

PATTERSON UTI ENERGY INC

Form 10-Q

May 05, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

or

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 0-22664
Patterson-UTI Energy, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

75-2504748
(I.R.S. Employer Identification No.)

**450 GEARS ROAD, SUITE 500
HOUSTON, TEXAS**
(Address of principal executive offices)

77067
(Zip Code)

(281) 765-7100

(Registrant's telephone number, including area code)

**4510 LAMESA HIGHWAY
SNYDER, TEXAS 79549**

(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

154,431,669 shares of common stock, \$0.01 par value, as of May 1, 2008

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The following unaudited consolidated financial statements include all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented.

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except share data)

ASSETS	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	\$ 50,327	\$ 17,434
Accounts receivable, net of allowance for doubtful accounts of \$10,298 at March 31, 2008 and \$10,014 at December 31, 2007	372,085	373,279
Inventory	40,956	44,416
Deferred tax assets, net	35,593	35,370
Other	53,007	52,286
Total current assets	551,968	522,785
Property and equipment, net	1,839,592	1,841,404
Goodwill	96,198	96,198
Other	4,684	4,812
Total assets	\$ 2,492,442	\$ 2,465,199

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable:		
Trade	\$ 131,028	\$ 133,330
Accrued revenue distributions	3,277	4,221
Other	9,627	19,365
Accrued Federal and state income taxes payable	27,713	1,458
Accrued expenses	123,000	136,834
Total current liabilities	294,645	295,208
Borrowings under line of credit		50,000
Deferred tax liabilities, net	232,173	219,490
Other	5,566	4,471
Total liabilities	532,384	569,169

Commitments and contingencies (see Note 10)

Stockholders equity:

Preferred stock, par value \$.01; authorized 1,000,000 shares, no shares issued

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Common stock, par value \$.01; authorized 300,000,000 shares with 177,665,575 and 177,385,808 issued and 154,204,706 and 153,942,800 outstanding at March 31, 2008 and December 31, 2007, respectively	1,776	1,773
Additional paid-in capital	712,043	703,581
Retained earnings	1,775,536	1,716,620
Accumulated other comprehensive income	17,201	20,207
Treasury stock, at cost, 23,460,869 and 23,443,008 shares at March 31, 2008 and December 31, 2007, respectively	(546,498)	(546,151)
Total stockholders' equity	1,960,058	1,896,030
Total liabilities and stockholders' equity	\$ 2,492,442	\$ 2,465,199

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2008	2007
Operating revenues:		
Contract drilling	\$ 420,149	\$ 467,498
Pressure pumping	42,864	38,584
Drilling and completion fluids	32,550	30,760
Oil and natural gas	8,991	10,259
	504,554	547,101
Operating costs and expenses:		
Contract drilling	244,367	246,154
Pressure pumping	28,505	21,151
Drilling and completion fluids	28,533	25,391
Oil and natural gas	2,067	3,278
Depreciation, depletion and impairment	63,726	55,931
Selling, general and administrative	16,996	14,669
Loss on disposal of assets	186	202
Other operating expenses	300	600
	384,680	367,376
Operating income	119,874	179,725
Other income (expense):		
Interest income	343	369
Interest expense	(277)	(763)
Other	384	94
	450	(300)
Income before income taxes	120,324	179,425
Income tax expense:		
Current	28,712	53,433
Deferred	14,203	10,191
	42,915	63,624
Net income	\$ 77,409	\$ 115,801
Net income per common share:		
Basic	\$ 0.51	\$ 0.75

Diluted	\$ 0.50	\$ 0.73
Weighted average number of common shares outstanding:		
Basic	152,600	155,387
Diluted	155,055	157,742
Cash dividends per common share	\$ 0.12	\$ 0.08

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(unaudited, in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other		Total
	Number of Shares	Amount			Comprehensive Income	Treasury Stock	
Balance, December 31, 2007	177,386	\$ 1,773	\$ 703,581	\$ 1,716,620	\$ 20,207	\$(546,151)	\$ 1,896,030
Issuance of restricted stock	12						
Forfeitures of restricted shares	(11)						
Exercise of stock options	278	3	2,803				2,806
Stock-based compensation			5,118				5,118
Tax benefit related to stock-based compensation			541				541
Foreign currency translation adjustment, net of tax of \$1,743					(3,006)		(3,006)
Payment of cash dividends				(18,493)			(18,493)
Purchase of treasury stock						(347)	(347)
Net income				77,409			77,409
Balance, March 31, 2008	177,665	\$ 1,776	\$ 712,043	\$ 1,775,536	\$ 17,201	\$(546,498)	\$ 1,960,058

