PATTERSON UTI ENERGY INC
Form 10-K/A
March 17, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
(Amendment No. 1)

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2004

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 0-22664

Patterson-UTI Energy, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**75-2504748**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4510 Lamesa Highway, Snyder, Texas	**79549**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(325) 574-6300
Securities Registered Pursuant to 12(b) of the Act:
None
Securities Registered Pursuant to 12(g) of the Act:
(Title of class)
Common Stock, $.01 Par Value

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 þ 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 Rule 12b-2 of the Act). Yes þ No o

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2004, the last business day of the registrant s most recently completed second fiscal quarter was $2,648,551,638, calculated by reference to the closing price of $16.67 for the common stock on the Nasdaq National Market on that date.

As of February 24, 2005, the registrant had outstanding 168,651,600 shares of common stock, $.01 par value, its only class of voting common stock.

Documents incorporated by reference:

Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders (Part III).

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K/ A (including documents incorporated by reference herein) (the Report) contains statements with respect to our expectations and beliefs as to future events. These types of statements are forward-looking and subject to uncertainties. Readers are cautioned that such forward-looking statements should be read in conjunction with our disclosures under the heading: Forward Looking Statements and Cautionary Statements for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 beginning on page 18.

This Annual Report on Form 10-K/ A, along with our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available through our Internet website (www.patenergy.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/ A (Form 10-K/ A) to our Annual Report on Form 10-K for the year ended December 31, 2004, initially filed with the U.S. Securities and Exchange Commission (SEC) on February 25, 2005 (Original Filing), reflects a restatement of our Consolidated Financial Statements as discussed in Note 2 of the Notes to Consolidated Financial Statements. Previously issued financial statements are being restated to properly reflect losses incurred as a result of an embezzlement whereby payments were made to or for the benefit of Jonathan D. Nelson (Nelson), our former Chief Financial Officer (CFO), that had been reflected in previously issued financial statements as payments for assets and services that were not received by the Company. Previously issued financial statements are also being restated for the effects of the correction of other errors that are immaterial both individually and in the aggregate. These other adjustments relate primarily to previously reported property and equipment balances that result from our review of our property and equipment records and the underlying physical assets in connection with investigation of the embezzlement.

The total amount embezzled was approximately $77.5 million in cash, excluding any tax effects, beginning with the year ended December 31, 1998 through November 3, 2005 as follows (in thousands):

From 1998 to December 31, 2004	$	58,961
From January 1, 2005 to September 30, 2005		12,193
Total through September 30, 2005		71,154
From October 1, 2005 to November 3, 2005 (net of $1,500 repayment)		6,350
Total embezzlement	$	77,504

On November 16, 2005, the SEC obtained a freeze order on Nelson s assets (including assets held by entities controlled by him) and a Receiver was appointed to collect those assets. The Company understands that the Receiver will ultimately liquidate the assets and propose a plan to distribute the proceeds. While the Company believes it has a claim for at least the full amount embezzled, other creditors have or may assert claims on the assets held by the Receiver. As a result, recovery by the Company from the Receiver is uncertain as to timing and amount, if any. Recoveries, if any, will be recognized when they are considered collectable.

The effects of the embezzlement on the Company s financial position follow (in thousands):

	December 31,	
Decrease in amounts previously reported	**2004**	**2003**
Assets(1)	$ (56,133)	$ (38,540)
Liabilities(2)	(20,848)	(15,044)
Retained earnings and stockholders equity	$ (35,285)	$ (23,496)

(1) The amount includes a decrease in Federal and state income taxes receivable of $1.0 million in 2003.

(2) Consists of an increase in Federal and state income taxes payable of $1.3 million in 2004 and decreases in deferred tax liabilities of $22.2 million and $15.0 million in 2004 and 2003, respectively.

