IADC Chair Richards' optimism based on knowledge, experience

John Kennedy, Contributing Editor

"I'M OPTIMISTIC that we are in the early stages of a prolonged recovery."

Such a prediction by a young stockbroker just assigned to watch the energy services sector might be taken with more than one grain of salt. But when it comes from the chairman of one of the most successful drilling companies—a man who has learned much from some of the industry's most challenging business cycles—the comment has considerable weight.

Thomas P Richards, who makes that assessment of the future of the contract drilling business, is Chairman-Elect of IADC, Chairman, President and CEO of **Grey Wolf Inc**, and a man with more than 35 years experience in the drilling business.

He also is not a man given to hyperbole. Tom Richards' experience and his record of success strongly suggest his prediction of "a prolonged recovery" should not be taken lightly.

IADC Chairman-elect Richards on location with Dale Love, VP-Gulf Coast Operations.

"I've been through several complete cycles in the drilling business," said Mr Richards. "It is critical to generate solid margins in the up cycle and create as much liquidity as feasible to weather lean times."

Grey Wolf practices what Mr Richards preaches: It entered the recent downturn with a good cash position made possible by high margins in the previous upturn.

Under Mr Richards' leadership, Grey Wolf has acquired companies with a strong position in the best US land drilling markets. Now the challenge is to continue building a company that provides value for shareholders and customers.

THE EARLY YEARS

Building that company in the cyclical drilling market will require all the expertise accumulated in a career that spans some of the most extreme cycles of the modern oil and gas industry.

Tom Richards began his long career as a roughneck on a well service unit in South Texas. From the mid 1970's to the late 1980's he owned a very successful drilling company with 12 land drilling rigs, a rig fabrication division, workover rigs, and an oil and gas exploration and production subsidiary. Now he oversees the operation of 120 premium land rigs operating in the US.

Even though he spent his entire working life in the drilling business, that wasn't a "grand plan," he claims.

In fact, he planned to go to law school when he graduated from **Texas A&M University** in 1966 with a degree in marketing. "But by the time I graduated, I was tired of school and tired of having no money. So I decided to work awhile, then go to law school."

The interview process at Texas A&M turned up several job offers including one from **Dow Chemical** in Midland, Mich and one from **Sears** in Odessa, Tex. There was also an opportunity to sell prescription drugs.

"These jobs all offered $500-600/month. I was not particularly impressed because I'd been working as a roughneck during the summers for **Global Marine** in California and Alaska for $650/month," said Mr Richards.

"And I got every other week off!"

Compared to the other opportunities, that still looked pretty good. So he went to work for Global Marine in January 1966 as a roughneck. He worked in the US for about 2 years and was soon involved in the construction of three drill ships being built at **Levingston** shipyard in Orange, Tex.

Then began a whirlwind international tour as a driller and toolpusher. In 4 years, Mr Richards worked in Nicaragua, South Africa, New Guinea, Australia, Argentina, Turkey, Italy, and Norway. "I was single, so it didn't cost much to transfer me," he said.

But he wasn't single much longer. While working in Norway, he returned to his hometown, El Campo, Tex during Christmas vacation and ran into wife-to-be **Anita Ramsey**. The following summer, they were married in Norway. In 1972, he came back to the US as Operations Manager for Global Marine in New Orleans.

THE NEXT GENERATION

The couple soon began a new generation of drillers. **Ramsey**, now 27, is 10½ months older than twins **Jess** and **Jon**. "For a month and a half each year, they are all the same age," said Mr Richards. "That's not a situation Ramsey has always taken in good humor."

He encouraged them to look at careers other than those in the oil industry. "Jon did, but Ramsey and Jess didn't really consider any others." Ramsey and Jess graduated from Texas A&M University, Jon from **Texas Tech University**.

All worked for drilling contractors during summer vacation while in college. Ramsey and Jon now work for **Diamond Offshore** and Jess is employed by Global Marine Inc.

Richards' sons, Jon, Ramsey and Jess (l-r), all work for offshore drilling contractors.

It may not yet qualify as a drilling dynasty, but the next Richards generation certainly has a firm foothold in the contract drilling business.

Nor did Tom Richards acquire his interest in the oil and gas industry in a vacuum. Richards' father also graduated from Texas A&M, but with a degree in petroleum engineering.

Elder Richards had a long career with **Texaco**, including an assignment to the **THUMS Long Beach** operation in California where he served as President. He retired early from Texaco and started **Richards Producing Company** in 1977. Selling the company in 1984, the elder Richards then retired permanently.

RICHARDS DRILLING COMPANY

In 1974, Mr Richards also had an opportunity to establish his own business. He left Global Marine and raised the capital needed to start **Richards Drilling Company** in Bay City, Tex.

