HELMERICH & PAYNE INC
Form 10-K/A
February 11, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-4221

HELMERICH & PAYNE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**73-0679879**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

1437 S. BOULDER AVE., SUITE 1400, TULSA, OKLAHOMA 74119

(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code (918) 742-5531

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
Common Stock ($0.10 par value)	New York Stock Exchange
Common Stock Purchase Rights	New York Stock Exchange

Securities registered Pursuant to Section 12(g) of the Act: NONE

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

At March 31, 2004, the aggregate market value of the voting stock held by non-affiliates was $1,378,913,985.

Number of shares of common stock outstanding at December 3, 2004: 50,610,987.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the following documents have been incorporated by reference into this Form 10-K as indicated:

Documents	10-K Parts
(1) Annual Report to Stockholders for the fiscal year ended September 30, 2004	Parts I and II
(2) Proxy Statement for Annual Meeting of Stockholders to be held March 2, 2005	Part III

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SIGNATURES
Annual Report to Shareholders for Fiscal 2004
Consent of Independent Auditors
Certification of CEO Pursuant to Section 302
Certification of CFO Pursuant to Section 302
Certification of CEO and CFO Pursuant to Section 906

This Amendment No. 1 to the Annual Report of Helmerich & Payne, Inc. on Form 10-K for the fiscal year ended September 30, 2004 is being filed solely for the following purposes:

1. To restate the sentence on pages 3 and 4 of Item 1 of Part I, under the caption INTERNATIONAL DRILLING and sub-caption Venezuela , that reads Revenues generated from all Venezuelan drilling operations contributed approximately 37 percent of the Company s consolidated revenues during 2004, compared with 29 percent of consolidated revenues during fiscal 2003 and 34 percent of consolidated revenues during 2002. , as follows: Revenues generated from all Venezuelan drilling operations contributed approximately nine percent of the Company s consolidated revenues during 2004, compared with six percent of consolidated revenues during fiscal 2003 and nine percent of consolidated revenues during 2002.

2. To delete the bottom two rows and the footnote from the table with the caption INTEREST RATE RISK on page 37 of the Annual Report filed as Exhibit 13 to the Form 10-K, which table incorrectly reflected the existence of variable rate debt.

3. To amend the header in the table in Note 1 to the Consolidated Financial Statements, under the caption INVESTMENTS , which summarized certain financial information of Atwood Oceanics, Inc. The column headers have been restated as September 30, 2004, 2003 and 2002 in place of the previous incorrect header of September 30, 2003, 2002 and 2001.

4. In addition, also filed herewith are the following exhibits:

   13 The Company s Annual Report to Shareholders for fiscal 2004 (to reflect the amendments described above).

   23.1 Consent of Independent Auditors.

   31.1 Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

   31.2 Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

   32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The information contained in Helmerich & Payne, Inc. s Form 10-K for the fiscal year ended September 30, 2004 as originally filed with the Securities and Exchange Commission is not otherwise updated or amended by this Amendment No. 1 and this Amendment No. 1 does not reflect events occurring after the filing of the Company s original Form 10-K for fiscal 2004.

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

THIS REPORT INCLUDES FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE SECURITIES ACT OF 1933, AS AMENDED, AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDED IN THIS REPORT, INCLUDING, WITHOUT LIMITATION, STATEMENTS REGARDING THE REGISTRANT S FUTURE FINANCIAL POSITION, BUSINESS STRATEGY, BUDGETS, PROJECTED COSTS AND PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, ARE FORWARD-LOOKING STATEMENTS. IN ADDITION, FORWARD-LOOKING STATEMENTS GENERALLY CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS MAY , WILL , EXPECT , INTEND , ESTIMATE , ANTICIPATE , BELIEVE , OR CONTINUE OR THE NEGATIVE THEREOF OR SIMILAR TERMINOLOGY. ALTHOUGH THE REGISTRANT BELIEVES THAT THE EXPECTATIONS REFLECTED IN SUCH FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CAN GIVE NO ASSURANCE THAT SUCH EXPECTATIONS WILL PROVE TO BE CORRECT. IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE REGISTRANT S EXPECTATIONS ARE DISCLOSED IN THIS REPORT UNDER THE CAPTION RISK FACTORS BEGINNING ON PAGE 6, AS WELL AS IN MANAGEMENT S DISCUSSION & ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION ON PAGES 10 THROUGH 38 OF THE COMPANY S ANNUAL REPORT. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE REGISTRANT, OR PERSONS ACTING ON ITS BEHALF, ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY SUCH CAUTIONARY STATEMENTS. THE REGISTRANT ASSUMES NO DUTY TO UPDATE OR REVISE ITS FORWARD-LOOKING STATEMENTS BASED ON CHANGES IN INTERNAL ESTIMATES OR EXPECTATIONS OR OTHERWISE.

