HELMERICH & PAYNE INC
Form 10-K/A
July 28, 2006

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, 2005

OR

o **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	**74119-3623**
(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
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 o

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. o

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

At March 31, 2005, the aggregate market value of the voting stock held by non-affiliates was $1,945,419,202.

Number of shares of common stock outstanding at December 2, 2005: 52,011,465.

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, 2005	Parts I and II
(2)	Proxy Statement for Annual Meeting of Stock-Holders to be held March 1, 2006	Part III

EXPLANATORY NOTE

Helmerich & Payne, Inc. (the Company) is filing this Annual Report on Form 10-K/A for the year ended September 30, 2005 (the Amended Annual Report), to amend its Annual Report on Form 10-K for the year ended September 30, 2005 (the Original Annual Report), which was filed with the Securities and Exchange Commission (the SEC) on December 13, 2005. The Company is filing the Amended Annual Report in response to comments received from the SEC regarding the Company s Original Annual Report.

The Amended Annual Report revises various disclosures in the Original Annual Report generally as follows: (i) with respect to the Form 10-K, revision was made to the cover page under the caption Title of Each Class, certain incorporation by reference notations were added in relation to the Annual Report which is Exhibit 13 to the Form 10-K, and the Other line item in the table under Item 6. Selected Financial Data, was removed; (ii) with respect to Management s Discussion & Analysis of Results of Operations and Financial Condition contained in the Company s Annual Report which is Exhibit 13 to the Form 10-K, (a) under the caption Results of Operations, certain references to operating income in the tables pertaining to summarized business segment operations were re-captioned as segment operating income to reflect the Company s segment reporting, (b) revisions were made to the disclosure under the caption Liquidity and Capital Resources, as well as the table under the heading Material Commitments regarding purchase obligations, and (c) additional disclosure was made pertaining to depreciation under the caption Critical Accounting Policies and Estimates ; (iii) with respect to the Company s financial statements and the accompanying notes contained in the Company s Annual Report which is Exhibit 13 to the Form 10-K, (a) certain line items in the table captioned Financial and Operating Review were revised to match the Company s presentation in the Consolidated Statements of Income, (b) under the Consolidated Statements of Income, Income from asset sales was reclassified into Operating Costs and Expenses, (c) a portion of Note 1 captioned Drilling Revenues was revised, (d) the text of Note 14, Segment Reporting, was revised, as were the tables thereto (reportable segments were not changed) as well as Note 16; and (iv) with respect to the certifications contained in Exhibits 31.1 and 31.2, certain introductory wording contained therein was modified.

The Original Annual Report is hereby amended, as described above, and for convenience of reference is restated in its entirety as set forth herein (except that exhibits previously filed with the Original Annual Report are not being re-filed in this Amended Annual Report). The information contained in the Original Annual Report is not otherwise updated or amended by this Amended Annual Report and this Amended Annual Report does not reflect events occurring after the filing of the Original Annual Report.

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 TH 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 15, AS WELL AS IN MANAGEMENT S DISCUSSION & ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION ON PAGES 7 THROUGH 33 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.

HELMERICH & PAYNE, INC.
FORM 10-K/A
YEAR ENDED DECEMBER 31, 2005
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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

Annual Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Fiscal Year Ended September 30, 2005

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 operat–ing 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 seven international locations during fiscal

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2005: Venezuela, Ecuador, Colombia, Argentina, Bolivia, Equatorial Guinea, and Hungary. In addition, the Company provided drilling consulting services for one customer in Russia.

The Company s real estate invest–ments 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.

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 oil and 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

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current customers include the Venezuelan state petroleum company and major international oil companies.

In fiscal 2005, the Company received approximately 59 percent of its consolidated operating revenues from the Company s ten largest contract drilling customers. BP plc, ExxonMobil Corporation, and Petroleos de Venezuela S.A. (respectively, BP , ExxonMobil and PDVSA), including their affiliates, are the Company s three largest contract drilling customers. The Company performs drilling services for BP and ExxonMobil on a world-wide basis and PDVSA in Venezuela. Revenues from drilling services performed for BP, ExxonMobil and PDVSA in fiscal 2005 accounted for approximately 11 percent, 9 percent and 8 percent, respectively, of the Company s consolidated operating 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 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 $11.2 million each. Construction of these rigs was completed by

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March of 2004. All FlexRigs are available for work in the Company s U.S. and international drilling operations.