"The timing was good," he said. Sales reached more than $20 million annually as the company operated 12 onshore rigs with depth ratings to 30,000 ft; six workover/completion rigs with capacities to 20,000 ft, and a welding and fabrication business.

It was not a period in the oil and gas business anyone would describe as calm. The US active rig count went from 1,195 in 1973 to 4,500 in 1981 to 936 in 1988.

Despite the roller coaster market for drilling, "Some of the years I spent operating Richards Drilling Company were the best of my life," he said.

"And some of those years were the worst of my life," he adds.

In 1988, Richards Drilling "became a casualty of the great depression."

Mr Richards is proud of the fact that "bankruptcy was not an option. We liquidated the company and paid off all the creditors."

A SHORT SABBATICAL

When the liquidation of Richards Drilling was complete, Tom Richards decided he would take a 1-year sabbatical.

It would be a chance to define his goals, plan a strategy for the future, and re-energize to implement that strategy. It sounded like a good idea at the time. But anyone who knows Tom Richards even for a brief period knows that this downtime was doomed from the start.

"My sabbatical lasted less than a week," he said. "I made out my resume and it was pretty short. Then I prepared a cash flow statement and it was even shorter.

"After 4 days, I decided I needed a job."

So in early January, 1989, he went to **Penrod Drilling Corp** as Vice President-Land Operations. When Penrod decided to sell its land rigs to what was then **Diamond M Offshore**, Mr Richards went with the 50 rigs to Diamond M as Senior Vice President-Onshore Operations in 1990.

His responsibility was soon expanded to include all US operations for Diamond Offshore for both land and offshore. Then, he was put in charge of worldwide operations for both land and offshore operations.

"All along the way—at Global Marine, Richards Drilling, Diamond Offshore and now at Grey Wolf—I've been blessed with the opportunity to work with wonderful people who made me look good despite my limitations," he said.

BUILDING GREY WOLF

It was a tough decision to leave Diamond Offshore, said Mr Richards. But when he was offered the job of President and CEO of **DI Industries**, it was an opportunity and a challenge too attractive to ignore. So he signed on.

DI Industries went public in 1978, but by August 1996 it had "about run out of financial steam." At that time, reorganization brought in needed cash and equipment. Mr Richards led the company to make 13 acquisitions that brought a total of about 100 rigs into the organization between October 1996 and January 1998.

One of those companies was Grey Wolf Drilling Co, and DI Industries became Grey Wolf Inc in 1997.

Other acquisitions included those companies like **Murco Drilling Co** as well as drilling assets owned by various other companies. "Grey Wolf and our other acquisitions had survived because of the strength of their operations," said Mr Richards.

The companies acquired had been in business an average of 50 years and each held a strong franchise in its respective market.

"The challenge was to take the best attributes of each of these companies and form a cohesive company that had the same high standards for safety and performance everywhere we worked."

The objective was to grow Grey Wolf by acquiring companies with a "deeper drilling bias" and premium diesel-electric powered equipment. That strategy paid off handsomely. Now, Grey Wolf and one other contractor operate 80% of US rigs capable of drilling below 15,000 ft.

Tom and Anita on an Alaska trip visit Blackstone Bay.

Why a "deeper drilling bias?"

"Because the future of onshore drilling is natural gas, and that means deeper drilling," said Mr Richards. "And it is easier to consolidate the deeper market because ownership is less fragmented than is the case with other segments of the market.

"We also wanted to participate in the best land drilling markets—South Texas, Gulf Coast, ArkLaTex, Mississippi/Alabama—because these markets have historically had the highest utilization rates and the highest day rates."

Now with the largest share of these markets, 96% of Grey Wolf's work in these regions is drilling for gas at average depths greater than 11,000 ft. In concentrating on these premium markets, operations in some other areas have been discontinued, including those in Ohio and Michigan, and in Argentina and Mexico. Five rigs are still located in Venezuela.

VALUE FOR CUSTOMERS

"We want to build a company that provides value for our customers along with

Tom and Anita, with sons Jess, Jon and Ramsey (l-r), are from El Campo, Tex but were married in Norway where Tom was assigned.

our shareholders," said Mr Richards. "To be cost effective, we must offer premium equipment, competent personnel and current technology. Safety is a critical part of this service."

With demand improving in the second half of 2000, maintaining a competitive edge will require Grey Wolf to continue its focus on skilled people and premium equipment, he said.

"We haven't tried to re-invent the wheel. It is a commitment by everyone that makes a strategy effective."

"VERY OPTIMISTIC"

Mr Richards' belief that the drilling contracting business is in the early stages of a prolonged recovery is supported by Grey Wolf's own recent results.

An increase in activity in the second quarter of 2000 was the fourth consecutive quarter of improving rig utilization for Grey Wolf, a trend Mr Richards expects to continue.

