

PATTERSON UTI ENERGY INC

Form 10-Q/A

March 27, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q/A**

**(Amendment No. 1)**

**þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2005**

**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**

*(State or other jurisdiction of  
incorporation or organization)*

**75-2504748**

*(I.R.S. Employer Identification No.)*

**4510 Lamesa Highway, Snyder, Texas**

*(Address of principal executive offices)*

**79549**

*(Zip Code)*

**(325) 574-6300**

*(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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.

169,579,860 shares of common stock, \$0.01 par value, as of April 28, 2005



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**Table of Contents****Explanatory Note**

This Amendment No. 1 on Form 10-Q/ A ( Form 10-Q/ A ) to our previously filed Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, initially filed with the United States Securities and Exchange Commission ( SEC ) on April 29, 2005 ( Original Filing ), reflects a restatement of our unaudited interim condensed consolidated financial statements as discussed in Note 2 of the Notes to Unaudited Condensed 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 resulted 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
<b>Total through September 30, 2005</b>	<b>71,154</b>
From October 1, 2005 to November 3, 2005 (net of \$1,500 repayment)	6,350
<b>Total Embezzlement</b>	<b>\$ 77,504</b>

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 collectible.

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

<b>Decrease in Amounts Previously Reported</b>	<b>Mar 31, 2005</b>	<b>Dec 31, 2004</b>
Assets	\$ (57,514)	\$ (56,133)
Liabilities(1)	(21,357)	(20,848)
<b>Retained Earnings &amp; Stockholders' Equity</b>	<b>\$ (36,157)</b>	<b>\$ (35,285)</b>

- (1) Consists of increases in federal and state income taxes payable of \$1.7 million and \$1.3 million at March 31, 2005 and December 31, 2004, respectively, and decreases in deferred tax liabilities of \$23.1 million and \$22.2 million at March 31, 2005 and December 31, 2004, respectively.

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The effects of the restatement due to the embezzlement and other adjustments on operating income as previously reported for the three months ended March 31, 2005 and March 31, 2004 follow (in thousands):

	<b>Three Months Ended</b>	
	<b>Mar 31, 2005</b>	<b>Mar 31, 2004</b>
<b>Operating income:</b>		
As previously reported	\$ 94,252	\$ 32,510
Adjustment for effects of embezzlement	(1,381)	(5,013)
Other adjustments	(1,038)	(927)
As restated	\$ 91,833	\$ 26,570

The effects of the restatement due to the embezzlement and other adjustments on net income as previously reported for the three months ended March 31, 2005 and March 31, 2004, respectively, follow (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2005</b>	<b>March 31, 2004</b>
<b>Net income:</b>		
As previously reported	\$ 59,748	\$ 20,682
<b>Adjustments:</b>		
Embezzled funds expense	(1,606)	(5,133)
Embezzlement amounts previously expensed as depreciation and selling, general and administrative	225	120
Other adjustments	(1,038)	(927)
Tax benefits	891	2,191
Net adjustment	(1,528)	(3,749)
Net income, as restated	\$ 58,220	\$ 16,933

**Net income per common share:**

<b>Basic:</b>		
As previously reported	\$ 0.35	\$ 0.13
Adjustment for effects of embezzlement	\$ (0.01)	\$ (0.02)
Other adjustments	\$	\$
As restated	\$ 0.34	\$ 0.10
<b>Diluted:</b>		
As previously reported	\$ 0.35	\$ 0.12
Adjustment for effects of embezzlement	\$ (0.01)	\$ (0.02)
Other adjustments	\$	\$
As restated	\$ 0.34	\$ 0.10

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

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements**

The following unaudited condensed consolidated financial statements include all adjustments which, in the opinion of management, are necessary in order to make such financial statements not misleading.

**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	Restated (See Note 2)	
	March 31, 2005	December 31, 2004
	(Unaudited) (In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 68,296	\$ 112,371
Accounts receivable, net of allowance for doubtful accounts of \$2,765 at March 31, 2005 and \$1,909 at December 31, 2004	272,740	214,097
Inventory	18,164	17,738
Deferred tax assets, net	15,243	15,991
Other	25,570	26,836
Total current assets	400,013	387,033
Property and equipment, at cost, net	865,493	765,019
Goodwill	99,056	99,056
Other	3,961	5,677
Total assets	\$ 1,368,523	\$ 1,256,785
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$ 66,109	\$ 54,553
Accrued revenue distributions	10,434	11,297
Other	9,821	2,309
Accrued federal and state income taxes payable	27,901	4,231
Accrued expenses	85,475	79,163
Total current liabilities	199,740	151,553
Deferred tax liabilities, net	139,987	140,475
Other	3,233	3,256
Total liabilities	342,960	295,284
Commitments and contingencies (See Note 12)		



## Stockholders' equity:

Preferred stock, par value \$.01; authorized 1,000,000 shares, no shares issued		
Common stock, par value \$.01; authorized 300,000,000 shares with 172,470,340 and 171,625,841 issued and 169,357,244 and 168,512,745 outstanding at March 31, 2005 and December 31, 2004, respectively	1,725	1,716
Additional paid-in capital	609,720	597,280
Deferred compensation	(4,944)	(5,420)
Retained earnings	425,185	373,712
Accumulated other comprehensive income, net of tax	7,014	7,350
Treasury stock, at cost, 3,113,096 shares	(13,137)	(13,137)
Total stockholders' equity	1,025,563	961,501
Total liabilities and stockholders' equity	\$ 1,368,523	\$ 1,256,785

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

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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Restated (See Note 2)	
	Three Months Ended March 31,	
	2005	2004
	(Unaudited) (In thousands, except per share amounts)	
Operating revenues:		
Contract drilling	\$ 295,389	\$ 179,175
Pressure pumping	16,693	14,250
Drilling and completion fluids	29,406	18,139
Oil and natural gas	9,105	7,215
	350,593	218,779
Operating costs and expenses:		
Contract drilling	175,466	127,991
Pressure pumping	10,364	8,088
Drilling and completion fluids	23,949	15,639
Oil and natural gas	2,170	1,568
Depreciation, depletion and impairment	35,215	28,081
Selling, general and administrative	9,673	6,792
Bad debt expense	223	90
Embezzled funds expense	1,606	5,133
(Gain) loss on sale of assets	94	(1,173)
	258,760	192,209
Operating income	91,833	26,570
Other income (expense):		
Interest income	433	251
Interest expense	(66)	(76)
Other	4	85
	371	260
Income before income taxes	92,204	26,830
Income tax expense:		
Current	33,529	4,586
Deferred	455	5,311

	33,984	9,897
Net income	\$ 58,220	\$ 16,933
Net income per common share:		
Basic	\$ 0.34	\$ 0.10
Diluted	\$ 0.34	\$ 0.10
Weighted average number of common shares outstanding:		
Basic	168,757	163,748
Diluted	171,742	167,234

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

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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

