Rating: Buy
S&P 500: 1166

Berry Petroleum Company
Smart Oil Contract

Symbol	BRY	*Ebitda Next Twelve Months ending 9/30/05 ($mm)*	190
Rating	Buy	*North American Natural Gas/Ebitda (%)*	0
Price ($/sh)	40.50	*Natural Gas and Oil Production/Ebitda (%)*	100
Pricing Date	11/5/04	*Adjusted Reserves/Production NTM*	12.5
Shares (mm)	22	*EV/Ebitda*	5.1
Market Capitalization ($mm)	910	*PV/Ebitda*	5.4
Debt ($mm)	60	*Undeveloped Reserves (%)*	27
Enterprise Value (EV) ($mm)	970	*Natural Gas and Oil Ebitda ($/boe)*	25.00
Present Value (PV) ($mm)	1,020	*Present Value Proven Reserves($/boe)*	9.20
Net Present Value ($/share)	43	*Present Value Proven Reserves($/mcfe)*	1.50
Debt/Present Value	0.06	*Earnings Next Twelve Months (US$/sh)*	3.80
McDep Ratio - EV/PV	0.95	*Price/Earnings Next Twelve Months*	11
Dividend Yield (%/year)	1.2	*Indicated Annual Dividend (US$/sh)*	0.48

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

We continue to recommend current purchase of the common shares of small cap **Berry Petroleum (BRY)** for representation in growing volume and rising value of domestic oil production. Though most of Berry's oil output is heavy grade, which has gone up less in price than light grade, Berry's price is tied to light grade as a result of a smart contract in place until the end of next year. Couple that with a 2% volume gain in the third quarter compared to the second quarter and the company is generating record cash flow. Our estimate of net present value of $43 a share can be justified by a constant real oil price of $35 a barrel while the recent average futures price for the next six years is $41.

Berry Protected from Widening Light/Heavy Oil Price Differential

A favorable contract saved about $0.12 a share after tax, $3.8 million pre-tax on about 15,200 barrels a day in the third quarter. Berry explains in its Form 10-Q filed with the Securities and Exchange Commission:

"The average differential per barrel between Nymex WTI [West Texas Intermediate, the world benchmark for light, sweet crude oil] and the average posting for the Company's 13 degree heavy crude oil in California, which averaged $5.72 in 2003, has expanded to an average of $8.68 in the third quarter of 2004, and was $11.38 on September 30, 2004. The Company believes that this widening differential is due to the WTI price being well above $40 per barrel and a general increase in supply of heavier crude oil on a worldwide basis.

The Company has a sales contract in California under which it sells 97% of its California production with a price mechanism equating to WTI less approximately $6.00 per barrel. This contract expires December 31, 2005…"

Please see disclosures on the final page.

More Gains Appear to Lie Ahead

Commodity price drives further gains in cash flow in our model (see table Quarterly Results). Considering the favorable price prospects we leave out the 10% volume gain management aims to achieve in 2005. On the negative side we project $19 million of hedging losses for the next four quarters following $16 million sacrificed in the past three quarters.

Berry Petroleum Company
Quarterly Results

	Q1 3/31/04	*Q2 6/30/04*	*Q3 9/30/04*	*Q4E 12/31/04*	***Year 2004E***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	***Next Twelve Months 9/30/05***
Volume									
Oil (mbd)	19.40	20.32	20.83	20.83	**20.34**	20.83	20.83	20.83	**20.83**
Total (mb)	1,765	1,849	1,916	1,916	**7,445**	1,874	1,895	1,916	**7,601**
Total (mbd)	19.4	20.3	20.8	20.8	**20.3**	20.8	20.8	20.8	**20.8**
Price									
WTI Cushing ($/bbl)	35.23	38.34	43.89	50.86	**42.08**	48.60	47.37	46.02	**48.21**
Differential	6.97	7.51	8.29	9.61	**10.06**	9.61	8.95	8.69	**9.11**
Company	28.26	30.83	35.60	41.25	**32.02**	39.41	38.42	37.32	**39.10**
Revenue ($mm)									
Oil	50	57	68	79	**254**	74	73	72	**297**
Other, incl hedge	(5)	(4)	(7)		**(16)**				
Total	45	53	62	79	**238**	74	73	72	**297**
Expense									
Lease operating	18	19	22	23	**82**	22	23	23	**91**
General and administrative	3	4	4	4	**16**	4	4	4	**16**
Total	21	24	26	27	**98**	26	27	27	**107**
Ebitda	24	29	35	52	**140**	47	46	45	**190**
Exploration	-	-	-	-		1	1	1	**3**
Deprec., Deplet., & Amort.	7	9	8	10	**34**	9	9	10	**38**
Other, incl hedge	(0)	0	(0)	4	**4**	6	5	4	**19**
Ebit	17	21	27	38	**103**	31	31	30	**130**
Interest	1	1	1	1	**2**	1	1	1	**2**
Ebt	16	20	27	38	**101**	31	30	29	**128**
Income Tax	4	5	8	11	**29**	11	11	10	**43**
Net Income ($mm)	12	15	18	26	**72**	20	20	19	**85**
Per Share ($)	0.55	0.68	0.82	1.18	**3.23**	0.89	0.87	0.85	**3.80**
Shares (millions)	22	22	22	22	**22**	22	22	22	**22**
Lease operating ($/bbl)	10.20	10.39	11.54	12.00	**11.05**	12.00	12.00	12.00	**12.00**
General and admin ($/bbl)	1.87	2.38	2.21	2.09	**2.14**	2.13	2.11	2.09	**2.10**
Deprec., D,& A ($/bbl)	4.08	4.60	4.34	5.00	**4.51**	5.00	5.00	5.00	**5.00**
Ebitda Margin	53%	55%	57%	66%	**59%**	64%	63%	62%	**64%**
Tax rate	26%	24%	31%	30%	**28%**	35%	35%	35%	**34%**

