

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

**FORM 10-Q**

(Mark One)

☒ Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

**For the Quarterly Period Ended June 30, 2000**

☐ 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 **1-12542**

**UTI ENERGY CORP.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation)*

**23-2037823**

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

**Suite 225N**

**16800 Greenspoint Park Drive**

**Houston, Texas**

*(Address of principal executive offices)*

**77060**

*(Zip Code)*

**(281) 873-4111**

*(Registrant's telephone number, including area code)*

*(Former Address)*

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 registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No     

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

**18,528,797 shares of Common Stock at July 26, 2000.**

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**PART I FINANCIAL INFORMATION**  
**ITEM 1 CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

**UTI ENERGY CORP.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
*(in thousands)*

	<b>June 30, 2000</b>	<b>December 31, 1999</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents .....	\$ 3,125	\$ 7,547
Accounts receivable, net of allowance for doubtful accounts accounts of \$2,956 in 2000 and \$3,143 in 1999 .....	37,987	33,522
Federal income tax receivables .....	5,822	5,043
Material and supplies .....	742	748
Deferred income taxes .....	2,002	1,762
Prepaid expenses .....	1,983	1,487
	<u>51,661</u>	<u>50,109</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land .....	1,225	1,224
Buildings and improvements .....	3,571	3,538
Machinery and equipment .....	281,328	244,657
Oil and gas working interests .....	1,571	1,856
Construction in process .....	4,570	376
	<u>292,265</u>	<u>251,651</u>
Less accumulated depreciation and amortization .....	74,237	62,807
	<u>218,028</u>	<u>188,844</u>
GOODWILL, less accumulated amortization of \$4,380 in 2000 and \$3,616 in 1999 .....	18,497	19,261
OTHER ASSETS .....	2,104	2,368
	<u>\$ 290,290</u>	<u>\$ 260,582</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable .....	\$ 21,902	\$ 19,672
Accrued payroll and related costs .....	4,112	4,536
Accrued health insurance .....	1,052	1,058
Other accrued expenses .....	3,663	3,948
	<u>30,729</u>	<u>29,214</u>
LONG-TERM DEBT .....	55,000	32,196
DEFERRED INCOME TAXES .....	41,285	41,668
OTHER LIABILITIES .....	397	472
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock, \$.001 par value, 50,000 shares authorized, 19,132 issued and 18,529 outstanding in 2000, 18,432 shares issued and 17,829 outstanding in 1999 .....	19	18
Additional capital .....	148,860	144,312
Retained earnings .....	23,756	22,707
Equity adjustments from foreign currency translation .....	249	-
Treasury Stock, 603 shares in 2000 and 1999, at cost .....	(10,005)	(10,005)
	<u>162,879</u>	<u>157,032</u>
	<u>\$ 290,290</u>	<u>\$ 260,582</u>

See notes to condensed consolidated financial statements.