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PART I

ITEM 1. BUSINESS

Helmerich & Payne, Inc. (the Company), was incorporated under the laws of the State of Delaware on February 3, 1940, and is successor to a business originally organized in 1920. The Company is primarily engaged in contract drilling of oil and gas wells for others. The contract drilling business accounts for almost all of the Company s operating revenues. The Company is also engaged in the ownership, development, and operation of commercial real estate.

The Company is organized into two separate operating entities, contract drilling and real estate. Both businesses operate independently of the other through wholly owned subsidiaries. Operating decentralization is balanced by a centralized finance division, which handles all accounting, information technology, budgeting, insurance, cash management, and related activities.

The Company s contract drilling business is composed of three business segments: U.S. land drilling, U.S. offshore platform drilling and international drilling. The Company s U.S. land drilling is conducted primarily in Oklahoma, Texas, Wyoming, Colorado, and Louisiana, and offshore from platforms in the Gulf of Mexico and California. The Company also operated in eight international locations during fiscal 2004: Venezuela, Ecuador, Colombia, Argentina, Bolivia, Equatorial Guinea, Chad, and Hungary. In addition, the Company is providing drilling consulting services for one customer in Russia.

The Company s real estate investments are located in Tulsa, Oklahoma, where the Company maintains its executive offices.

Prior to October 1, 2002, the Company was engaged in the exploration, production and sale of crude oil and natural gas business (exploration and production business). During fiscal 2002, the Company transferred the assets and liabilities of its exploration and production business to its wholly owned subsidiary, Cimarex Energy Co. On September 30, 2002, the Company distributed the common stock of Cimarex Energy Co. to the Company s stockholders and completed a merger of Key Production Company, Inc. with a subsidiary of Cimarex Energy Co. As a result of this transaction, Cimarex Energy Co. became a separate publicly-traded company that owned and operated the exploration and production business. The Company does not own any common stock of Cimarex Energy Co.

During fiscal 2004, the Company incorporated in Vermont a wholly-owned captive insurance subsidiary. The Company believes that the use of this captive will reduce its insurance costs.

CONTRACT DRILLING

The Company believes that it is one of the major land and offshore platform drilling contractors in the western hemisphere. Operating principally in North and South America, the Company specializes in medium to deep drilling in major gas producing basins of the United States and in drilling for oil and gas in international locations. In the United States, the Company draws its customers primarily from the major oil companies and the larger independents. In South America, the Company s current customers include the Venezuelan state petroleum company and major international oil companies.

In fiscal 2004, the Company received approximately 56 percent of its consolidated revenues from the Company s ten largest contract drilling customers. BP plc, ExxonMobil Corporation, and Shell Oil Company (respectively, BP , ExxonMobil and Shell), including their affiliates, are the Company s three largest contract drilling customers. The Company performs drilling services for BP, ExxonMobil, and Shell on a world-wide basis. Revenues from drilling services performed for BP, ExxonMobil and Shell in fiscal 2004 accounted for approximately 10.8 percent, 10.7 percent and 8.4 percent, respectively, of the Company s consolidated revenues for the same period.

The Company provides drilling rigs, equipment, personnel, and camps on a contract basis. These services are provided so that the Company s customers may explore for and develop oil and gas from onshore areas and from fixed

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platforms, tension-leg platforms and spars in offshore areas. Each of the drilling rigs consists of engines, drawworks, a mast, pumps, blowout preventers, a drillstring, and related equipment. The intended well depth and the drilling site conditions are the principal factors that determine the size and type of rig most suitable for a particular drilling job. A land drilling rig may be moved from location to location without modification to the rig. A helicopter rig is one that can be disassembled into component part loads of approximately 4,000-20,000 pounds and transported to remote locations by helicopter, cargo plane, or other means. A platform rig is specifically designed to perform drilling operations upon a particular platform. While a platform rig may be moved from its original platform, significant expense is incurred to modify a platform rig for operation on each subsequent platform. In addition to traditional platform rigs, the Company operates self-moving minimum-space platform drilling rigs and drilling rigs to be used on tension-leg platforms and spars. The minimum-space rig is designed to be moved without the use of expensive derrick barges. The tension-leg platforms and spars allow drilling operations to be conducted in much deeper water than traditional fixed platforms.

During fiscal 1998, the Company put to work a new generation of six highly mobile/depth flexible land drilling rigs (individually the FlexRig®). The FlexRig has been able to significantly reduce average rig move times compared to similar depth-rated traditional land rigs. In addition, the FlexRig allows a greater depth flexibility of between 8,000 to 18,000 feet and provides greater operating efficiency. The original six rigs were designated as FlexRig1 rigs. Subsequently, the Company built and completed 12 new FlexRig2 rigs. During fiscal 2001, the Company announced that it would build an additional 25 new FlexRigs. These new rigs, known as FlexRig3, were the next generation of FlexRigs which incorporated new drilling technology and new environmental and safety design. This new design included integrated top drive, AC electric drive, hydraulic BOP handling system, hydraulic tubular make-up and break-out system, split crown and traveling blocks and an enlarged drill floor that enables simultaneous crew activities. All 25 of these FlexRig3s were completed by June of 2003. Subsequently, the Company constructed seven more FlexRig3s at an approximate cost of $11,250,000 each. Construction of these rigs was completed by March of 2004. All FlexRigs are available for work in the Company s U.S. and international drilling operations.