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN CASH FLOWS
(unaudited, in thousands)

	Three Months Ended	
	March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 77,409	\$ 115,801
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and impairment	63,726	55,931
Provision for bad debts	300	600
Dry holes and abandonments	(85)	699
Deferred income tax expense	14,203	10,191
Stock-based compensation expense	5,118	3,589
Loss on disposal of assets	186	202
Changes in operating assets and liabilities:		
Accounts receivable	(167)	68,494
Income taxes receivable/payable	26,230	46,950
Inventory and other current assets	2,777	7,085
Accounts payable	14,569	26,459
Accrued expenses	(13,771)	(21,568)
Other liabilities	(8,638)	(5,404)
Net cash provided by operating activities	181,857	309,029
Cash flows from investing activities:		
Purchases of property and equipment	(84,606)	(175,831)
Proceeds from disposal of assets	1,281	2,183
Net cash used in investing activities	(83,325)	(173,648)
Cash flows from financing activities:		
Purchases of treasury stock	(347)	
Dividends paid	(18,493)	(12,527)
Tax benefit related to stock-based compensation	541	200
Proceeds from borrowings under line of credit		16,000
Repayment of borrowings under line of credit	(50,000)	(136,000)
Proceeds from exercise of stock options	2,806	487
Net cash used in financing activities	(65,493)	(131,840)
Effect of foreign exchange rate changes on cash	(146)	4
Net increase in cash and cash equivalents	32,893	3,545
Cash and cash equivalents at beginning of period	17,434	13,385
Cash and cash equivalents at end of period	\$ 50,327	\$ 16,930

Supplemental disclosure of cash flow information:

Net cash paid during the period for:

Interest expense	\$	287	\$	659
Income taxes	\$	864	\$	3,052

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Consolidation and Presentation

The interim unaudited consolidated financial statements include the accounts of Patterson-UTI Energy, Inc. (the Company) and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company has no controlling financial interests in any entity that is not a wholly-owned subsidiary and which would require consolidation.

The interim consolidated financial statements have been prepared by management of the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations, although the Company believes the disclosures included either on the face of the financial statements or herein are sufficient to make the information presented not misleading. In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for a fair presentation of the information in conformity with accounting principles generally accepted in the United States have been included. The Unaudited Consolidated Balance Sheet as of December 31, 2007, as presented herein, was derived from the audited balance sheet of the Company, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The U.S. dollar is the functional currency for all of the Company's operations except for its Canadian operations, which use the Canadian dollar as their functional currency. The effects of exchange rate changes are reflected in accumulated other comprehensive income, which is a separate component of stockholders' equity.

The Company provides a dual presentation of its net income per common share in its Unaudited Consolidated Statements of Income: Basic net income per common share (Basic EPS) and diluted net income per common share (Diluted EPS). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the period excluding nonvested restricted stock. Diluted EPS is based on the weighted-average number of common shares outstanding plus the impact of dilutive instruments, including stock options and restricted stock using the treasury stock method. The following table presents information necessary to calculate net income per share for the three months ended March 31, 2008 and 2007 as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding, as their inclusion would have been anti-dilutive during the three months ended March 31, 2008 and 2007 (in thousands, except per share amounts):

	Three Months Ended	
	March 31,	
	2008	2007
Net income	\$ 77,409	\$ 115,801
Weighted average number of common shares outstanding excluding nonvested restricted stock	152,600	155,387
Basic net income per common share	\$ 0.51	\$ 0.75
Weighted average number of common shares outstanding excluding nonvested restricted stock	152,600	155,387
Dilutive effect of stock options and restricted shares	2,455	2,355
Weighted average number of diluted common shares outstanding	155,055	157,742

Diluted net income per common share	\$ 0.50	\$ 0.73
Potentially dilutive securities excluded as anti-dilutive	1,840	1,460

Reclassifications Certain reclassifications have been made to the 2007 consolidated financial statements in order for them to conform with the 2008 presentation.