**PART I FINANCIAL INFORMATION**  
**ITEM 1 CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

**UTI ENERGY CORP.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
*(in thousands)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
REVENUES .....	\$ 55,585	\$ 28,884	\$ 109,858	\$ 61,420
COST OF REVENUES .....	43,839	23,016	87,278	48,923
GROSS PROFIT .....	11,746	5,868	22,580	12,497
OTHER COSTS AND EXPENSES				
Selling, general and administrative .....	2,812	2,534	5,593	5,258
Provisions for bad debts .....	-	256	-	548
Other charge .....	-	-	-	260
Depreciation and amortization .....	6,654	5,773	13,285	11,607
	<u>9,466</u>	<u>8,563</u>	<u>18,878</u>	<u>17,673</u>
OPERATING INCOME (LOSS) .....	2,280	(2,695)	3,702	(5,176)
OTHER INCOME (EXPENSE)				
Interest expense .....	(1,457)	(1,031)	(2,665)	(2,059)
Interest income .....	134	196	279	322
Other, net .....	265	(126)	396	2,829
	<u>(1,058)</u>	<u>(961)</u>	<u>(1,990)</u>	<u>1,092</u>
INCOME (LOSS) BEFORE INCOME TAXES .....	1,222	(3,656)	1,712	(4,084)
INCOME TAXES .....	477	(728)	663	(900)
NET INCOME (LOSS) .....	<u>\$ 745</u>	<u>\$ (2,928)</u>	<u>\$ 1,049</u>	<u>\$ (3,184)</u>
BASIC EARNINGS (LOSS) PER COMMON SHARE .....	<u>\$ .04</u>	<u>\$ (0.18)</u>	<u>\$ .06</u>	<u>\$ (0.19)</u>
DILUTED EARNINGS (LOSS) PER COMMON SHARE	<u>\$ .04</u>	<u>\$ (0.18)</u>	<u>\$ .05</u>	<u>\$ (0.19)</u>
AVERAGE COMMON SHARES OUTSTANDING				
Basic .....	18,509	16,496	18,284	16,353
Diluted .....	19,411	16,496	19,314	16,353

*See notes to condensed consolidated financial statements.*

**UTI ENERGY CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**  
*(in thousands, except per share amounts)*

	<b>Six Months Ended June 30,</b>	
	<b>2000</b>	<b>1999</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss).....	\$ 1,049	\$ (3,184)
Adjustments to reconcile net income (loss) to net cash provided by operations		
Depreciation.....	12,186	10,508
Amortization.....	1,099	1,099
Deferred income taxes .....	(623)	24
Amortization of debt discount .....	238	238
Provisions for bad debts.....	(37)	546
Gain on disposal of fixed assets.....	(296)	(2,939)
Changes in operating assets and liabilities, net of effect of businesses acquired		
Receivables and prepaids .....	(2,959)	3,670
Materials and supplies .....	6	11
Accounts payable and accruals.....	1,616	(5,949)
Other.....	(146)	21
Net cash provided by operating activities .....	12,133	4,045
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures .....	(9,813)	(3,213)
Acquisitions .....	(31,174)	-
Net proceeds from disposition .....	-	4,935
Proceeds from sale of property and equipment .....	391	615
Net cash provided (used) by investing activities.....	(40,596)	2,337
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt.....	24,316	-
Repayments of long-term debt.....	(1,750)	-
Proceeds from exercise of stock options .....	1,702	1,238
Net cash provided by financing activities .....	24,268	1,238
<b>NET INCREASE (DECREASE) IN CASH AND CASH .....</b>	(4,195)	7,620
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENT .....</b>	(227)	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD .</b>	7,547	10,337
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD .....</b>	<u>\$ 3,125</u>	<u>\$ 17,957</u>

*See notes to condensed consolidated financial statements.*

**UTI ENERGY CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2000**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements as of June 30, 2000 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and operating results for the interim periods have been included. The results of operations for the three and six months ended June 30, 2000 are not necessarily indicative of the results for the entire year ending December 31, 2000. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in UTI's Annual Report on Form 10-K for the year ended December 31, 1999 and UTI's Quarterly Report on Form 10-Q for the three months ended March 31, 2000.

Foreign Currency Translation

The U.S. dollar is the functional currency for most of UTI's operations except for UTI's Canadian operations which uses the Canadian dollar as the functional currency. The effects of exchange rate changes are reflected as a separate component of stockholders' equity.

**2. ACQUISITIONS**

Asset Swap

On May 15, 2000, UTI acquired a drilling rig in exchange for certain drilling rig components and drill pipe with a net book value of approximately \$970,000.

Phelps Drilling International Ltd.