The Company s drilling contracts are obtained through competitive bidding or as a result of negotiations with customers, and sometimes cover multi-well and multi-year projects. Each drilling rig operates under a separate drilling contract. During fiscal 2004, all drilling services were performed on a daywork contract basis, under which the Company charges a fixed rate per day, with the price determined by the location, depth, and complexity of the well to be drilled, operating conditions, the duration of the contract, and the competitive forces of the market. The Company has previously performed contracts on a combination footage and daywork basis, under which the Company charged a fixed rate per foot of hole drilled to a stated depth, usually no deeper than 15,000 feet, and a fixed rate per day for the remainder of the hole. Contracts performed on a footage basis involve a greater element of risk to the contractor than do contracts performed on a daywork basis. Also, the Company has previously accepted turnkey contracts under which the Company charges a fixed sum to deliver a hole to a stated depth and agrees to furnish services such as testing, coring, and casing the hole which are not normally done on a footage basis. Turnkey contracts entail varying degrees of risk greater than the usual footage contract. The Company did not accept any footage or turnkey contracts during fiscal 2004. The Company believes that under current market conditions footage and turnkey contract rates do not adequately compensate contractors for the added risks. The duration of the Company s drilling contracts are well-to-well or for a fixed term. Well-to-well contracts are cancelable at the option of either party upon the completion of drilling at any one site. Fixed-term contracts customarily provide for termination at the election of the customer, with an early termination payment to be paid to the contractor if a contract is terminated prior to the expiration of the fixed term.

While the duration for current fixed-term contracts are for six month to three year periods, some fixed-term and well-to-well contracts are expected to be continued for longer periods than the original terms. However, the contracting parties have no legal obligation to extend the contracts. Contracts generally contain renewal or extension provisions exercisable at the option of the customer at prices mutually agreeable to the Company and the customer. In most instances contracts provide for additional payments for mobilization and demobilization.

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U.S. LAND DRILLING

At the end of September, 2004 and 2003, the Company had 87 and 83, respectively, of its land rigs available for work in the United States. The total number of rigs owned at the end of the period increased by a net of four rigs, resulting from five additional FlexRigs being completed during the year and removing from service one older conventional rig. The Company s U.S. land operations contributed approximately 56 percent of the Company s consolidated revenues during fiscal 2004, compared with 53 percent of consolidated revenues during fiscal 2003 and 42 percent of consolidated revenues during fiscal 2002. Rig utilization in fiscal 2004 was 87 percent, up from 81 percent in fiscal 2003. The Company s fleet of FlexRigs and highly mobile rigs maintained an average utilization of approximately 97 percent during fiscal 2004 while the Company s conventional rigs had an average utilization rate of approximately 67 percent. At the close of fiscal 2004, 80 land rigs were working out of 87 available rigs.

In November of 2004, the Company sold two conventional 2,000 horsepower U.S. land rigs for a total of $23.9 million.

U.S. OFFSHORE PLATFORM DRLLING

The Company s offshore platform operations contributed approximately 14 percent of the Company s consolidated revenues during fiscal 2004, compared with 22 percent of consolidated revenues during fiscal 2003 and 24 percent of consolidated revenues during fiscal 2002. Rig utilization in fiscal 2004 was 48 percent, down from 51 percent in fiscal 2003. At the end of this fiscal year, the Company had six of its 11 offshore platform rigs under contract and it continued to work under management contracts for three customer-owned rigs. Revenues from drilling services performed for the Company s largest offshore platform drilling customer totaled approximately 61 percent of U.S. offshore platform revenues during fiscal 2004.

It is likely during the first six months of calendar 2005 that one additional platform rig will be stacked and one management contract will be terminated.

As a result of declining financial trends and unfavorable market conditions in the Gulf of Mexico, the Company completed an analysis of its offshore platform business in the Gulf of Mexico. Based on this analysis, the Company recorded a pre-tax asset impairment charge of $51.5 million in the fourth quarter of 2004.

INTERNATIONAL DRILLING

General

The Company s international drilling operations began in 1958 with the acquisition of Sinclair Oil Company s drilling rigs in Venezuela. Helmerich & Payne de Venezuela, C.A., a wholly owned subsidiary of the Company, is one of the leading drilling contractors in Venezuela. Beginning in 1972, with the introduction of its first helicopter rig, the Company expanded into other Latin American countries.

The Company s international operations contributed approximately 24 percent of the Company s consolidated revenues during fiscal 2004, compared with 21 percent of consolidated revenues during fiscal 2003 and 27 percent of consolidated revenues during fiscal 2002. Rig utilization in fiscal 2004 was 54 percent, up from 39 percent in fiscal 2003.

