BARNWELL INDUSTRIES INC
Form 10QSB/A
August 16, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB/A

Amendment No. 1

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005

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 small business issuer as specified in its charter)

DELAWARE	**72-0496921**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1100 Alakea Street, Suite 2900, Honolulu, Hawaii	**96813**

(Address of principal executive offices) (Zip code)

(808) 531-8400

(Issuer s telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ý No o

As of August 11, 2005 there were 2,723,020 shares of common stock, par value $0.50, outstanding.

Transitional Small Business Disclosure Format Yes o No ý

EXPLANATORY NOTE

Barnwell Industries, Inc. is filing this Form 10-QSB/A, Amendment No. 1, to its Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2005, as filed with the United States Securities and Exchange Commission (SEC) on August 12, 2005 (the Original Filing). We are amending the Original Filing by filing this Form 10-QSB/A, Amendment No. 1, to correct a date that was incorrectly disclosed in Item 2 of the Original Filing.

The Original Filing includes the following sentence in the Liquidity and Capital Resources section of Item 2: The Royal Bank of Canada has renewed Barnwell s credit facility through April 2009 at an unchanged $19,000,000 Canadian dollars, or approximately US$15,500,000 at June 30, 2005. The amended sentence with the corrected date in this Form 10-QSB/A reads The Royal Bank of Canada has renewed Barnwell s credit facility through April 2006 at an unchanged $19,000,000 Canadian dollars, or approximately US$15,500,000 at June 30, 2005. Item 2 is amended and restated in its entirety in this Form 10-QSB/A to reflect this change. No other information in the Original Filing is amended hereby.

Item 2. Management s Discussion and Analysis or Plan of Operation

FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including various forecasts, projections of Barnwell s future performance, statements of Barnwell s plans and objectives or other similar types of information. Although Barnwell believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such forward-looking statements will be achieved. Such 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 section of Barnwell s annual report on Form 10-KSB for the year ended September 30, 2004. These forward-looking statements speak only as of the date of filing of this Form 10-QSB, 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

In response to the Securities and Exchange Commission s Release No. 33-8040, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, Barnwell identifies its most critical accounting principles upon which its financial reporting is based as the full cost method of accounting for oil and natural gas properties, the accounting for investment in land, the percentage of completion method of accounting for contract drilling, valuation of receivables, the asset and liability method of accounting for deferred income taxes, and the accounting for Barnwell s employee pension plan. The carrying cost of oil and natural gas properties is subject to a valuation ceiling under the full cost method based on estimated future net cash flows from estimated production of proved oil and natural gas reserves, as determined by independent petroleum engineers. Investment in land is subject to a valuation ceiling based on an estimation of the fair value of the property, less costs to sell. The percentage of completion method of accounting for contract drilling is based on estimates of the total costs to complete each contract. Receivables are subject to a valuation ceiling based on estimates of collectible amounts. Deferred tax assets are based on estimates of the realizable value of future tax deductions, which utilize estimates and assumptions regarding future levels of taxable income. Barnwell s accounting for its employee pension plan is based on estimates and assumptions regarding future investment returns, compensation increases, interest rates, and benefit payments. The aforementioned estimates and assumptions are based on values provided by independent petroleum engineers, in the case of oil and natural gas reserves, on independent actuaries, in the case of pension obligations, or on internal analysis performed by Barnwell s management. Changes in estimates and assumptions affecting any of the above could materially affect Barnwell s reported amounts of assets, liabilities, revenues and expenses. These accounting policies are detailed in the notes to the consolidated financial statements included in Barnwell s annual report on Form 10-KSB for the year ended September 30, 2004 and in relevant sections in this discussion and analysis.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Please see Notes 5, 6, 7, 9 and 11 of the Notes to the Consolidated Financial Statements in Barnwell s annual report on Form 10-KSB for the year ended September 30, 2004. There have been no significant changes in contractual obligations and commercial commitments from September 30, 2004 to June 30, 2005, other than those reported elsewhere in this Form 10-QSB.

OVERVIEW

Barnwell is engaged in the following lines of business: 1) oil and natural gas exploration, development, production and sales primarily in Canada (oil and natural gas segment), 2) investment in leasehold land in Hawaii (land investment segment), and 3) drilling wells and installing and repairing water pumping systems in Hawaii (contract drilling segment).