On May 5, 2000, UTI acquired the land drilling operations of Phelps Drilling International Ltd. for \$29.6 million. The acquisition has been accounted for under the purchase method of accounting. Phelps' operating results since May 5, 2000 have been consolidated with the operating results of UTI. No goodwill was recorded because the estimated fair market value of the assets acquired exceeded the purchase price. The acquired assets consisted of:

- 14 land drilling rigs
- drilling equipment
- other equipment used in Phelps' land drilling business

**UTI ENERGY CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2000**

**2. ACQUISITIONS (Continued)**

Schneider Drilling Corporation

On December 14, 1999, UTI acquired the land drilling assets of Schneider Drilling Corporation for \$7.5 million in cash. The acquisition has been accounted for under the purchase method of accounting. Schneider's operating results since December 14, 1999 have been consolidated with the operating results of UTI. No goodwill was recorded because the estimated fair market value of the assets acquired exceeded the purchase price. Schneider's assets included:

- three land drilling rigs
- major components for two additional land drilling rigs
- drilling equipment

Norton Drilling Services, Inc.

On July 27, 1999, UTI acquired Norton Drilling Services, Inc., for approximately 1.3 million shares of UTI's common stock. UTI also repaid approximately \$8.0 million of Norton's existing debt upon the acquisition. The acquisition has been accounted for under the purchase method of accounting. Norton's operating results since July 27, 1999 have been consolidated with the operating results of UTI. No goodwill was recorded because the estimated fair market value of the assets acquired exceeded the purchase price. Norton's assets included:

- sixteen land drilling rigs
- drilling equipment
- rolling stock

**3. DISPOSITIONS**

In March 1999, UTI sold certain land drilling assets of International Petroleum Service Company, its wholly owned subsidiary, to an unrelated party for \$5.6 million. A pre-tax gain of \$2.8 million was realized as a result of the sale. Included in the sale were:

- five land drilling rigs
- related support equipment
- rolling stock
- spare parts and supplies

**UTI ENERGY CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2000**

**4. LONG-TERM DEBT**

Under UTI's \$7.8 million promissory notes, a principal payment of \$3.5 million became payable because the average trading value of UTI's common stock for thirty consecutive trading days exceeded \$30.00 per share on March 9, 2000. Half of this repayment was made on June 8, 2000 with the balance to be paid by July 31, 2000. The repayments are being funded by long-term borrowings under the revolving credit facility.

UTI's \$65.0 million four-year revolving credit facility was increased to \$75.0 million during May 2000. Other terms of the credit facility remain substantially the same.

**5. CONTINGENCIES**

UTI is involved in several claims arising in the ordinary course of business. UTI's management believes all of these claims are covered by insurance. UTI's management believes that these matters will not have a material adverse effect on UTI's financial statements.

UTI is partially self-insured for employee health insurance claims. UTI was self-insured for workers compensation for certain years prior to 1999. UTI incurs a maximum of \$100,000 per employee under medical claims and a maximum of \$250,000 per event for workers compensation claims. Although UTI believes that adequate reserves have been provided for expected liabilities arising from its self-insured obligations, management's estimates of these liabilities may change in the future as circumstances develop.



**UTI ENERGY CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2000**

**6. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<i>(in thousands, except per share amounts)</i>			
<i>Numerator:</i>				
Net income (loss) .....	<u>\$ 745</u>	<u>\$ (2,928)</u>	<u>\$ 1,049</u>	<u>\$ (3,184)</u>
<i>Denominator:</i>				
Denominator for basic earnings per share share – weighted-average shares.....	18,509	16,496	18,284	16,353
Effect of dilutive securities:				
Stock options .....	845	-	845	-
Warrants.....	<u>57</u>	<u>-</u>	<u>185</u>	<u>-</u>
Dilutive potential common shares .....	<u>902</u>	<u>-</u>	<u>1,030</u>	<u>-</u>
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions.....	<u>19,411</u>	<u>16,496</u>	<u>19,314</u>	<u>16,353</u>
Basic earnings (loss) per share.....	<u>\$ .04</u>	<u>\$ (0.18)</u>	<u>\$ .06</u>	<u>\$ (0.19)</u>
Diluted earnings (loss) per share.....	<u>\$ .04</u>	<u>\$ (0.18)</u>	<u>\$ .05</u>	<u>\$ (0.19)</u>

