

BARNWELL INDUSTRIES INC

Form 10-Q

May 11, 2012

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

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the quarterly period ended March 31, 2012**

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-5103

**BARNWELL INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**72-0496921**

(I.R.S. Employer

Identification No.)

**1100 Alakea Street, Suite 2900, Honolulu, Hawaii**

**96813**

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(Address of principal executive offices)

(Zip code)

**(808) 531-8400**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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 the 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  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 8, 2012 there were 8,277,160 shares of common stock, par value \$0.50, outstanding.

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**BARNWELL INDUSTRIES, INC.**

**AND SUBSIDIARIES**

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

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

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

See Notes to Condensed Consolidated Financial Statements

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**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

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

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Diluted net loss per common  
share attributable to  
Barnwell Industries, Inc.  
stockholders

Weighted-average number  
of common shares  
outstanding:

Basic	<b>8,277,160</b>	8,277,160	<b>8,277,160</b>	8,277,160
Diluted	<b>8,277,160</b>	8,277,160	<b>8,277,160</b>	8,277,160

See Notes to Condensed Consolidated Financial Statements



Table of Contents**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(Unaudited)

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

See Notes to Condensed Consolidated Financial Statements

Table of Contents**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

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



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**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

**Three months ended March 31, 2012 and 2011**

(Unaudited)

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

See Notes to Condensed Consolidated Financial Statements



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(Unaudited)

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

See Notes to Condensed Consolidated Financial Statements



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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

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

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

*Unaudited Interim Financial Information*

The accompanying unaudited condensed consolidated financial statements and notes have been prepared by Barnwell in accordance with the rules and regulations of the United States ( U.S. ) Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Barnwell 's September 30, 2011 Annual Report on Form 10-K. The Condensed Consolidated Balance Sheet as of September 30, 2011 has been derived from audited consolidated financial statements.



In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at March 31, 2012, results of operations, comprehensive (loss) income, and equity for the three and six months ended March 31, 2012 and 2011, and cash flows for the six months ended March 31, 2012 and 2011, have been made. The results of operations for the period ended March 31, 2012 are not necessarily indicative of the operating results for the full year.

*Use of Estimates*

The preparation of the financial statements in conformity with U.S. GAAP requires management of Barnwell to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ significantly from those estimates.

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*Significant Accounting Policies*

Barnwell's significant accounting policies are described in the Notes to Consolidated Financial Statements included in Item 8 of the Company's most recently filed Annual Report on Form 10-K.

*Recent Accounting Pronouncements*

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

**2. LOSS PER COMMON SHARE**

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

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

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

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	Six months ended March 31, 2012		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (3,263,000)	8,277,160	\$ (0.39)
Effect of dilutive securities - common stock options	-	-	
Diluted net loss per share	\$ (3,263,000)	8,277,160	\$ (0.39)
	Three months ended March 31, 2011		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (1,463,000)	8,277,160	\$ (0.18)
Effect of dilutive securities - common stock options	-	-	
Diluted net loss per share	\$ (1,463,000)	8,277,160	\$ (0.18)
	Six months ended March 31, 2011		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (378,000)	8,277,160	\$ (0.05)
Effect of dilutive securities - common stock options	-	-	
Diluted net loss per share	\$ (378,000)	8,277,160	\$ (0.05)

Potentially dilutive shares consist of the common shares issuable upon the exercise of outstanding stock options (both vested and non-vested) using the treasury stock method. Potentially dilutive shares are excluded from the computation of loss per share if their effect is antidilutive. Options to purchase 815,375 shares of common stock were excluded from the computation of diluted shares for the three and six months ended March 31, 2012 and options to purchase 819,125 shares of common stock were excluded from the computation of diluted shares for the three and six months ended March 31, 2011 as their inclusion would have been antidilutive.

### 3. SHARE-BASED PAYMENTS

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

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

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Share-based compensation expense (benefit) recognized in losses for the three and six months ended March 31, 2012 and 2011 are reflected in General and administrative expenses in the Condensed Consolidated Statements of Operations. There was no impact on income taxes for the three and six months ended March 31, 2012 and 2011 due to a full valuation allowance on the related deferred tax asset.

*Equity-classified Awards*

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

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

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

*Liability-classified Awards*

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

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

	Six months ended March 31,	
	2012	2011
Expected volatility range	59.2% to 64.5%	53.6% to 73.0%
Weighted-average volatility	61.1%	62.5%
Expected dividends	0.0%	0.0%
Expected term (in years)	2.7 to 7.7	0.2 to 8.7
Risk-free interest rate	0.4% to 1.6%	0.1% to 3.2%
Expected forfeitures	None	None

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

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

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

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

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

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

#### 4. REAL ESTATE HELD FOR SALE



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

In April 2012, Kaupulehu 2007 entered into a contract to sell one of the luxury residences at a price below carrying value. Accordingly, during the three and six months ended March 31, 2012, Barnwell recorded a \$1,854,000 reduction in the carrying values of both houses held for sale to reflect

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this decline in the estimated market value of the two luxury residences. No reduction was necessary during the three and six months ended March 31, 2011. The sale is currently in escrow and is estimated to close in the quarter ending June 30, 2012. There is no assurance that this transaction will be consummated.