Barnwell sells substantially all of its oil and condensate production under short-term contracts with marketers of oil. Natural gas sold by Barnwell is generally sold under both long-term and short-term contracts with prices indexed to market prices. The price of natural gas, oil and natural gas liquids is freely negotiated between the buyers and sellers. Market prices for petroleum products are dependent upon factors such as, but not limited to, changes in weather, storage levels, and output. Petroleum and natural gas prices are very difficult to predict and fluctuate significantly. For example, natural gas prices for Barnwell, based on quarterly averages in the three years ended June 30, 2005, have ranged from a low of $2.09 per thousand cubic feet to a high of $5.78 per thousand cubic feet, and tend to be higher in the winter season than in the summer due to increased demand. Oil and natural gas costs generally follow trends in product market prices, thus in times of higher product prices the cost of exploration, development and operation of oil and natural gas properties will tend to escalate as well. Barnwell s oil and natural gas operations make capital expenditures in the exploration, development, and production of oil and natural gas. Cash outlays for capital expenditures are largely discretionary, however, a minimum level of capital expenditures is required to replace depleting reserves. Due to the nature of oil and natural gas exploration and development, uncertainty exists as to the ultimate success of any drilling effort.

Barnwell owns a 77.6% controlling interest in Kaupulehu Developments, a Hawaii general partnership which owns interests in leasehold land and development rights for property located approximately six miles north of the Kona International Airport in the North Kona District of the Island of Hawaii, adjacent to and north of the Four Seasons Resort Hualalai at Historic Ka upulehu, between the Queen Kaahumanu Highway and the Pacific Ocean. Kaupulehu Developments development rights are under option to a developer and revenues are recognized when options are exercised. The remaining options are comprised of six payments of $2,656,250 due on each December 31 of years 2005 to 2010. In February 2004, Kaupulehu Developments entered into an agreement with an independent buyer whereby Kaupulehu Developments transferred its leasehold interest in approximately 870 acres zoned for resort/residential development, in two increments, to the buyer. For the first increment, Kaupulehu Developments received an $11,550,000 cash closing payment and is also entitled to receive future payments from the buyer based on the following percentages of gross receipts from the developer s sales of single-family residential lots in the first increment: 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. For the second increment, Kaupulehu Developments agreed to use diligent efforts to

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negotiate, and attempt to document and enter into, prior to the date which is three (3) years following the closing of the sale of the first single-family lot in Increment I, an agreement with regards to the ownership and development of Increment II. The area in which Kaupulehu Developments interests are located has experienced strong demand for premium residential real estate in recent years, however there is no assurance that any future development rights or percentage payments will be received.

Barnwell also drills 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. Water well drilling and pump installation operating profits have increased in recent months, however management does not expect this trend to continue through the remainder of fiscal 2005 and in future periods, based on current contract backlog.

RESULTS OF OPERATIONS

Summary/General

For the three and nine months ended June 30, 2005, Barnwell reported net earnings of $874,000 and $4,224,000, respectively, as compared to net earnings of $1,190,000 and $7,840,000 for the same periods in the prior fiscal year.

*Net earnings for the three months ended June 30, 2005 decreased $*316,000, as compared to the same period in the prior year, due to an increase in stock appreciation rights expense, after income taxes, of $803,000 resulting from an increase in the market price of Barnwell s stock which was partially offset by higher oil and natural gas operating profit generated by increases in oil and natural gas prices. Net earnings also decreased as the prior year period included a deferred income tax benefit of $200,000 resulting from a reduction in the Province of Alberta s income tax rate in the three months ended June 30, 2004; there was no such item in the three months ended June 30, 2005.

Net earnings for the nine months ended June 30, 2005 decreased $3,616,000, as compared to the same period in the prior year, due to an increase in stock appreciation rights expense, after income taxes, of $1,712,000 in the current year period resulting from an increase in the market price of Barnwell s stock. In addition, earnings decreased as net earnings for the prior year period included 1) the sale of an interest in leasehold land in February 2004 which generated an operating profit, after minority interest, of approximately $5,200,000, and 2) a deferred income tax benefit of $1,740,000 resulting from the enactment of a reduction in Federal Canadian income tax rates and Alberta s income tax rate. The decrease was partially offset by an increase in operating profit generated by Barnwell s oil and natural gas and contract drilling segments.