During fiscal 2005 and the first quarter of fiscal 2006, the Company entered into separate drilling contracts with 12 exploration and production companies to build and operate a total of 50 new FlexRigs. Of the 50 FlexRigs, eight are FlexRig3s and 42 are FlexRig4s (described below). Each of the drilling contracts provides for a minimum fixed contract term of at least three years, with drilling services to be performed on a daywork contract basis. The FlexRig3 construction cost is approximately $14 million each and the FlexRig4 cost is approximately $11 million each. While the Company experienced an approximate 30-day construction schedule delay due to Hurricanes Katrina and Rita, approximately 30 FlexRigs should be completed during fiscal 2006 and the remainder by the end of fiscal 2007. This 50 rig new-build project represents the single largest rig construction project in the Company s history.

While the new FlexRig3s are similar to the Company s existing FlexRig3s, the FlexRig4s are designed to efficiently drill shallower depth wells of between 4,000 and 14,000 feet. The FlexRig4 design includes a trailerized version and a skidding version, which incorporate new environmental and safety design. This new design includes a pipe handling system which allows the rig to be operated by a reduced crew and eliminates the need for a casing stabber in the mast.

While the trailerized version provides for more efficient well site to well site rig moves, the skidding version allows for drilling of up to 22 wells from a single pad which will result in reduced environmental impact.

The Company utilizes a lean manufacturing process in the construction of its FlexRigs. This approach minimizes the amount of equipment and supplies that must be inventoried. However, after experiencing delays resulting from Hurricanes Katrina and Rita, the Company will temporarily inventory increased amounts of equipment and supplies to reduce future delays.

The Company s drilling contracts are obtained through competitive bidding or as a result of negotiations with cus−tomers, and sometimes cover multi-well and multi-year projects. Each drilling rig operates under a separate drilling contract. During fiscal 2005, 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 com−plexity 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 day−work 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 2005. The Company believes that under current market conditions footage and turnkey contract rates do not adequately compensate contrac−tors 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. However, under certain limited circumstances such as destruction of a drilling rig or sustained unacceptable performance, no early termination payment would be paid to the contractor.

Excluding the fixed term contracts covering the 50 FlexRig new-build project, the Company has 33 rigs under fixed term contracts as of the end of November 2005. While the duration for these 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 exer−cisable 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.

U.S. Land Drilling

At the end of September, 2005 and 2004, the Company had 91 and 87, 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 six rigs moving back from the Company s international fleet during fiscal year 2005, and the sale of two conventional rigs in November of 2004. The Company s U.S. land

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operations contributed approximately 66 percent of the Company s consolidated operating revenues during fiscal 2005, compared with approximately 59 percent of consolidated operating revenues during fiscal 2004 and approximately 54 percent of consolidated operating revenues during fiscal 2003. Rig utilization in fiscal 2005 was approximately 94 percent, up from approximately 87 percent in fiscal 2004. The Company s fleet of FlexRigs and highly mobile rigs maintained an average utilization of approximately 99 percent during fiscal 2005 while the Company s conventional rigs had an average utilization rate of approximately 82 percent. At the close of fiscal 2005, 87 land rigs were working out of 91 available rigs.

U.S. Offshore Platform Drilling

The Company s offshore platform operations contributed approximately 11 percent of the Company s consolidated operating revenues during fiscal 2005, compared with approximately 14 percent of consolidated operating revenues during fiscal 2004 and approximately 22 percent of consolidated operating revenues during fiscal 2003. Rig utilization in fiscal 2005 was approximately 53 percent, up from approximately 48 percent in fiscal 2004. At the end of this fiscal year, the Company had seven of its 11 offshore platform rigs (excluding Rig 201) under contract and continued to work under management contracts for two customer-owned rigs. Revenues from drilling services performed for the Company s largest offshore platform drilling customer totaled approximately 73 percent of U.S. offshore platform revenues during fiscal 2005.

The Company s offshore platform Rig 201 sustained significant damage from Hurricane Katrina. Specific equipment damage assessment has not been completed. The Company does not anticipate Rig 201 returning to service during fiscal 2006. The

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rig was insured at a value that approximated replacement cost. Excluding Rig 201, seven platform rigs are under contract as of the end of November 2005, and one additional rig is expected to be contracted for work commencing the second fiscal quarter of 2006.