Options to purchase 522,000 shares of UTI's common stock and warrants to purchase 91,000 shares of UTI's common stock were not included in the computation of diluted earnings per share for the three months ended June 30, 1999 as the effect would have been antidilutive due to the net loss for the period. Options to purchase 390,000 shares of UTI's common stock and warrants to purchase 46,000 shares of UTI's common stock were not included in the computation of diluted earnings per share for the six months ended June 30, 1999 as the effect would have been antidilutive due to the net loss for the period.

**UTI ENERGY CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2000**

**7. WARRANTS**

During the six months, certain warrant holders executed a net exercise of their warrants. As a result of these transactions, a total of 663,000 warrants were converted into 389,638 shares of UTI common stock.

The following warrants to purchase UTI common stock were outstanding at June 30, 2000:

Related Event	Number of Shares	Exercise Price	Expiration Date
Southland Acquisition	12,000	\$ 16.00	April 11, 2002
Suits Acquisition	100,000	26.50-35.00	July 31, 2003
Norton Acquisition	36,264	9.50-14.82	February 24, 2004 and April 1, 2002

**8. COMPREHENSIVE INCOME**

For the three month period ended June 30, 2000, comprehensive income was \$1.0 million and for the three month period ended June 30, 1999 comprehensive loss was \$2.9 million. For the six month period ended June 30, 2000, comprehensive income was \$1.3 million and for the six month period ended June 30, 1999 comprehensive loss was \$3.2 million.

**UTI ENERGY CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2000**

**9. INDUSTRY SEGMENT INFORMATION**

UTI has two reportable segments: land drilling and pressure pumping. UTI's reportable segments are business units that offer different services.

UTI evaluates performance and allocates resources based on profit or loss from operations before other income (expense) and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The other category in the segment breakdown is attributable to investments in oil and gas properties. This segment has not met the quantitative thresholds for determining reportable segments. There are no intersegment sales and transfers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	<i>(in thousands)</i>			
<i>Revenues:</i>				
Land Drilling .....	\$ 51,990	\$ 25,289	\$ 102,034	\$ 52,861
Pressure Pumping .....	3,562	3,552	7,742	8,479
Other .....	33	43	82	80
	<u>\$ 55,585</u>	<u>\$ 28,884</u>	<u>\$ 109,858</u>	<u>\$ 61,420</u>
<i>Selling, General and Administrative:</i>				
Land Drilling .....	\$ 1,044	\$ 687	\$ 1,826	\$ 1,569
Pressure Pumping .....	708	830	1,566	1,739
Other .....	-	-	-	-
	<u>1,752</u>	<u>1,517</u>	<u>3,392</u>	<u>3,308</u>
Corporate .....	<u>1,060</u>	<u>1,017</u>	<u>2,201</u>	<u>1,950</u>
	<u>\$ 2,812</u>	<u>\$ 2,534</u>	<u>\$ 5,593</u>	<u>\$ 5,258</u>
<i>Operating Income (Loss):</i>				
Land Drilling <sup>(1)</sup> .....	\$ 3,530	\$ (1,776)	\$ 5,976	\$ (3,636)
Pressure Pumping <sup>(1)</sup> .....	(94)	120	86	736
Other <sup>(1)</sup> .....	1	11	24	19
	<u>3,437</u>	<u>(1,645)</u>	<u>6,086</u>	<u>(2,881)</u>
Other Charge .....	-	-	-	(260)
Corporate .....	<u>(1,157)</u>	<u>(1,050)</u>	<u>(2,384)</u>	<u>(2,035)</u>
	<u>\$ 2,280</u>	<u>\$ (2,695)</u>	<u>\$ 3,702</u>	<u>\$ (5,176)</u>

