

PATTERSON UTI ENERGY INC  
Form 10-Q  
April 27, 2015

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, 2015

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	75-2504748
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

450 GEARS ROAD, SUITE 500

HOUSTON, TEXAS	77067
(Address of principal executive offices)	(Zip Code)

(281) 765-7100

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(Registrant's telephone number, including area code)

N/A

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

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.

146,813,483 shares of common stock, \$0.01 par value, as of April 24, 2015

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

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

## PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

(unaudited, in thousands, except share data)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$86,917	\$43,012
Accounts receivable, net of allowance for doubtful accounts of \$3,537 and \$3,546 at March 31, 2015 and December 31, 2014, respectively	484,986	663,404
Federal and state income taxes receivable	—	81,726
Inventory	28,346	32,251
Deferred tax assets, net	39,926	37,075
Other	47,445	51,624
Total current assets	687,620	909,092
Property and equipment, net	4,222,404	4,131,071
Goodwill and intangible assets	219,902	220,813
Deposits on equipment purchases	80,159	112,379
Other	20,822	20,656
Total assets	\$5,230,907	\$5,394,011
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$315,746	\$382,438
Federal and state income taxes payable	30,994	—
Accrued expenses	178,876	173,466
Current portion of long-term debt	35,000	12,500
Total current liabilities	560,616	568,404
Borrowings under revolving credit facility	—	303,000
Other long-term debt	845,000	670,000
Deferred tax liabilities, net	914,711	935,660
Other	12,042	11,137
Total liabilities	2,332,369	2,488,201
Commitments and contingencies (see Note 9)		
Stockholders' equity:		
Preferred stock, par value \$.01; authorized 1,000,000 shares, no shares issued	—	—
	1,893	1,893

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Common stock, par value \$.01; authorized 300,000,000 shares with 189,265,286 and 189,262,876 issued and 146,446,701 and 146,444,291 outstanding at March 31, 2015 and December 31, 2014		
Additional paid-in capital	991,495	984,674
Retained earnings	2,806,300	2,811,815
Accumulated other comprehensive income	(2,115 )	6,463
Treasury stock, at cost, 42,818,585 shares at March 31, 2015 and December 31, 2014	(899,035 )	(899,035 )
Total stockholders' equity	2,898,538	2,905,810
Total liabilities and stockholders' equity	\$5,230,907	\$5,394,011

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

## PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2015	2014
Operating revenues:		
Contract drilling	\$401,478	\$425,903
Pressure pumping	249,721	240,261
Oil and natural gas	6,500	12,004
Total operating revenues	657,699	678,168
Operating costs and expenses:		
Contract drilling	212,810	251,059
Pressure pumping	212,725	199,808
Oil and natural gas	2,798	3,274
Depreciation, depletion, amortization and impairment	175,382	147,322
Selling, general and administrative	32,797	19,673
Net gain on asset disposals	(2,916 )	(1,744 )
Total operating costs and expenses	633,596	619,392
Operating income	24,103	58,776
Other income (expense):		
Interest income	283	176
Interest expense, net of amount capitalized	(8,541 )	(7,188 )
Total other expense	(8,258 )	(7,012 )
Income before income taxes	15,845	51,764
Income tax expense (benefit):		
Current	30,520	26,935
Deferred	(23,800 )	(9,993 )
Total income tax expense	6,720	16,942
Net income	\$9,125	\$34,822
Net income per common share:		
Basic	\$0.06	\$0.24
Diluted	\$0.06	\$0.24
Weighted average number of common shares outstanding:		
Basic	144,983	142,892
Diluted	145,745	145,099
Cash dividends per common share	\$0.10	\$0.10

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



PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	\$9,125	\$34,822
Other comprehensive income (loss), net of taxes of \$0 for all periods:		
Foreign currency translation adjustment	(8,578)	(3,355)
Total comprehensive income	\$547	\$31,467

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



## PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited, in thousands)

	Common Stock		Additional		Accumulated Other		
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2014	189,263	\$ 1,893	\$ 984,674	\$ 2,811,815	\$ 6,463	\$(899,035)	2,905,810
Net income	—	—	—	9,125	—	—	9,125
Foreign currency translation adjustment	—	—	—	—	(8,578)	—	(8,578)
Issuance of restricted stock	18	—	—	—	—	—	—
Forfeitures of restricted stock	(16)	—	—	—	—	—	—
Stock-based compensation	—	—	6,855	—	—	—	6,855
Tax expense related to stock-based compensation	—	—	(34)	—	—	—	(34)
Payment of cash dividends	—	—	—	(14,640)	—	—	(14,640)
Balance, March 31, 2015	189,265	\$ 1,893	\$ 991,495	\$ 2,806,300	\$ (2,115)	\$(899,035)	\$ 2,898,538