## 5. INVESTMENTS

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

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

### *Investment in two residential parcels*

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

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

### *Investment in joint ventures*

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

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

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

*Lot 4C*

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

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

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

*Lot acquisition rights*

Barnwell, through wholly-owned Kaupulehu Mauka Investors, LLC, owns acquisition rights as to 14 lots within agricultural-zoned leasehold land in the upland area of Kaupulehu ( Mauka Lands ) situated between the Queen Kaahumanu Highway and the Mamalahoa Highway at Kaupulehu, on the island of Hawaii. The acquisition rights give Barnwell the right to acquire the aforementioned residential lots, currently estimated to be two to five acres in size, which may be developed on the Mauka Lands. These lands are currently classified as agricultural by the state of Hawaii and, accordingly, the developer of these lands (Hualalai Investors) will need to pursue both state and county of Hawaii approvals for reclassification and rezoning to permit the development of residential lots and negotiate development terms.

There is no assurance that the developer of the Mauka Lands will obtain the necessary land use reclassification, rezoning, permits, approvals, and development terms and agreements needed to develop the Mauka Lands. If the developer of the Mauka Lands is unable to obtain such required land use changes, development terms and agreements with respect to the Mauka Lands and Barnwell is therefore unable to fully recover its investment in the Mauka Lands, we will incur an expense resulting from a write-off of the lot acquisition rights.

**6. LONG-TERM DEBT**

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

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

*Canadian revolving credit facility*

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

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

*Real estate loan*

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

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

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

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

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

7. **RETIREMENT PLANS**

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

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

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

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

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



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

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

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

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

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

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

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

**9. SEGMENT INFORMATION**

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

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

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Revenues:				
Oil and natural gas	\$ 6,408,000	\$ 8,389,000	\$ 14,197,000	\$ 14,987,000
Land investment	353,000	-	353,000	3,061,000
Contract drilling	281,000	812,000	706,000	2,381,000
Other	121,000	74,000	397,000	157,000
Total before interest income	7,163,000	9,275,000	15,653,000	20,586,000
Interest income	3,000	6,000	15,000	14,000
Total revenues	\$ 7,166,000	\$ 9,281,000	\$ 15,668,000	\$ 20,600,000
Depletion, depreciation, and amortization:				
Oil and natural gas	\$ 2,649,000	\$ 2,278,000	\$ 5,402,000	\$ 4,541,000
Contract drilling	128,000	140,000	257,000	285,000
Other	29,000	25,000	56,000	47,000
Total depletion, depreciation, and amortization	\$ 2,806,000	\$ 2,443,000	\$ 5,715,000	\$ 4,873,000
Reduction of carrying value of assets:				
Land investment	\$ -	\$ 190,000	\$ -	\$ 190,000
Residential real estate	1,854,000	-	1,854,000	-
Other	-	121,000	-	121,000
Total reduction of carrying value of assets	\$ 1,854,000	\$ 311,000	\$ 1,854,000	\$ 311,000
Operating (loss) profit (before general and administrative expenses):				
Oil and natural gas	\$ 967,000	\$ 3,350,000	\$ 3,262,000	\$ 4,966,000
Land investment	353,000	(190,000)	353,000	2,871,000
Contract drilling	(307,000)	(172,000)	(648,000)	(115,000)
Residential real estate	(1,854,000)	-	(1,854,000)	-
Other	92,000	(72,000)	341,000	(11,000)
Total operating (loss) profit	(749,000)	2,916,000	1,454,000	7,711,000
General and administrative expenses				
	(2,367,000)	(3,819,000)	(4,213,000)	(6,133,000)
Interest expense	(219,000)	(312,000)	(438,000)	(620,000)

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Interest income	<b>3,000</b>	6,000	<b>15,000</b>	14,000
(Loss) earnings before income taxes	<b>\$ (3,332,000)</b>	\$ (1,209,000)	<b>\$ (3,182,000)</b>	\$ 972,000

Table of Contents**10. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of accumulated other comprehensive income, net of taxes, are as follows:

	<b>March 31, 2012</b>	September 30, 2011
Foreign currency translation	\$ <b>4,536,000</b>	\$ 3,093,000
Retirement plans liability	<b>(2,673,000)</b>	(2,803,000)
Accumulated other comprehensive income	\$ <b>1,863,000</b>	\$ 290,000

**11. FAIR VALUE MEASUREMENTS***Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Barnwell does not have any assets and liabilities that are required to be remeasured on a recurring basis.

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Certain of our assets and liabilities are reported at fair value in the accompanying balance sheets on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. The following table provides carrying value and fair value measurement information for nonrecurring fair value measurements recorded during the three and six months ended March 31, 2012 and March 31, 2011:

Carrying Amount as of	Quoted Prices in Active	Fair Value Measurements Using:		Total Reduction of Carrying Value for the three and
		Significant Other Observable	Significant Unobservable	

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	March 31, 2012	Markets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	six months ended March 31, 2012
Real estate held for sale*	\$ 10,786,000	\$ -	\$ 10,786,000	\$ -	\$ 1,854,000
			Fair Value Measurements Using:		
	Carrying Amount as of March 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Reduction of Carrying Value for the three and six months ended March 31, 2011
Investment in residential parcels*	\$ 2,830,000	\$ -	\$ 2,830,000	\$ -	\$ 190,000
Investment in joint ventures*	\$ 1,754,000	\$ -	\$ -	\$ 1,754,000	\$ 121,000

\* The fair values included in the tables above represent only those assets whose carrying values were adjusted to fair value in each respective period.