Venezuela

Venezuelan operations continue to be a significant part of the Company s operations. During fiscal 2004, the Company moved two additional deep drilling rigs into the country, bringing the Company rig count to 13 land drilling rigs in Venezuela at the end of fiscal 2004. However, in early fiscal 2005, the Company moved a highly mobile rig to the United States, leaving the rig count at twelve. The Company worked primarily for the Venezuelan state petroleum company, PDVSA, during fiscal 2004, and revenues from this work accounted for approximately eight percent of the Company s consolidated revenues during the fiscal year and 33 percent of international drilling revenues. Revenues

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generated from all Venezuelan drilling operations contributed approximately nine percent of the Company s consolidated revenues during 2004, compared with six percent of consolidated revenues during fiscal 2003 and nine percent of consolidated revenues during 2002. The Company had nine rigs working in Venezuela at the end of fiscal 2004.

The Company s rig utilization rate in Venezuela has increased from approximately 33 percent during fiscal 2003 to approximately 65 percent in fiscal 2004. Even though the Company is, at this time, unable to predict future fluctuations in its utilization rates during fiscal 2005, the Company believes that the prospects are good for returning at least one of its idle rigs back to work in Venezuela during fiscal 2005.

Ecuador

At the end of fiscal 2004, the Company owned eight rigs in Ecuador. The Company s utilization rate was approximately 74 percent during fiscal 2004, down from approximately 85 percent in fiscal 2003. Revenues generated by Ecuadorian drilling operations contributed approximately seven percent of the Company s consolidated revenues during fiscal 2004, as compared with 10 percent of consolidated revenues during fiscal 2003 and nine percent of consolidated revenues during fiscal 2002. Revenues from drilling services performed for the Company s largest customer in Ecuador totaled approximately 15 percent of international drilling revenues during fiscal 2004. The Ecuadorian drilling contracts are primarily with large international oil companies.

Colombia

During fiscal 2004, the Company moved one rig from Colombia to Venezuela, leaving two rigs in Colombia. The Company s utilization rate in Colombia was approximately 13 percent during fiscal 2004, down from approximately 21 percent in fiscal 2003. The revenues generated by Colombian drilling operations contributed approximately one percent of the Company s consolidated revenues in fiscal 2004, as compared with one percent of consolidated revenues during fiscal 2003 and two percent of consolidated revenues during fiscal 2002. At the end of fiscal 2004, the Company was operating one rig in Colombia, with a commitment for the second rig to begin work in early fiscal 2005.

Other Locations

In addition to its operations in Venezuela, Ecuador and Colombia, in fiscal 2004, the Company owned six rigs in Bolivia, one rig in Argentina, one rig in Hungary and one rig in Chad. At the end of fiscal 2004, two rigs were working in Bolivia, one in Argentina and one in Hungary. As of the end of November, 2004, one rig was working in Bolivia.

At the end of fiscal 2004 one rig was moved from Chad to the United States. During November of 2004, three rigs were moved from Bolivia to the United States.

During fiscal 2004, the Company continued operations under a management contract for a customer-owned platform rig located offshore Equatorial Guinea. Also, during the fiscal year, the Company commenced a drilling consulting services contract in Russia.

REAL ESTATE OPERATIONS

The Company s real estate operations are conducted exclusively within the metropolitan area of Tulsa, Oklahoma. Its major holding is Utica Square Shopping Center, consisting of 15 separate buildings, with parking and other common facilities covering an area of approximately 30 acres. Utica Square contains approximately 441,588 usable square feet, composed of retail space of 379,018 usable square feet, office space of 38,785 usable square feet, storage space of 6,600 usable square feet and common area space of 17,185 usable square feet. The Company s real estate operations occupy approximately 4,140 square feet of general office and storage space within the shopping center. Occupancy in the shopping center increased from 85 percent in fiscal 2003 to 91 percent in fiscal 2004 with the additions of an upscale salon and day spa, and a clothing store for teens and young adults.

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At the end of the 2004 fiscal year, the Company owned 11 of a total of 73 units in The Yorktown, a 16-story luxury residential condominium with approximately 150,940 square feet of living area located on a six-acre tract adjacent to Utica Square Shopping Center. Six of the Company s units are currently leased.

The Company owns and leases to third parties multi-tenant warehouse space. Three warehouses known as Space Center, each containing approximately 165,000 square feet of net leasable space, are situated in the southeast part of Tulsa at the intersection of two major limited-access highways. Present occupancy is 82 percent, which is down from 98 percent in fiscal 2003. Reduced occupancy is the result of the relocation of one tenant s research facility to a university. The Company also owns approximately 1.5 acres of undeveloped land lying adjacent to such warehouses.