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

## PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three Months Ended March 31,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income	\$9,125	\$34,822
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation, depletion, amortization and impairment	175,382	147,322
Tax expense on stock based compensation	(34 )	—
Dry holes and abandonments	46	283
Deferred income tax (benefit) expense	(23,800 )	(9,993 )
Stock-based compensation expense	6,855	6,711
Net gain on asset disposals	(2,916 )	(1,744 )
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	176,672	(35,434 )
Income taxes receivable/payable	112,711	14,180
Inventory and other assets	9,724	2,513
Accounts payable	(65,196 )	22,264
Accrued expenses	5,559	(1,648 )
Other liabilities	857	221
Net cash provided by operating activities	404,985	179,497
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(241,466)	(170,372)
Proceeds from disposal of assets	5,827	6,590
Net cash used in investing activities	(235,639)	(163,782)
<b>Cash flows from financing activities:</b>		
Purchases of treasury stock	—	(43 )
Dividends paid	(14,640 )	(14,456 )
Tax benefit related to stock-based compensation	—	1,961
Debt issuance costs	(1,940 )	—
Proceeds from long-term debt	200,000	—
Repayment of long-term debt	(2,500 )	(2,500 )
Proceeds from borrowings under revolving credit facility	54,000	—
Repayment of borrowings under revolving credit facility	(357,000)	—
Proceeds from exercise of stock options	—	8,033
Net cash provided by (used in) financing activities	(122,080)	(7,005 )
Effect of foreign exchange rate changes on cash	(3,361 )	(473 )
Net increase in cash and cash equivalents	43,905	8,237
Cash and cash equivalents at beginning of period	43,012	249,509
Cash and cash equivalents at end of period	\$86,917	\$257,746
<b>Supplemental disclosure of cash flow information:</b>		
Net cash (paid) received during the period for:		
Interest, net of capitalized interest of \$1,592 in 2015 and \$1,667 in 2014	\$(783 )	—
Income taxes	\$83,135	\$(10,001 )

Non-cash investing and financing activities:

Net (decrease) increase in payables for purchases of property and equipment	\$(884 )	\$68,802
Net decrease (increase) in deposits on equipment purchases	\$32,220	\$(4,677 )

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

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. Basis of Consolidation and Presentation

The unaudited interim consolidated condensed 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. Except for wholly-owned subsidiaries, the Company has no controlling financial interests in any entity which would require consolidation.

The unaudited interim consolidated condensed financial statements have been prepared by management of the Company 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 statement of the information in conformity with accounting principles generally accepted in the United States of America have been included. The Unaudited Consolidated Condensed Balance Sheet as of December 31, 2014, as presented herein, was derived from the audited consolidated 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 condensed 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, 2014. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year.

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

The carrying values of cash and cash equivalents, trade receivables and accounts payable approximate fair value.

The Company provides a dual presentation of its net income per common share in its unaudited consolidated condensed statements of operations: 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 first allocating earnings between common stockholders and holders of non-vested shares of restricted stock. Basic EPS is then determined by dividing the earnings attributable to common stockholders by the weighted average number of common shares outstanding during the period, excluding non-vested shares of restricted stock.

Diluted EPS is based on the weighted average number of common shares outstanding plus the dilutive effect of potential common shares, including stock options, non-vested shares of restricted stock and restricted stock units. The dilutive effect of stock options and restricted stock units is determined using the treasury stock method. The dilutive effect of non-vested shares of restricted stock is based on the more dilutive of the treasury stock method or the two-class method, assuming a reallocation of undistributed earnings to common stockholders after considering the dilutive effect of potential common shares other than non-vested shares of restricted stock.



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The following table presents information necessary to calculate net income per share for the three months March 31, 2015 and 2014 as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2015	2014
<b>BASIC EPS:</b>		
Net income	\$9,125	\$34,822
Adjust for income attributed to holders of non-vested restricted stock	(86 )	(353 )
Income attributed to common stockholders	\$9,039	\$34,469
Weighted average number of common shares outstanding, excluding non-vested shares of restricted stock	144,983	142,892
Basic net income per common share	\$0.06	\$0.24
<b>DILUTED EPS:</b>		
Income attributed to common stockholders	\$9,039	\$34,469
Weighted average number of common shares outstanding, excluding non-vested shares of restricted stock	144,983	142,892
Add dilutive effect of potential common shares	762	2,207
Weighted average number of diluted common shares outstanding	145,745	145,099
Diluted net income per common share	\$0.06	\$0.24
Potentially dilutive securities excluded as anti-dilutive	5,569	80

## 2. Stock-based Compensation

The Company uses share-based payments to compensate employees and non-employee directors. The Company recognizes the cost of share-based payments under the fair-value-based method. Share-based awards consist of equity instruments in the form of stock options, restricted stock or restricted stock units and have included service and, in certain cases, performance conditions. The Company's share-based awards also included share-settled performance unit awards. Share-settled performance unit awards are accounted for as equity awards. The Company issues shares of common stock when vested stock options are exercised, when restricted stock is granted and when restricted stock units and share-settled performance unit awards vest.

