portions of the 42 lots in the second phase of the 80 lot Increment I project, completion of the installation of most major onsite infrastructure and initial paving and landscaping of the project. In late 2006, WB received final subdivision approval from the County of Hawaii for the 42 lots in the second phase of Increment I.

Lot 4C

Lot 4C is an area of approximately 1,000 acres of vacant leasehold land zoned conservation and is located adjacent to Lot 4A. Under the terms of the Increment II Agreement, WBKD has the exclusive right to negotiate with Kaupulehu Developments with respect to Lot 4C. This right expires in June 2009 or, if WBKD completes any and all environmental assessments and surveys reasonably required to support a petition to the Hawaii State Land Use Commission for reclassification of Lot 4C zoning, in June 2012.

Investment in Lot Acquisition Rights

During the first quarter of fiscal 2007, Kaupulehu Mauka Investors, LLC, a limited liability company wholly-owned by Barnwell, purchased 14 lot acquisition rights within the approximately 7,000 acres of agricultural-zoned leasehold land in the upland area of Kaupulehu (Mauka Lands) situated between the Queen Kaahumanu Highway and the Mamalahoa Highway at Kaupulehu, North Kona, Island and State of Hawaii, for $1,400,000. The lot acquisition rights give Barnwell the right to acquire residential lots which may be developed on the Mauka Lands. The $1,400,000 investment is recorded in the Condensed Consolidated Balance Sheet as of June 30, 2007 as Investment in Land Interests.   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 a residential subdivision 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. The investment is evaluated for impairment whenever events or changes in circumstances indicate that the recorded investment balance may not be fully recoverable.

Summary of Interests

The land interests held by Barnwell at June 30, 2007 include the development rights under option, the rights to receive percentage of sales payments on Increment I and Increment II of the aforementioned 870 acres, approximately 1,000 acres of vacant leasehold land zoned conservation (Lot 4C), which is under a right of negotiation with WBKD, and lot acquisition rights in agricultural-zoned leasehold land. There is no assurance that any future development rights option payments or percentage of sales payments will be received, nor is there any assurance that WBKD will enter into an agreement with Kaupulehu Developments regarding Lot 4C. Furthermore, there is no assurance that the required land use reclassification and rezoning from regulatory agencies will be obtained nor is there any assurance that the necessary development terms and agreements will be successfully negotiated. Barnwell s cost of land interests is included in the June 30, 2007 and September 30, 2006 Condensed Consolidated Balance Sheets under the caption Investment in Land Interests and consists of the following amounts:

	June 30, 2007	**September 30, 2006**
Leasehold land interests:		
Zoned for resort/residential development Lot 4A Increment I	**$**	$
Zoned for resort/residential development Lot 4A Increment II		
Zoned conservation Lot 4C	**50,000**	50,000
	50,000	50,000
Lot acquisition rights Mauka lands	**1,400,000**	
Development rights under option		
Total investment in land interests	**$ 1,450,000**	$ 50,000

8. RELATED PARTY TRANSACTIONS

This section discusses certain direct and indirect relationships and transactions involving Barnwell and Mr. Terry Johnston, a director of Barnwell and minority interest owner in certain of Barnwell s business ventures.

Mr. Johnston and his affiliated entities own a direct financial interest in 19.3% of Kaupulehu Developments, a general partnership in which Barnwell has a 77.6% controlling interest. As discussed in Note 7, Investment in Land Interests, above, $146,000 in fees on the $2,437,500 development rights proceeds and $167,000 in fees on the percentage of sales payment proceeds were paid during the nine months ended June 30, 2007; these fees were paid to Nearco, Inc. (Nearco), a company controlled by Mr. Terry Johnston. In the nine months ended June 30, 2006, $173,000 in fees were paid on the development rights proceeds, $220,000 in fees were paid on the percentage of sales payment

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proceeds, and $600,000 in fees were paid on the Increment II closing payment. These fees were also paid to Nearco. Under an agreement entered into in 1987, prior to Mr. Johnston s election to Barnwell s Board of Directors, Barnwell is obligated to pay Nearco 2% of Kaupulehu Developments gross receipts from real estate transactions, and Cambridge Hawaii Limited Partnership, a 49.9% partner of Kaupulehu Developments in which Barnwell purchased a 55.2% interest in April 2001, is obligated under an agreement entered into in 1987 to pay Nearco 4% of Kaupulehu Developments gross receipts from real estate transactions. The fees represent compensation for promotion and marketing of Kaupulehu Developments property and were determined at that time based on the estimated fair value of such services.