The fair value of our real estate held for sale was based on recent sales negotiations with a potential buyer of one of the homes. The fair values of both homes were revised downward as a result of the information provided by those negotiations. Such fair value measurements have been classified as Level 2 valuations.

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In determining the fair value of Barnwell's investment in residential parcels, prices for comparable sales transactions were used by an independent real estate consulting and appraisal firm to estimate fair value. Such fair value measurements have been classified as Level 2 valuations.

Kona Village Resort sustained considerable damage as a result of the March 2011 tsunami and subsequently shutdown indefinitely. As a result of the resort's shutdown, Barnwell determined that the fair value of its investment in Kona Village Resort was zero and wrote off its investment in Kona Village Investors, LLC.

*Fair Value of Financial Instruments*

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued current liabilities and payables to joint interest owners approximate their fair values due to the short-term nature of the instruments. The carrying value of long-term debt approximates fair value as the terms approximate current market terms for similar debt instruments of comparable risk and maturities.

**12. INFORMATION RELATING TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended March 31,	
	<b>2012</b>	2011
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ <b>388,000</b>	\$ 543,000
Income taxes	\$ <b>455,000</b>	\$ 966,000
Supplemental disclosure of non-cash investing and financing activities:		
Long-term debt borrowings refinanced	\$ -	\$ 12,500,000

Capital expenditure accruals related to oil and natural gas exploration and development decreased \$2,153,000 and \$100,000 during the six months ended March 31, 2012 and 2011, respectively. Additionally, during the six months ended March 31, 2012 and 2011, capital expenditure accruals related to oil and natural gas asset retirement obligations increased \$28,000 and \$53,000, respectively.

**13.           SUBSEQUENT EVENT**

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



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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Cautionary Statement Relevant to Forward-Looking Information**

**For the Purpose Of Safe Harbor Provisions Of The  
Private Securities Litigation Reform Act of 1995**

*This Form 10-Q, and the documents incorporated herein by reference, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. A forward-looking statement is one which is based on current expectations of future events or conditions and does not relate to historical or current facts. These statements include various estimates, forecasts, projections of Barnwell's future performance, statements of Barnwell's plans and objectives, and other similar statements. Forward-looking statements include phrases such as expects, anticipates, intends, plans, believes, predicts, estimates, assumes, projects, may, will, will be, should, or similar expressions. Although Barnwell believes that its current expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such forward-looking statements will be achieved. Forward-looking statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from those contained in such statements. The risks, uncertainties and other factors that might cause actual results to differ materially from Barnwell's expectations are set forth in the Forward-Looking Statements and Risk Factors sections of Barnwell's Annual Report on Form 10-K for the year ended September 30, 2011. Investors should not place undue reliance on these forward-looking statements, as they speak only as of the date of filing of this Form 10-Q, and Barnwell expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein.*

**Critical Accounting Policies and Estimates**

Management has determined that our most critical accounting policies and estimates are those related to the evaluation of recoverability of assets, depletion of our oil and natural gas properties, income taxes and asset retirement obligation which are discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. There have been no significant changes to these critical accounting policies and estimates during the three and six months ended March 31, 2012. We continue to monitor our accounting policies to ensure proper application of current rules and regulations.

## **Impact of Recently Issued Accounting Standards on Future Filings**

### Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update that eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other updates to the presentation of comprehensive income. Under this guidance, an entity has the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, an entity is required to present on the face of the financial

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statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued an accounting standards update that defers the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. The deferral is temporary until the FASB reconsiders the operational concerns and needs of financial statement users. The requirement to present comprehensive income in either a single continuous statement or two consecutive condensed statements is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. Adoption of the deferred requirement of this standard will impact the presentation of the Company's consolidated financial statements.

## **Overview**

Barnwell is engaged in the following lines of business: 1) exploring for, developing, producing and selling oil and natural gas in Canada (oil and natural gas segment), 2) investing in land interests in Hawaii (land investment segment), 3) drilling wells and installing and repairing water pumping systems in Hawaii (contract drilling segment), and 4) developing homes for sale in Hawaii (residential real estate segment).

### *Oil and Natural Gas Segment*

Barnwell is involved in the acquisition, exploration and development of oil and natural gas properties in Canada where we initiate and participate in exploratory and developmental operations for oil and natural gas on properties in which we have an interest, and evaluate proposals by third parties with regard to participation in such exploratory and developmental operations elsewhere.