In August of 2004, the Company sold approximately 1.73 acres of undeveloped land in Southpark. The sales price totaled approximately $1 million. Southpark is located in a high growth area of southeast Tulsa and is suitable for mixed commercial and light industrial. Subsequent to such sale and at the end of fiscal 2004, the Company owned approximately 218 acres in Southpark consisting of approximately 205 acres of undeveloped real estate and approximately 13 acres of multi-tenant warehouse area. The warehouse area is known as Space Center East and consists of two warehouses, one containing approximately 90,000 square feet and the other containing approximately 112,500 square feet. Present occupancy decreased to 82 percent in 2004 from 93% in fiscal 2003 due to the loss of one tenant and a reduction of space by another. The Company believes that a high quality office park, with peripheral commercial, office/warehouse, and hotel sites, is the best development use for the remaining land. The Company has contracted with a professional engineering and planning firm to prepare a comprehensive master plan to aid in the possible future development of Southpark.

The Company owns a five-building complex called Tandem Business Park. The property is located adjacent to and east of the Space Center East facility and contains approximately six acres, with approximately 88,084 square feet of office/warehouse space. Occupancy has decreased from 84 percent to 69 percent during fiscal 2004 due to the departure of five small tenants. The Company also owns a 12-building complex, consisting of approximately 204,600 square feet of office/warehouse space, called Tulsa Business Park. The property is located south and east of the Space Center facility, separated by a city street, and contains approximately 12 acres. During fiscal 2004, occupancy has decreased from 86 percent to 81 percent.

The Company owns two service center properties located adjacent to arterial streets in south central Tulsa. The first, called Maxim Center, consists of one office/warehouse building containing approximately 40,800 square feet and is located on approximately 2.5 acres. During fiscal 2004, occupancy has remained at 94%. The second, called Maxim Place, consists of one office/warehouse building containing approximately 33,750 square feet and is located on approximately 2.25 acres. During fiscal 2004, occupancy has increased from 17 percent to 44 percent with the addition of two tenants. In addition, the Company has established an offsite disaster recovery center at this facility which occupies approximately 3,517 square feet.

The Company, during fiscal 2004, completed relocation within Tulsa of its executive offices. The razing of its former headquarters building will be completed in the first quarter of fiscal 2005. No development plans for the site are pending.

FINANCIAL

Information relating to revenues, total assets and operating profit or loss by business segments may be found on pages 64 through 66 of the Company s Annual Report.

EMPLOYEES

The Company had 3,056 employees within the United States (six of which were part-time employees) and 1,195 employees in international operations as of September 30, 2004.

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AVAILABLE INFORMATION

Information relating to the Company s internet address and the Company s SEC filings may be found on page 68 of the Company s Annual Report.

RISK FACTORS

In addition to the risk factors discussed elsewhere in this report, the Company cautions that the following Risk Factors could affect its actual results in the future.

1. Competition

Competition in the Contract Drilling Business

The contract drilling business is highly competitive. Competition in contract drilling involves such factors as price, rig availability, efficiency, condition of equipment, reputation, operating safety, and customer relations. Competition is primarily on a regional basis and may vary significantly by region at any particular time. Land drilling rigs can be readily moved from one region to another in response to changes in levels of activity, and an oversupply of rigs in any region may result, leading to increased price competition.

Although many contracts for drilling services are awarded based solely on price, the Company has been successful in establishing long-term relationships with certain customers which have allowed the Company to secure drilling work even though the Company may not have been the lowest bidder for such work. The Company has continued to attempt to differentiate its services based upon its engineering design expertise, operational efficiency, and safety and environmental awareness. This strategy is less effective when lower demand for drilling services intensifies price competition and makes it more difficult or impossible to compete on any basis other than price. Also, future improvements in operational efficiency and safety by the Company s competitors could negatively affect the Company s ability to differentiate its services.

Competition in the Real Estate Business

The Company has numerous competitors in the multi-tenant leasing business. The size and financial capacity of these competitors range from one property sole proprietors to large international corporations. The primary competitive factors include price, location, and configuration of space. The Company s competitive position is enhanced by the location of its properties, its financial capability and the long-term ownership of its properties. However, many competitors have financial resources greater than the Company and have more contemporary facilities. Also, current economic conditions have encouraged prospective tenants to construct owner-occupied buildings rather than lease third party space.

2. Operating Risks

The drilling operations of the Company are subject to the many hazards inherent in the business, including inclement weather, blowouts and well fires. These hazards could cause personal injury, suspend drilling operations, seriously damage or destroy the equipment involved, and cause substantial damage to producing formations and the surrounding areas. The Company s offshore platform drilling operations are also subject to potentially greater environmental liability, adverse sea conditions and platform damage or destruction due to collision with aircraft or marine vessels.