General and administrative expenses include fees paid to Nearco for consulting services related to Kaupulehu Developments leasehold land. Fees paid to Nearco totaled $18,000 and $78,000 in the three and nine months ended June 30, 2007, respectively, and $17,000 and $59,000 in the three and nine months ended June 30, 2006, respectively.

During fiscal 2007, Barnwell entered into a joint venture (the Venture) with Nearco to acquire house lots for investment and to construct turnkey single-family homes. Nearco owns 20% of the partnership interests in the Venture. As noted in Note 5 above, the Venture is negotiating an agreement with an entity affiliated with Mr. Johnston to serve as the project management company for its homebuilding project. It is anticipated that a significant provision of such agreement will be that in addition to a monthly fee, the project manager will receive 20% of the profit on the sale of each lot on which a house is constructed. In addition, the Venture intends to enter into a contract with a project management company affiliated with Mr. Johnston, wherein Mr. Johnston s affiliate will be granted the right to purchase from WB one of the five additional lots the Venture has agreed to acquire. It is anticipated that any such agreement will specify the lot that will be acquired by Mr. Johnston s affiliate and require Mr. Johnston s affiliate to reimburse the Venture for both the $200,000 deposit on such lot and interest costs incurred by the Venture related to the initial deposit on such lot. The Venture has borrowings under a credit facility that is guaranteed jointly and severally by Barnwell and Mr. Johnston.

Also during fiscal 2007, Nearco paid Barnwell $553,000 to acquire a 20% minority interest in Kaupulehu Investors from Barnwell. No gain or loss was recognized by Barnwell as a result of the transaction.

In fiscal 2006, Barnwell entered into an agreement with Nearco to form Mauka 3K, LLC (Mauka 3K), for the purpose of providing real estate consulting services and investing in real estate. Barnwell and Nearco each have a 50% voting interest in Mauka 3K. There was no significant activity in Mauka 3K for the three and nine months ended June 30, 2007 and 2006.

9. LONG-TERM DEBT

Barnwell s credit facility at the Royal Bank of Canada, a Canadian bank, was renewed in May 2007 for $20,000,000 Canadian dollars, or approximately US$18,810,000 at June 30, 2007 exchange rates. Borrowings under this facility were US$13,232,000 at June 30, 2007 and are included in long-term debt. At June 30, 2007, Barnwell had unused credit available under this facility of approximately US$5,578,000.

The facility is available in U.S. dollars at the London Interbank Offer Rate plus 1.5%, at U.S. prime plus 0.25%, or in Canadian dollars at Canadian prime plus 0.25%. A standby fee of 0.25% per annum is charged on the unused facility balance. Under the financing agreement, the facility is reviewed annually, with the next review planned for April 2008. 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. The primary focus of the annual review is on the future cash flows that will be generated by Barnwell s Canadian oil and natural gas properties. Additionally, the Royal Bank of Canada may adjust the total amount of the credit facility during its next review. 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). Barnwell has the option to change the currency denomination and interest rate applicable to the loan at periodic intervals during the term of the loan. The facility is collateralized by a general security agreement on all of the assets of Barnwell s oil and natural gas segment. The facility is guaranteed by Barnwell Industries, Inc. No compensating bank balances are required for this facility.

