

BILL BARRETT CORPORATION

While there are many assessments of the future course of America's energy use, there seems to be a common theme: our appetite for cleaner, more efficient, domestically available fuels will only increase. With this in mind, it makes sense to acquire as much cleaner, domestically available fuel as economically and prudently possible, and that's exactly what Bill Barrett Corporation is doing. In fact, according to Bill Barrett, no single company added more to the 2008 increase in domestic natural gas production than it did. With approximately 20% of U.S. proven natural gas reserves, a depth of experience in unconventional drilling in the Rocky Mountain region and a unique track record of success, we believe Barrett provides a terrific growth opportunity for patient investors.

Created as a gas and oil exploration company in 2002, Barrett's roots go back to the early 1980s, when founder Bill Barrett formed a similar company called Barrett Resources. From 2002 to 2008, Barrett's resource base and production grew more than sixfold. That's a compound average growth rate of over 37%. In addition to its current proven reserves and producing properties, Barrett also has leases on 1.2 million acres of undeveloped land, and initial results at several new projects appear promising.

As impressive as this resource growth is, it means little to us if it doesn't translate into earnings and cash flow. Importantly, Barrett is much more than another "story stock" with abundant assets in the ground and few profits. First turning profitable in 2005, it posted record earnings of \$2.39 per share in 2008, despite the recession and volatile energy prices. It's a solid cash flow generator, and it favors using funds from operations, rather than large amounts of leverage, to finance expansion and increased production. Given its reinvestment opportunities, Barrett does not pay a dividend—instead, it plows all available funds back into the business. Compared to other capital-intensive firms, it remains conservatively financed, with debt and lease obligations accounting for about 40% of its total capital.

Many current Bill Barrett Corp. senior executives got their start at Barrett Resources, and they average over 26 years of experience in energy exploration and production. Bill Barrett's son Fred began his career in energy as a geologist in 1989 and has led the firm as Chairman and CEO since 2006. Given the company's early adoption of unconventional extraction methods associated with shale and tight sand drilling, Barrett's leadership team possesses real expertise with techniques that are especially useful in the Rocky Mountains. We like it when management teams invest directly in the business, and the Barrett family and other insiders own about 15% of the company's shares. These factors give us confidence that Barrett has the right team in place and a solid shareholder focus.

Despite clear advantages, the path to continued profit increases is never easy. Barrett's success has led other exploration and production firms—sometimes larger ones—into the Rocky Mountains, resulting in increased competition. And like all firms in the energy business, Barrett is exposed to the risks associated with volatile fuel prices, especially for Rocky Mountain natural gas. Weak prices obviously make operations less profitable, and they also make increased exploration and new lease opportunities less attractive, which increases risks for a regional firm. In addition to energy prices, environmental concerns could increase costs or even curtail operations in some areas. There are also the day-to-day operational risks associated with mechanical problems or exploratory failures that are a constant part of the business.

Still, we believe Bill Barrett Corporation is an excellent example of one type of investment opportunity that we favor: a well-run, profitable firm with a unique collection of assets that will likely increase in value over time. Combine such a company with a powerful economic trend—increasing demand for cleaner, more efficient energy—and the case for investment seems compelling at the right price.

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