

BARNWELL INDUSTRIES INC

Form 10-Q

August 10, 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 June 30, 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

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

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 August 7, 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)

	<b>June 30, 2012</b>	September 30, 2011
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 9,719,000	\$ 9,834,000
Accounts receivable, net of allowance for doubtful accounts of: \$43,000 at June 30, 2012; \$70,000 at September 30, 2011	3,768,000	5,760,000
Prepaid expenses	338,000	298,000
Real estate held for sale	5,208,000	12,640,000
Other current assets	653,000	998,000
Total current assets	<b>19,686,000</b>	29,530,000
Investments	4,623,000	4,623,000
Property and equipment	246,287,000	239,036,000
Accumulated depletion, depreciation, and amortization	(195,640,000)	(184,417,000)
Property and equipment, net	50,647,000	54,619,000
Total assets	\$ 74,956,000	\$ 88,772,000
<b><u>LIABILITIES AND EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 2,795,000	\$ 2,750,000
Accrued capital expenditures	529,000	2,492,000
Accrued compensation	1,481,000	2,397,000
Payable to joint interest owners	730,000	1,012,000
Income taxes payable	-	199,000
Current portion of long-term debt	5,360,000	12,314,000
Other current liabilities	2,913,000	2,925,000
Total current liabilities	<b>13,808,000</b>	24,089,000
Long-term debt	12,000,000	11,400,000
Liability for retirement benefits	4,844,000	5,167,000
Asset retirement obligation	4,993,000	4,921,000
Deferred income taxes	4,451,000	4,481,000
Total liabilities	<b>40,096,000</b>	50,058,000

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Equity:

Barnwell Industries, Inc. stockholders' equity:

Common stock, par value \$0.50 per share; authorized, 20,000,000 shares; 8,445,060 issued at June 30, 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>29,602,000</b>	34,231,000
Accumulated other comprehensive income, net	<b>1,215,000</b>	290,000
Treasury stock, at cost: 167,900 shares at June 30, 2012 and September 30, 2011	<b>(2,286,000)</b>	(2,286,000)
Total Barnwell Industries, Inc. stockholders' equity	<b>34,043,000</b>	37,747,000
Non-controlling interests	<b>817,000</b>	967,000
Total equity	<b>34,860,000</b>	38,714,000
Total liabilities and equity	<b>\$ 74,956,000</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 June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Revenues:				
Oil and natural gas	\$ 4,940,000	\$ 7,559,000	\$ 19,137,000	\$ 21,220,000
Contract drilling	1,212,000	490,000	1,918,000	2,871,000
Sale of interest in leasehold land, net	129,000	681,000	482,000	1,245,000
Sale of development rights, net	-	-	-	2,497,000
Residential real estate	5,975,000	-	5,975,000	-
Gas processing and other	102,000	259,000	514,000	1,756,000
	<b>12,358,000</b>	<b>8,989,000</b>	<b>28,026,000</b>	<b>29,589,000</b>
Costs and expenses:				
Oil and natural gas operating	2,442,000	2,965,000	7,975,000	8,445,000
Contract drilling operating	1,056,000	833,000	2,153,000	3,044,000
Residential real estate	5,990,000	-	5,990,000	-
General and administrative	1,877,000	1,201,000	6,090,000	7,334,000
Depletion, depreciation, and amortization	2,456,000	2,461,000	8,171,000	7,334,000
Reduction of carrying value of assets	-	-	1,854,000	311,000
Interest expense	200,000	242,000	638,000	862,000
	<b>14,021,000</b>	<b>7,702,000</b>	<b>32,871,000</b>	<b>27,330,000</b>
(Loss) earnings before income taxes	<b>(1,663,000)</b>	1,287,000	<b>(4,845,000)</b>	2,259,000
Income tax (benefit) provision	<b>(262,000)</b>	400,000	<b>225,000</b>	1,279,000
Net (loss) earnings	<b>(1,401,000)</b>	887,000	<b>(5,070,000)</b>	980,000
Less: Net (loss) earnings attributable to non-controlling interests	<b>(35,000)</b>	85,000	<b>(441,000)</b>	556,000
Net (loss) earnings attributable to Barnwell Industries, Inc.	<b>\$ (1,366,000)</b>	\$ 802,000	<b>\$ (4,629,000)</b>	\$ 424,000
Basic net (loss) earnings per common share attributable	<b>\$ (0.17)</b>	\$ 0.10	<b>\$ (0.56)</b>	\$ 0.05