### *Land Investment Segment*

The land investment segment is comprised of the following three components:

1) Barnwell owns a 77.6% controlling interest in Kaupulehu Developments, a Hawaii general partnership which owns interests in leasehold land located approximately six miles north of the Kona International Airport in the North Kona

District of the island of Hawaii, adjacent to Hualalai Resort at Historic Kaupulehu, between the Queen Kaahumanu Highway and the Pacific Ocean. Kaupulehu Developments' interests include the following:

- The right to receive payments from WB KD Acquisition, LLC ( WB ) and WB KD Acquisition II, LLC ( WBKD ), entities not affiliated with Barnwell and its subsidiaries, resulting from the sale of lots and/or residential units within approximately 870 acres of the Kaupulehu Lot 4A area by WB and WBKD in two increments ( Increment I and Increment II ). Increment I is an area planned for approximately 80 single-family lots and a beach club on the portion of the property bordering the Pacific Ocean. The purchasers of the 80 single-family lots will have the right to apply for membership in the Kuki o Golf and Beach Club, which is located adjacent to and south of the Four Seasons Resort Hualalai at Historic Kaupulehu. Increment II is the remaining portion of the approximately 870-acre property and is zoned for single-family and multi-family residential units and a golf course and clubhouse. Increment II is not yet developed and is currently planned for approximately 350-400 residential units; and

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- Approximately 1,000 acres of vacant leasehold land zoned conservation in the Kaupulehu Lot 4C area located adjacent to the 870-acre Lot 4A described above. Kaupulehu Developments has an agreement which provides WB and/or WBKD the exclusive right to negotiate with Kaupulehu Developments with respect to these 1,000 acres. This right expires in June 2015 or in June 2013 if WB and/or WBKD have not completed all environmental assessments and surveys reasonably required to support a petition to the Hawaii State Land Use Commission for reclassification of the 1,000 acres.

2) Barnwell owns an 80% controlling interest in Kaupulehu 2007, LLLP ( Kaupulehu 2007 ), a Hawaii limited liability limited partnership. Kaupulehu 2007 owns two residential parcels in the Kaupulehu area that are held for investment.

3) Barnwell, through wholly-owned Kaupulehu Mauka Investors, LLC, owns acquisition rights as to 14 lots within agricultural-zoned leasehold land in the upland area of Kaupulehu ( Mauka Lands ) situated between the Queen Kaahumanu Highway and the Mamalahoa Highway at Kaupulehu, on the island of Hawaii. The acquisition rights give Barnwell the right to acquire 14 residential lots, currently estimated to be two to five acres in size, which may be developed on the Mauka Lands. These lands are currently classified as agricultural by the state of Hawaii and, accordingly, the developer of these lands will need to pursue both state and county of Hawaii approvals for reclassification and rezoning to permit the development of residential lots and negotiate development terms.

*Residential Real Estate Segment*

Barnwell, through its 80%-owned real estate joint venture, Kaupulehu 2007, constructs and sells luxury single-family homes. Kaupulehu 2007, in addition to the two parcels described above, owns two luxury residences in the Kaupulehu area that are available for sale. Kaupulehu 2007 does not currently have any homes under construction.

*Contract Drilling Segment*

Barnwell drills water, water monitoring and geothermal wells and installs and repairs water pumping systems in Hawaii. Contract drilling results are highly dependent upon the quantity, dollar value and timing of contracts awarded by governmental and private entities and can fluctuate significantly.

## Results of Operations

### *Summary*

Barnwell incurred a net loss of \$2,981,000 for the three months ended March 31, 2012, as compared to a net loss of \$1,463,000 for the three months ended March 31, 2011. The \$1,518,000 increase in net loss was largely attributable to the following items:

- A \$2,383,000 decrease in oil and natural gas segment operating profit, before taxes, primarily resulting from:

§ The prior year period includes a \$1,326,000 gain from third-party drilling royalty credits as compared to no such gain during the same period in the current year; and

§ Lower natural gas prices, lower net natural gas production and higher depletion expense, partially offset by higher oil prices and higher net oil production.

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- A \$1,543,000 increase in reductions of the carrying value of assets in the current year period as compared to the prior year period. The current year period includes a \$1,854,000 write-down of real estate held for sale, as compared to a write-down of Barnwell's investment in residential parcels and a write-off of our investment in Kona Village Investors, LLC totaling \$311,000 during the prior year period.

The items above were partially offset by:

- A \$1,452,000 decrease in general and administrative expenses due primarily to a \$1,450,000 decrease in stock appreciation rights expense due to fluctuations in Barnwell's stock price.

Barnwell incurred a net loss of \$3,263,000 for the six months ended March 31, 2012, as compared a net loss of \$378,000 for the six months ended March 31, 2011. The \$2,885,000 increase in net loss was largely attributable to the following items:

- A \$2,708,000 decrease in land investment segment operating profit, before income taxes and non-controlling interests' share of such profits (and excluding the impact of the reduction in carrying value of investment in residential parcels discussed above), as there were no development rights option receipts and decreased percentage of sales receipts in the current year period.
- A \$1,543,000 increase in reductions of the carrying value of assets in the current year period as compared to the prior year period. The current year period includes a \$1,854,000 write-down of real estate held for sale, as compared to a write-down of Barnwell's investment in residential parcels and a write-off of our investment in Kona Village Investors, LLC totaling \$311,000 during the prior year period.