	Common Stock		Additional		Accumulated		Other		
	Number of Shares	Amount	Paid-In Capital	Deferred Compensation	Retained Earnings	Comprehensive Income	Treasury Stock	Total	
(Unaudited) (In thousands)									
December 31, 2004, as previously reported	171,626	\$ 1,716	\$ 597,280	\$ (5,420)	\$ 415,489	\$ 11,611	\$ (13,137)	\$ 1,007,539	
Adjustment for effects of embezzlement (net of applicable income tax benefit of \$20,848) (See Note 2)					(35,285)			(35,285)	
Other adjustments (net of applicable income tax benefit of \$3,501) (See Note 2)					(6,492)	(4,261)		(10,753)	
December 31, 2004, as restated	171,626	1,716	597,280	(5,420)	373,712	7,350	(13,137)	961,501	
Amortization of deferred compensation expense				551				551	
Forfeitures of restricted shares	(6)			(75)				(75)	
Exercise of stock options	850	9	7,301					7,310	
Tax benefit related to exercise of stock options			5,139					5,139	
Foreign currency translation adjustment (net of applicable income tax of \$195), as restated						(336)		(336)	
Payment of cash dividend					(6,747)			(6,747)	

Net income, as restated	58,220	58,220
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March 31, 2005, as restated	172,470	\$ 1,725	\$ 609,720	\$ (4,944)	\$ 425,185	\$ 7,014	\$ (13,137)	\$ 1,025,563
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*The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.*

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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN CASH FLOWS**

	Restated (See Note 2)	
	Three Months Ended March 31,	
	2005	2004
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	\$ 58,220	\$ 16,933
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and impairment	35,215	28,081
Provision for bad debts	223	90
Deferred income tax expense	455	5,311
Tax benefit related to exercise of stock options	5,139	7,694
Amortization of deferred compensation expense	476	
(Gain) loss on sale of assets	94	(1,173)
Changes in operating assets and liabilities, net of business acquired:		
Accounts receivable	(58,991)	(15,857)
Income taxes receivable		5,733
Inventory and other current assets	780	2,608
Accounts payable	10,798	3,894
Income taxes payable	23,686	
Accrued expenses	5,238	(3,797)
Other liabilities	1,974	(813)
Net cash provided by operating activities	83,307	48,704
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(61,791)	(30,387)
Purchases of property and equipment	(76,200)	(34,945)
Proceeds from sales of property and equipment	8,193	1,260
Change in other assets	1,766	
Net cash used in investing activities	(128,032)	(64,072)
Cash flows from financing activities:		
Dividends paid	(6,747)	
Proceeds from exercise of stock options and warrants	7,310	7,046
Net cash provided by financing activities	563	7,046
Effect of foreign exchange rate changes on cash	87	31
Net decrease in cash and cash equivalents	(44,075)	(8,291)

Cash and cash equivalents at beginning of period	112,371	100,483
Cash and cash equivalents at end of period	\$ 68,296	\$ 92,192
Supplemental disclosure of cash flow information:		
Net cash received (paid) during the period for:		
Interest expense	\$ (66)	\$ (76)
Income taxes	\$ (1,400)	\$ 10,000

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

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

**1. Basis of Consolidation and Presentation**

The interim condensed 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 interim condensed 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 herein are adequate to make the information presented not misleading. In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for presentation of the information have been included.

The Company's former Chief Financial Officer ( CFO ), Jonathan D. Nelson ( Nelson ), perpetrated an embezzlement over a period of more than five years. The accompanying interim unaudited condensed consolidated financial statements have been restated to reflect the effects of losses incurred as a result of the embezzlement in the periods of occurrence. Payments related to the embezzlement previously capitalized as property and equipment and goodwill acquired in 2004, and the related depreciation and other amounts expensed have been reversed from the Company's accounting records. Embezzled payments have been recognized as expense in the periods they were embezzled. The cumulative effects of the embezzlement prior to 2004, have been recognized as a reduction of retained earnings. The accompanying interim unaudited condensed consolidated financial statements have also been restated for the effects of the correction of other errors that are immaterial both individually and in the aggregate (See Note 2).

The unaudited condensed consolidated balance sheet as of December 31, 2004, as presented herein, was derived from the audited balance sheet of the Company. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K/A for the year ended December 31, 2004.

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 (see Note 5 of these Notes to Unaudited Condensed Consolidated Financial Statements).

On April 28, 2004, the Company's Board of Directors authorized a two-for-one stock split in the form of a stock dividend which was distributed on June 30, 2004 to holders of record on June 14, 2004. At June 30, 2004, an adjustment was made to reclassify an amount from retained earnings to common stock to account for the par value of the common stock issued as a stock dividend. This adjustment had no overall effect on equity. The historical earnings per share amounts for the three months ended March 31, 2004, included in the Unaudited Condensed Consolidated Statements of Income and elsewhere in this Report, have been restated as if the two-for-one stock split had occurred on January 1, 2004.

The Company provides a dual presentation of its earnings per share in its Condensed Consolidated Statements of Income: Basic Earnings per Share ( Basic EPS ) and Diluted Earnings per Share ( Diluted EPS ). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding. Diluted EPS is based on the weighted-average number of shares outstanding and the assumed exercise of dilutive instruments, including stock options and warrants, less the number of treasury shares assumed to be purchased with the exercise proceeds. For the three months ended March 31, 2005 and 2004, all potentially dilutive options and warrants were included in the calculation of Diluted EPS. The following table presents information necessary to calculate earnings per share for the three months ended



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March 31, 2005 and 2004 as well as dividends per share paid for the three months ended March 31, 2005 (in thousands, except per share amounts).

	<b>Restated (See Note 2)</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 58,220	\$ 16,933
Weighted average common shares outstanding	168,757	163,748
Basic earnings per share	\$ 0.34	\$ 0.10
Weighted average common shares outstanding	168,757	163,748
Assumed exercise of stock options	2,985	3,486
Weighted average dilutive common shares outstanding	171,742	167,234
Diluted earnings per share	\$ 0.34	\$ 0.10
Cash dividends per share(a)	\$ 0.04	\$

(a) During March 2005, a cash dividend of \$6.7 million was paid on outstanding shares of 168,679,334. No dividend was paid during the three months ended March 31, 2004.

The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications have been made to the 2004 consolidated financial statements in order for them to conform with the 2005 presentation.

**2. Embezzlement and Restatement**

On November 3, 2005, the Company announced the resignation of its CFO, Jonathan D. Nelson. On November 10, 2005, the Company announced that, based on information received by Company senior management on November 9, 2005, the Audit Committee of the Company's Board of Directors began an investigation into an embezzlement from the Company by Nelson.

Most of the embezzled funds result from Nelson causing the wiring of Company funds aggregating approximately \$72.3 million, to, or for the benefit of, entities owned and controlled by him. Nelson was originally able to initiate these wire transfers by requesting the wire transfers himself in telephone calls to one of the Company's banks. After changes to the Company's internal controls and procedures in 2004, Nelson initiated the wire transfers through instructions to one of his subordinates and by the creation of fraudulent invoices containing forged senior management approvals. This false documentation was created by our former CFO to conceal the true nature of these transactions from the Company and its independent registered public accountants.

Nelson also instructed certain former employees, who worked under his supervision, to alter management reports related to property and equipment expenditures and created fictitious property and equipment approval forms with

forged signatures.

On December 22, 2005, upon recommendation of Company management and the Audit Committee of its Board of Directors, the Company announced that based on the results to date of its ongoing internal investigation into the facts and circumstances surrounding the embezzlement by Nelson, the Company would restate its previously issued financial statements and amend its previously issued Annual Report on

**Table of Contents****PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Form 10-K for the year ended December 31, 2004 and Quarterly Reports on Form 10-Q for the periods ended March 31, June 30 and September 30, 2005. These restatements reflect losses incurred as a result of payments made to or for the benefit of Nelson that had been recognized in the Company's accounting records and previously issued financial statements as payments for assets and services that were not received by the Company.