**UTI ENERGY CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**June 30, 2000**

**9. INDUSTRY SEGMENT INFORMATION (Continued)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(in thousands)			
<u>Depreciation and Amortization:</u>				
Land Drilling .....	\$ 6,135	\$ 5,402	\$ 12,264	\$ 10,846
Pressure Pumping .....	399	321	803	643
Other .....	23	18	35	33
	6,557	5,741	13,102	11,522
Corporate .....	97	32	183	85
	<u>\$ 6,654</u>	<u>\$ 5,773</u>	<u>\$ 13,285</u>	<u>\$ 11,607</u>
<u>Capital Expenditures:</u>				
Land Drilling .....	\$ 5,396	\$ 1,903	\$ 9,369	\$ 2,238
Pressure Pumping .....	144	303	398	967
Other .....	12	-	12	-
	5,552	2,206	9,779	3,205
Corporate .....	25	8	34	8
	<u>\$ 5,577</u>	<u>\$ 2,214</u>	<u>\$ 9,813</u>	<u>\$ 3,213</u>

	June 30, 2000	December 31, 1999
<i><u>Segment Assets:</u></i>		
Land Drilling .....	\$ 261,937	\$ 233,341
Pressure Pumping .....	13,618	16,399
Other .....	295	318
	<u>275,850</u>	<u>250,058</u>
Corporate .....	14,440	10,524
	<u>\$ 290,290</u>	<u>\$ 260,582</u>

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(1) Operating income (loss) is total operating revenues less operating expenses, depreciation and amortization and does not include general corporate expenses, other charge, other income (expense) or income taxes.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

UTI Energy Corp. is a leading provider of onshore contract drilling services to exploration and production companies. UTI operates one of the largest land drilling rig fleets in the United States. UTI's drilling operations currently are concentrated in the prolific oil and natural gas producing basins of:

- Texas
- Oklahoma
- New Mexico
- Wyoming
- Western Canada

UTI has a fleet of 140 land drilling rigs that are well suited to the requirements of its markets. UTI also provides pressure pumping services in the Appalachian Basin.

Beginning in 1995, UTI decided to expand its land drilling operations. Management of UTI made this decision to take advantage of:

- improving market conditions
- benefits arising from a consolidation in the land drilling industry

To affect this strategy, UTI disposed of its oilfield distribution business in September 1995 and embarked on an acquisition program aimed at expanding UTI's presence in the oil and natural gas producing regions in the United States. Under this strategy, UTI has acquired 122 rigs since 1995. During this same time period, UTI disposed of nine rigs primarily in the Appalachian Basin. Five of the nine rigs disposed of were sold in 1999.

UTI's revenues grew during 1997 and 1998 as a result of:

- acquisitions
- increased rig utilization and dayrates caused by favorable market conditions

Beginning in 1998 and continuing into 1999, UTI and the United States land drilling industry experienced significant declines in demand and pricing for services. The depressed market conditions caused UTI's rig fleet utilization to decrease from 72% in 1997 to 55% in 1998 and to 43% in 1999. As a result, UTI's revenues decreased significantly during 1999.

UTI currently expects market conditions in the land drilling industry to improve in response to the recent improvement in commodity prices for oil and natural gas. In this regard, UTI's average utilization of 58% during the first six months of 2000 was more than the 43% average utilization during 1999. The dayrate component of drilling contracts also increased during the first six months of 2000.

## Results of Operations

UTI believes the number of land rigs actively drilling in the United States indicates the overall strength of the United States oilfield service industry. Without giving effect to acquisitions, variations in UTI's revenues and gross margins generally follow trends in the United States rig count.