The average exchange rate of the Canadian dollar to the U.S. dollar increased 9% in the three months ended June 30, 2005 as compared to the three months ended June 30, 2004, and 8% in the nine months ended June 30, 2005 as compared to the nine months ended June 30, 2004. The exchange rate of the Canadian dollar to the U.S. dollar at June 30, 2005 increased 3% as compared to September 30, 2004. This increase in the value of the Canadian dollar in U.S. dollars increased Barnwell s reported revenues and expenses and assets and liabilities.

Oil and Natural Gas

The following tables set forth Barnwell s net production and average price per unit of production for the three and nine months ended June 30, 2005, as compared to the three and nine months ended June 30, 2004. Production amounts reported are net of royalties and the Alberta Royalty Tax Credit.

SELECTED OPERATING STATISTICS

Average Prices

	Three months ended June 30, 2005	2004	Increase $	%
Natural Gas (MCF)*	**$ 5.78**	$ 4.95	$ 0.83	17%
Oil (Bbls)**	**$ 46.79**	$ 33.97	$ 12.82	38%
Liquids (Bbls)**	**$ 32.93**	$ 22.93	$ 10.00	44%

	Nine months ended June 30, 2005	2004	Increase $	%
Natural Gas (MCF)*	**$ 5.50**	$ 4.58	$ 0.92	20%
Oil (Bbls)**	**$ 44.20**	$ 31.01	$ 13.19	43%
Liquids (Bbls)**	**$ 30.39**	$ 22.73	$ 7.66	34%

Net Sales Volumes

	Three months ended June 30, 2005	2004	Increase (Decrease) Units	%
Natural Gas (MCF)*	**915,000**	891,000	24,000	3%
Oil (Bbls)**	**34,000**	39,000	(5,000)	(13)%
Liquids (Bbls)**	**27,000**	29,000	(2,000)	(7)%

	Nine months ended June 30, 2005	2004	Increase (Decrease) Units	%
Natural Gas (MCF)*	**2,732,000**	2,535,000	197,000	8%
Oil (Bbls)**	**107,000**	119,000	(12,000)	(10)%
Liquids (Bbls)**	**84,000**	79,000	5,000	6%

*MCF = 1,000 cubic feet

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

Oil and natural gas revenues increased $1,330,000 (21%) and $5,267,000 (31%) for the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year, due to increases in prices for all petroleum products and increases in natural gas production, partially offset by a decrease in net oil production. Natural gas production increased in both periods due to increases in natural gas production from the Dunvegan and Doris areas. Doris is a new area for Barnwell. Dunvegan *natural gas production increased 39,000 MCF and 190,000 MCF in the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year. Doris natural gas production increased 44,000 MCF and 162,000 MCF in the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year. Natural gas production declines at various other properties partially offset the increases from the Dunvegan and Doris areas. Natural gas and natural gas liquids production at Dunvegan was reduced by approximately 30,000 MCF and 3,000 barrels, respectively, in both the three and nine months ended June 30, 2005, as compared to the same periods in the prior year, due to plant maintenance. There was no such plant maintenance program in last year s comparable periods.*

Oil production declined in both periods due to natural declines at maturing properties, partially offset by an increase in production from two new areas.

Oil and natural gas operating expenses increased $425,000 (33%) and $441,000 (11%) for the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year, due to several reasons: i) the average exchange rate of the Canadian dollar to the U.S. dollar increased 9% and 8% in the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year, ii) the number of wells operated by Barnwell increased (with new wells, there are significant initial costs associated with achieving stabilized operations such as chemical costs, contract labor costs and workover costs), iii) gas gathering and processing charges increased due to increases in rates charged by processors of natural gas and as new natural gas has been brought on from recent drilling projects, iv) electricity rates and municipal taxes have increased, and v) inclement weather was a factor in higher operating expenses in the three months ended June 30, 2005, as Barnwell incurred road maintenance and trucking costs to ensure production was maintained during this period. The increase in oil and natural gas operating expenses for the nine months ended June 30, 2005 was partially offset by the receipt of an approximately $80,000 refund of operating expenses overcharged to Barnwell in 2002 and 2003 by the operator of the Dunvegan property, Barnwell s principal oil and natural gas property; there was no such refund in the prior year period.