Valuation Attractive

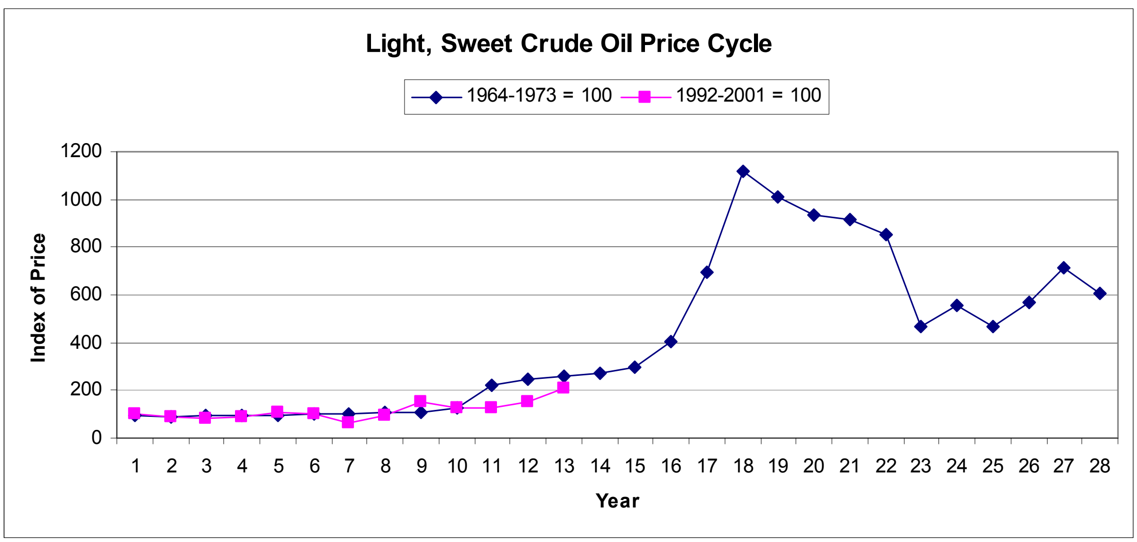
Priced at a low multiple of cash flow, EV/Ebitda, of about 5 times, Berry stock appears cheap considering its adjusted reserve life of 12.5 years. Investor's greatest concern may be the sustainability of the current level of oil price. Energy consumers and energy investors should, in our opinion, take recent oil price action as a sign of a long term change to higher price. Recent softening of oil price is welcome relief for the economy while we adjust to the price increases that have occurred and prepare for those that may occur in the future.

Oil Price Move Possibly Just Starting

To offset any inclination to underestimate further potential for oil and gas price, we compare the relatively stable price period from 1992 to 2001 to the period from 1964 to 1973. Each was a ten year period that immediately preceded a sharply lower stock market in 2002 and in 1974. After quiescence, oil price started moving up in each case. We may be in the early stages of a new historic move (see chart Light, Sweet Crude Oil Price Cycle).

Frankly, few investors would give much weight to the likelihood of continued oil price strength. Contrast that with the growing chorus for a weaker dollar. It may just be that oil price is not high, but the real value of the dollar is low. That, too, is a parallel to historical experience.

Let us imagine how the cycle might unfold. By the way we chose to draw the chart Year 13 corresponds to 1976 and 2004. Once the move got going in the previous cycle, the annual average oil price did not decline until Year 19 (1982). The annual peak of 1100, or 11 times the first ten year average, was too high to be sustained. It might be less disruptive economically if the peak ahead of us were lower and the decline shallower. The end point in Year 28 at 600 implies a tripling over the next 15 years. If higher oil price unfolded gradually it would give everyone time to adjust.



Kurt H. Wulff, CFA

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