As mentioned above in Note 5, Deposits on Residential Parcels and Residential Lots Under Development, Barnwell, through its 80%-owned real estate joint venture (the Venture), financed the initial deposits on seven parcels via a $1,400,000 loan from a financial institution. The loan bore interest at a rate of 7% and was guaranteed jointly and severally by Barnwell and Mr. Terry Johnston, a director of Barnwell and minority interest owner in certain of Barnwell s business ventures (see further discussion on related party interests at Note 8 above). In April 2007, the Venture obtained a $7,500,000 credit facility from the same financial institution for the purpose of refinancing the $1,400,000 loan and to finance the acquisition of two of the aforementioned parcels and a portion of the initial home construction on those parcels. The credit facility reduces to $5,000,000 in April 2008 and is due in total in October 2008. At June 30, 2007, borrowings under this facility were $5,868,000 and Barnwell had unused credit available under this facility of approximately $1,632,000. As of the date of this filing, the interest rate on the borrowings is primarily a floating rate equal to the 1-month London Interbank Offer Rate plus 1.75%. The credit facility is guaranteed jointly and severally by Barnwell and Mr. Terry Johnston and is collateralized by future development rights option payments pledged by Kaupulehu Developments and a pledge not to otherwise pledge the fee simple interest in the two parcels in Increment I. The portion of the outstanding loan balance at June 30, 2007 that exceeds $5,000,000 is due in April 2008. Accordingly, $868,000 of the outstanding loan balance at June 30, 2007 is classified as a current liability on the Condensed Consolidated Balance Sheet at June 30, 2007. The remaining $5,000,000 is due in October 2008 and is, therefore, classified as long-term debt on the Condensed Consolidated Balance Sheet at June 30, 2007.

The Venture capitalizes interest costs during development and construction and intends to include these costs in cost of sales when homes are sold. Capitalized interest costs totaled $56,000 for the three and nine months ended June 30, 2007.

In March 2007, Barnwell completed an agreement to purchase a contract drilling rig for $731,000, $620,000 of which was financed by a bank loan. The loan was obtained for a term of five years commencing in April 2007 with payments of $13,000 due monthly at an interest rate of 7.75% and is guaranteed in full by Barnwell. As of June 30, 2007, minimum future loan payments were as follows: remainder of fiscal 2007 - $38,000, fiscal 2008 - $150,000, fiscal 2009 - $150,000, fiscal 2010 - $150,000, fiscal 2011 - $150,000, and thereafter $75,000.

10. SEGMENT INFORMATION

Barnwell operates four segments: 1) exploring for, developing, producing and selling oil and natural gas (oil and natural gas); 2) investment in leasehold land and other real estate interests in Hawaii (land investment); 3) acquisition of property and development of homes for sale (real estate development, established January 2007); and 4) drilling wells and installing and repairing water pumping systems in Hawaii (contract drilling). Barnwell s reportable segments are strategic business units that offer different products and services. They are managed separately as each segment requires different operational methods, operational assets and marketing strategies, and operate in different geographical locations. There were no real estate development segment operating revenues or operating costs during the three and nine months ended June 30, 2007 and 2006.

Barnwell does not allocate general and administrative expenses, interest expense, interest income or income taxes to segments, and there are no significant transactions between segments that affect segment profit or loss.

	Three months ended June 30,		**Nine months ended June 30,**	
	2007	**2006**	**2007**	**2006**
Revenues:				
Oil and natural gas	**$ 9,342,000**	$ 8,577,000	**$ 26,370,000**	$ 29,702,000
Land investment	**402,000**	7,287,000	**4,911,000**	12,339,000
Contract drilling	**1,747,000**	1,039,000	**4,092,000**	4,687,000
Other	**160,000**	151,000	**469,000**	554,000
Total before gain on sale and interest income	**11,651,000**	17,054,000	**35,842,000**	47,282,000
Gain on sale of drill rig				700,000
Interest income	**162,000**	93,000	**402,000**	233,000
Total revenues	**$ 11,813,000**	$ 17,147,000	**$ 36,244,000**	$ 48,215,000
Depreciation, depletion and amortization:				
Oil and natural gas	**$ 3,266,000**	$ 2,915,000	**$ 9,449,000**	$ 8,001,000
Contract drilling	**57,000**	50,000	**164,000**	141,000
Other	**50,000**	64,000	**149,000**	191,000
Total	**$ 3,373,000**	$ 3,029,000	**$ 9,762,000**	$ 8,333,000
Operating profit (before general and administrative expenses):				
Oil and natural gas	**$ 3,500,000**	$ 3,694,000	**$ 9,514,000**	$ 15,813,000
Land investment, net of minority interest	**314,000**	5,473,000	**3,837,000**	9,420,000
Contract drilling	**111,000**	63,000	**251,000**	986,000
Other	**110,000**	87,000	**320,000**	363,000
Total	**4,035,000**	9,317,000	**13,922,000**	26,582,000
General and administrative expenses, net of minority interest	**(2,251,000)**	(4,065,000)	**(8,079,000)**	(10,355,000)
Interest expense	**(282,000)**	(219,000)	**(738,000)**	(638,000)
Interest income	**162,000**	93,000	**402,000**	233,000
Gain on sale of drill rig				700,000
Earnings before income taxes	**$ 1,664,000**	$ 5,126,000	**$ 5,507,000**	$ 16,522,000