The following table presents certain results of operations data for UTI and the average United States rig count as reported by Baker Hughes Inc.<sup>(1)</sup> for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(dollars in thousands)			
<u>Contract Drilling:</u>				
Revenues .....	\$ 51,990	\$ 25,289	\$ 102,034	\$ 52,861
Cost of revenues .....	\$ 41,281	\$ 20,721	\$ 81,968	\$ 43,527
Selling, general and administrative .....	\$ 1,044	\$ 687	\$ 1,826	\$ 1,569
Operating days <sup>(2)</sup> .....	6,975	3,396	13,602	6,683
Average revenue per operating day .....	\$ 7.454	\$ 7.447	\$ 7.501	\$ 7.910
Average costs per operating day .....	\$ 5.918	\$ 6.102	\$ 6.026	\$ 6.513
Average margin per operating day .....	\$ 1.536	\$ 1.345	\$ 1.475	\$ 1.397
Average U.S. land rig count .....	705	411	670	417
Number of owned rigs at end of period .....	140	104	140	104
Average number of rigs owned during period .....	134	104	130	106
Average rigs operating .....	77	37	75	37
Rig utilization percentage <sup>(3)</sup> .....	57%	36%	58%	35%
Capital expenditures .....	\$ 5,396	\$ 1,903	\$ 9,369	\$ 2,238
Capital expenditures per operating day .....	\$ 0.774	\$ 0.560	\$ 0.689	\$ 0.335
<u>Pressure Pumping:</u>				
Revenues .....	\$ 3,562	\$ 3,552	\$ 7,742	\$ 8,479
Cost of revenues .....	\$ 2,549	\$ 2,282	\$ 5,287	\$ 5,369
Selling, general and administrative .....	\$ 708	\$ 830	\$ 1,566	\$ 1,739
Total jobs .....	612	463	1,265	1,154
Average revenue per job .....	\$ 5.820	\$ 7.672	\$ 6.120	\$ 7.347
Average costs per job .....	\$ 4.165	\$ 4.929	\$ 4.179	\$ 4.653
Average margin per job .....	\$ 1.655	\$ 2.743	\$ 1.941	\$ 2.694
Capital expenditures .....	\$ 144	\$ 303	\$ 398	\$ 967
<u>Other and Corporate:</u>				
Revenues .....	\$ 33	\$ 43	\$ 82	\$ 80
Cost of revenues .....	\$ 9	\$ 13	\$ 23	\$ 27
Selling, general and administrative .....	\$ 1,060	\$ 1,017	\$ 2,201	\$ 1,950
Capital expenditures .....	\$ 37	\$ 8	\$ 46	\$ 8

- 
- (1) Baker Hughes, Inc. is an international oilfield service and equipment company. For more than twenty years, it has conducted and published a weekly census of active drilling rigs. Its active rig count is generally regarded as an industry standard for measuring industry activity levels.
- (2) An operating day is defined as a day during which a rig is being operated, mobilized, assembled or dismantled while under contract.
- (3) Utilization rates are calculated by dividing the operating days by the total available days, including stacked rigs. Available days are calculated by multiplying rigs owned by the days in the period under review. For the six months ended June 30, 2000, the utilization rate of UTI's rigs, excluding stacked rigs, was 66%.

### Comparison of Three Months Ended June 30, 2000 and 1999

Revenues by business segment for the three months ended June 30, 2000 and 1999 are as follows:

	<b>Three Months Ended June 30,</b>		<b>% Increase (Decrease)</b>
	<b>2000</b>	<b>1999</b>	
	<i>(in thousands)</i>		
<u>Revenues:</u>			
Land Drilling.....	\$ 51,990	\$ 25,289	105.6
Pressure Pumping.....	3,562	3,552	0.3
Other .....	33	43	(23.2)
	<u>\$ 55,585</u>	<u>\$ 28,884</u>	92.4

Land drilling revenues increased for the three months ended June 30, 2000 as a result of improved market conditions from the three months ended June 30, 1999 which resulted in improved utilization rates. Land drilling revenue also increased due to several acquisitions completed after June 30, 1999.