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to Barnwell Industries, Inc.  
stockholders

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

\$	(0.17)	\$	0.10	\$	(0.56)	\$	0.05
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Weighted-average number  
of  
common shares outstanding:

Basic	8,277,160	8,277,160	8,277,160	8,277,160
Diluted	8,277,160	8,381,762	8,277,160	8,337,633

See Notes to Condensed Consolidated Financial Statements

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

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Net (loss) earnings	\$ (1,401,000)	\$ 887,000	\$ (5,070,000)	\$ 980,000
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of taxes of \$0	(713,000)	150,000	731,000	2,353,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0	65,000	63,000	194,000	190,000
Total other comprehensive (loss) income	(648,000)	213,000	925,000	2,543,000
Total comprehensive (loss) income	(2,049,000)	1,100,000	(4,145,000)	3,523,000
Less: Comprehensive (loss) income attributable to non-controlling interests	(35,000)	85,000	(441,000)	556,000
Comprehensive (loss) income attributable to Barnwell Industries, Inc.	\$ (2,014,000)	\$ 1,015,000	\$ (3,704,000)	\$ 2,967,000

See Notes to Condensed Consolidated Financial Statements



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

(Unaudited)

	Nine months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net (loss) earnings	\$ (5,070,000)	\$ 980,000
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depletion, depreciation, and amortization	8,171,000	7,334,000
Reduction of carrying value of assets	1,854,000	311,000
Retirement benefits expense	546,000	564,000
Accretion of asset retirement obligation	261,000	256,000
Foreign exchange gain	-	(119,000)
Share-based compensation payments	-	(130,000)
Gain on sale of drilling equipment	(40,000)	-
Deferred income tax (benefit) expense	(18,000)	552,000
Asset retirement obligation payments	(313,000)	(36,000)
Share-based compensation (benefit) expense	(192,000)	972,000
Retirement plan contributions	(674,000)	(254,000)
Sale of interest in leasehold land, net	(482,000)	(1,245,000)
Sale of development rights, net	-	(2,497,000)
Real estate held for sale	5,578,000	-
Increase from changes in current assets and liabilities	1,009,000	7,166,000
Net cash provided by operating activities	10,630,000	13,854,000
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	482,000	1,245,000
Proceeds from sale of drilling equipment, net	59,000	-
Proceeds from gas over bitumen royalty adjustments	48,000	72,000
Capital expenditures - oil and natural gas	(5,170,000)	(7,377,000)
Capital expenditures - all other	(103,000)	(2,075,000)
Net cash used in investing activities	(4,684,000)	(5,638,000)
Cash flows from financing activities:		
Repayments of long-term debt	(6,354,000)	(1,758,000)
Contributions from non-controlling interests	320,000	280,000
Payment of loan commitment fees	-	(63,000)
Distributions to non-controlling interests	(29,000)	(740,000)
Net cash used in financing activities	(6,063,000)	(2,281,000)
Effect of exchange rate changes on cash and cash equivalents	2,000	160,000
Net (decrease) increase in cash and cash equivalents	(115,000)	6,095,000
Cash and cash equivalents at beginning of period	9,834,000	10,674,000