- A \$1,704,000 decrease in oil and natural gas segment operating profit, before taxes, primarily resulting from:

§ The prior year period includes a \$1,326,000 gain from third-party drilling royalty credits as compared to no such gain during the same period in the current year; and

§ Lower natural gas prices, lower net natural gas production and higher depletion expense, partially offset by higher oil prices and higher net oil production.

- A \$533,000 decrease in contract drilling operating results, before income taxes, due primarily to decreased well drilling activity performed in the current year period.

The items above were partially offset by:

- A \$1,920,000 decrease in general and administrative expenses due primarily to a \$1,985,000 decrease in stock appreciation rights expense due to fluctuations in Barnwell's stock price.



Table of Contents*General*

Barnwell conducts operations in the U.S. and Canada. Consequently, Barnwell is subject to foreign currency translation and transaction gains and losses due to fluctuations of the exchange rates between the Canadian dollar and the U.S. dollar. The impact of fluctuations of the exchange rates between the Canadian dollar and the U.S. dollar may be material from period to period. Barnwell cannot accurately predict future fluctuations between the Canadian and U.S. dollar.

The average exchange rate of the Canadian dollar to the U.S. dollar decreased 2% and 1% in the three and six months ended March 31, 2012, respectively, as compared to the same periods in the prior year, and the exchange rate of the Canadian dollar to the U.S. dollar increased 2% and 4% at March 31, 2012 as compared to December 31, 2011 and September 30, 2011, respectively. Accordingly, the assets, liabilities, stockholders' equity and revenues and expenses of Barnwell's subsidiaries operating in Canada have been adjusted to reflect the change in the exchange rates. Barnwell's Canadian dollar assets are greater than its Canadian dollar liabilities; therefore, increases or decreases in the value of the Canadian dollar to the U.S. dollar generate other comprehensive income or loss, respectively. Other comprehensive income and losses are not included in net (loss) earnings. The other comprehensive income due to foreign currency translation adjustments, net of taxes, for the three months ended March 31, 2012 was \$662,000, a \$240,000 decrease from the \$902,000 other comprehensive income due to foreign currency translation adjustments, net of taxes, for the same period in the prior year. The other comprehensive income due to foreign currency translation adjustments, net of taxes, for the six months ended March 31, 2012 was \$1,443,000, a \$760,000 decrease from the \$2,203,000 other comprehensive income due to foreign currency translation adjustments, net of taxes, for the same period in the prior year. There were no taxes on other comprehensive income due to foreign currency translation adjustments in the three and six months ended March 31, 2012 and 2011 due to a full valuation allowance on the related deferred tax asset.

*Oil and natural gas revenues*

The following tables set forth Barnwell's average prices per unit of production and net production volumes. Production amounts reported are net of royalties.

	Average Price Per Unit			
	Three months ended March 31, <b>2012</b>	2011	Increase (Decrease) \$	%
Natural Gas (Mcf)*	\$ <b>1.85</b>	\$ 3.53	\$ (1.68)	(48%)
Oil (Bbls)**	\$ <b>88.44</b>	\$ 83.08	\$ 5.36	6%

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Liquids (Bbls)**	\$	<b>46.39</b>	\$	48.09	\$	(1.70)	(4%)
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	Six months ended		Average Price Per Unit				
	2012	2011					
				Increase (Decrease)			
			\$	%			
Natural Gas (Mcf)*	\$	<b>2.38</b>	\$	3.35	\$	(0.97)	(29%)
Oil (Bbls)**	\$	<b>88.57</b>	\$	77.97	\$	10.60	14%
Liquids (Bbls)**	\$	<b>49.21</b>	\$	44.80	\$	4.41	10%

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	Net Production			
	Three months ended		Units	Increase (Decrease)
	2012	2011		
	March 31,			%
Natural Gas (Mcf)*	<b>719,000</b>	756,000	(37,000)	(5%)
Oil (Bbls)**	<b>43,000</b>	37,000	6,000	16%
Liquids (Bbls)**	<b>23,000</b>	23,000	-	0%

	Net Production			
	Six months ended		Units	Increase (Decrease)
	2012	2011		
	March 31,			%
Natural Gas (Mcf)*	<b>1,484,000</b>	1,556,000	(72,000)	(5%)
Oil (Bbls)**	<b>91,000</b>	74,000	17,000	23%
Liquids (Bbls)**	<b>46,000</b>	50,000	(4,000)	(8%)

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\* Mcf = 1,000 cubic feet. Natural gas price per unit is net of pipeline charges.

\*\* Bbl = stock tank barrel equivalent to 42 U.S. gallons

Oil and natural gas revenues decreased \$655,000 (9%) for the three months ended March 31, 2012, as compared to the same period in the prior year, primarily due to a decline in natural gas prices, which decreased 48%, as compared to the same period in the prior year. The decrease was partially offset by an increase in net oil production, which increased 16%, as compared to the same period in the prior year. The increase in net oil production was due partly to production from newer wells and lower freehold royalty rates as no freehold royalties were applied to newer areas, partially offset by natural declines in production from older properties.