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

The Company promptly advised the United States Securities and Exchange Commission ( SEC ) when it became aware of the embezzlement. The SEC promptly 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 United States attorney for the Northern District of Texas obtained an indictment against Nelson and investigation of this matter continues.

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.

**Table of Contents****PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The accompanying unaudited condensed consolidated financial statements have been restated to provide for, net of related tax effects, (1) the effects of losses incurred as a result of the former CFO's embezzlement and (2) 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 resulted from our review of the Company's property and equipment records and the underlying physical assets in connection with the investigation of the embezzlement as well as the tax effects of our foreign currency translation adjustment. The effects of the embezzlement and other adjustments on the Company's financial position follow (in thousands):

	<b>Previously Reported</b>	<b>Effect of Adjustment for Embezzlement</b>	<b>Effect of Other Adjustments</b>	<b>Restated</b>
<b>March 31, 2005:</b>				
Property and equipment:				
At cost	\$ 1,521,367	\$ (56,811)	\$ (7,072)	\$ 1,457,484
Accumulated depreciation	(589,599)	1,567	(3,959)	(591,991)
Net	931,768	(55,244)	(11,031)	865,493
Goodwill	101,326	(2,270)		99,056
Total assets	1,437,068	(57,514)	(11,031)	1,368,523
Federal and state income taxes payable	25,991	1,745	165	27,901
Deferred tax liabilities, net	163,071	(23,102)	18	139,987
Liabilities	364,134	(21,357)	183	342,960
Retained earnings	468,490	(36,157)	(7,148)	425,185
Accumulated other comprehensive income	11,080		(4,066)	7,014
Stockholders' equity	1,072,934	(36,157)	(11,214)	1,025,563
<b>December 31, 2004:</b>				
Property and equipment:				
At cost	1,400,848	(55,211)	(6,866)	1,338,771
Accumulated depreciation	(571,973)	1,348	(3,127)	(573,752)
Net	828,875	(53,863)	(9,993)	765,019
Goodwill	101,326	(2,270)		99,056
Total assets	1,322,911	(56,133)	(9,993)	1,256,785
Federal and state income taxes payable	2,754	1,311	166	4,231
Deferred tax liabilities, net	162,040	(22,159)	594	140,475
Liabilities	315,372	(20,848)	760	295,284
Retained earnings	415,489	(35,285)	(6,492)	373,712
Accumulated other comprehensive income	11,611		(4,261)	7,350
Stockholders' equity	1,007,539	(35,285)	(10,753)	961,501

**Table of Contents****PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The effects of the embezzlement on the Company's results of operations and cash flows follow (in thousands, except per share amounts):

**Three Months Ended March 31,**

	<b>Previously Reported</b>	<b>Effect of Adjustment for Embezzlement</b>	<b>Effect of Other Adjustments</b>	<b>Restated</b>
<b>2005:</b>				
Depreciation, depletion and impairment	\$ 34,400	\$ (219)	\$ 1,034	\$ 35,215
Selling, general and administrative	9,679	(6)		9,673
Loss on sale of assets	90		4	94
Embezzled funds expense		1,606		1,606
Operating income	94,252	(1,381)	(1,038)	91,833
Income before income taxes	94,623	(1,381)	(1,038)	92,204
Income tax expense	34,875	(509)	(382)	33,984
Net income	59,748	(872)	(656)	58,220
Per common share:				
Basic	0.35	(0.01)		0.34
Diluted	0.35	(0.01)		0.34
Net cash provided by (used in):				
Operating activities	84,907	(1,600)		83,307
Investing activities	(129,632)	1,600		(128,032)
Purchases of property & equipment	77,800	(1,600)		76,200
<b>2004:</b>				
Depreciation, depletion and impairment	27,283	(114)	912	28,081
Selling, general, and administrative	6,798	(6)		6,792
Gain on sale of assets	1,188		(15)	1,173
Embezzled funds expense		5,133		5,133
Operating income	32,510	(5,013)	(927)	26,570
Income before income taxes	32,770	(5,013)	(927)	26,830
Income tax expense	12,088	(1,849)	(342)	9,897
Net income	20,682	(3,164)	(585)	16,933
Per common share:				
Basic	0.13	(0.02)		0.10
Diluted	0.12	(0.02)		0.10
Net cash provided by (used in):				
Operating activities	53,831	(5,127)		48,704
Investing activities	(69,199)	5,127		(64,072)
Acquisitions	32,514	(2,127)		30,387
Purchases of property & equipment	37,945	(3,000)		34,945

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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Recent Acquisitions**

On January 15, 2005, the Company purchased land drilling assets from Key Energy Services, Inc. for \$61.8 million. The assets include 25 active and 10 stacked land-based drilling rigs, related drilling equipment, four yard facilities and a rig moving fleet consisting of approximately 45 trucks and 100 trailers. The transaction was accounted for as an acquisition of assets and the purchase price was allocated among the assets acquired based on their estimated fair market values.

**4. Stock-based Compensation**

At March 31, 2005, the Company had seven stock-based employee compensation plans, of which three were active. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. During the second quarter of 2004, the Company granted restricted shares of the Company's common stock (the Restricted Shares) to certain key employees under the Patterson-UTI Energy, Inc. 1997 Long-Term Incentive Plan, as amended. As required by APB Opinion No. 25, the Restricted Shares were valued based upon the market price of the Company's common stock on the date of the grant. The resulting value is being amortized over the vesting period of the stock. Compensation expense of \$301,000, net of \$75,000 of forfeitures and of \$175,000 of taxes, was included as a reduction in net income for the three months ended March 31, 2005. Other than the Restricted Shares discussed above, no additional stock-based employee compensation expense is reflected in net income, as all options granted under the plans discussed above had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation (in thousands, except per share amounts):

	<b>Restated (See Note 2)</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 58,220	\$ 16,933
Add: Stock-based employee compensation expense recorded, net of forfeitures and taxes	301	
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(2,547)	(2,979)
Pro-forma net income	\$ 55,974	\$ 13,954
Net income per common share:		
Basic, as reported	\$ 0.34	\$ 0.10
Basic, pro-forma	\$ 0.33	\$ 0.09
Diluted, as reported	\$ 0.34	\$ 0.10
Diluted, pro-forma	\$ 0.33	\$ 0.08



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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Comprehensive Income (Expense)**

The following table illustrates the Company's comprehensive income including the effects of foreign currency translation adjustments for the three months ended March 31, 2005 and 2004 (in thousands):

	<b>Restated (See Note 2)</b>	
	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 58,220	\$ 16,933
Other comprehensive expense:		
Foreign currency translation adjustment related to our Canadian operations, net of tax	(336)	(295)
Comprehensive income	\$ 57,884	\$ 16,638

**6. Property and Equipment**

Property and equipment consisted of the following at March 31, 2005 and December 31, 2004 (in thousands):

	<b>Restated (See Note 2)</b>	
	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Equipment	\$ 1,354,892	\$ 1,239,519
Oil and natural gas properties	84,085	82,711
Buildings	13,769	12,892
Land	4,738	3,649
	1,457,484	1,338,771
Less accumulated depreciation and depletion	(591,991)	(573,752)
	\$ 865,493	\$ 765,019

**7. Business Segments**

Our 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 to operators in the oil and natural gas industry, and (iv) the exploration, development, acquisition and 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 executive officer and have distinct and





**Table of Contents****PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

identifiable revenues and expenses. Separate financial data for each of our four business segments is provided below (in thousands).