Gross profit and gross profit percentage by business segment for the three months ended June 30, 2000 and 1999 are as follows:

	<b>Three Months Ended June 30,</b>		
	<b>2000</b>	<b>1999</b>	<b>%</b>
	<i>(in thousands)</i>		
<u>Gross Profit:</u>			
Land Drilling .....	\$ 10,709	\$ 4,568	18.1
Pressure Pumping .....	1,013	1,270	35.8
Other .....	24	30	69.8
	<u>\$ 11,746</u>	<u>\$ 5,868</u>	20.3

Land drilling gross profit increased due to improved market conditions which resulted in higher utilization rates during the three months ended June 30, 2000 compared to the three months ended June 30, 1999. Land drilling gross profit also increased due to several acquisitions completed after June 30, 1999. Gross profit percentage decreased in pressure pumping for the three months ended June 30, 2000 compared to the same period of 1999 due to mix of jobs performed.

Depreciation and amortization expense increased \$.9 million during the three months ended June 30, 2000, compared to the three months ended June 30, 1999, primarily due to acquisitions consummated during 1999.

Interest expense increased \$.4 million during the quarter ended June 30, 2000 compared to the quarter ended June 30, 1999. This increase was primarily due to an increase in outstanding debt for the three months ended June 30, 2000 compared to the three months ended June 30, 1999. Average debt outstanding was \$43.0 million during the quarter ended June 30, 2000 compared to \$31.9 million for the quarter ended June 30, 1999. The effective interest rate for the quarter ended June 30, 2000 was 13.6% compared to 12.9% for the quarter ended June 30, 1999. The effective interest rate for the quarter ended June 30, 2000 is impacted by the fee incurred on the unused portion of the \$75.0 million revolving credit facility and amortization of deferred financing fees related to that same credit facility.

Income taxes increased \$1.2 million during the quarter ended June 30, 2000, compared to the quarter ended June 30, 1999, primarily due to higher taxable income in 2000. UTI's effective tax rate for the quarter ended June 30, 2000 was 39.0%. UTI's effective tax rate for the quarter ended June 30, 1999 was 19.9%.

#### Comparison of Six Months Ended June 30, 2000 and 1999

Revenues by business segment for the six months ended June 30, 2000 and 1999 are as follows:

	Six Months Ended June 30,		% Increase (Decrease)
	2000	1999	
	<i>(in thousands)</i>		
<u>Revenues:</u>			
Land Drilling .....	\$ 102,034	\$ 52,861	93.0
Pressure Pumping .....	7,742	8,479	(8.7)
Other .....	82	80	2.5
	<u>\$ 109,858</u>	<u>\$ 61,420</u>	78.9

Land drilling revenues increased for the six months ended June 30, 2000 as improved market conditions resulted in improved utilization rates. Land drilling revenue also increased due to several acquisitions completed after June 30, 1999. The decrease in pressure pumping revenue is a result of weather conditions which have limited activity in the Appalachian Basin during the six months ended June 30, 2000.



Gross profit and gross profit percentage by business segment for the six months ended June 30, 2000 and 1999 are as follows:

		Six Months Ended June 30,			
		2000	%	1999	%
		(in thousands)			
<u>Gross Profit:</u>					
Land Drilling.....	\$	20,066	19.7	\$ 9,334	17.7
Pressure Pumping.....		2,455	31.7	3,110	36.7
Other .....		59	72.0	53	66.3
	\$	22,580	20.6	\$ 12,497	20.3

Land drilling gross profit increased due to improved market conditions which resulted in higher utilization rates during the six months ended June 30, 2000 compared to the six months ended June 30, 1999. This improvement comes on top of three abnormal events in the first quarter of 1999: a rig move from one market to another, a Department of Labor audit assessment and an unfavorable court decision on a workers compensation claim. Each event had an associated cost of approximately \$.2 million in the first quarter of 1999. Land drilling gross profit also increased due to several acquisitions completed after June 30, 1999. Gross profit percentage decreased in pressure pumping for the six months ended June 30, 2000 compared to the same period of 1999 due to mix of jobs performed.