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Cash and cash equivalents at end of period	\$	<b>9,719,000</b>	\$	16,769,000
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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 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
Contributions from non-controlling interests							40,000	40,000
Distributions to non-controlling interests							(138,000)	(138,000)
Net earnings				802,000			85,000	887,000
Foreign currency translation adjustments, net of taxes of \$0					150,000			150,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0					63,000			63,000
<b>Balance at June 30, 2011</b>	8,277,160	\$ 4,223,000	\$ 1,289,000	\$ 34,764,000	\$ 2,592,000	\$ (2,286,000)	\$ 1,089,000	\$ 41,671,000
<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
Contributions from non-controlling interests							80,000	80,000
Distributions to non-controlling interests							(29,000)	(29,000)
Net loss				(1,366,000)			(35,000)	(1,401,000)
Foreign currency translation adjustments, net of taxes of \$0					(713,000)			(713,000)
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 June 30, 2012</b>	8,277,160	\$ 4,223,000	\$ 1,289,000	\$ 29,602,000	\$ 1,215,000	\$ (2,286,000)	\$ 817,000	\$ 34,860,000

See Notes to Condensed Consolidated Financial Statements



Table of Contents**BARNWELL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY****Nine months ended June 30, 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 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							280,000	280,000
Distributions to non-controlling interests							(740,000)	(740,000)
Net earnings				424,000			556,000	980,000
Foreign currency translation adjustments, net of taxes of \$0					2,353,000			2,353,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0					190,000			190,000
<b>Balance at June 30, 2011</b>	8,277,160	\$ 4,223,000	\$ 1,289,000	\$ 34,764,000	\$ 2,592,000	\$ (2,286,000)	\$ 1,089,000	\$ 41,671,000
<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							320,000	320,000
Distributions to non-controlling interests							(29,000)	(29,000)
Net loss				(4,629,000)			(441,000)	(5,070,000)
Foreign currency translation adjustments, net of taxes of \$0					731,000			731,000
Retirement plans - amortization of accumulated other comprehensive loss into net periodic benefit cost, net of taxes of \$0					194,000			194,000
<b>Balance at June 30, 2012</b>	8,277,160	\$ 4,223,000	\$ 1,289,000	\$ 29,602,000	\$ 1,215,000	\$ (2,286,000)	\$ 817,000	\$ 34,860,000

See Notes to Condensed Consolidated Financial Statements

**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 June 30, 2012, results of operations, comprehensive (loss) income, and equity for the three and nine months ended June 30, 2012 and 2011, and cash flows for the nine months ended June 30, 2012 and 2011, have been made. The results of operations for the period ended June 30, 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.



### *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) EARNINGS PER COMMON SHARE**

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

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

	Three months ended June 30, 2012		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (1,366,000)	8,277,160	\$ (0.17)
Effect of dilutive securities - common stock options	-	-	
Diluted net loss per share	\$ (1,366,000)	8,277,160	\$ (0.17)

	Nine months ended June 30, 2012		
	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net loss per share	\$ (4,629,000)	8,277,160	\$ (0.56)
Effect of dilutive securities - common stock options	-	-	
Diluted net loss per share	\$ (4,629,000)	8,277,160	\$ (0.56)

	Three months ended June 30, 2011		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net earnings per share	\$ 802,000	8,277,160	\$ 0.10
Effect of dilutive securities - common stock options	-	104,602	
Diluted net earnings per share	\$ 802,000	8,381,762	\$ 0.10

	Nine months ended June 30, 2011		
	Net Earnings (Numerator)	Shares (Denominator)	Per-Share Amount
Basic net earnings per share	\$ 424,000	8,277,160	\$ 0.05
Effect of dilutive securities - common stock options	-	60,473	
Diluted net earnings per share	\$ 424,000	8,337,633	\$ 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) earnings 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 nine months ended June 30, 2012 and options to purchase 531,000 shares of common stock were excluded from the computation of diluted shares for the three and nine months ended June 30, 2011 as their inclusion would have been antidilutive.

3. **SHARE-BASED PAYMENTS**

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

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Share-based compensation (benefit) expense	\$ (124,000)	\$ (945,000)	\$ (192,000)	\$ 972,000
Income tax effect	\$ -	\$ -	\$ -	\$ -