	<b>Restated (See Note 2)</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Contract drilling(a)	\$ 296,577	\$ 180,325
Pressure pumping	16,693	14,250
Drilling and completion fluids(b)	29,426	18,164
Oil and natural gas	9,105	7,215
Total segment revenues	351,801	219,954
Elimination of intercompany revenues(a)(b)	1,208	1,175
Total revenues	\$ 350,593	\$ 218,779
<b>Income before income taxes:</b>		
Contract drilling	\$ 88,883	\$ 26,286
Pressure pumping	2,555	3,224
Drilling and completion fluids	2,712	232
Oil and natural gas	3,328	2,776
	97,478	32,518
Corporate and other	(4,039)	(815)
Embezzled funds expense(c)	(1,606)	(5,133)
Interest income	433	251
Interest expense	(66)	(76)
Other	4	85
Income before income taxes	\$ 92,204	\$ 26,830

	<b>Restated (See Note 2)</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2004</b>
<b>Identifiable assets:</b>		
Contract drilling	\$ 1,100,120	\$ 961,873
Pressure pumping	56,436	49,145
Drilling and completion fluids	72,471	62,970

Oil and natural gas	64,433	62,984
	1,293,460	1,136,972
Corporate and other(d)	75,063	119,813
Total assets	\$ 1,368,523	\$ 1,256,785

- (a) Includes contract drilling intercompany revenues of approximately \$1.2 million for the three months ended March 31, 2005 and 2004.

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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (b) Includes drilling and completion fluids intercompany revenues of approximately \$20,000 and \$25,000 for the three months ended March 31, 2005 and 2004, respectively.
- (c) The Company's former CFO perpetrated an embezzlement over a period of more than five years. Embezzled funds expense includes adjustments to eliminate payments related to the embezzlement previously capitalized as property and equipment and goodwill acquired. The related depreciation and other amounts expensed have also been reversed from the Company's accounting records (see Note 2).
- (d) Corporate assets primarily include cash on hand managed by the parent corporation and certain deferred federal income tax assets.

**8. Recently Issued Accounting Standards**

The Financial Accounting Standards Board ( FASB ) issued Staff Position Financial Accounting Standard 19-1, *Accounting for Suspended Well Costs* ( FAS19-1 ) in April 2005. FAS 19-1 provides guidance on accounting for exploratory well costs for entities that use the successful efforts method of accounting as described in FAS 19. Exploration activities are frequently performed in more remote areas, to greater depths, and in more complex geological formations than the exploration activities that occurred when FAS 19 was issued in 1977. These changes in exploration activities have resulted in an increased frequency of exploratory wells that successfully find reserves that cannot be recognized as proved when drilling is completed and a lengthened evaluation period for determining whether the reserves qualify as proved. The FASB staff believes that exploratory well costs should continue to be capitalized when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project and FAS 19 is amended to clarify this position. The Company intends to adopt these accounting and disclosure requirements prospectively to existing and newly capitalized exploratory well costs in the third quarter of 2005 and does not expect a significant impact on financial position or results of operations.

The FASB issued Staff Position FIN 46(R)-5, *Implicit Variable Interests Under FASB Interpretation No. 46 (revised December 2003)*, in March 2005. It addresses whether a reporting enterprise should consider whether it holds an implicit variable interest in a variable interest entity ( VIE ) or potential VIE when specific conditions exist. The Company does not expect any impact on its financial position or results of operations as a result of its adoption of FIN 46(R)-5 in the second quarter of 2005.

The FASB issued Staff Position FIN 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143, in March 2005. The Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The statement clarifies the term conditional asset retirement obligation as used in FASB 143. The Company believes that it is already in compliance with the statement and does not expect any impact on financial position or results of operations when adopted.

The FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123(R) ) in December 2004; it replaces SFAS 123, and supersedes APB 25. Under SFAS 123(R), companies would have been required to implement the standard as of the beginning of the first interim reporting period that begins after June 15, 2005. However, in April 2005, the SEC announced the adoption of an Amendment to Rule 4-01(a) of Regulation S-X regarding the compliance date for SFAS 123(R) that amends the compliance dates and allows companies to implement SFAS 123(R) beginning with the first annual reporting period beginning on or after June 15, 2005. The Company intends to adopt SFAS 123(R) in its fiscal year beginning January 1, 2006.

The Company currently uses the intrinsic value method to value stock options, and accordingly, no compensation expense has been recognized for stock options since the Company grants stock options with exercise prices equal to the Company's common stock market price on the date of the grant. SFAS 123(R)

Table of Contents**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

requires the expensing of all stock-based compensation, including stock options and restricted shares, using the fair value method. The Company intends to expense stock options using the Modified Prospective Transition method as described in SFAS 123(R). This method will require expense to be recognized for stock options over their respective remaining vesting period. No expense will be recognized for stock options vested in periods prior to the adoption of SFAS 123(R). The Company is evaluating the impact of its adoption of SFAS 123(R) on its results of operations and financial position. Adoption is not expected to have a material effect on the Company's financial position or results of operations.

The FASB issued Statement of Financial Accounting Standard No. 151, *Inventory Costs* an amendment of ARB No. 43, Chapter 4 ( SFAS 151 ). SFAS 151 is effective, and will be adopted, for inventory costs incurred during fiscal years beginning after June 15, 2005 and is to be applied prospectively. SFAS 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to require current period recognition of abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). Adoption is not expected to have a material effect on the Company's financial position or results of operations.

The FASB issued Statement of Financial Accounting Standard No. 153, *Exchanges of Nonmonetary Assets* an amendment of APB Opinion No. 29 ( SFAS 153 ). SFAS 153 is effective, and will be adopted, for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and is to be applied prospectively. SFAS 153 eliminates the exception for fair value treatment of nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Adoption is not expected to have a material effect on the Company's financial position or results of operations.

**9. Goodwill**

Goodwill is evaluated to determine if the fair value of an asset has decreased below its carrying value. At December 31, 2004 the Company performed its annual goodwill evaluation and determined no adjustment to impair goodwill was necessary. Goodwill as of March 31, 2005 and December 31, 2004 are as follows (in thousands):

	<b>Restated (See Note 2)</b>	
	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>Drilling:</b>		
Goodwill at beginning of year	\$ 89,092	\$ 41,069
Changes to goodwill		48,020
Other		3
Goodwill at end of period	89,092	89,092
<b>Drilling and completion fluids:</b>		
Goodwill at beginning of year	9,964	9,964
Changes to goodwill		
Goodwill at end of period	9,964	9,964
Total goodwill	\$ 99,056	\$ 99,056



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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Accrued Expenses**

Accrued expenses consisted of the following at March 31, 2005 and December 31, 2004 (in thousands):

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Salaries, wages, payroll taxes and benefits	\$ 25,976	\$ 21,245
Workers' compensation liability	40,863	38,677
Sales, use and other taxes	5,230	5,863
Insurance, other than workers' compensation	6,822	7,061
Other	6,584	6,317
	\$ 85,475	\$ 79,163

**11. Asset Retirement Obligation**

Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations, (SFAS No. 143), requires that the Company record a liability for the estimated costs to be incurred in connection with the abandonment of oil and natural gas properties in the future. The following table describes the changes to our asset retirement obligations during the three months ended March 31, 2005 and 2004 (in thousands):

	<b>2005</b>	<b>2004</b>
Balance at beginning of year	\$ 2,358	\$ 1,163
Liabilities incurred*	18	1,113
Liabilities settled	(60)	(70)
Accretion expense	18	15
Asset retirement obligation at end of period	\$ 2,334	\$ 2,221

\* The 2004 amount includes \$1,091 of liabilities assumed in the acquisition of TMBR/ Sharp Drilling, Inc. (TMBR).