Sale of Interest in Leasehold Land, Sale of Development Rights, and Minority Interest in Earnings

Revenues from the sale of an interest in leasehold land, net of associated costs, decreased $6,730,000 to $450,000 in the nine months ended June 30, 2005, as compared to $7,180,000 in the same period of the prior year, as Kaupulehu Developments, a Hawaii general partnership in which Barnwell owns a 77.6% controlling interest, received a $11,550,000 closing payment in February 2004 from the closing of a Purchase and Sale Agreement with WB KD Acquisition LLC. The sale was accounted for by use of the cost recovery method, under which no operating profit is recognized until cash received exceeds the cost and the estimated future costs related to the leasehold interest sold. The revenue from the $11,550,000 closing payment was reduced by $693,000 of fees related to the sale, approximately $402,000 in other costs related to the sale, and $3,475,000 of previously capitalized costs relating to the sale, resulting in net revenue from the closing payment of $6,980,000 for the nine months ended June 30, 2004; there was no such closing payment in the three months ended June 30, 2004 or the three and nine months ended June 30, 2005. Revenues from the sale of interest in leasehold land, net, also included $150,000 and $450,000 of interim payments for the three and nine months ended June 30, 2005, respectively, and $150,000 and $200,000 of interim payments for the three and nine months ended June 30, 2004, respectively, related to the Purchase and Sale Agreement with WB KD Acquisition LLC.

The development rights held by Kaupulehu Developments are for residentially zoned leasehold land within and adjacent to the Hualalai Golf Club and are under option to Kaupulehu Makai Venture, an unrelated entity that is an affiliate of Kajima Corporation of Japan. In December 2004 and 2003, Kaupulehu Makai Venture exercised the portion of its development rights option that was to expire at the end of those months. In both periods, revenue from the option exercise of $2,656,000 was reduced by $159,000 of fees related to the sale, resulting in net revenues of $2,497,000 and a $1,950,000 operating profit, after minority interest, on the transactions. All capitalized costs associated with Kaupulehu Developments development rights were expensed in previous years as Barnwell accounts for sales of development rights under option by use of the cost recovery method, therefore there were no other expenses related to the sale. The $2,497,000 of option revenues is recorded in the Condensed Consolidated Statements of Operations for the nine months ended June 30, 2005 and 2004 as Sale of development rights, net. The total amount of remaining future option receipts, if all options are fully exercised, is $15,937,500 as of the date of this filing, comprised of six payments of $2,656,250 due on each December 31 of years 2005 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.

Contract Drilling

*Contract drilling revenues and costs increased $*710,000 (76%) and $554,000 (70%), respectively, for the three months ended June 30, 2005, due to an increase in water well drilling activity as compared to the same period in the prior year. Operating profit before general and administrative expenses increased $147,000 from an operating profit of $117,000 in the three months ended June 30, 2004 to an operating profit of $264,000 for the three months ended June 30, 2005, due to the increased water well drilling activity in the current year period.

Contract drilling revenues and costs increased $4,057,000 (207%) and $2,546,000 (140%), respectively, for the nine months ended June 30, 2005, due to an increase in water well drilling activity as compared to the same period in the prior year. Operating profit before general and administrative expenses increased $1,504,000 for the nine months ended June 30, 2005, as compared to the same period in the prior year, due to the increased water well drilling activity and increased margins in the current year period. Management currently estimates that operating profit will be lower in future periods due to lower margins on contracts in backlog.

Gas Processing and Other

Gas processing and other income increased $97,000 (121%) for the three months ended June 30, 2005, as compared to the same period in the prior year, as gas processing and other income for the prior year period was negatively impacted by an approximately $70,000 settlement adjustment with a gas producer; there was no such item in the current year period. In addition, interest income increased $26,000 due to higher average cash balances in the current year period, as compared to the same period in the prior year.