The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

2. Stock-based Compensation

The Company recognizes the cost of share-based awards under the fair-value-based method. The Company uses share-based awards to compensate employees and non-employee directors. All awards have been equity instruments in the form of stock

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options or restricted stock awards and have included both service and, in certain cases, performance conditions. The Company issues shares of common stock when vested stock option awards are exercised and when restricted stock awards are granted.

Stock Options. The Company estimates the grant date fair values of stock options using the Black-Scholes-Merton valuation model (Black-Scholes). Volatility assumptions are based on the historic volatility of the Company's common stock over the most recent period equal to the expected term of the options as of the date the options are granted. The expected term assumptions are based on the Company's experience with respect to employee stock option activity. Dividend yield assumptions are based on the expected dividends at the time the options are granted. The risk-free interest rate assumptions are determined by reference to United States Treasury yields. Weighted-average assumptions used to estimate the grant date fair values for stock options granted in the three-month periods ended March 31, 2008 and 2007 follow:

	Three Months Ended March 31,	
	2008	2007
Volatility	35.42%	36.64%
Expected term (in years)	4.00	4.00
Dividend yield	2.46%	1.45%
Risk-free interest rate	3.26%	4.65%

Stock option activity from January 1, 2008 to March 31, 2008 follows:

	Underlying Shares	Weighted Average Exercise Price
Outstanding at January 1, 2008	7,403,084	\$ 17.52
Granted	40,000	\$ 19.52
Exercised	(278,467)	\$ 10.07
Forfeited		\$
Expired	(134)	\$ 14.64
Cancelled		\$
Outstanding at March 31, 2008	7,164,483	\$ 17.82
Exercisable at March 31, 2008	5,753,648	\$ 16.07

Restricted Stock. Under all restricted stock awards to date, shares were issued when granted, nonvested shares are subject to forfeiture for failure to fulfill service conditions and, in certain cases, performance conditions. Nonforfeitable dividends are paid on nonvested restricted shares.

Restricted stock activity from January 1, 2008 to March 31, 2008 follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested restricted stock outstanding at January 1, 2008	1,490,150	\$ 26.22
Granted	12,000	\$ 19.52
Vested	(86,632)	\$ 32.86

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Forfeited	(10,700)	\$	25.18
Nonvested restricted stock outstanding at March 31, 2008	1,404,818	\$	25.76

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The following table calculates the Company's comprehensive income after considering the effects of foreign currency translation adjustments for the three months ended March 31, 2008 and 2007 (in thousands):

	Three Months Ended March 31,	
	2008	2007
Net income	\$ 77,409	\$ 115,801
Other comprehensive income (loss):		
Foreign currency translation adjustment related to Canadian operations, net of tax	(3,006)	648
Comprehensive income, net of tax	\$ 74,403	\$ 116,449

4. Property and Equipment

Property and equipment consisted of the following at March 31, 2008 and December 31, 2007 (in thousands):

	March 31, 2008	December 31, 2007
Equipment	\$ 2,797,727	\$ 2,748,007
Oil and natural gas properties	79,224	75,732
Buildings	54,601	50,955
Land	10,088	9,991
	2,941,640	2,884,685
Less accumulated depreciation and depletion	(1,102,048)	(1,043,281)
Property and equipment, net	\$ 1,839,592	\$ 1,841,404

5. Business Segments

The Company's revenues, operating profits and identifiable assets are primarily attributable to four business segments: (i) contract drilling of oil and natural gas wells, (ii) pressure pumping services, (iii) drilling and completion fluid services and (iv) the investment, on a working interest basis, in production of oil and natural gas. Each of these segments represents a distinct type of business based upon the type and nature of services and products offered. These segments have separate management teams which report to the Company's chief operating decision maker and have distinct and identifiable revenues and expenses. Separate financial data for each of our four business segments is provided below (in thousands):

	Three Months Ended March 31,	
	2008	2007
Revenues:		
Contract drilling (a)	\$ 420,952	\$ 468,339
Pressure pumping	42,864	38,584
Drilling and completion fluids (b)	32,600	30,881
Oil and natural gas	8,991	10,259
Total segment revenues	505,407	548,063
Elimination of intercompany revenues (a)(b)	(853)	(962)

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Total revenues	\$ 504,554	\$ 547,101
Income before income taxes:		
Contract drilling	\$ 118,386	\$ 171,705
Pressure pumping	4,452	10,241
Drilling and completion fluids	667	2,276
Oil and natural gas	4,297	2,613
	127,802	186,835
Corporate and other	(7,742)	