

Rating: Buy
S&P 500: 1497

Berry Petroleum Company **Piceance and Diatomite**

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	286
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	23
<i>Price (\$/sh)</i>	34.27	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/2/07	<i>Adjusted Reserves/Production NTM</i>	10.3
<i>Shares (mm)</i>	45	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (\$mm)</i>	1,530	<i>PV/Ebitda</i>	9.0
<i>Debt (\$mm)</i>	620	<i>Undeveloped Reserves (%)</i>	32
<i>Enterprise Value (EV) (\$mm)</i>	2,140	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	28.80
<i>Present Value (PV) (\$mm)</i>	2,580	<i>Present Value Proven Reserves(\$/boe)</i>	17.10
<i>Net Present Value (\$/share)</i>	44	<i>Present Value Proven Reserves(\$/mcf)</i>	2.90
<i>Debt/Present Value</i>	0.24	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.73
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	13
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.30

Note: Estimated cash flow and earnings tied to one-year futures prices for natural gas and oil.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

For historical research on Berry since 2004 see <http://www.mcdep.com/4bry.htm>

Summary and Recommendation

Volume growth for buy-recommended **Berry Petroleum (BRY)** was interrupted in the latest quarter reported on May 2 for reasons Chief Executive Bob Heinemann highlighted on the analyst call in February. With temporary curtailment of new light oil production in Utah now restored, management expects 6-10% volume growth for 2007 over 2006. Meanwhile the cash flow we project for the next twelve months supports about \$33 of \$44 a share of Net Present Value (NPV) (see table [Functional Cash Flow and Present Value](#)). The difference may be supported by unbooked reserves of an estimated 110 million barrels equivalent primarily oil in the diatomite formation in California and natural gas in the Piceance (we pronounce it *pee ahnce*) Basin in Colorado. Those two areas are Berry's major sources of most certain future growth. New production may be increasingly valuable as six-year price for both oil and natural gas are in a new uptrend (see chart [Six-Year Commodity Price Meter](#)). Small cap Berry has a half weighting in our illustrative energy portfolio concentrated on real assets that promise a high return providing clean fuel for global growth.

Kurt H. Wulff, CFA

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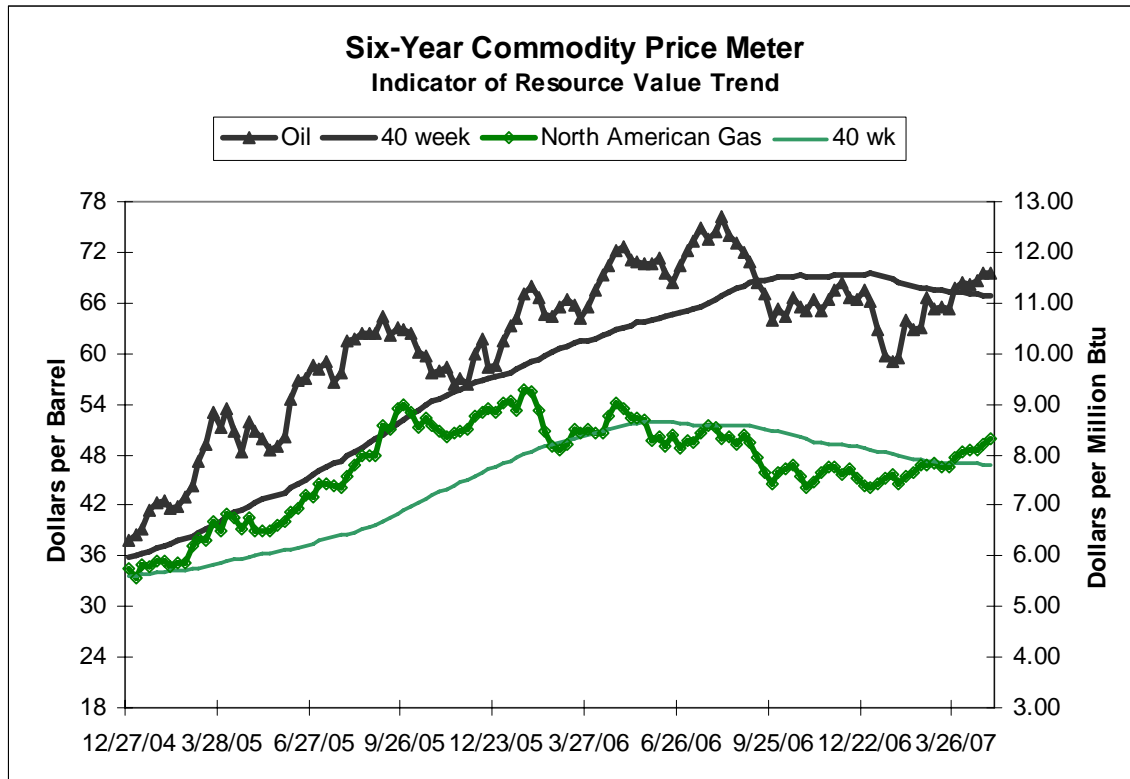
Berry Petroleum Company
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	70	11.3	8.6	600	23%
Oil	216	10.0	9.2	1,980	77%
	286	10.3	9.0	2,580	100%
Debt (US\$mm)					620
Net Present Value (US\$mm)					1,960
Shares (mm)					45
Net Present Value - Standard Estimate (US\$/sh)					44
Net Present Value - Approximation by Correlation (US\$/sh)					33