International Drilling

General

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

The Company s international operations contributed approximately 22 percent of the Company s consolidated operating revenues during fiscal 2005, compared with approximately 25 percent of consolidated operating revenues during fiscal 2004 and approximately 22 percent of consolidated operating revenues during fiscal 2003. Rig utilization in fiscal 2005 was 77 percent, up from 54 percent in fiscal 2004.

Venezuela

Venezuelan operations continue to be a significant part of the Company s operations. During fiscal 2005, the Company moved a highly mobile rig to the United States, reducing the rig count to 12 in Venezuela. The Company worked for the Venezuelan state petroleum company, PDVSA, during fiscal 2005 and revenues from this work accounted for approximately 8 percent of the Company s consolidated operating revenues during the fiscal year and approximately 38 percent of international

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operating revenues. Revenues generated from all Venezuelan drilling operations contributed approximately 8 percent of the Company s consolidated operating revenues during 2005, compared with approximately 10 percent of consolidated operating revenues during fiscal 2004 and 6 percent of consolidated operating revenues during 2003. The Company had nine rigs working in Venezuela at the end of fiscal 2005.

The Company s rig utilization rate in Venezuela has increased from approximately 65 percent during fiscal 2004 to approximately 72 percent in fiscal 2005. The Company has contracted to return one idle rig back to work during the second quarter of fiscal 2006. At this time, the Company is unable to predict future fluctuations in its utilization rates.

Ecuador

At the end of fiscal 2005, the Company owned eight rigs in Ecuador. The Company s utilization rate was approximately 97 percent during fiscal 2005, up from approximately 74 percent in fiscal 2004. Revenues generated by Ecuadorian drilling operations contributed approximately 8 percent of the Company s consolidated operating revenues during fiscal 2005, as compared with approximately 7 percent of consolidated operating revenues during fiscal 2004 and approximately 10 percent of consolidated operating revenues during fiscal 2003. Revenues from drilling services performed for the Company s largest customer in Ecuador totaled approximately 3 percent of consolidated operating revenues and approximately 13 percent of international operating revenues during fiscal 2005. The Ecuadorian drilling contracts are primarily with large international oil companies.

Colombia

During fiscal 2005, the Company owned two rigs in Colombia. The Company s utilization rate in Colombia was approximately 87 percent during fiscal 2005, up from approximately 13 percent in fiscal 2004. The revenues generated by Colombian drilling operations contributed approximately 2 percent of the Company s consolidated operating revenues in fiscal 2005, as compared with approximately 1 percent of consolidated operating revenues during fiscal 2004 and fiscal 2003. At the end of fiscal 2005, the Company was operating two rigs in Colombia.

Other Locations

In addition to its operations in Venezuela, Ecuador and Colombia, at the end of fiscal 2005, the Company owned two rigs in Bolivia, and two rigs in Argentina. During fiscal 2005, one rig was moved to the United States from Hungary.

At the end of November 2005, two rigs were working in Argentina with an additional rig moving to Argentina from the United States. This rig is under contract and expected to begin work during the second quarter of fiscal 2006. One rig has moved from Bolivia to Chile and started drilling operations, and one rig is under contract in Bolivia. It is expected to begin work during the second quarter of fiscal 2006.

During fiscal 2005, 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 completed a drilling consulting services contract in Russia. The Company continues to pursue opportunities 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

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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 was approximately 91 percent in fiscal 2005 and fiscal 2004.

At the end of the 2005 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. Nine 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 approximately 89 percent, which is up from approximately 82 percent one year ago. The increase in occupancy is due to the addition of three new tenants. The Company also owns approximately 1.5 acres of undeveloped land lying adjacent to such warehouses.

Southpark is an undeveloped tract of land located in a high growth area of southeast Tulsa and is suitable for mixed commercial and light industrial use. At the end of fiscal 2005, 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. Occupancy increased to approximately 89 percent in 2005 from approximately 82 percent in fiscal 2004 due to the addition of two new tenants. 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 topographic survey and preliminary site engineering 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 increased from approximately 69 percent in 2004 to approximately 76 percent during fiscal 2005 due to the addition of three 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 2005, occupancy has decreased from approximately 81 percent to approximately 69 percent due to the loss of one tenant.