Gas processing and other income decreased $357,000 (38%) for the nine months ended June 30, 2005, as compared to the same period in the prior year, as gas processing and other income in the prior year period included the sale of a parcel of vacant land formerly used as a storage and maintenance yard by Barnwell s contract drilling segment. The gain on the sale of the parcel totaled $139,000 for the nine months ended June 30, 2004; there was no such sale in the nine months ended June 30, 2005. In addition, Kaupulehu Developments received $250,000 in income related to negotiations on the development of Kaupulehu Developments resort/residential acreage in the nine months ended June 30, 2004; such negotiation revenues discontinued with the consummation of Kaupulehu Developments sale of an interest in leasehold land in February 2004, therefore there were no such revenues in the nine months ended June 30, 2005. The remainder of the decrease is due to a decrease in revenues from the processing of third party gas at Dunvegan, partially offset by the $70,000 increase discussed in the preceding paragraph.

General and Administrative Expenses

General and administrative expenses increased $1,555,000 (109%) and $2,397,000 (37%) for the three and nine months ended June 30, 2005, respectively. The increases were due to the impact of an increase in Barnwell s stock price on stock appreciation rights, which increased general and administrative expenses by $1,253,000 and $2,679,000 for the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year. In addition, professional fees increased $93,000 and $286,000 for the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year, due to higher legal and audit fees as a result of increased costs of regulatory compliance, and consulting services related to Barnwell s oil and natural gas leases. In addition, personnel costs increased $222,000 in the three months ended June 30, 2005, as compared to the same period in the prior year, due in part to the addition of new personnel. Partially offsetting the increase for the nine months ended June 30, 2005, as compared to the same period in the prior year, was a $514,000 decrease in bonuses as $733,000 of bonuses were issued in the nine months ended June 30, 2004 in conjunction with the consummation of Kaupulehu Developments sale of an interest in leasehold land in February 2004; there were no such bonuses in the three and nine months ended June 30, 2005.

General and administrative expenses include fees paid to Nearco, Inc., an entity controlled by Mr. Terry Johnston, a director of Barnwell and an indirect 21.8% owner of Kaupulehu Developments, for consulting services related to Kaupulehu Developments leasehold land. Fees paid to Nearco, Inc. totaled $69,000 and $217,000 in the three and nine months ended June 30, 2005, respectively, and $69,000 and $204,000 in the three and nine months ended June 30, 2004, respectively. Barnwell believes the fees are fair and reasonable compensation for such services.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization increased $396,000 (22%) for the three months ended June 30, 2005, as compared to the same period in the prior year, due to a 14% increase in the depletion rate and a 9% increase in the average exchange rate of the Canadian dollar to the U.S. dollar, partially offset by a 1% decrease in production (in MCF equivalents where one barrel of oil and natural gas liquids are converted to 5.8 MCF equivalents).

Depletion, depreciation and amortization increased $1,479,000 (30%) for the nine months ended June 30, 2005, as compared to the same period in the prior year, due to a 16% increase in the depletion rate, a 4% increase in production (in MCF equivalents where one barrel of oil and natural gas liquids are converted to 5.8 MCF equivalents) and an 8% increase in the average exchange rate of the Canadian dollar to the U.S. dollar.

The higher depletion rate is due to increases in Barnwell s costs of finding and developing proven reserves, and development costs that are incurred to decrease the rate of production declines or maintain or increase rates of production from reserves found in previous years. Barnwell s cost of finding and developing proven reserves has increased as a result of the cost of oil and natural gas exploration and development having increased along with product prices, the drilling of unsuccessful wells, and as a portion of recent oil and natural gas capital expenditures were for the development of existing reserves.

Interest Expense

Interest expense increased $55,000 (56%) and $54,000 (14%) for the three and nine months ended June 30, 2005, respectively, as compared to the same periods in the prior year. The increases were due to higher average interest rates and higher standby fees as compared to the same periods in the prior year. The increases were partially offset by a decrease in interest expense due to lower average outstanding loan balances.

The majority of Barnwell s debt is denominated in U.S. dollars. Therefore, the increase in the average exchange rate of the Canadian dollar to the U.S. dollar had a minimal impact on interest expense.

