

Rating: Buy
S&P 500: 1325

Berry Petroleum Company

Debt for the Future

<i>Symbol</i>	BRY	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$m)</i>	308
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	15
<i>Price (\$/sh)</i>	72.47	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/9/06	<i>Adjusted Reserves/Production NTM</i>	10.5
<i>Shares (mm)</i>	23	<i>EV/Ebitda</i>	6.5
<i>Market Capitalization (\$mm)</i>	1,630	<i>PV/Ebitda</i>	5.9
<i>Debt (\$mm)</i>	360	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	1,990	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	36.00
<i>Present Value (PV) (\$mm)</i>	1,820	<i>Present Value Proven Reserves(\$/boe)</i>	14.40
<i>Net Present Value (\$/share)</i>	65	<i>Present Value Proven Reserves(\$/mcf)</i>	2.40
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.55
<i>McDep Ratio - EV/PV</i>	1.09	<i>Price/Earnings Next Twelve Months</i>	20
<i>Dividend Yield (%/year)</i>	0.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.62

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.

Summary and Recommendation

Berry Petroleum (BRY) stock continues buy-rated as a favorable trend for oil producers may allow time to prove the success of a transformation to natural gas and light oil production from a traditional concentration on heavy oil. As reported with first quarter results on May 9, debt doubled with an acquisition of properties in the Piceance Basin of Colorado at the end of February high on future potential, but low on currently proven reserves. As a result our correlation of adjusted reserve life and next twelve months cash flow now indicates net present value below, rather than above, our standard estimate of \$65 a share. Both estimates are tied to a long-term oil price of \$50 a barrel when the current quote for delivery over the next six years is \$72. At the same time the news is good on two important sources of additional oil reserves ---- the diatomite in California and Lake Canyon in Utah. Management appears increasingly confident that "oil in the kitty litter" may add perhaps 40% to proven oil reserves eventually (see *Stock Idea, Berry Petroleum*, May 5, 2005). Drilling is also confirming the formation at Brundage Canyon that yields some 14% of Berry's oil production extends west under Lake Canyon.

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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	50	9.9	6.0	300	16%
Oil	258	10.6	5.9	1,520	84%
	308	10.5	5.9	1,820	100%
Debt (US\$mm)					360
Net Present Value (US\$mm)					1,460
Shares (mm)					23
Net Present Value - Standard Estimate (US\$/sh)					65
Net Present Value - Approximation by Correlation (US\$/sh)					61

Berry Petroleum Company
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>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
Volume									
Natural Gas (mmcf)	17.3	25.2	21.6	28.5	28.5	28.5	28.5	28.5	28.5
Oil (mbd)	19.16	19.44	19.40	18.71	18.71	18.71	18.71	18.71	18.71
Total (mbd)	22.0	23.6	23.0	23.5	23.5	23.5	23.5	23.5	23.5
Price									
Henry Hub (\$/mmbtu)	6.27	13.00	8.65	8.97	7.06	7.24	9.33	8.15	8.74
Differential (\$/mmbtu)	0.79	3.44	1.22	2.10	1.65	1.70	2.19	1.91	2.06
Company (\$/mcf)	5.48	9.56	7.43	6.87	5.40	5.54	7.14	6.24	6.69
WTI Cushing (\$/bbl)	49.65	60.02	56.31	63.33	69.69	72.19	73.80	69.75	72.48
Differential	8.47	10.37	9.45	11.62	12.79	13.25	13.54	12.77	13.30
Company	41.51	49.65	46.86	51.71	56.91	58.95	60.26	56.98	59.18
Total (\$/bbl)	40.38	51.02	46.50	49.59	51.95	53.74	56.73	53.02	55.32
Revenue (\$mm)									
Natural Gas	9	22	59	18	14	15	19	65	70
Oil	72	89	332	87	97	101	104	389	404
Other, incl hedge	(5)	(14)	(41)	(3)				(3)	
Total	75	97	350	102	111	116	122	451	474
Expense									
Lease operating	23	33	111	29	31	32	34	126	131
General and administrative	5	5	21	8	9	9	9	34	34
Total	28	38	132	37	39	41	43	160	165
Ebitda	47	59	218	65	72	75	80	292	308
Exploration	3	2	9	7	7	7	7	28	28
Deprec., Deplet., & Amort.	9	12	41	14	15	15	15	59	60
Other, incl hedge	1	(0)	(1)	4	20	22	24	69	89
Ebit	34	45	169	40	30	31	34	135	131
Interest	1	2	6	2	2	2	2	8	8
Ebt	33	43	163	38	28	29	32	127	123
Income Tax	11	13	50	15	10	10	11	46	43
Net Income (\$mm)	22	30	112	23	18	19	21	81	80
Per Share (\$)	1.00	1.35	5.00	1.03	0.81	0.84	0.93	3.60	3.55
Shares (millions)	22	23	22	23	23	23	23	23	23
Lease operating (\$/bbl)	11.79	14.99	13.16	13.73	14.39	14.89	15.71	14.69	15.32
General and admin (\$/bbl)	2.42	2.48	2.55	3.79	4.00	4.00	4.00	3.95	4.00
Deprec., D, & A (\$/bbl)	4.69	5.61	4.84	6.63	7.00	7.00	7.00	6.91	7.00
Ebitda Margin	63%	61%	62%	64%	65%	65%	65%	65%	65%
Tax rate	33%	30%	31%	39%	35%	35%	35%	36%	35%

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