Quarterly Results

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>3/31/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>2007E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/08</i>
Volume									
Natural Gas (mmcf)	28.5	40.0	34.3	36.7	40.0	40.0	40.0	39.2	40.0
Oil (mbd)	18.71	20.43	19.74	19.4	20.50	20.50	20.50	20.22	20.50
Total (mb)	2,111	2,493	9,288	2,294	2,472	2,499	2,499	9,765	9,916
Total (mbd)	23.5	27.1	25.4	25.5	27.2	27.2	27.2	26.8	27.2
Price									
Henry Hub (\$/mmbtu)	8.97	6.57	7.23	6.81	7.66	8.11	8.98	7.89	8.66
Differential (\$/mmbtu)	2.10	1.72	1.80	1.72	0.37	0.39	0.44	0.35	0.42
Company (\$/mcf)	6.87	4.85	5.43	6.48	7.29	7.72	8.55	7.54	8.24
WTI Cushing (\$/bbl)	63.33	59.99	66.05	58.08	65.13	68.03	69.72	65.24	68.39
Differential	11.62	14.39	13.48	12.37	13.87	14.49	14.85	13.78	14.57
Company	51.71	45.60	52.57	45.71	51.26	53.54	54.87	51.46	53.82
Total (\$/bbl)	49.59	41.54	48.09	44.07	49.42	51.77	53.99	49.93	52.75
Revenue (\$mm)									
Natural Gas	18	18	68	21	27	28	31	108	120
Oil	87	86	379	80	96	101	103	380	403
Other, incl hedge	(3)	(2)	(16)	1				1	
Total	102	102	431	102	122	129	135	489	523
Expense									
Lease operating	29	37	133	37	46	49	51	183	197
General and administrative	8	11	36	10	10	10	10	40	40
Total	37	48	169	47	56	59	61	223	237
Ebitda	65	54	262	55	66	71	74	266	286
Exploration	7	1	12	1	1	1	2	4	6
Deprec., Deplet., & Amort.	14	21	71	20	20	20	20	78	78
Other, incl hedge	4	(3)	(4)	(1)	0	(0)	(1)	(1)	(3)
Ebit	40	35	184	35	46	51	53	185	204
Interest	2	4	11	4	4	4	4	17	17
Ebt	38	31	173	31	42	46	49	168	187
Income Tax	15	12	64	12	15	16	17	60	66
Net Income (\$mm)	23	19	108	19	27	30	32	108	122
Per Share (\$)	0.52	0.43	2.42	0.42	0.61	0.68	0.71	2.42	2.73
Shares (millions)	45	45	45	45	45	45	45	45	45
Lease operating (\$/bbl)	13.73	14.84	14.29	16.30	18.54	19.49	20.38	18.73	19.87
General and admin (\$/bbl)	3.79	4.41	3.91	4.36	4.05	4.00	4.00	4.10	4.03
Deprec., D,& A (\$/bbl)	6.63	8.42	7.62	8.50	7.89	7.80	7.80	7.99	7.87
Ebitda Margin	64%	53%	61%	54%	54%	55%	55%	54%	55%
Tax rate	39%	38%	37%	40%	35%	35%	35%	36%	35%

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