Income Taxes

In November 2003, Royal Assent was received on a bill passed by the Parliament of Canada, which was then enacted into law, to reduce Canada s corporate tax rate on resource income (income derived from oil and natural gas operations) over a four-year period beginning January 1, 2003 from 29% to 21% beginning January 1, 2007. Additionally, the bill phases in over the same four-year period tax deductions for royalties, which previously were not tax deductible, and phases out the Resource Allowance deduction along with other changes. Accordingly, during the nine months ended June 30, 2004, Barnwell s Canadian deferred income tax liabilities were reduced by approximately $1,440,000 due to the reduction in Canada s corporate tax rate. There was no benefit attributable to changes in Canada s corporate tax rate on resource income in the three months ended June 30, 2004 or three and nine months ended June 30, 2005.

Barnwell s Canadian deferred income tax liabilities were also reduced by approximately $200,000 and $300,000 in the three and nine months ended June 30, 2004, respectively, as a result of the Province of Alberta s reduction of the province s corporate tax rate from 13.0% to 12.5%, effective April 1, 2003 (enacted into law in December 2003), and from 12.5% to 11.5%, effective April 1, 2004 (enacted into law in May 2004). There were no such changes enacted into law in the three and nine months ended June 30, 2005.

Foreign Currency Fluctuations and Other Comprehensive Income

In addition to U.S. operations, Barnwell conducts operations in 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 average exchange rate of the Canadian dollar to the U.S. dollar increased 9% and 8% in the three and nine months ended June 30, 2005, 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 3% at June 30, 2005, as compared to September 30, 2004, and decreased 1% at June 30, 2005, as compared to March 31, 2005. Accordingly, the assets, liabilities, stockholders equity and revenues and expenses of Barnwell s subsidiaries operating in Canada have fluctuated in relationship to such changes in the exchange rate. Barnwell s Canadian dollar assets are greater than its Canadian dollar liabilities; therefore, increases in value of the Canadian dollar to the U.S. dollar generates other comprehensive income, and decreases in value of the Canadian dollar to the U.S. dollar generates an other comprehensive loss. Other comprehensive loss for the three months ended June 30, 2005 was $220,000, a $256,000 decrease in other comprehensive loss as compared to an other comprehensive loss of $476,000 for the same period of the prior year. Other comprehensive income for the nine months ended June 30, 2005 was $493,000, a $406,000 increase as compared to $87,000 in the same period of the prior year.

Foreign currency transaction gains and losses were not material in the three and nine months ended June 30, 2005 and 2004 and are reflected in general and administrative expenses.

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. dollars.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows provided by operations totaled $11,946,000 for the nine months ended June 30, 2005, an increase of $6,139,000 as compared to $5,807,000 of cash flows provided by operations for the same period in the prior year. The increase was due to higher operating cash flow generated by Barnwell s oil and natural gas and contract drilling segments and timing differences in receivables collections and payables disbursements.

Cash flows used by investing activities were $9,499,000 for the nine months ended June 30, 2005, as compared to cash provided by investing activities of $4,252,000 for the nine months ended June 30, 2004, a decrease in cash flows of $13,751,000. The decrease in cash flow is primarily due to Kaupulehu Developments receipt of a closing payment for the sale of an interest in leasehold land in February 2004 which generated approximately $10,500,000 of cash, net of associated costs, during the nine months ended June 30, 2004; there was no such closing payment received in the nine months ended June 30, 2005. In addition, in the nine months ended June 30, 2004, Barnwell fully collected a $1,311,000 note receivable, and received $440,000 of proceeds, net of associated costs, from the sale of land that was previously utilized as a contract drilling storage yard; there were no such proceeds in the nine months ended June 30, 2005. Capital expenditures increased from $8,669,000 in the nine months ended June 30, 2004 to $12,133,000 in the nine months ended June 30, 2005, an increase of $3,464,000. Barnwell also invested $1,900,000 in certificates of deposit at various financial institutions, partially offset by $1,587,000 of proceeds received on matured certificates of deposit, in the nine months ended June 30, 2005, as compared to investments in certificates of deposit of $1,982,000 in the same period of the prior year. In both periods Barnwell received $2,497,000, net of expenses, from the sale of development rights.

