"Because the right partners can make all the difference . . ."

Third Qtr 2008

EnergyPoint RESEARCH

BJ SERVICES [JUL 23, 2008]

For several quarters now, BJ Services' (BJS) plight has been the subject of much discussion – even gnashing of teeth – in financial circles as the company's stock price remained stagnant while the benchmark Philadelphia Oil Service Index (OSX) soared over the same time period. Nagging overcapacity issues underlying the company's core domestic pressure pumping business have apparently just been too much for investors to swallow. While the quarterly financial results announced by BJS this week seem to suggest the company is benefitting from renewed strength in demand for its domestic pressure pumping services, its customer satisfaction scores in EnergyPoint Research's latest independent survey suggest the company is likely benefitting from something more than just a cyclical jump in demand.

What we believe has been lost in past analyses of BJS is the underlying strength of the company's appeal with most customers. Indeed, in EnergyPoint's independent surveys conducted since 2004, BJS has rated second globally as a provider of oilfield services among the "big six" integrated players, trailing only perennial leader Smith International (SII) in terms of respondents' willingness to recommend the company to others (an excellent proxy for measuring word-of-mouth promotion as well as customer loyalty). Furthermore, BJS' strong standing appears to have been confirmed in our first look at customer satisfaction in 2008. We note the company pulled down especially strong marks in the areas of job quality, service and professionalism, and tight-sand and shale applications in our 2Q 2008 survey.

The latest customer satisfaction measures also seem to indicate improvements on the products side of BJS' business. While the company has a ways to go before it garners the kinds of customer accolades enjoyed by its mainstay North American pressure pumping offerings, the good news is that the gaps between the company's services and product ratings look to be shrinking. And appeal with customers across segments could come in handy should it act on recent statements to opportunistically pursue acquisitions; the company is now well positioned to offer customer experience upgrades to clients of acquired companies. In the dog-eat-dog world of oilfield services, such unique advantages deserve noting.

CAMERON INTERNATIONAL [AUG 1, 2008]

At EnergyPoint Research, we pay as much attention to the trends within our data as we do to the data points themselves. And it's nice when we come across a high-profile industry supplier meeting the needs of customers more effectively today than in the past. Such is the tale of Cameron International (CAM), whose customer satisfaction ratings in our independent surveys have risen steadily since 2005. Our most recent update from 2Q 2008 suggests particular progress in the performance and reliability of CAM's equipment, along with the quality of its personnel. This is good news for both the company and customers, and no small feat given adverse industry-wide trends. It also likely has something to do with CAM's ability to report better-than-expected 2Q 2008 earnings this week.

When we look at CAM's ratings in the specific categories on which it seems to be focusing most these days, our findings suggests its franchise is a relatively strong one, both in terms of current ratings and with regards to momentum. The company enjoys especially strong scores in surface wellheads & trees, flow control equipment (actuators, values, etc.), and subsea blowout preventers (BOPs). Even more importantly given the direction of the industry, CAM's products appear to be duly up to the task when applied to high-pressure, high-temperature and other harsh operating conditions according to respondents. In fact, the company's products recently rated at or near the top in each of these special applications.

That being said, not everything is coming up fully roses for CAM these days. In certain areas, the company still trails resolute competitors Dril-Quip (DRQ) and Wood Group (WG.L). Furthermore, CAM's strengths are arguably more relative in nature as the company stands out most when compared to longtime ratings laggards Aker Solutions (AKSO.OL) and VetcoGray (GE). Our data also suggest CAM could benefit from improved oversight and execution in the areas of product availability and delivery. As one respondent in 2Q 2008 wrote about CAM: "*Good company. Great equipment. Needs to work on delivery time*." Of course, in today's oilfield environment, worse things have been said about suppliers.

PATTERSON-UTI [AUG 3, 2008]

Some companies can't get a break. On the same day Patterson-UTI (PTEN) announced second quarter 2008 earnings that were generally in-line with analysts' expectations plus plans for 20 newbuild rigs substantially supported by expected three-year term contracts, Helmerich & Payne (HP) announced better-than-expected earnings plus a comparable number of advanced newbuilds fully supported by already-executed three-year contracts. Whether or not this constitutes an official eclipsing of PTEN's news by HP is not for us to say. However, the timing and nature of the two companies' announcements at the very least underscores the fact that progress in the oilfield is both a relative notion and a moving target.

Given the dynamics of today's market, we believe PTEN will need to continue to improve its focus and execution in order to regain lost mindshare in the market place. Although not altogether different than those registered by certain other domestic land drillers –- including Grey Wolf (GW) and Nabors International (NBR) –- the company's satisfaction ratings in EnergyPoint Research's independent surveys have been fairly lethargic since 2004 as hard-to-ignore ratings gaps have existed between PTEN and segment leaders HP and Precision Drilling (PDS) over this period. Historically, PTEN's largest gaps have most notably been in technology-related categories, especially responsiveness to customer requests for new technologies and the ability to provide value-adding upgrades.

Of course, all journeys begin with a single step and does it appear PTEN is gesturing in the right direction with its fit-for-purpose newbuilds (which we read as AC rigs with the ability to handle directional, horizontal and / or pad drilling requirements with greater composure than legacy rigs) to its fleet. Nonetheless, the real test of PTEN's resolve to truly transform itself into a more progressive competitor will lie with management's willingness to make additional changes and adjustments. At the very least, customers will need to see a newfound ability and willingness on the part of the company and its people to apply lessons learned (and there will be many with new rigs) and a desire to continually improve. In other words, while new rigs are nice, an organizational commitment to make them work for customers will be the key.

PARKER DRILLING [AUG 6, 2008]

Quick, name a company in the oilfield that: i) is rich in history; ii) works as a drilling contractor and project manager for some of the industry's largest and most high-profile operators; iii) owns both land and offshore drilling assets, plus a profitable tool rental outfit; iv) operates in disparate regions across the globe, yet; v) registered revenues in 2007 that were less than 10% of what Transocean (RIG) and Nabors Industries (NBR) recorded on a combined basis. If you're stumped, don't beat yourself up. With 28 land rigs and 18 offshore barges scattered across the globe, Parker Drilling (PKD) has been flying under a lot of people's radars. In fact, despite announcing 2Q 2008 results that were up 34% from the year-ago period, market observers mustered little more than a collective yawn.

Although not the largest or most geographically focused driller in the industry, Parker nonetheless appears to be accomplishing some things for customers that a number of its peers have been unable or unwilling to do. With a range of drilling assets (some homegrown and quite advanced), some experienced crews and personnel, expanding project management capabilities, and a one-two combination in the executive suite purportedly focused on customer relations and operations, the company has carved out an interesting, albeit unorthodox, niche for itself. The most remarkable (and puzzling) part to us is Parker's ability (and willingness) to operate several different types of businesses in vastly different parts of the world without the kind of regional critical mass to which most companies tend to cling.

Nevertheless, on balance Parker's approach to its business seems to be getting the job done. In EnergyPoint's independent customer satisfaction surveys conducted since 2004, the company has held it's own for the most part. Clearly, a willingness to follow loyal customers to all corners of the globe is one of its hallmarks. And while some respondents have commented that Parker can be "slightly unorganized with an ad hoc approach to assignments" and displays a tendency to "nickel and dime customers contractually", just as many praise the driller for its relatively competent hands and crews, approach to safety on hazardous jobs, and generally proactive style. Even so, we still wonder if customer satisfaction and performance would be enhanced if the company exercised a somewhat greater degree of focus.

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