11. INCOME TAXES

The components of the income tax provision for the three and nine months ended June 30, 2007 and 2006 are as follows:

	Three months ended June 30, 2007	2006	Nine months ended June 30, 2007	2006
Current	**$ 776,000**	$ 953,000	**$ 1,646,000**	$ 4,608,000
Deferred	**145,000**	1,141,000	**746,000**	(881,000)
	$ 921,000	$ 2,094,000	**$ 2,392,000**	$ 3,727,000

During the three and nine months ended June 30, 2006, Barnwell s Canadian deferred income tax liabilities were reduced by approximately $1,094,000 as a result of reductions in Canadian tax rates. The provision for income taxes for the three and nine months ended June 30, 2006 also included $538,000 of deferred income tax expense related to an increase in the valuation allowance for stock appreciation rights. During the three months ended June 30, 2006, the portion of stock appreciation rights projected to be exercised in stock was increased based on initial discussions with the holder of those rights, which expire in June 2008. The holder has the option to exercise the stock appreciation rights in stock, cash or a combination thereof. As the payment of stock appreciation rights in shares of Barnwell s stock is not deductible for Canadian income tax purposes, the related valuation allowance was increased accordingly. There were no changes to the valuation allowance for stock appreciation rights due to projected methods of exercise in the three and nine months ended June 30, 2007.

Also included in the provision for income taxes for the nine months ended June 30, 2006 was the recognition of a deferred income tax benefit of $4,130,000 due to a reduction in the valuation allowance for foreign tax credit carryforwards. The acceleration of Barnwell s investments in Canadian oil and natural gas properties beginning in the three months ended December 31, 2005, coupled with Kaupulehu Developments receipt of proceeds related to Increment I in January 2006, resulted in the determination that it was more likely than not that fiscal 2006 and future years taxable income from Canadian operations under U.S. tax law would exceed taxable income from Canadian operations under Canadian tax law to a degree that would result in the utilization of foreign tax credit carryforwards to reduce U.S. taxes. During the quarter ended March 31, 2006, Canadian oil and natural gas capital expenditures accelerated further than previously projected and together with Barnwell s revised estimates based on revised pricing forecasts from Barnwell s independent petroleum engineers, resulted in an upward revision of the projected Canadian oil and natural gas capital expenditures for fiscal 2006 and future years. This increase resulted in an upward revision of the estimated amount of foreign tax credit carryforwards that were expected to be realized in the quarter ended March 31, 2006. This is primarily attributable to differences in the statutory deduction rates for Barnwell s Canadian oil and natural gas capital expenditures under Canadian tax law as compared to such deductions under U.S. tax law. At June 30, 2007, foreign tax credit carryforwards totaled $649,000 and expire in fiscal 2013; management currently estimates that all of the foreign tax credit carryforwards will be utilized before expiration. There was no such reduction in the valuation allowance for foreign tax credit carryforwards in the three or nine months ended June 30, 2007 or three months ended June 30, 2006.

12. RETIREMENT PLANS

Barnwell sponsors a noncontributory defined benefit pension plan covering substantially all of its U.S. employees. The following table details the components of net periodic benefit cost for Barnwell s pension plan for the three and nine months ended June 30, 2007 and 2006:

	Three months ended June 30,		Nine months ended June 30,	
	2007	2006	2007	2006
Service cost	**$ 55,000**	$ 48,000	**$ 160,000**	$ 144,000
Interest cost	**71,000**	57,000	**195,000**	171,000
Expected return on plan assets	**(67,000)**	(45,000)		