The effects of the restatement due to the embezzlement and other adjustments on operating income as previously reported for 2004 and prior years, with no provision for potential recoveries, follow:

	Years Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
			(In thousands)		
Operating income (loss):					
As previously reported	$ 171,214	$ 87,190	$ 3,398	$ 267,172	$ 68,585
Adjustment for effects of embezzlement	(18,637)	(17,375)	(8,249)	(7,461)	(3,917)
Other adjustments	(4,110)	(3,533)	(2,041)	10	542
As restated	$ 148,467	$ 66,282	$ (6,892)	$ 259,721	$ 65,210

The effects of the restatement due to the embezzlement and other adjustments on net income as previously reported for 2004 and prior years follow:

	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
Net income (loss):					
As previously reported	$ 108,733	$ 56,419	$ 2,374	$ 164,162	$ 37,226
Adjustments:					
Embezzled funds expense	(19,122)	(17,849)	(8,574)	(7,674)	(4,004)
Embezzlement amounts previously expensed as depreciation and selling, general and administrative	485	474	325	213	87
Embezzlement expense, net of amounts previously expensed	(18,637)	(17,375)	(8,249)	(7,461)	(3,917)
Other adjustments	(4,110)	(3,533)	(2,041)	10	542
Tax benefits	8,360	7,676	3,776	2,861	1,284
Net adjustment	(14,387)	(13,232)	(6,514)	(4,590)	(2,091)
Net income (loss) as restated	$ 94,346	$ 43,187	$ (4,140)	$ 159,572	$ 35,135
Net income (loss) per common share:					
Basic:					
As previously reported	$ 0.65	$ 0.35	$ 0.02	$ 1.07	$ 0.26
Adjustment for effects of embezzlement	$ (0.07)	$ (0.07)	$ (0.03)	$ (0.03)	$ (0.02)
Other adjustments	$ (0.02)	$ (0.01)	$ (0.01)	$	$
As restated	$ 0.57	$ 0.27	$ (0.03)	$ 1.04	$ 0.25
Diluted:					
As previously reported	$ 0.64	$ 0.34	$ 0.01	$ 1.04	$ 0.25
Adjustment for effects of embezzlement	$ (0.07)	$ (0.07)	$ (0.03)	$ (0.03)	$ (0.02)
Other adjustments	$ (0.02)	$ (0.01)	$ (0.01)	$	$
As restated	$ 0.56	$ 0.26	$ (0.03)	$ 1.01	$ 0.23

The effects of the restatement due to the embezzlement and other adjustments on selected balance sheet data as previously reported for 2004 and prior years follow:

	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
Total assets:					
As previously reported	$ 1,322,911	$ 1,084,114	$ 942,823	$ 869,642	$ 739,898
Adjustment for effects of embezzlement:					
Property and equipment and other	(56,133)	(37,496)	(20,121)	(11,872)	(4,411)
Income taxes receivable		(1,044)	(807)	(531)	(507)
	(56,133)	(38,540)	(20,928)	(12,403)	(4,918)
Other adjustments:					
Property and equipment and other	(9,993)	(5,883)	(2,350)	(309)	(319)
Income taxes receivable		(170)	(171)	(75)	(75)
	(9,993)	(6,053)	(2,521)	(384)	(394)
As restated	$ 1,256,785	$ 1,039,521	$ 919,374	$ 856,855	$ 734,586
Stockholders equity:					
As previously reported	$ 1,007,539	$ 819,749	$ 737,731	$ 687,142	$ 481,299
Adjustment for effects of embezzlement	(35,285)	(23,496)	(12,499)	(7,373)	(2,777)
Other adjustments	(10,753)	(6,439)	(984)	572	(288)
As restated	$ 961,501	$ 789,814	$ 724,248	$ 680,341	$ 478,234
Working capital:					
As previously reported	$ 236,957	$ 199,613	$ 167,863	$ 110,172	$ 127,299
Adjustment for effects of embezzlement	(1,311)	(1,044)	(807)	(531)	(507)
Other adjustments	(166)	(170)	(171)	(75)	(75)
As restated	$ 235,480	$ 198,399	$ 166,885	$ 109,566	$ 126,717

The financial statements and related financial and statistical data contained in this Report have been restated to provide for, net of related tax effects, (1) the effects of losses incurred as a result of the embezzlement and (2) the effects of the correction of other errors that are immaterial both individually and in the aggregate.

Management has reassessed the effectiveness of our disclosure controls and procedures and has restated its report on internal control over financial reporting included as Item 9A of this Annual Report on Form 10-K/A.

Except for the foregoing amended information, this Form 10-K/ A continues to speak as of the date of the Original Filing, and we have not updated the disclosure contained herein to reflect events that occurred at a later date.