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 2005, occupancy has decreased to approximately 56 percent from approximately 94 percent due to the loss of one large tenant. 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 2005, occupancy has increased from approximately 44 percent to approximately 63 percent with the addition of one new tenant. The Company s offsite disaster recovery center occupies approximately 3,517 square feet of office and computer equipment space in this property.

During fiscal 2005, the Company completed the demolition and site reclamation of its former headquarters building. No development plans for the site are pending.

FINANCIAL

Information relating to revenues, total assets and operating income or loss by business segments may be found on, and is incorporated by reference to, pages 58 through 61 of the Company s Annual Report (Exhibit 13 to this Form 10-K/A).

EMPLOYEES

The Company had 3,615 employees within the United States (six of which were part-time employees) and 1,186 employees in international operations as of September 30, 2005.

AVAILABLE INFORMATION

Information relating to the Company s internet address and the Company s SEC filings may be found on, and is incorporated by reference to, page 63 of the Company s Annual Report (Exhibit 13 to this Form 10-K/A).

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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.

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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 and Rig Construction 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 substan−tial 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.

The Company s new-build rig assembly facility is located near the Houston, Texas ship channel. Also, certain of the Company s fabricators and other vendors are located in the Gulf Coast region. Due to their location, these facilities are exposed to potentially greater hurricane damage.

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3. Fixed Term Contract Risk

Fixed term drilling contracts customarily provide for termination at the election of the customer, with an early termination payment to be paid to the Company if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig or sustained unacceptable performance by the Company, no early termination payment would be paid to the Company.

4. Indemnification and Insurance Coverage

The Company has insurance coverage for comprehensive general liability, public liability, automobile liability, worker s compensation, employer s liability, and property damage. Generally, deductibles range from $1 million or $2 million per occurrence, depending on whether a claim occurs inside or outside of the United States. The Company maintains certain other insurance coverages with $5 million deductibles. Insurance is purchased over these deductibles to limit the Company s exposure to catastrophic events. In fiscal 2005, the Company obtained property insurance for 85 percent of the aggregate estimated replacement cost of its land rigs in excess of a $1 million deductible. The Company self-insured the remaining 15 percent of such land rig value. 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 Company retains a significant portion of its expected losses under its worker s compensation, general, and automobile liability programs. The Company records estimates for incurred outstanding liabilities for unresolved worker s compensation, general liability claims and for claims that are incurred but not reported. Estimates are based on historic experience and statistical methods that the Company believes are reliable. Nonetheless, insurance estimates include certain assumptions and management judgments regarding the frequency and severity of claims, claim development, and settlement practices. Unanticipated changes in these factors may produce materially different amounts of expense that would be reported under these programs.

The majority of the Company s insurance coverage has been purchased through fiscal 2006. Multiple hurricanes in the Gulf of Mexico during August and September had a severe impact on the availability and price of the Company s rig property insurance coverage for 2006. As a result, the Company was able to place only 85 percent of its rig property coverage excess of a $1 million per occurrence deductible. In addition, the Company could share in losses up to a maximum of $5 million should loss levels exceed a set percentage of excess property premium. No assurance can be given that all or a portion of the Company s coverage will not be cancelled during fiscal 2006 or that insurance coverage will continue to be available at rates considered reasonable. 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.

5. Availability of Equipment and Supplies

The contract drilling business is highly cyclical. During periods of increased demand for contract drilling services, delays in delivery and shortages of drilling

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equipment and supplies can occur. These risks are intensified during periods when the industry experiences significant new drilling rig construction or refurbishment.

6. 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.

7. 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 polici–es, 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 (includ–ing 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 2005, approximately 22 percent of the Company s consolidated operating revenues were generated from the international contract drilling business. Approximately 85 percent of the international operating revenues were from operations in South America and approximately 84 percent of South American operating revenues were from Venezuela and Ecuador.

8. 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

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countries, all receivables and payments are currently in U.S. dollars. Cash balances are kept at a minimum which assists in reducing exposure.

Argentina

In 2002, Argentina suffered a 60 percent devaluation of the peso. As a consequence, the Company secured agreements with its 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 experienced minimal Argentine currency losses in fiscal 2005.