"Beginning in the last two weeks of the second quarter we saw a step change in the demand for our drilling rigs," he said

In late July, Grey Wolf had 77 rigs working, up from 64 in the second quarter of 2000 and 61 in the first quarter of 2000.

By mid-October the company had 84 rigs working, a 73% utilization.

Grey Wolf's average daily revenue per rig increased from $7,825 in second quarter 1999 to $9,357 in second quarter 2000.

That increase in activity, combined with higher day rates, is a very positive indication of continued improvement in the second half of 2000, said Mr Richards.

And the next 12 months?

"If natural gas prices remain strong, then demand for our services will be excellent."

THE CHALLENGES

The expected prolonged recovery in drilling utilization and revenue will not come without challenge.

"Providing a reasonable return for shareholders is the common challenge facing contractors today," said Mr Richards.

"Our industry's return of 5-10%/year over the past 10 years is below the Standard & Poor's 500 stocks.

"Educating our customers as to why day rates need to rise in order for the industry to keep pace with advances in technology and to ensure safe performance by skilled crews is where we need to start.

"Contractors will have to generate higher returns in order to provide a reasonable return for investors, improve wages, and replace a generation of rigs that now averages about 20 years in age. Contractors must also continue to use technology to enable customers to cut costs.

"I'm optimistic that the industry can do this."

But he reminds us that operators set day rates, not contractors. And those rates still will be determined the old fashioned way—by supply and demand. He also notes that day rates do not determine the level of drilling activity. As an example, he cites 1999 when both rig rates and activity levels were very low. "Weak commodity prices and not high day rates keep operators from drilling wells," he said.

"The highest level of activity typically occurs when rig rates are at their highest."

What's the biggest challenge?

"Personnel," is Mr Richards' quick one-word answer. "It will be a tremendous challenge to attract and retain competent, committed employees."

And the drilling operation of the future will continue to demand better educated, more highly skilled people at the rig crew level. To attract and keep those qualified people, contractors must provide better wages and benefits, and greater stability, said Mr Richards.

"It doesn't matter what the hourly rate is if the rig is not working," he said. "We have to make our work environment competitive if the industry is to attract the type of people it needs."

IADC'S VALUE

"Among all petroleum industry associations, I feel IADC is the most effective," said Mr Richards. "It provides more value for members' dues than any other group." He estimates members receive $3 in benefits from every $1 paid in dues.

Drilling contractors are faced with a number of problems, particularly as demand for drilling services grows. And the diversity of IADC membership means different groups have special challenges.

"Appointment this year of a full time Director-Land Operations will further strengthen IADC's service to its land contractor members," said Mr Richards.

All IADC members do have two priority goals in common: Continued improvement in safety and more effective training. All contractors must continue to provide a safer work environment and continuous training in a wide variety of skills. Safety and training are inseparable activities for which IADC has long served as a champion.

"With the support of IADC programs and materials, members have produced an impressive long term record of safety improvement," said Mr Richards.

Among contractors reporting to the Association's Accident Statistics Program, lost time accidents dropped 55% between 1995 and 1999.

IADC's Well Control Accreditation Program for well control training schools has now qualified 33 companies. The RIG PASS Service Contractor Safety Orientation program has qualified 45 firms.

"The recent praise of WellCAP by the **US Minerals Management Service** and the MMS' plan to formally propose that WellCAP be made part of the regulations governing offshore well control training is evidence of the quality of this program," said Mr Richards.

A STRONG VOICE

Increasingly important is a strong influence on regulatory issues.

"IADC has long been a strong voice in Washington," said Mr Richards. "But our Association is also effective in influencing international treaties and rules."

IADC is unique among petroleum industry associations, in part because of the global reach of its influence. Recent results on key trade and employment issues in Europe and the US are evidence of this influence. Currently, IADC is working to direct the rewrite of drilling regulations by the MMS in a way that will not impose unreasonable costs on contractors. The goal is the same in IADC's comments to the **US Coast Guard** about its proposed rules changes.

Chairman-elect Richards confers with Grey Wolf's Ed Jacob (l) and Ronnie McBride (r).

The IADC Ergonomics Subcommittee continues to lead the efforts to address the issues surrounding the **US Occupational Safety and Health Administration's** proposed ergonomics rules, which could impact US land drilling contractors.

THE JOB AHEAD

"There have been great IADC chairmen in the past," said Mr Richards. "I would like to continue the tradition and serve the association well.

"President Dr **Lee Hunt** and the IADC staff do an excellent job of running the organization. There is no way I would assume the chairmanship without this excellent support," he said.

Mr Richards served as IADC Sectretary-Treasurer during 1999, Vice Chairman for 2000 and is on the IADC Executive Committee.