3. Indemnification and Insurance Coverage

The Company has insurance coverage for comprehensive general liability, public liability, property damage, workers compensation, and employer s liability. Generally, deductibles are $2 million per occurrence on claims that fall under these coverages, except that property damage deductibles on rig properties are generally $1 million per occurrence. Excess insurance is purchased over these coverages to limit the Company s exposure to catastrophic claims. No insurance is carried against loss of earnings or business interruption. The Company is unable to obtain significant amounts of insurance to cover risks of underground reservoir damage, however, the Company is generally indemnified under its drilling contracts from this risk. The majority of the Company s insurance coverage has been purchased through fiscal 2005. No assurance can be given that all or a portion of the Company s coverage will not be cancelled during fiscal 2005 or that insurance coverage will continue to be available at rates considered reasonable. Additionally, no assurance can be given that the Company s insurance and indemnification arrangements will adequately protect it against all liabilities that could result from the hazards of its drilling operations. Incurring a liability for which the Company is not fully insured or indemnified could materially affect the Company s results of operations.

4. Volatility of Oil and Gas Prices

The Company s operations can be materially affected by low oil and gas prices. The Company believes that any significant reduction in oil and gas prices could depress the level of exploration and production activity and result in a corresponding decline in demand for the Company s services. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for, and the supply of, oil and gas. Fluctuations during the last few years in the demand and supply of oil and gas have contributed to, and are likely to continue to contribute to, price volatility. Any prolonged reduction in demand for the Company s services could have a material and adverse effect on the Company.

5. International Uncertainties and Local Laws

International operations are subject to certain political, economic, and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of equipment as well as expropriation of a particular oil company operator s property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations, and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations, and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of the Company s operations or on the ability of the Company to continue operations in certain areas.

Because of the impact of local laws, the Company s future operations in certain areas may be conducted through entities in which local citizens own interests and through entities (including joint ventures) in which the Company holds only a minority interest, or pursuant to arrangements under which the Company conducts operations under contract to local entities. While the Company believes that neither operating through such entities nor pursuant to such arrangements would have a material adverse effect on the Company s operations or revenues, there can be no assurance that the Company will in all cases be able to structure or restructure its operations to conform to local law (or the administration thereof) on terms acceptable to the Company.

Although the Company attempts to minimize the potential impact of such risks by operating in more than one geographical area, during fiscal 2004, approximately 24 percent of the Company s consolidated revenues were generated from the international contract drilling business. Approximately 78 percent of the international revenues were from operations in South America and approximately 85 percent of South American revenues were from Venezuela and Ecuador.

6. Currency Risk

General

Contracts for work in foreign countries generally provide for payment in United States dollars, except for amounts required to meet local expenses. However, government owned petroleum companies are more frequently requesting that a greater proportion of these payments be made in local currencies. Based upon current information, the Company believes that exposure to potential losses from currency devaluation is minimal in Colombia, Ecuador, Bolivia, and Equatorial Guinea. In those countries, all receivables and payments are currently in U.S. dollars. Cash balances are kept at a minimum which assists in reducing exposure.

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Argentina

In 2002, Argentina suffered a 60% devaluation of the peso. As a consequence, the Company secured agreements with customers that limited the portion of the accounts receivable that was paid in pesos with the balance of such accounts receivable paid in U.S. dollars. The Company did not experience Argentine currency losses in fiscal 2004.

Venezuela

The Company is exposed to risks of currency devaluation in Venezuela primarily as a result of bolivar receivable balances and bolivar cash balances. In Venezuela, approximately 60% of the Company s invoice billings are in U.S. dollars and 40% are in the local currency, the bolivar. The significance of this arrangement is that even though the dollar-based invoices may be paid in bolivars, the Company, historically, has usually been able to convert the bolivars into U.S. dollars in a timely manner and thus avoid, in large measure, devaluation losses pertaining to the dollar-based invoices. However, this arrangement is effective only in the absence of exchange controls. In January 2003, the Venezuelan government put into effect exchange controls that fixed the exchange rate and also prohibited the Company, as well as other companies, from converting the bolivar into U.S. dollars through the Central Bank.

As part of the exchange controls regulation, the Venezuelan government provided a mechanism by which companies could request conversion of bolivars into U.S. dollars. In compliance with such regulations, the Company in October of 2003, submitted a request to the Venezuelan government seeking permission to dividend earnings, which would convert 14 billion bolivars into U.S. dollars. In January 2004, the Venezuelan government approved the Company s request to convert bolivar cash balances to U.S. dollars and allowed the remittance of $8.8 million U.S. dollars as dividends to the U.S. based parent. As a consequence, the Company s exposure to currency devaluation was reduced by this amount.

As stated above, the Company is exposed to risks of currency devaluation in Venezuela primarily as a result of bolivar receivable balances and bolivar cash balances. As a result of the 20 percent devaluation of the bolivar during fiscal 2004, the Company experienced total devaluation losses of $1.9 million during that same period.

These devaluation losses may not be reflective of the actual potential for future devaluation losses because of the exchange controls that are currently in place. There have been recent press reports of a potential devaluation in calendar 2005. However, the amount and exact timing of such devaluation is uncertain. While the Company is unable to predict future devaluation in Venezuela, if fiscal 2005 activity levels are similar to fiscal 2004 and if a ten percent to twenty percent devaluation were to occur, the Company could experience potential currency devaluation losses ranging from approximately $1.2 million to $2.3 million.

