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Grant Prideco Q2 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Your first question comes from Jim Crandell with Lehman Brothers.

James Crandell - Lehman Brothers

Good morning, guys.

Michael McShane - Chairman, President and Chief Executive Officer

Good morning, Jim.

James Crandell - Lehman Brothers

Mike, can you speak to the pricing initiative you recently took at ReedHycalog on 100 bits for the rental market, sort of the rationale behind it, maybe how it's going now and how long you're going to give it in terms of a strategy?

Michael McShane - Chairman, President and Chief Executive Officer

Sure. Well, as far as how long we'll give it, I guess we'll give it as long as it takes to materialize. The other rationale Jim, and to elaborate just a little bit further, actually we rolled out a price book increase across the board on all products that average 5% to 7% and then specifically with Fixed Cutter rental bits, introduced a price book increase calling for approximately a 15% increase.

The implementation is being dealt with as you might imagine on a customer-by-customer project-by-project basis, and yes I think it's a little bit soon to tell what level of success we will have with it.

The rationale is twofold. Number one, there have been significant increases in materials costs, some of the carbide powders and what not to go into bits and so part of this is just simply a strategy to recover cost increases.

Secondly, if you look at the significant performance enhancements that we have brought to the marketplace in our Fixed Cutter bits over the course of the last couple years, principally through the introduction of TReX and then through Raptor as well as a variety of other features we've added to these bits, we have significantly reduced drilling times in a number of very important areas.

In fact some of the larger EMP companies have commented on that here recently. And so we feel justified in requesting a bit of that performance enhancement if you will to pay for ongoing R&D. So that's the rationale. We'll have to see how it plays out here. Obviously a lot of it's going to have to do with what the overall market environment is but that's the update and the background on that.

James Crandell - Lehman Brothers

Okay, thank you, Mike. My follow-up question is could you comment on the ordering patterns and perhaps even the inventories of the US land rig companies in the Drill Pipe market recently?

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