**12. Commitments, Contingencies and Other Matters**

The Company maintains letters of credit in the aggregate amount of \$49 million for the benefit of various insurance companies as collateral for retrospective premiums and retained losses which could become payable under the terms of the underlying insurance contracts. These letters of credit expire at various times during each calendar year. No amounts have been drawn under the letters of credit.

We are also party to various legal proceedings arising in the normal course of our business. We do not believe that the outcome of these proceedings, either individually or in the aggregate, will have a material adverse effect on our financial condition.

**13. Stockholders' Equity**

In February 2005, the Company's Board of Directors approved an increase in the quarterly cash dividend on the Company's common stock to \$0.04 per share from \$0.02 per share, which was paid on March 4, 2005 for approximately \$6.7 million. The amount and timing of all future dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial condition, terms of the

Company's credit facilities and other factors.



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**PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During 2004, the Company granted the Restricted Shares to certain key employees under the Patterson-UTI Energy, Inc. 1997 Long-Term Incentive Plan, as amended. As required by APB Opinion No. 25, the Restricted Shares were valued based upon the market price of the Company's common stock on the date of the grant. The resulting value is being amortized over the vesting period of the stock. Compensation expense of \$301,000, net of \$75,000 of forfeitures and of \$175,000 of taxes, was included as a reduction in net income for the three months ended March 31, 2005.

On April 28, 2004, the Company's Board of Directors authorized a two-for-one stock split in the form of a stock dividend which was distributed on June 30, 2004 to holders of record on June 14, 2004. In connection with the two-for-one stock split, an adjustment was made to reclassify an amount from retained earnings to common stock to account for the par value of the common stock issued as a stock dividend. This adjustment had no overall effect on equity. The historical earnings per share amounts for the three months ended March 31, 2004, included in the Unaudited Condensed Consolidated Statements of Income and elsewhere in this Report, have been restated as if the two-for-one stock split had occurred on January 1, 2004.

**14. Subsequent Event**

On April 27, 2005, the Company's Board of Directors approved a cash dividend on each share of its common stock in the amount of \$0.04 per share. The dividend is to be paid to holders of record on May 16, 2005 and paid on June 1, 2005.

**Table of Contents****ITEM 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

This Quarterly Report on Form 10-Q/ A for the three months ended March 31, 2005, amends and restates the financial statements and related financial information for all periods presented herein. The determination to restate these financial statements and other information was made as a result of management's identification of an embezzlement. Further information on the restatement can be found in Note 2 to the Unaudited Condensed Consolidated Financial Statements.

**Management Overview** We are a leading provider of contract services to the North American oil and natural gas industry. Our services primarily involve the drilling, on a contract basis, of land-based oil and natural gas wells and, to a lesser extent, we provide pressure pumping services and drilling and completion fluid services. In addition to the aforementioned contract services, we also engage in the development, exploration, acquisition and production of oil and natural gas. For the three months ended March 31, 2005 and 2004, our operating revenues consisted of the following (dollars in thousands):

	<b>Three Months Ended March 31,</b>			
	<b>2005</b>		<b>2004</b>	
Contract drilling	\$ 295,389	84%	\$ 179,175	82%
Pressure pumping	16,693	5	14,250	7
Drilling and completion fluids	29,406	8	18,139	8
Oil and natural gas	9,105	3	7,215	3
	\$ 350,593	100%	\$ 218,779	100%

We provide our contract services to oil and natural gas operators in many of the oil and natural gas producing regions of North America. Our contract drilling operations are focused in various regions of Texas, New Mexico, Oklahoma, Louisiana, Mississippi, Colorado, Utah, Wyoming, Montana, North Dakota, South Dakota and Western Canada while our pressure pumping services are focused primarily in the Appalachian Basin. Our drilling and completion fluids services are provided to operators in Texas, Southeastern New Mexico, Oklahoma, the Gulf Coast region of Louisiana and the Gulf of Mexico. Our oil and natural gas operations are primarily focused in West and South Texas, Southeastern New Mexico, Utah and Mississippi.

We have been a leading consolidator of the land-based contract drilling industry over the past several years, increasing our drilling fleet to 396 rigs as of March 31, 2005. Based on publicly available information, we believe we are the second largest owner of land-based drilling rigs in North America. Our most significant transaction occurred in May 2001 when we merged with UTI Energy Corp. in a merger of equals which nearly doubled our drilling fleet and added the pressure pumping services business. Growth by acquisition has been a corporate strategy intended to expand both revenues and profits.

The profitability of our business is most readily assessed by two primary indicators: our average number of rigs operating and our average revenue per operating day. During the first quarter of 2005, our average number of rigs operating increased to 263 from 229 in the fourth quarter of 2004 and 197 in the first quarter of 2004. Our average revenue per operating day increased to \$12,490 in the first quarter of 2005 from \$11,200 in the fourth quarter of 2004 and \$9,970 in the first quarter of 2004. Primarily due to these improvements, we experienced an increase of approximately \$41.3 million in consolidated net income for the first quarter of 2005 as compared to the first quarter of 2004.

Our revenues, profitability and cash flows are highly dependent upon the market prices of oil and natural gas. During periods of improved commodity prices, the capital spending budgets of oil and natural gas operators tend to expand, which results in increased demand for our contract services. Conversely, in periods of time when these

commodity prices deteriorate, the demand for our contract services generally weakens and we experience downward pressure on pricing for our services. In addition, our operations are highly impacted by competition, the availability of excess equipment, labor issues and various other factors which are more fully described as risk factors in our Forward Looking Statements and Cautionary Statements for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 included in our Annual Report on Form 10-K/A for the year ended December 31, 2004 beginning on page 18.

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Management believes that the liquidity of our balance sheet as of March 31, 2005, which includes approximately \$200 million in working capital (including \$68 million in cash), no long term debt and \$151 million available under our existing \$200 million line of credit (availability of \$49 million is reserved for outstanding letters of credit), provides us with the ability to pursue acquisition opportunities, expand into new regions, make improvements to our assets and survive downturns in our industry.

*Commitments and Contingencies* The Company has no commitments or contingent liabilities which require disclosure in its financial statements other than letters of credit of approximately \$49 million at March 31, 2005, maintained for the benefit of various insurance companies as collateral for retrospective premiums and retained losses which may become payable under the terms of the underlying insurance contracts. No amounts have been drawn under the letters of credit.

Net income for the three months ended March 31, 2005 and 2004 includes embezzlement expense of approximately \$1.6 million and \$5.1 million, respectively. 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.

*Trading and Investing* We have not engaged in trading activities that include high-risk securities, such as derivatives and non-exchange traded contracts. We invest cash primarily in highly liquid, short-term investments such as overnight deposits, money markets, and highly rated municipal and commercial bonds.