**Stock Options** — The Company estimates the grant date fair values of stock options using the Black-Scholes-Merton valuation model. 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 for the three month periods ended March 31, 2015 and 2014 follow:

	Three Months Ended March 31, 2015		2014
Volatility	38.47 %	35.91 %	
Expected term (in years)	5.00	5.00	
Dividend yield	2.41 %	0.79 %	
Risk-free interest rate	1.65 %	1.75 %	

Stock option activity from January 1, 2015 to March 31, 2015 follows:

	Underlying Shares	Weighted Average Exercise Price
Outstanding at January 1, 2015	6,086,250	\$ 22.32
Granted	60,000	\$ 16.59
Exercised	—	—
Cancelled	—	—
Expired	—	—
Outstanding at March 31, 2015	6,146,250	\$ 22.26
Exercisable at March 31, 2015	5,390,683	\$ 21.44

Restricted Stock — For all restricted stock awards to date, shares of common stock were issued when the awards were made. Non-vested shares are subject to forfeiture for failure to fulfill service conditions and, in certain cases, performance conditions. Non-forfeitable dividends are paid on non-vested shares of restricted stock. The Company uses the straight-line method to recognize periodic compensation cost over the vesting period.

Restricted stock activity from January 1, 2015 to March 31, 2015 follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested restricted stock outstanding at January 1, 2015	1,493,059	\$ 26.93
Granted	18,000	\$ 16.59
Vested	(57,356 )	\$ 21.65
Forfeited	(15,590 )	\$ 28.08
Non-vested restricted stock outstanding March 31, 2015	1,438,113	\$ 27.00

Restricted Stock Units — For all restricted stock unit awards made to date, shares of common stock are not issued until the units vest. Restricted stock units are subject to forfeiture for failure to fulfill service conditions. Non-forfeitable cash dividend equivalents are paid on certain non-vested restricted stock units. The Company uses the straight-line method to recognize periodic compensation cost over the vesting period.

Restricted stock unit activity from January 1, 2015 to March 31, 2015 follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested restricted stock units outstanding at January 1, 2015	34,085	\$ 30.20



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Granted	—	\$ —
Vested	—	\$ —
Forfeited	—	\$ —
Non-vested restricted stock units outstanding March 31, 2015	34,085	\$ 30.20

Performance Unit Awards — In 2011, 2012, 2013 and 2014, the Company granted stock-settled performance unit awards to certain executive officers (the “Stock-Settled Performance Units”). The Stock-Settled Performance Units provide for the recipients to receive a grant of shares of stock upon the achievement of certain performance goals established by the Compensation Committee during the performance period. The performance units will only have a payout if total shareholder return is positive for the performance period and, when compared to the peer group, is at or above the 25th percentile. The performance period for the Stock-Settled Performance Units is the three year period commencing on April 1 of the year of grant. For the 2012 and 2013 Stock-Settled Performance Units, the performance period can extend for an additional two years in certain circumstances. The performance goals for the Stock-Settled Performance Units are tied to the Company’s total shareholder return for the performance period as compared to total shareholder return for a peer group determined by the Compensation Committee. These goals are considered to be market conditions under the relevant accounting standards and the market conditions were factored into the determination of the fair value of the performance units. Generally, the recipients will receive a target number of shares if the Company’s total shareholder return is positive and, when compared to the peer group, is at the 50<sup>th</sup> percentile and two times the target if at the 75<sup>th</sup> percentile or higher. If the Company’s total shareholder return is positive, and, when compared to the peer group, is at the 25<sup>th</sup> percentile, the recipients will only receive one-half of the target number of shares. The grant of shares when achievement is between the 25<sup>th</sup> and 75<sup>th</sup> percentile will be determined on a pro-rata basis. The target number of shares with respect to the 2012 Stock-Settled Performance Units was 192,000. The performance period for the 2012 Stock-Settled Performance Units ended on March 31, 2015, and the Company’s total shareholder return was at the 87<sup>th</sup> percentile. In April 2015, 384,000 shares were issued to settle the 2012 Stock-Settled Performance Units.

The total target number of shares with respect to the Stock-Settled Performance Units is set forth below:

	2014	2013	2012	2011
	Performance	Performance	Performance	Performance
	Unit Awards	Unit Awards	Unit Awards	Unit Awards
Target number of shares	154,000	236,500	192,000	144,375

Because the performance units are stock-settled awards, they are accounted for as equity awards and measured at fair value on the date of grant using a Monte Carlo simulation model. The fair value of the Stock-Settled Performance Units is set forth below (in thousands):

	2014	2013	2012	2011
	Performance	Performance	Performance	Performance
	Unit Awards	Unit Awards	Unit Awards	Unit Awards
Fair value at date of grant	\$ 5,388	\$ 5,564	\$ 3,065	\$ 5,569

These fair value amounts are charged to expense on a straight-line basis over the performance period. Compensation expense associated with the Stock-Settled Performance Units is shown below (in thousands):

	2014	2013	2012	2011
	Performance	Performance	Performance	Performance
	Unit Awards	Unit Awards	Unit Awards	Unit Awards
Three months ended March 31, 2015	\$ 449			