Oil and natural gas revenues increased \$536,000 (4%) for the six months ended March 31, 2012, as compared to the same period in the prior year, primarily due to increases in net oil production and oil prices, which increased 23% and 14%, respectively, as compared to the same period in the prior year. The increase was partially offset by decreases in natural gas prices and net natural gas production, which decreased 29% and 5%, respectively, as compared to the same period in the prior year. The increase in net oil production was due partly to production from newer wells partially offset by natural declines in production from older properties. Also contributing to the increase in net oil production were lower royalty rates on certain high production rate properties resulting from the Government of Alberta's modification to the royalty framework effective January 1, 2011, which reduced the maximum royalty rate for oil and natural gas production from 50% for each to 40% and 36%, respectively, and lower freehold royalty rates as no freehold royalties were applied to newer areas.

Due to the recent decline in natural gas prices, production from natural gas wells which produced approximately 8% of the Company's 2011 natural gas production has been shut in by the Company and independent operators of such properties due to economic or logistical issues. Although the impact to the three and six months ended March 31, 2012 was insignificant, future shut ins may result in the Company receiving materially less than anticipated production or no production and associated revenues from these properties until the Company or independent operator elects to return such wells to production. The impact of any future natural gas wells shut in is unknown as such events are dependent upon the level of future natural gas prices, which the Company is unable to predict.

Table of Contents*Sale of development rights and Sale of interest in leasehold land*

Kaupulehu Developments received its final development rights option payment in December 2010. Revenues related to sales of development rights under option for the six months ended March 31, 2012 and 2011 are summarized as follows:

	Six months ended March 31,	
	<b>2012</b>	2011
Sale of development rights under option:		
Proceeds	\$ -	\$ 2,656,000
Fees	-	(159,000)
Revenues - sale of development rights, net	\$ -	\$ 2,497,000

The following table summarizes the percentage of sales payment revenues received from WB:

	Three months ended March 31,		Six months ended March 31,	
	<b>2012</b>	2011	<b>2012</b>	2011
Sale of interest in leasehold land:				
Proceeds	\$ <b>375,000</b>	\$ -	\$ <b>375,000</b>	\$ 600,000
Fees	<b>(22,000)</b>	-	<b>(22,000)</b>	(36,000)
Revenues - sale of interest in leasehold land, net	\$ <b>353,000</b>	\$ -	\$ <b>353,000</b>	\$ 564,000

WB sold one ocean front single-family lot in Increment I during the three and six months ended March 31, 2012 and paid Kaupulehu Developments a percentage of sales payment totaling \$375,000. WB sold one ocean front single-family lot in Increment I during the six months ended March 31, 2011 and paid Kaupulehu Developments a percentage of sales payment totaling \$600,000. No lots were sold by WB during the three months ended March 31, 2011. As of March 31, 2012, all of the 23 ocean front lots and seven of the 15 ocean view lots in Phase I of Increment I have been sold. Forty-two single-family lots are planned for Phase II of Increment I, for a total of 80 single-family lots planned for Increment I. The developer recently announced the release soon of a portion of Phase II of Increment I, but the Company cannot predict when WB will complete and begin marketing the remaining single-family lots in Phase II of Increment I. There is no assurance with regard to the amounts of future sales from Increment I.

*Contract drilling*

Contract drilling revenues and contract drilling costs decreased \$531,000 (65%) and \$384,000 (45%), respectively, for the three months ended March 31, 2012, as compared to the same period in the prior year. The contract drilling segment generated a \$307,000 operating loss before general and administrative expenses in the three months ended March 31, 2012, an increase of \$135,000 as compared to the \$172,000 operating loss generated during the same period of the prior year. Contract drilling revenues and contract drilling costs decreased \$1,675,000 (70%) and \$1,114,000 (50%), respectively, for the six months ended March 31, 2012, as compared to the same period in the prior year. The contract drilling segment generated a \$648,000 operating loss before general and administrative expenses in the six months ended March 31, 2012, an increase of \$533,000 as compared to the \$115,000 operating loss generated during the same period of the prior year. The decreases in operating results were primarily due to lower well drilling activity and lower margins and difficulties encountered on certain pump installation jobs during the current year periods.

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Contract drilling revenues and costs are not seasonal in nature, but can fluctuate significantly based on the awarding and timing of contracts, which are determined by contract drilling customer demand. There has been a significant decrease in demand for water well drilling contracts in the last two years due largely to the impact of the recession and continuing weak economic conditions on both private real estate development and governmental capital improvement budgets. Lack of availability of contracts has also resulted in increased competition for available contracts, which generally has resulted in lower estimated margins on awarded contracts. Continued lack of water well drilling contracts may necessitate future cost reduction measures, temporary shutdown of water well drilling operations, or sale or liquidation of a portion of our contract drilling equipment. The Company is unable to predict the near-term and long-term availability of water well drilling and pump installation and repair contracts as the duration of the slowdown in construction activity is unknown.