*Description of Business* We conduct our contract drilling operations in Texas, New Mexico, Oklahoma, Louisiana, Mississippi, Colorado, Utah, Wyoming, Montana, North Dakota, South Dakota and Western Canada. As of March 31, 2005, we owned 396 drilling rigs. 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 in West and South Texas, Southeastern New Mexico, Utah and Mississippi.

The North American land drilling industry has experienced many downturns in demand over the last decade. During these periods, there have been substantially more drilling rigs available than necessary to meet demand. As a result, drilling contractors have had difficulty sustaining profit margins.

In addition to adverse effects that future declines in demand could have on us, ongoing factors which could adversely affect utilization rates and pricing, even in an environment of stronger oil and natural gas prices and increased drilling activity, include:

movement of drilling rigs from region to region,

reactivation of land-based drilling rigs, or

new construction of drilling rigs.

We cannot predict either the future level of demand for our contract drilling services or future conditions in the oil and natural gas contract drilling business.

### **Critical Accounting Policies**

In addition to established accounting policies, our consolidated financial statements are impacted by certain estimates and assumptions made by management. The following is a discussion of our critical

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accounting policies pertaining to property and equipment, oil and natural gas properties, goodwill, revenue recognition, and the use of estimates.

*Property and equipment* Property and equipment, including betterments which extend the useful life of the asset, are stated at cost. Maintenance and repairs are charged to expense when incurred. We provide for the depreciation of our property and equipment using the straight-line method over their estimated useful lives. Our method of depreciation does not change when equipment becomes idle; we continue to depreciate idled equipment on a straight-line basis. No provision for salvage value is considered in determining depreciation of our property and equipment. We review our assets for impairment when events or changes in circumstances indicate that the carrying values of certain assets either exceed their respective fair values or may not be recovered over their estimated remaining useful lives. The cyclical nature of our industry has resulted in fluctuations in rig utilization over periods of time. Management believes that the contract drilling industry will continue to be cyclical and rig utilization will fluctuate. Based on management's expectations of future trends we estimate future cash flows in our assessment of impairment assuming the following four-year industry cycle: one year projected with low utilization, one year projected as a recovery period with improving utilization and the remaining two years projecting higher utilization. Provisions for asset impairment are charged to income when estimated future cash flows, on an undiscounted basis, are less than the asset's net book value. Impairment charges are recorded based on discounted cash flows. There were no impairment charges to property and equipment during the three months ended March 31, 2005 or 2004.

*Oil and natural gas properties* Oil and natural gas properties are accounted for using the successful efforts method of accounting. Under the successful efforts method of accounting, exploration costs which result in the discovery of oil and natural gas reserves and all development costs are capitalized to the appropriate well. Exploration costs which do not result in discovering oil and natural gas reserves are charged to expense when such determinations are made. In accordance with Statement of Financial Accounting Standards No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies, (SFAS No. 19) costs of exploratory wells are initially capitalized to wells in progress until the outcome of the drilling is known. We review wells in progress quarterly to determine the related reserve classification. If the reserve classification is uncertain after one year following the completion of drilling, we consider the costs of the well to be impaired and recognize the costs as expense. Geological and geophysical costs, including seismic costs and costs to carry and retain undeveloped properties, are charged to expense when incurred. The capitalized costs of both developmental and successful exploratory type wells, consisting of lease and well equipment, lease acquisition costs, and intangible development costs, are depreciated, depleted, and amortized on the units-of-production method, based on petroleum engineer estimates of proved oil and natural gas reserves of each respective field. We review our proved oil and natural gas properties for impairment when an event occurs such as downward revisions in reserve estimates or decreases in oil and natural gas prices. Proved properties are grouped by field and undiscounted cash flow estimates are provided by our reserve engineer. If the net book value of a field exceeds its undiscounted cash flow estimate, impairment expense is measured and recognized as the difference between its net book value and discounted cash flow. Unproved oil and natural gas properties are reviewed quarterly to determine impairment. Our intent to drill, lease expiration, and abandonment of area are considered. Assessment of impairment is made on a lease-by-lease basis. If an unproved property is determined to be impaired, then costs related to that property are expensed. Impairment expense of approximately \$602,000 and \$471,000 for the three months ended March 31, 2005 and 2004, respectively, is included in depreciation, depletion, amortization and impairment in the accompanying financial statements.

*Goodwill* Goodwill is considered to have an indefinite useful economic life and is not amortized until its life is determined to be finite. As such, we assess impairment of our goodwill annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

*Revenue recognition* Revenues are recognized when services are performed, except for revenues earned under turnkey contract drilling arrangements which are recognized using the completed contract method of accounting, as described below. We follow the percentage-of-completion method of accounting for footage contract drilling arrangements. Under the percentage-of-completion method, management estimates are relied upon in the determination of the total estimated expenses to be incurred drilling the well. Due to the



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nature of turnkey contract drilling arrangements and risks therein, we follow the completed contract method of accounting for such arrangements. Under this method, all drilling revenues and expenses related to a well in progress are deferred and recognized in the period the well is completed. Provisions for losses on incomplete or in-process wells are made when estimated total expenses are expected to exceed estimated total revenues.

In accordance with Emerging Issues Task Force Issue No. 00-14, we recognize reimbursements due from third parties for out-of-pocket expenses incurred as revenues and account for out-of-pocket expenses as direct costs.

*Use of estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

Key estimates used by management include:

allowance for doubtful accounts,

total expenses to be incurred on footage and turnkey drilling contracts,

depreciation, depletion, and amortization,

asset impairment,

reserves for self-insured levels of insurance coverages, and

fair values of assets and liabilities assumed.

## **Liquidity and Capital Resources**

As of March 31, 2005, we had working capital of approximately \$200 million, including cash and cash equivalents of \$68.3 million. For the three months ended March 31, 2005, our significant sources of cash flow included:

\$83.3 million provided by operations,

\$7.3 million from the exercise of stock options, and

\$8.2 million in proceeds from sales and pending sales of property and equipment.

We used \$61.8 million to purchase land drilling assets from Key Energy Services, Inc., \$6.7 million to pay dividends on the Company's common stock and \$76.2 million:

to make capital expenditures for the betterment and refurbishment of our drilling rigs,

to acquire and procure drilling equipment,

to fund capital expenditures for our pressure pumping and drilling and completion fluids divisions, and

to fund leasehold acquisition and exploration and development of oil and natural gas properties.

In January 2005, the Company purchased land drilling assets from Key Energy Services, Inc. for \$61.8 million. The assets acquired included 25 active and 10 stacked land-based drilling rigs, related drilling equipment, four yard facilities and a rig moving fleet consisting of approximately 45 trucks and 100 trailers. The transaction was accounted for as an acquisition of assets and the purchase price was allocated among the assets acquired based on their estimated fair market values.

On April 27, 2005, the Company's Board of Directors approved a quarterly cash dividend of \$0.04 on each share of its common stock to be paid on June 1, 2005 to holders of record on May 16, 2005. The amount and timing of all future dividend payments is subject to the discretion of the Board of Directors and will depend upon business

conditions, results of operations, financial condition, terms of the Company's credit facilities and other factors.



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We believe that the current level of cash and short-term investments, together with cash generated from operations, should be sufficient to meet our capital needs. From time to time, acquisition opportunities are evaluated. The timing, size or success of any acquisition and the associated capital commitments are unpredictable. Should opportunities for growth requiring capital arise, we believe we would be able to satisfy these needs through a combination of working capital, cash generated from operations, our existing credit facility and additional debt or equity financing. However, there can be no assurance that such capital would be available.