In late August 2003, the Venezuelan state petroleum company agreed, on a prospective basis, to pay a portion of the Company s dollar-based invoices in U.S. dollars. While this is a positive development in light of the existing exchange controls, there is no guarantee as to how long this arrangement will continue. Were this agreement to end, the Company would again receive these payments in bolivars and thus increase bolivar cash balances and exposure to devaluation.

7. Governmental Instability in Venezuela

Governmental instability continues to exist in Venezuela. In the event that extended labor strikes occur or turmoil increases, the Company could experience shortages in material and supplies necessary to operate some or all of its Venezuelan drilling rigs.

During the mid-1970s, the Venezuelan government nationalized the exploration and production business. At the present time it appears the Venezuelan government will not nationalize the contract drilling business. Any such nationalization could result in the Company s loss of all or a portion of its assets and business in Venezuela.

8. Government Regulation and Environmental Risks

Many aspects of the Company s operations are subject to government regulation, including those relating to drilling practices and methods and the level of taxation. In addition, the United States and various other countries have environmental

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regulations which affect drilling operations. Drilling contractors may be liable for damages resulting from pollution. Under United States regulations, drilling contractors must establish financial responsibility to cover potential liability for pollution of offshore waters. Generally, the Company is indemnified under drilling contracts from liability arising from pollution, except in certain cases of surface pollution. However, the enforceability of indemnification provisions in foreign countries may be questionable.

The Company believes that it is in substantial compliance with all legislation and regulations affecting its operations in the drilling of oil and gas wells and in controlling the discharge of wastes. To date, compliance has not materially affected the capital expenditures, earnings, or competitive position of the Company, although these measures may add to the costs of drilling operations. Additional legislation or regulation may reasonably be anticipated, and the effect thereof on operations cannot be predicted.

9. Interest Rate Risk

In 2002, the Company entered into a $200 million intermediate-term unsecured debt obligation with staged maturities from five to 12 years with varying fixed interest rates for each maturity series. There was $200 million outstanding at September 30, 2004, of which $25 million is due in 2007 and the remaining $175 million is due 2009 through 2014. The average interest rate during the next four years on this debt is 6.3%, after which it increases to 6.4%. The fair value of this debt at September 30, 2004 was approximately $216.4 million.

At September 30, 2004, the Company had in place a committed unsecured line of credit totaling $50 million with no outstanding borrowings. The Company, as of September 30, 2004, had letters of credit totaling $13 million outstanding against such line of credit. The Company s line of credit interest rate is based on LIBOR plus 87 to 112.5 basis points or prime minus 1.75 to 1.50 basis points based on the Company s EBITDA to net debt ratio. As the Company draws on this line of credit, it is subject to the interest rates prevailing during the term at which the Company had outstanding borrowings. Although market interest rates were at historical lows during fiscal year 2004, interest rates could rise for various reasons in the future and increase the Company s total interest expense, depending upon the amount borrowed against the credit line.

10. Equity Price Risk

At September 30, 2004, the Company owned stocks in other publicly held companies with a total market value of $240.7 million. These securities are subject to a wide variety of market-related risks that could substantially reduce or increase the market value of the Company s holdings. Except for the Company s holdings in Atwood Oceanics, Inc., the portfolio is recorded at fair value on its balance sheet with changes in unrealized after-tax value reflected in the equity section of its balance sheet. Any reduction in market value would have an impact on the Company s debt ratio and financial strength. In October 2004, the Company sold 1,000,000 shares of its position in Atwood Oceanics, Inc. as part of a 2,175,000 share public offering by Atwood. The sale generated approximately $16.5 million ($0.32 per diluted share) of net income for the first quarter of fiscal 2005. The Company owns 2,000,000 shares of Atwood after the sale.

11. Reliance on Small Number of Customers

In fiscal 2004, the Company received approximately 56 percent of its consolidated revenues from the Company s ten largest contract drilling customers and approximately 30 percent of its consolidated revenues from the Company s three largest customers (including their affiliates). The Company believes that its relationship with all of these customers is good; however, the loss of one or more of its larger customers would have a material adverse effect on the Company s results of operations.

12. Key Personnel

The Company utilizes highly skilled personnel in operating and supporting its businesses. In times of high utilization, it can be difficult to find qualified individuals. Although to date the Company s operations have not been materially affected by competition for personnel, an inability to obtain a sufficient number of qualified personnel could materially impact the Company s results of operations.

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13. Changes in Technologies

Although the Company takes measures to ensure that it uses advanced oil and natural gas drilling technology, changes in technology or improvements in competitors equipment could make the Company s equipment less competitive or require significant capital investments to keep its equipment competitive.

14. Concentration of Credit

The concentration of the Company s customers in the energy industry could cause them to be similarly affected by changes in industry conditions and, as a result, could impact the Company s exposure to credit risk. The Company cannot offer assurances that losses due to uncollectible receivables will be consistent with expectation.