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 40 percent of the Company s invoice billings are in U.S. dollars and 60 percent are in the local currency, the bolivar. The significance of this arrangement is that even though the dollar-based invoices may be paid in bolivares, the Company, historically, has usually been able to convert the bolivares 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 bolivares 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 bolivares 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 a 12 percent devaluation of the bolivar during fiscal 2005, the Company experienced total devaluation losses of $0.6 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. While the Company is unable to predict future devaluation in Venezuela, if fiscal 2006 activity levels are similar to fiscal 2005, and if a 10 percent to 20 percent devaluation were to occur, the Company could experience potential currency devaluation losses ranging from approximately $1.6 million to $2.9 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. Were this agreement to end, the Company would again receive these payments in bolivares and thus increase bolivar cash balances and exposure to devaluation.

On September 28, 2005, the Company made application with the Venezuelan government requesting the approval to convert bolivar cash balances to U.S. dollars. Upon approval from the Venezuelan government, the Company s Venezuelan

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subsidiary will remit those dollars as a dividend to its U.S. based parent, thus reducing the Company s exposure to currency devaluation.

9. Governmental Instability in Venezuela

Venezuela has a history of governmental instability. In the event that extended labor strikes or turmoil occurs, 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.

10. 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 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.

11. Interest Rate Risk

The Company has a $200 million intermediate-term unsecured debt obligation with staged maturities from August 2007 to August 2014, with varying fixed interest rates for each maturity series. There was $200 million outstanding at September 30, 2005, 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 6.4 percent, after which it increases to 6.5 percent. The fair value of this debt at September 30, 2005 was approximately $215 million.

At September 30, 2005, the Company had in place a committed unsecured line of credit totaling $50 million with no outstanding borrowings. The Company, as of September 30, 2005, had letters of credit totaling $14 million outstanding against such line of credit. The Company s line of credit interest rate is based on LIBOR plus 87.5 to 112.5 basis points or prime minus 175 to 150 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. 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.

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12. Equity Price Risk

At September 30, 2005, the Company owned stocks in other publicly held companies with a total market value of $293.4 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 $15.9 million ($0.31 per diluted share) of net income in fiscal 2005. The Company currently owns 2,000,000 shares of Atwood.

13. Reliance on Small Number of Customers

In fiscal 2005, the Company received approximately 59 percent of its consolidated operating revenues from the Company s ten largest contract drilling customers and approximately 28 percent of its consolidated operating 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.

14. 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.

15. 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.

16. 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 expectations.

Item 2. PROPERTIES

CONTRACT DRILLING

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The following table sets forth certain information concerning the Company s U.S. drilling rigs as of September 30, 2005:

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	167	18,000	SCR (FlexRig1)	1,500
TEXAS	168	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	SCR (FlexRig2)	1,500
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
TEXAS	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
TEXAS	223	18,000	AC (FlexRig3)	1,500
TEXAS	224	18,000	AC (FlexRig3)	1,500
TEXAS	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

Location	Rig	Optimum Depth	Rig Type	Drawworks: Horsepower
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
COLORADO	241	18,000	AC (FlexRig3)	1,500
HIGHLY MOBILE RIGS				
OKLAHOMA	140	10,000	Mechanical	900
Oklahoma	158	10,000	SCR	900
TEXAS	156	12,000	Mechanical	1,200
WYOMING	159	12,000	Mechanical	1,200
TEXAS	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	171	16,000	Mechanical	1,000
WYOMING	172	16,000	Mechanical	1,000
TEXAS	122	16,000	SCR	1,700
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
OKLAHOMA	94	20,000	SCR	1,500
OKLAHOMA	98	20,000	SCR	1,500

Location	Rig	Optimum Depth	Rig Type	Drawworks: Horsepower
TEXAS	173	20,000	Mechanical	2,000
TEXAS	97	26,000	SCR	2,000
TEXAS	99	26,000	SCR	2,000
TEXAS	137	26,000	SCR	2,000
TEXAS	149	26,000	SCR	2,000
LOUISIANA	72	30,000	SCR	3,000
OKLAHOMA	73	30,000	SCR	3,000
TEXAS	125	30,000	SCR	3,000
TEXAS	134	30,000	SCR	3,000
LOUISIANA	136	30,000	SCR	3,000
TEXAS	157	30,000	SCR	3,000
LOUISIANA	161	30,000	SCR	3,000
LOUISIANA	163	30,000	SCR	3,000
TEXAS*	139	30,000+	SCR	3,000
OFFSHORE PLATFORM RIGS				