**Results of Operations**

The following tables summarize operations by business segment for the three months ended March 31, 2005 and 2004:

	<b>Restated (See Note 2)</b>		
<b>Contract Drilling</b>	<b>2005</b>	<b>2004</b>	<b>% Change</b>
	<b>(Dollars in thousands)</b>		
Revenues	\$ 295,389	\$ 179,175	64.9%
Direct operating costs	\$ 175,466	\$ 127,991	37.1%
Selling, general, and administrative	\$ 1,216	\$ 1,089	11.7%
Depreciation	\$ 29,824	\$ 23,809	25.3%
Operating income	\$ 88,883	\$ 26,286	238.1%
Operating days	23,657	17,964	31.7%
Average revenue per operating day	\$ 12.49	\$ 9.97	25.3%
Average direct operating costs per operating day	\$ 7.42	\$ 7.12	4.2%
Number of owned rigs at end of period	396	361	9.7%
Average number of rigs owned during period	391	353	10.8%
Average rigs operating	263	197	33.5%
Rig utilization percentage	67%	56%	19.6%
Capital expenditures	\$ 57,735	\$ 25,380	127.5%

Revenues and direct operating costs increased as a result of the increased number of operating days, as well as an increase in the average revenue and average direct operating costs per operating day. Operating days and average rigs operating increased as a result of the acquisition of land drilling assets from Key Energy Services, Inc. in January 2005, the acquisition of TMBR in February 2004 and increased demand for our contract drilling services. Average revenue per operating day increased as a result of increased demand and pricing for our drilling services. Significant capital expenditures were incurred during the first quarter of 2005 to activate additional drilling rigs to meet increased demand, to modify and upgrade our existing drilling rigs and to acquire additional related equipment such as drill pipe, drill collars, engines, fluid circulating systems, rig hoisting systems and safety enhancement equipment. Increased depreciation expense was due to acquisitions completed and significant capital expenditures in 2004 and the first quarter of 2005.

<b>Pressure Pumping</b>	<b>2005</b>	<b>2004</b>	<b>% Change</b>
	<b>(Dollars in thousands)</b>		
Revenues	\$ 16,693	\$ 14,250	17.1%
Direct operating costs	\$ 10,364	\$ 8,088	28.1%
Selling, general, and administrative	\$ 2,202	\$ 1,793	22.8%
Depreciation	\$ 1,572	\$ 1,145	37.3%
Operating income	\$ 2,555	\$ 3,224	(20.8)%

Total jobs	1,909	1,688	13.1%
Average revenue per job	\$ 8.74	\$ 8.44	3.6%
Average direct operating costs per job	\$ 5.43	\$ 4.79	13.4%
Capital expenditures	\$ 7,658	\$ 5,822	31.5%

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Revenues and direct operating costs for our pressure pumping operations increased as a result of the increased number of jobs, as well as an increase in the average revenue and average direct operating costs per job. The increase in jobs was largely attributable to increased operating capacity which was added in 2004 and the first quarter of 2005. Average direct operating costs per job increased in 2005 primarily as a result of increases in the cost of sand and other materials used in our operations. Selling, general and administrative expenses increased largely as a result of the expanding operations of the pressure pumping segment. Increased depreciation expense for the 2005 quarter was largely due to the expansion of the pressure pumping segment through capital expenditures during 2004 and the first quarter of 2005.

<b>Drilling and Completion Fluids</b>	<b>Restated (See Note 2)</b>		
	<b>2005</b>	<b>2004</b>	<b>% Change</b>
	<b>(Dollars in thousands)</b>		
Revenues	\$ 29,406	\$ 18,139	62.1%
Direct operating costs	\$ 23,949	\$ 15,639	53.1%
Selling, general, and administrative	\$ 2,195	\$ 1,710	28.4%
Depreciation	\$ 550	\$ 558	(1.4)%
Operating income	\$ 2,712	\$ 232	1,069%
Total jobs	527	518	1.7%
Average revenue per job	\$ 55.80	\$ 35.02	59.3%
Average direct operating costs per job	\$ 45.44	\$ 30.19	50.5%
Capital expenditures	\$ 586	\$ 211	177.7%

Revenues and direct operating costs increased during the first quarter of 2005 compared to the first quarter of 2004 primarily as a result of an increase in the average revenue and direct operating costs per job. Average revenue and direct operating costs per job increased primarily as a result of an increase in the number of larger jobs in the Gulf of Mexico during the first quarter of 2005. Selling, general and administrative expense increased in 2005 primarily due to increased incentive compensation resulting from higher profitability levels.

<b>Oil and Natural Gas Production and Exploration</b>	<b>2005 2004</b>		
	<b>% Change</b>		
	<b>(Dollars in thousands, except sales prices)</b>		
Revenues	\$ 9,105	\$ 7,215	26.2%
Direct operating costs	\$ 2,170	\$ 1,568	38.4%
Selling, general, and administrative	\$ 501	\$ 413	21.3%
Depreciation, depletion and impairment	\$ 3,106	\$ 2,458	26.4%
Operating income	\$ 3,328	\$ 2,776	19.9%
Capital expenditures	\$ 5,021	\$ 3,532	42.2%
Average net daily oil production (Bbls)	897	929	(3.4)%
Average net daily gas production (Mcf)	8,599	7,641	12.5%
Average oil sales price (per Bbl)	\$ 51.49	\$ 33.88	52.0%
Average gas sales price (per Mcf)	\$ 6.21	\$ 5.39	15.2%

Revenues and direct operating costs increased in the first quarter of 2005 compared to the first quarter of 2004, primarily due to increased production of natural gas. Revenues further increased as a result of the increased market

prices received for oil and natural gas. Increased production of natural gas was primarily due to the properties added in the acquisition of TMBR in February 2004, as well as increased capital expended during 2004 and the first three months of 2005 to further develop the newly acquired properties. Depreciation, depletion and impairment expense increased in 2005 primarily as a result of increased production of natural

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gas and an increase of approximately \$130,000 of expenses incurred to impair certain oil and natural gas properties.

Corporate and Other	Restated (See Note 2)		
	2005	2004	% Change
	(In thousands)		
Selling, general, and administrative	\$ 3,559	\$ 1,787	99.2%
Bad debt expense	\$ 223	\$ 90	147.8%
Depreciation	\$ 163	\$ 111	46.8%
Gain (loss) on sale of assets	\$ (94)	\$ 1,173	N/A%
Embezzled funds expense	\$ 1,606	\$ 5,133	(68.8)%
Interest income	\$ 433	\$ 251	72.5%
Interest expense	\$ 66	\$ 76	(13.2)%
Other income	\$ 4	\$ 85	(95.3)%
Capital expenditures	\$ 5,200	\$	N/A%

Selling, general and administrative expenses increased primarily as a result of increased professional expenses, including expenses incurred during 2005 to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, and additional compensation expense related to the issuance of restricted shares to certain key employees in the second quarter of 2004. Embezzled funds expense includes payments made to or for the benefit of Jonathan D. Nelson, our former CFO, for assets and services that were not received by the Company. Gain (loss) on sale of assets in 2004 primarily includes \$1.2 million from the sale of scrap metal. During 2005, we exchanged our existing airplane plus \$5.2 million cash for a used airplane that is capable of direct flights throughout the areas in which we travel on business.