*Gas processing and other*

Gas processing and other income decreased \$1,282,000 (91%) and \$1,085,000 (72%) for the three and six months ended March 31, 2012, respectively, as compared to the same periods in the prior year. The decreases are primarily attributable to a gain from drilling royalty credits of \$1,326,000 for the three and six months ended March 31, 2011 due to the purchase of third-party drilling royalty credits by the oil and natural gas segment for less than par value during the three months ended March 31, 2011; no third-party drilling royalty credits were purchased during the three and six months ended March 31, 2012. Under an incentive program that expired in the prior year, the Canadian province of Alberta provided temporary drilling royalty credits to eligible companies which drilled new conventional oil and natural gas wells on Alberta crown lands. Certain companies earned drilling royalty credits in excess of a formulaic maximum, which resulted in such companies being unable to fully claim their drilling royalty credits. Barnwell had limited drilling activity and thus acquired drilling royalty credits for less than par value from entities with excess drilling royalty credits allowing Barnwell to realize these gains. The drilling royalty credit program ended in the prior year and in the absence of legislation to renew the program, gains from purchased drilling royalty credits will not occur in future periods.

*General and administrative expenses*

General and administrative expenses decreased \$1,452,000 (38%) and \$1,920,000 (31%) for the three and six months ended March 31, 2012, respectively, as compared to the same periods in the prior year. The decreases were primarily attributable to decreases in stock appreciation rights expense due to fluctuations in Barnwell's stock price of \$1,450,000 and \$1,985,000 for the three and six months ended March 31, 2012, respectively.

*Depletion, depreciation, and amortization*

Depletion, depreciation, and amortization increased \$363,000 (15%) and \$842,000 (17%) for the three and six months ended March 31, 2012, respectively, as compared to the same periods in the prior year. The increases resulted from 18% and 20% increases in the depletion rates for the three and six months ended March 31, 2012, respectively, due to increases in Barnwell's costs of finding and developing proven reserves, primarily from exploration activity in the Seagram Lakes area during the second half of fiscal 2011. The increases were partially offset by 2% and 1% decreases in the average exchange rate of the Canadian dollar to the U.S. dollar, for the three and six months ended March 31, 2012, respectively.



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*Reduction of carrying value of assets*

The reduction of carrying value of assets increased \$1,543,000 (496%) for the three and six months ended March 31, 2012, as compared to the same periods in the prior year.

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

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

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

*Interest expense*

Interest expense decreased \$93,000 (30%) and \$182,000 (29%) for the three and six months ended March 31, 2012, respectively, as compared to the same periods in the prior year primarily due to lower interest rates, borrowings and loan commitment fees.

*Income taxes*

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

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

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

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*Net (loss) earnings attributable to non-controlling interests*

Earnings and losses attributable to non-controlling interests represent the non-controlling interests' share of revenues and expenses related to the various partnerships and joint ventures in which Barnwell has interests.

Net loss attributable to non-controlling interests for the three months ended March 31, 2012 totaled \$348,000, as compared to net loss attributable to non-controlling interests of \$139,000 for the three months ended March 31, 2011. The \$209,000 (150%) increase in net loss is due primarily to impacts to non-controlling interests of larger write-downs of Barnwell's assets, partially offset by an increase in revenues reported by the land investment segment in the current quarter as compared to the same period in the prior year.

Net loss attributable to non-controlling interests for the six months ended March 31, 2012 totaled \$406,000, as compared to net earnings attributable to non-controlling interests of \$471,000 for the same period in the prior year. The \$877,000 (186%) change is due primarily to impacts to non-controlling interests of larger write-downs of Barnwell's assets and lower revenues reported by the land investment segment in the current year period as compared to the prior year period.

**Liquidity and Capital Resources**

Barnwell's primary sources of liquidity are cash on hand, cash flows from operations, land investment segment proceeds and available credit. At March 31, 2012, Barnwell had \$8,599,000 in cash and cash equivalents, \$5,393,000 in working capital, and \$8,018,000 of available credit under its credit facility with its Canadian bank.

*Cash Flows*

Cash flows provided by operations totaled \$3,027,000 for the six months ended March 31, 2012, as compared to \$7,158,000 for the same period in the prior year. The \$4,131,000 change was primarily due to changes in working capital of \$2,437,000, with the remainder being primarily attributable to the absence of the prior period's gain on drilling royalty credits in the current year.

Net cash used in investing activities totaled \$3,857,000 during the six months ended March 31, 2012, as compared to \$3,110,000 during the same period of the prior year. Cash outflows used for capital expenditures totaled \$4,331,000 for the current year period versus \$6,219,000 in the prior year period, a decrease of \$1,888,000 due primarily to the prior year purchase of an office in New York City by a subsidiary of the Company for \$1,860,000. Investing cash inflows were \$474,000 for the current year period as opposed to \$3,109,000 in the prior year period, a \$2,635,000 decrease due mainly to lower land investment segment proceeds in the current year.

Cash flows used in financing activities totaled \$430,000 for the six months ended March 31, 2012, as compared to \$894,000 during the same period of the prior year. The \$464,000 decrease in cash outflows is primarily due to a \$602,000 decrease in distributions to non-controlling interests due to decreased land investment segment sales in the current year period as compared to the same period in the prior year.