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During the three and nine months ended June 30, 2005, Barnwell invested $2,820,000 and $11,654,000, respectively, in oil and natural gas properties in Canada, as compared to $3,781,000 and $8,396,000 during the same respective periods in the prior year. During the three months ended June 30, 2005, Barnwell participated in the drilling of 9 gross wells (0.7 net wells) in Canada, all of which are currently being evaluated or appear to be successful. During the nine months ended June 30, 2005, Barnwell participated in the drilling of a total of 55 gross wells (8.7 net wells), of which 5 gross wells (1.4 net wells) were not successful and 50 gross wells (7.3 net wells) are currently being evaluated or appear to be successful. Of the 55 gross wells, 19 gross wells (5.7 net wells) were on prospects developed by Barnwell. Of the 19 gross wells on prospects developed by Barnwell, 5 gross wells (1.4 net wells) were not successful and 14 gross wells (4.3 net wells) are currently being evaluated or appear to be successful. 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.

Management estimates that oil and natural gas capital expenditures for fiscal 2005 will range from $14,000,000 to $15,500,000.

During the nine months ended June 30, 2005, Barnwell used $955,000 of cash flows for financing activities, a $6,116,000 decrease from $7,071,000 in the same period of the prior year. In the nine months ended June 30, 2005, Barnwell distributed $513,000 to minority interests resulting from Kaupulehu Developments property sales, a $2,120,000 decrease in minority interest distributions from $2,633,000 during the same period of the prior year, as distributions in the prior year included distributions on the aforementioned receipt of a closing payment for the sale of an interest in leasehold land in February 2004. Barnwell made no long-term debt repayments in the current year, as compared to $3,706,000 of long-term debt net repayments during the nine months ended June 30, 2004. Barnwell paid $639,000 in dividends during the nine months ended June 30, 2005, as compared to $923,000 in the prior year comparable period, and collected $197,000 in proceeds from employees exercise of stock options as compared to $191,000 in the prior year comparable period.

On December 3, 2004, Barnwell declared a cash dividend of $0.125 per share payable January 5, 2005, to stockholders of record on December 20, 2004.

Also on December 3, 2004, Barnwell declared a two-for-one stock split in the form of a stock dividend. The new shares were distributed on January 28, 2005 to all shareholders of record as of January 11, 2005.

On February 14, 2005, Barnwell declared a cash dividend of $0.05 per share payable March 15, 2005, to stockholders of record on March 1, 2005.

On May 11, 2005, Barnwell declared a cash dividend of $0.06 per share, payable June 15, 2005, to stockholders of record on June 1, 2005.

On August 11, 2005, Barnwell declared a cash dividend of $0.06 per share, payable September 15, 2005, to stockholders of record on September 1, 2005.

The Royal Bank of Canada has renewed Barnwell s credit facility through April 2006 at an unchanged $19,000,000 Canadian dollars, or approximately US$15,500,000 at June 30, 2005. All other terms of the credit facility remained unchanged upon renewal.

At June 30, 2005, Barnwell had $6,017,000 in cash and cash equivalents, $1,700,000 in certificates of deposit, and approximately $5,200,000 of available credit under its credit facility with the Royal Bank of Canada. Barnwell believes its current working capital, future cash flows from operations, land segment sales, and available credit will be sufficient to fund its estimated capital expenditures for at least the next twelve months and meet the repayment schedule on its long-term debt. However, if oil and natural gas production remains at or declines from current levels or oil and natural gas prices decline from current levels, current working capital balances and cash flows generated by operations may not be sufficient to fund Barnwell s current projected level of oil and natural gas capital expenditures, in which case Barnwell may fund capital expenditures with funds generated by land segment sales, long-term debt borrowings, or it may reduce future oil and natural gas capital expenditures.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibits

Exhibit No. 31.1 Rule 13a-14(a) Certification of Chief Financial Officer.

Exhibit No. 31.2 Rule 13a-14(a) Certification of Chief Executive Officer.

Exhibit No. 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BARNWELL INDUSTRIES, INC.
(Registrant)

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

Date: August 15, 2005