drilling to add to production that is currently about 14 million cubic feet of gas equivalent per day. Foutch insists that, although he has built three successful companies before, he doesn't know how the story of Laredo will unfold, nor does he know its timetable.

Exit. There are three options: Continue to grow it as a privately owned company, sell it or take it public. Foutch insists that going public is an option and notes that, before Lariat was sold, documents were being written for an IPO when a buyout offer was made.

The determining factor will always be the action that is in the best interest of the stakeholders, he notes, and market conditions will dictate that. Yet, by being privately held and not having to provide quarterly earnings guidance and meet short-term goals, his management teams have been able to make decisions that have had long-term, positive outcomes.

> "But, the biggest challenge to a start-up E&P company, with plans to grow rapidly isn't land or rigs or opportunities. It isn't capital. It is assembling technically competent people."
>
> Randy Foutch, Laredo Petroleum

JEFF VONCANNON

In 1992, at the age of 30, Jeff Voncannon started Houston-based Redman Energy I, an E&P company with $1,000, a card table, phone, fax machine that sat on a cardboard box, and a folding chair. Ten years later, he sold the company for more than $20 million.

He then reloaded and built another company, Redman Energy Holdings LP, selling it in 2007 in a deal valued at about $180 million. Already, he is making plans to launch another E&P, as well as investing in other start-ups as the chief executive of Redman Resources LLC.

Jeff Voncannon, Redman Resources

Voncannon began his energy career at Prairie Producing Co. as an engineer and held various management positions. When Prairie was sold to Unocal, he worked as an operations manager and helped run Prairie for about a year. Within Unocal he wanted a corporate-planning position and, through persistence, was offered a post even though he didn't have the typically required MBA and 15 years of experience.

While helping to write business plans for Unocal, he learned everything he could. By 1992, he was ready to own an E&P company.

He knew he had to start small. He managed to build the company without debt or private equity. He didn't want to assume large amounts of debt—a different approach than that used by many in the industry.

He began by acquiring a small asset from his former employer, and focused on one or two wells at a time. He would put a deal together, form a partnership, then buy and operate the wells.

Competence. "I had a portfolio of niche plays—sour gas, low-resistivity tight gas, and deep, overpressured water-drive reservoirs in Louisiana and East Texas. That's what I learned as an intern—stick with what you know. Prairie and Unocal were developing those kinds of fields," Voncannon notes.

Exposure. He showed his first drilling venture 104 times. "It had two prospects. The first well was in Freestone County in the Smackover, and it ended up producing 13 million cubic feet per day. The next well came in at 5 million per day.

"The exposure to 104 companies was a great marketing tool. When the wells hit, people knew who we were and saw our success," he says.

Capital partners. He used cash flow to grow the company's assets. "I built the company without debt the first five years. But to grow the company further we needed some debt." He chose Wells Fargo as the company's banker and says this was an important business decision.

"One of the key ingredients of building a successful company is having a great banking relationship." In hindsight, Voncannon says he should have brought in capital partners earlier and grown quicker.

At the time of the sale of his first company, its 27.8 billion cubic feet equivalent of reserves were 67% gas and 82% developed, split between East Texas and the Gulf Coast, mainly Louisiana. Monthly net production was about 32,000 barrels of oil equivalent.

The sale was handled by PetroGrowth Advisors, which initially had been retained to look at liquidity options and valuing the company. Ultimately, it was decided a divestment was the best option, given the seller's market in 2002.

His second start-up's E&P strategy was the same—"stick with what you know"—and Voncannon brought in private-equity funding from Natural Gas Partners.

"I would suggest finding a mentoring-type investor to get the first deal done that can be used as a stepping stone for the next deal." Ideally, the investor will have a history of having partnered with successful start-up companies.

Experience. "In addition to relationships, reputation and more personal assets, I had already gone through the administrative trials of negotiating lease space, having more office furniture than a cardboard box, setting up employee benefits, making a payroll and broadening my industry connections.

"I was 10 years older and had a documented track record as a deal closer. That helps. Confidence does too."

Costs. Given rising costs, Voncannon says it would be very difficult for someone to do today what he did in 1992 without an outside investor. "The costs are just too great. In 1992 dayrates were $5,200 for a 1,000-horsepower rig. Now they exceed three times that."

Also, a seasoned engineer's salary was about $75,000 per year. "Now it can cost as much as $300,000. I used to be able to get farm-outs and pick up acreage for $100 to $150 an acre. Now it's at least five times as much in the same trends and farm-outs aren't available."

Acquisitions. Here's his test for acquisitions. "When we look at any deal, I ask my staff, 'What's the joy in it? Is it financial or technical? Is this going to develop us or defeat us?' If there is no joy, or it is going to defeat us, we pass on it."

GEORGE SOLICH

Even before Denver-based Cordillera Energy Partners II LLC is sold, its management team is operating the next reincarnation, Cordillera III.

"We made the decision to form Cordillera III before we exited Cordillera II because we didn't want to lose people, momentum or opportunities," says president George Solich, who founded Cordillera I in February 2000. Cordillera II and III are operating simultaneously, but "are two separate corporations, with everything separate except for the management," Solich says.

George Solich,
Cordillera Energy Partners III

He and executive vice president and chief financial officer Tad Herz have worked together for about 20 years, including about a dozen years at Apache Corp. Solich was instrumental in the consummation of more than $1 billion in acquisition and divestiture transactions while at Apache and HS Resources Inc.

Cordillera II expects to this month to produce approximately 50 million cubic feet of gas equivalent a day. In the same timeframe, Cordillera III expects its daily net production to be running 10 million cubic feet equivalent a day.

THE PROS' NOTEBOOK

It is much easier to re-load than to start from scratch, says Randy Foutch, chief executive of Tulsa-based Laredo Petroleum. That includes re-starting with fellow managers with whom you've been successful before. Laredo is Foutch's fourth venture, and he is rejoined in this one by Mark Womble, chief financial officer; Pat Curth, vice president, exploration; and Oran Hall, vice president, planning and development.

Coming onboard is Jerry Schuyler, chief operating officer, who most previously was with St. Mary Land & Exploration Co.

Womble says a key to recruiting and retaining good employees is to create a culture where everyone's input is sought and valued, and there is a genuine feeling that everyone is in it together.

That means not only paying market-competitive salaries and bonuses, but allowing each employee to become a stakeholder to have a financial stake in the success of the company. Upper management must have money in the game, with the payment terms and conditions the same as for other equity providers, he adds.

"When we make a capital call, deciding how money should be spent, we all stand to benefit, when we make it work, or vice versa."

Schuyler calls a company's desire to use all skills of all employees, and to seek input, as "inclusiveness." It's not to be confused with democracy, as roles still need to be understood.

The most common failure in assembling teams is that managers too often duplicate, rather than complement, skill sets of managers, he says. That shortcoming could prove to be a fatal mistake for a company. Because successful companies create a culture and an expectation of success, they are always planning for it, he adds.

"With that culture, whenever good talent is available, you jump on it and bet on success."

Curth adds that the expectation of success applies to all aspects of the company. In the exploration division, it means staying focused on current projects, while also planning projects for three years out to try to stay ahead of the pack in the use of technology.

"Despite whatever success you have had, you can't sit on your laurels. You have to have all needed systems in place as soon as possible—information technology, computers, accounting or infrastructure—otherwise you end up wasting time and efficiency."

A factor in the success of Foutch's companies is that, whenever an opportunity was identified, its implementation was never capital constrained, Curth adds.

"A management team that has experienced success has pride in its accomplishments, enjoys the business and wants more success, but should constantly surround itself with employees that are hungrier than it is."