ITEM 2. PROPERTIES

CONTRACT DRILLING

The following table sets forth certain information concerning the Company s U.S. drilling rigs as of September 30, 2004:

Location	Rig	Optimum Depth	Rig Type	Drawworks: Horsepower
FLEXRIGS				
Texas	164	18,000	SCR (FlexRig1)	1,500
Texas	165	18,000	SCR (FlexRig1)	1,500
Texas	166	18,000	SCR (FlexRig1)	1,500
Texas	169	18,000	SCR (FlexRig1)	1,500
Texas	178	18,000	SCR (FlexRig2)	1,500
Wyoming	179	18,000	SCR (FlexRig2)	1,500
Wyoming	180	18,000	SCR (FlexRig2)	1,500
Texas	181	18,000	SCR (FlexRig2)	1,500
Texas	182	18,000	SCR (FlexRig2)	1,500
Texas	183	18,000	SCR (FlexRig2)	1,500
Texas	184	18,000	SCR (FlexRig2)	1,500
Texas	185	18,000	SCR (FlexRig2)	1,500
Texas	186	18,000		1,500

			SCR (FlexRig2)	
Texas	187	18,000	SCR (FlexRig2)	1,500
Texas	188	18,000	SCR (FlexRig2)	1,500
Oklahoma	189	18,000	SCR (FlexRig2)	1,500
Texas	210	18,000	AC (FlexRig3)	1,500
Texas	211	18,000	AC (FlexRig3)	1,500
Texas	212	18,000	AC (FlexRig3)	1,500
Texas	213	18,000	AC (FlexRig3)	1,500
Texas	214	18,000	AC (FlexRig3)	1,500
Colorado	215	18,000	AC (FlexRig3)	1,500
Texas	216	18,000	AC (FlexRig3)	1,500
Texas	217	18,000	AC (FlexRig3)	1,500
Oklahoma	218	18,000	AC (FlexRig3)	1,500
Texas	219	18,000	AC (FlexRig3)	1,500
Texas	220	18,000	AC (FlexRig3)	1,500
Louisiana	221	18,000	AC (FlexRig3)	1,500
Oklahoma	222	18,000	AC (FlexRig3)	1,500

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Location	Rig	Optimum Depth	Rig Type	Drawworks: Horsepower
Texas	223	18,000	AC (FlexRig3)	1,500
Texas	224	18,000	AC (FlexRig3)	1,500
Oklahoma	225	18,000	AC (FlexRig3)	1,500
Texas	226	18,000	AC (FlexRig3)	1,500
Texas	227	18,000	AC (FlexRig3)	1,500
Texas	228	18,000	AC (FlexRig3)	1,500
Texas	229	18,000	AC (FlexRig3)	1,500
Texas	230	18,000	AC (FlexRig3)	1,500
Texas	231	18,000	AC (FlexRig3)	1,500
Texas	232	18,000	AC (FlexRig3)	1,500
Texas	233	18,000	AC (FlexRig3)	1,500
Texas	234	18,000	AC (FlexRig3)	1,500
Texas	235	18,000	AC (FlexRig3)	1,500
Texas	236	18,000	AC (FlexRig3)	1,500
Texas	237	18,000	AC (FlexRig3)	1,500
Texas	238	18,000	AC (FlexRig3)	1,500
Colorado	239	18,000	AC (FlexRig3)	1,500
Texas	240	18,000	AC (FlexRig3)	1,500
Wyoming	241	18,000	AC (FlexRig3)	1,500
HIGHLY MOBILE RIGS				
Oklahoma	158	10,000	SCR	900
Texas	156	12,000	Mechanical	1,200
Wyoming	159	12,000	Mechanical	1,200
Oklahoma	141	14,000	Mechanical	1,200
Texas	142	14,000	Mechanical	1,200
Oklahoma	143	14,000	Mechanical	1,200

Texas	145	14,000	Mechanical	1,200
Texas	155	14,000	SCR	1,200
Wyoming	146	16,000	SCR	1,200
Texas	147	16,000	SCR	1,200
Wyoming	154	16,000	SCR	1,500
CONVENTIONAL RIGS				
Texas	110	12,000	SCR	700
Oklahoma	96	16,000	SCR	1,000
Texas	118	16,000	SCR	1,200
Oklahoma	119	16,000	SCR	1,200
Texas	120	16,000	SCR	1,200
Texas	162	18,000	SCR	1,500
Louisiana	79	20,000	SCR	2,000
Oklahoma	80	20,000	SCR	1,500
Texas	89	20,000	SCR	1,500
Oklahoma	92	20,000	SCR	1,500
Texas	94	20,000	SCR	1,500

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Location	Rig	Optimum Depth	Rig Type	Drawworks: Horsepower
Oklahoma	98	20,000	SCR	1,500
Texas	122	16,000	SCR	1,700
Oklahoma	97	20,000	SCR	2,000
Texas	99	26,000	SCR	2,000
Texas	137	26,000	SCR	2,000
Texas	149	26,000	SCR	2,000
Texas	191	26,000	SCR	