PART I

Items 1 and 2. ***Business and Properties.***

Overview

Based on publicly available information, we believe we are the second largest owner of land-based drilling rigs in North America. The Company was formed in 1978 and reincorporated in 1993 as a Delaware corporation. Our contract drilling business operates primarily in:

- Texas,
- New Mexico,
- Oklahoma,
- Louisiana,
- Mississippi,
- Colorado,
- Utah,
- Wyoming, and
- Western Canada (Alberta, British Columbia and Saskatchewan).

As of December 31, 2004, we had a drilling fleet of 361 drilling rigs. A drilling rig includes the structure, power source and machinery necessary to cause a drill bit to penetrate earth to a depth desired by the customer.

We provide pressure pumping services to oil and natural gas operators primarily in the Appalachian Basin. These services consist primarily of well stimulation and cementing for completion of new wells and remedial work on existing wells. We provide drilling fluids, completion fluids and related services to oil and natural gas operators in Texas, Southeastern New Mexico, Oklahoma, the Gulf Coast region of Louisiana and the Gulf of Mexico. Drilling and completion fluids are used by oil and natural gas operators during the drilling process to control pressure when drilling oil and natural gas wells. We are also engaged in the development, exploration, acquisition and production of oil and natural gas. Our oil and natural gas operations are focused primarily in producing regions of West Texas, South Texas, Southeastern New Mexico, Utah and Mississippi.

Patterson/UTI Merger

Patterson Energy, Inc. and UTI Energy Corp. consummated a merger on May 8, 2001. The transaction was treated as a reorganization within the meaning of Section 368 (a) of the Internal Revenue Code of 1986, as amended, and accounted for as a pooling of interests for financial accounting purposes. Historical financial statements and related financial and statistical data contained in this Report have been restated to provide for the retroactive effect of the merger.

Industry Segments

Our revenues, operating results and identifiable operating assets are attributable to four industry segments:

- contract drilling,
- pressure pumping services,
- drilling and completion fluids services, and
- oil and natural gas development, exploration, acquisition and production.

With respect to these four segments:

- the contract drilling segment had operating profits in 2004, 2003 and 2002,
- the pressure pumping segment had operating profits in 2004, 2003 and 2002,
- the drilling and completion fluids segment had an operating profit in 2004 and operating losses in 2003 and 2002, and
- the oil and natural gas segment had operating profits in 2004, 2003 and 2002.

See Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 17 of Notes to Consolidated Financial Statements included as a part of Items 7 and 8, respectively, of this Report for financial information pertaining to these industry segments.

Contract Drilling Operations

General We market our contract drilling services to major and independent oil and natural gas operators. As of December 31, 2004, we owned 361 drilling rigs which were based in the following regions:

- 149 in the Permian Basin region (West Texas and Southeastern New Mexico),
- 55 in South Texas,
- 42 in the Ark-La-Tex region and Mississippi,
- 77 in the Mid-Continent region (Oklahoma and North Central Texas),
- 21 in the Rocky Mountain region (Colorado, Utah and Wyoming), and
- 17 in Western Canada (Alberta, British Columbia and Saskatchewan).

Our drilling rigs have rated maximum depth capabilities ranging from 4,000 feet to 30,000 feet. Of our drilling rigs, 40 are SCR electric rigs and 321 are mechanical rigs. An electric rig differs from a mechanical rig in that the electric rig converts the diesel power (the sole energy source for a mechanical rig) into electricity to power the rig.

Drilling rigs are typically equipped with:

- engines,
- drawworks or hoists,
- derricks or masts,
- pumps to circulate the drilling fluid,
- blowout preventers,
- drill string (pipe), and
- other related equipment.

Over time, components on a drilling rig are replaced or rebuilt. We spend significant funds each year on an ongoing program to modify and upgrade our drilling rigs to ensure that our drilling equipment is well maintained and competitive. During fiscal years 2004, 2003 and 2002, we spent approximately $141 million, $77 million and $60 million, respectively, on capital improvements to modify and upgrade our drilling rigs.

Depth of the well and drill site conditions are the principal factors in determining the size of drilling rig used for a particular job. We use our rigs for developmental and exploratory drilling and they are capable of vertical or horizontal drilling.

Our contract drilling operations depend on the availability of:

- drill pipe,
- bits,
- replacement parts and other related rig equipment,
- fuel, and
- qualified personnel,

some of which have been in short supply from time to time.