**Volatility of Oil and Natural Gas Prices and its Impact on Operations**

Our revenue, profitability, and future rate of growth are substantially dependent upon prevailing prices for oil and natural gas, with respect to all of our operating segments. For many years, oil and natural gas prices and markets have been volatile. Prices are affected by market supply and demand factors as well as international military, political and economic conditions, and the ability of OPEC, to set and maintain production and price targets. All of these factors are beyond our control. Natural gas prices fell from an average of \$6.23 per Mcf in the first quarter of 2001 to an average of \$2.51 per Mcf for the same period in 2002. During this same period, the average number of our rigs operating dropped by approximately 50%. The average market price of natural gas improved from \$3.36 in 2002 to \$5.45 in 2003 to \$5.95 in 2004 and \$6.46 in the first quarter of 2005, resulting in an increase in demand for our drilling services. Our average number of rigs operating increased from 126 in 2002 to 188 in 2003 to 211 in 2004 and 263 in the first quarter of 2005. We expect oil and natural gas prices to continue to be volatile and to affect our financial condition and operations and ability to access sources of capital.

The North American land drilling industry has experienced many downturns in demand over the last decade. During these periods, there have been substantially more drilling rigs available than necessary to meet demand. As a result, drilling contractors have had difficulty sustaining profit margins.

**Impact of Inflation**

We believe that inflation will not have a significant near-term impact on our financial position.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

We currently have no exposure to interest rate market risk as we have no outstanding balance under our credit facility. Should we incur a balance in the future, we would have exposure associated with the floating rate of the interest charged on that balance. The revolving credit facility calls for periodic interest payments at a floating rate ranging from LIBOR plus 0.625% to 1.0% or at the prime rate. The applicable rate above



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LIBOR is based upon our debt to capitalization ratio. Our exposure to interest rate risk due to changes in LIBOR is not expected to be material.

We conduct some business in Canadian dollars through our Canadian land-based drilling operations. The exchange rate between Canadian dollars and U.S. dollars has fluctuated during the last several years. If the value of the Canadian dollar against the U.S. dollar weakens, revenues and earnings of our Canadian operations will be reduced when they are translated to U.S. dollars. Also, the value of our Canadian net assets in U.S. dollars may decline.

### **ITEM 4. *Controls and Procedures***

*Background to the Fraud and Restatement* In November 2005, the Company discovered that its former Chief Financial Officer, Jonathan D. Nelson ( Nelson ), had fraudulently diverted approximately \$78 million in Company funds for his own benefit. Nelson's fraudulent diversions began in 1998 and continued until the fourth quarter of 2005 when he resigned from the Company. The funds fraudulently diverted were recorded as payments for assets or services that were not actually received by the Company. The Audit Committee of the Board of Directors commenced an investigation into Nelson's activities and retained independent counsel and independent forensic accountants to assist with the investigation.

On December 22, 2005, the Company announced that the Audit Committee of the Board of Directors of the Company had concluded that it was necessary to restate its previously reported consolidated financial statements for the years ended December 31, 2004, 2003 and 2002, and for the first three quarters of 2005 and all quarters in 2004 and 2003.

As discussed in Note 2 to the consolidated financial statements included within this Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2005, we have restated our previously issued financial statements.

*Disclosure Controls and Procedures* We maintain disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) designed to ensure that the information required to be disclosed in the reports that we file with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ( CEO ) and current Chief Financial Officer ( CFO ), as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our CEO and current CFO, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q/ A.

At the time of the filing of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, our CEO and former CFO concluded that our disclosure controls and procedures were effective as of March 31, 2005. Subsequent to that evaluation, our CEO and current CFO concluded that our disclosure controls and procedures were not effective at a reasonable level of assurance, as of March 31, 2005, because of material weaknesses. For a discussion of the material weaknesses, see Item 9A of our Annual Report on Form 10-K/ A for the year ended December 31, 2004. Based upon the substantial work performed during the restatement process, management has concluded that the Company's unaudited condensed consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q/ A are fairly stated in all material respects.

*Changes in Internal Control Over Financial Reporting* Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). With the participation of our CEO and CFO, our management evaluates any changes in our internal control over financial reporting that occurred during each fiscal quarter which have materially affected, or are reasonably likely to materially affect, such internal control. At the time of the filing of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, our management, including our CEO and former CFO, concluded that there were no changes in our internal control over financial

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reporting that occurred during the fiscal quarter ended March 31, 2005, that have materially affected or were reasonably likely to materially affect our internal control over financial reporting.

Our CEO and current CFO have subsequently concluded that the material weaknesses described in Item 9A of our Annual Report on Form 10-K/ A for the year ended December 31, 2004 existed as of March 31, 2005.

You can find more information about the investigation, the material weaknesses and the actions that we have taken and are planning to take to remediate the material weaknesses in Item 9A of our Annual Report on Form 10-K/ A, for the year ended December 31, 2004.



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**FORWARD LOOKING STATEMENTS AND CAUTIONARY STATEMENTS FOR  
PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE  
SECURITIES LITIGATION REFORM ACT OF 1995**

Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 2 of this Report contains forward-looking statements which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, statements relating to: liquidity; financing of operations; continued volatility of oil and natural gas prices; source and sufficiency of funds required for immediate capital needs and additional rig acquisitions (if further opportunities arise); and other matters. The words believes, plans, intends, expected, estimates or budgeted and similar expressions identify forward-looking statements. The forward-looking statements are based on certain assumptions and analyses we make in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. We do not undertake to update, revise or correct any of the forward-looking information. Factors that could cause actual results to differ materially from our expectations expressed in the forward-looking statements include, but are not limited to, the following:

Changes in prices and demand for oil and natural gas;

Changes in demand for contract drilling, pressure pumping and drilling and completion fluids services;

Shortages of drill pipe and other drilling equipment;

Labor shortages, primarily qualified drilling personnel;

Effects of competition from other drilling contractors and providers of pressure pumping and drilling and completion fluids services;

Occurrence of operating hazards and uninsured losses inherent in our business operations; and

Environmental and other governmental regulation.

For a more complete explanation of these various factors and others, see Forward Looking Statements and Cautionary Statements for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 included in our Annual Report on Form 10-K/A for the year ended December 31, 2004, beginning on page 18.

You are cautioned not to place undue reliance on any of our forward-looking statements, which speak only as of the date of this Report or in the case of documents incorporated by reference, the date of those documents.

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**PART II OTHER INFORMATION**

**ITEM 6. Exhibits**

**(a) Exhibits.**

The following exhibits are filed herewith or incorporated by reference, as indicated:

- |      |  |
|------|--|
| 3.1  | Restated Certificate of Incorporation, as amended (filed August 9, 2004 as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 and incorporated herein by reference).              |
| 3.2  | Amendment to Restated Certificate of Incorporation, as amended (filed August 9, 2004 as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 and incorporated herein by reference). |
| 3.3  | Amended and Restated Bylaws (filed March 19, 2002 as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference).  |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.  |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 99.1 | Controls and Procedures (filed March 17, 2006 as Item 9A to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004 and incorporated herein by reference).  |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PATTERSON-UTI ENERGY, INC.

By: /s/Cloyce A. Talbott

Cloyce A. Talbott  
*(Principal Executive Officer)*

Chief Executive Officer

By: /s/John E. Vollmer III

John E. Vollmer III  
*(Principal Accounting Officer)*

Senior Vice President-Corporate Development, Chief Financial  
Officer, Secretary and Treasurer

DATED: March 27, 2006