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*Credit Arrangements*

In February 2012, Barnwell's credit facility at Royal Bank of Canada, a Canadian bank, was renewed through April 2013 for \$20,000,000 Canadian dollars, unchanged from the prior year amount, or US\$20,018,000 at the March 31, 2012 exchange rate of 1.0009. Borrowings under this facility were US\$12,000,000 and unused credit available under this facility was US\$8,018,000 at March 31, 2012. The interest rate on the facility at March 31, 2012 was 3.0%. The renewed facility is available in U.S. dollars at the London Interbank Offer Rate plus 2.50%, at the Royal Bank U.S. base rate plus 1.50%, or in Canadian dollars at the Royal Bank prime rate plus 1.50%. A standby fee of 0.6250% per annum is charged on the unused facility balance.

Barnwell, together with its 80%-owned real estate joint venture, Kaupulehu 2007, has a non-revolving real estate loan with a Hawaii financial institution that terminates on April 1, 2018. Principal and interest are paid monthly and are determined based on a loan amortization schedule over the remaining life of the loan. The monthly payment for the first year is \$169,000 and adjusts annually for changes in prevailing interest rates. The interest rate on the loan at March 31, 2012 was 3.67%. The loan is collateralized by, among other things, a first mortgage on Kaupulehu 2007's four lots together with all improvements thereon. Kaupulehu 2007 will be required to make a principal payment upon the sale of a house or a residential parcel in the amount of the net sales proceeds of the house or residential parcel; the loan agreement defines net sales proceeds as the gross sales proceeds for the house or residential parcel, less reasonable commissions and normal closing costs.

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

*Oil and Natural Gas and Other Capital Expenditures*

Barnwell's oil and natural gas capital expenditures, including accrued capital expenditures, totaled \$229,000 and \$2,179,000 for the three and six months ended March 31, 2012, respectively, as compared to \$1,790,000 and \$4,417,000 for the three and six months ended March 31, 2011, respectively. Management expects that oil and natural gas capital expenditures in fiscal 2012 will range from \$5,000,000 to \$7,000,000. This estimated amount may increase or decrease as dictated by cash flows and management's assessment of the oil and natural gas environment and prospects.

During the three months ended March 31, 2012, Barnwell participated in the drilling of 2 gross (0.2 net) wells in Canada, of which one appears to be successful and the other is currently under evaluation. During the six months ended March 31, 2012, Barnwell participated in the drilling of 4 gross (0.7 net) wells in Canada, of which all appear to be successful or are currently being evaluated. The term gross refers to the total number of wells in which Barnwell owns an interest, and net refers to Barnwell's aggregate interest therein. For example, a 50% interest in a well represents 1 gross well, but 0.5 net well. The gross figure includes interests owned of record by Barnwell and, in addition, the portion owned by others.

*Other Considerations*

We believe our sources of funds such as current cash balances, future operating cash flows, land investment segment proceeds, residential home sales, and available credit will provide sufficient liquidity to fund our operations, planned future capital expenditures, scheduled debt repayments and

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related interest, and settle incentive compensation liabilities in cash, if necessary. However, in the event oil and natural gas prices and production, land investment segment proceeds, and residential real estate home sales are less than current expectations, Barnwell's Canadian revolving credit facility is reduced below the current level of borrowings under the facility upon the April 2013 review, and/or we fall short of our key financial debt covenants for our real estate loan and are required to repay a portion of our loan borrowings earlier than anticipated, we will be faced with reduced cash inflows and/or higher cash outflows than expected, which in turn could have a material adverse effect on our operations, liquidity, cash flows and financial condition. Absent a sufficient increase in natural gas and/or oil prices, it is unlikely that future oil and natural gas operating cash flows will be sufficient to fund the capital expenditure levels necessary to maintain current production and reserve levels. As such, the near-term and longer-term outlook for sources and uses of funds and oil and natural gas capital resources remains highly dependent on the factors noted above.

In the event our liquidity and capital resources are not sufficient to fund our future cash needs, the Company will need to obtain alternative terms or sources of financing or liquidate investments and/or operating assets to make any required cash outflows. Events and circumstances that lead to results that significantly differ from management's expectations could have a material adverse effect on our operations, liquidity, cash flows, and financial condition.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### *Disclosure Controls and Procedures*

We have established disclosure controls and procedures to ensure that material information relating to Barnwell, including its consolidated subsidiaries, is made known to the officers who certify Barnwell's financial reports and to other members of executive management and the Board of Directors.

As of March 31, 2012, an evaluation was carried out by Barnwell's Chief Executive Officer and Chief Financial Officer of the effectiveness of Barnwell's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Barnwell's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of March 31, 2012 to ensure that information required to be disclosed by Barnwell in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Act of 1934 and the rules thereunder.

##### *Changes in Internal Control Over Financial Reporting*

There was no change in Barnwell's internal control over financial reporting during the quarter ended March 31, 2012, that materially affected, or is reasonably likely to materially affect, Barnwell's internal control over financial reporting.



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PART II - OTHER INFORMATION

**ITEM 6. EXHIBITS**

Exhibit Number	Description
31.1	Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BARNWELL INDUSTRIES, INC.**  
(Registrant)

Date: May 11, 2012

/s/ Russell M. Gifford  
Russell M. Gifford  
Chief Financial Officer,  
Executive Vice President,  
Treasurer and Secretary

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**INDEX TO EXHIBITS**

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