Drilling Contracts Most of our drilling contracts are with established customers on a competitive bid or negotiated basis. Typically, the contracts are short-term to drill a single well or a series of wells.

The drilling contracts obligate us to provide and operate a drilling rig and to pay certain operating expenses, including wages of drilling personnel and necessary maintenance expenses. The contracts are generally subject to termination by the customer on short notice. We generally indemnify our customers against claims by our employees and claims that might arise from surface pollution caused by spills of fuel, lubricants and other solvents within our control. The customers generally indemnify us against claims that might arise from other surface and subsurface pollution, except claims that might arise from our gross negligence.

The contracts provide for payment on a daywork, footage, or turnkey basis, or a combination thereof. In each case, we provide the rig and crews. Our bid for each contract depends upon:

- location, depth and anticipated complexity of the well,
- on-site drilling conditions,
- equipment to be used,
- estimated risks involved,
- estimated duration of the job,
- availability of drilling rigs, and
- other factors particular to each proposed well.

Daywork Contracts

Under daywork contracts, we provide the drilling rig and crew to the customer. The customer supervises the drilling of the well. Our compensation is based on a contracted rate per day during the period the drilling rig is utilized. We generally receive a lower rate when the drilling rig is moving, or when drilling operations are interrupted or restricted by conditions beyond our control. In addition, daywork contracts typically provide separately for mobilization of the drilling rig.

Footage Contracts

Under footage contracts, we contract to drill a well to a certain depth under specified conditions for a fixed price per foot. The customer provides drilling fluids, casing, cementing and well design expertise. These contracts require us to bear the cost of services and supplies that we provide until the well has been drilled to the agreed depth. If we drill the well in less time than estimated, we have the opportunity to improve our profits over those that would be attainable under a daywork contract. Profits are reduced and losses may be incurred if the well requires more days to drill to the contracted depth than estimated. Footage contracts generally contain greater risks for a drilling contractor than daywork contracts. Under footage contracts, the drilling contractor assumes certain risks associated with loss of the well from fire, blowouts and other risks.

Turnkey Contracts

Under turnkey contracts, we contract to drill a well to a certain depth under specified conditions for a fixed fee. In a turnkey arrangement, we are required to bear the costs of services, supplies and equipment beyond those typically provided under a footage contract. In addition to the drilling rig and crew, we are required to provide the drilling and completion fluids, casing, cementing, and the technical well design and engineering services during the drilling process. We also assume certain risks associated with drilling the well such as fires, blowouts, cratering of the well bore and other such risks. Compensation occurs only when the agreed scope of the work has been completed which requires us to make larger up-front working capital commitments prior to receiving payments under a turnkey drilling contract. Under a turnkey contract, we have the opportunity to improve our profits if the drilling process goes as expected and there are no complications or time delays. However, given the increased exposure we have under a turnkey contract, profits can be significantly reduced and losses incurred if complications or delays occur during the drilling process. Turnkey contracts generally involve the highest degree of risk among the three different types of drilling contracts: daywork, footage and turnkey.

Revenues by Contract Type Information regarding our contract drilling activity for the last three years follows:

	Years Ended December 31,		
Type of Revenues	**2004**	**2003**	**2002**
Daywork	88%	83%	82%
Footage	6	7	11
Turnkey	6	10	7

Contract Drilling Activity Information regarding our contract drilling activity for the last three years follows:

	Years Ended December 31,		
	2004	**2003**	**2002**
Average rigs owned	359	336	323
Average rigs operating(1)	211	188	126
Average rig utilization rate	59%	56%	39%
Number of rigs operated	259	226	230
Number of wells drilled	3,534	3,017	2,012

(1) A rig is operating when it is drilling, being moved, assembled, dismantled or otherwise earning revenue under contract.

Drilling Rigs and Related Equipment Certain drilling rig information as of December 31, 2004 follows:

Depth Rating (Ft.)	**Mechanical**	**Electric**
4,000 to 9,999	63	
10,000 to 11,999	68	2
12,000 to 14,999	126	7
15,000 to 30,000	64	31
Totals	321	40

At December 31, 2004, we owned 288 trucks and 360 trailers used to rig down, transport and rig up our drilling rigs. This reduces our dependency upon third parties for these services and enhances the efficiency of our contract drilling operations particularly in periods o