Provision for bad debts decreased \$.5 million for the six months ended June 30, 2000 compared to the six months ended June 30, 1999. This was primarily due to improved market conditions.

The other charge of \$.3 million for the six months ended June 30, 1999 was related to a series of actions taken to improve efficiency, increase productivity and make UTI more competitive in the marketplace. The actions included the reduction of regional operating offices from seven to four and the reduction of UTI's administrative staff by twenty-six individuals. The other charge consisted primarily of employee-related expenses associated with these reductions.

Depreciation and amortization expense increased \$1.7 million during the six months ended June 30, 2000, compared to the six months ended June 30, 1999, primarily due to acquisitions consummated during 1999.

Interest expense increased \$.6 million during the six months ended June 30, 2000 compared to the six months ended June 30, 1999. This increase was primarily due to an increase in outstanding debt for the six months ended June 30, 2000 compared to the same period of 1999. Average debt outstanding was \$38.4 million during the six months ended June 30, 2000 compared to \$31.8 million for the six months ended June 30, 1999. The effective interest rate for the six months ended June 30, 2000 was 13.9% compared to 12.9% for the six months ended June 30, 1999. The effective interest rate for the six months ended June 30, 2000 is impacted by the fee incurred on the unused portion of the revolving credit facility and amortization of deferred financing fees related to the same credit facility.

Income taxes increased \$1.6 million during the six months ended June 30, 2000, compared to the six months ended June 30, 1999, primarily due to higher taxable income in 2000. UTI's effective tax rate for the six months ended June 30, 2000 was 38.7%. UTI's effective tax rate for the six months ended June 30, 1999 was 22.0%.

## **Liquidity and Capital Resources**

### *Working Capital*

Historically, UTI has needed cash:

- to fund working capital requirements
- to make capital expenditures to replace and expand its drilling rig fleet
- for acquisitions

UTI has funded ongoing operations through:

- available cash
- cash provided from operations
- borrowings

To date, UTI has funded acquisitions with:

- available cash
- borrowings
- issuances of common stock and warrants to purchase common stock

Operations provided net cash of \$12.1 million in the first six months of 2000 and \$4.0 million in the first six months of 1999. UTI used these funds along with available cash balances on hand to fund capital expenditures. Capital expenditures, excluding acquisitions, were \$9.8 million for the six months ended June 30, 2000 and \$3.2 million for the six months ended June 30, 1999.

UTI had \$3.1 million in cash and cash equivalents and borrowings of \$24.3 million under the revolving credit facility as of June 30, 2000. This is compared to \$7.5 million in cash and cash equivalents and no borrowings under the revolving credit facility as of December 31, 1999.

### *Long Term Debt Facilities*

As of June 30, 2000, UTI had outstanding debt, net of unamortized discounts, of \$55.0 million. This indebtedness included \$25.0 million associated with a 1997 private placement of debt securities in connection with an acquisition and refinancing of indebtedness, \$24.3 million under the revolving credit facility and \$6.1 million of notes associated with an acquisition completed in 1998.

*Revolving Credit Facility.* On November 22, 1999, UTI entered into a four-year revolving credit facility. In May of 2000, the maximum borrowings under this revolving credit facility was increased from \$65.0 million to \$75.0 million. Under the revolving credit facility, UTI may use up to \$10.0 million for letters of credit. The revolving credit facility calls for periodic interest payments at a floating rate ranging from LIBOR plus 1.75% to LIBOR plus 2.75%. The actual rate charged above LIBOR (1.75% at June 30, 2000) is based on UTI's trailing twelve-month EBITDA. UTI's assets secure the facility.

*Subordinated Notes.* On April 11, 1997, UTI issued \$25.0 million principal amount of 12.0% subordinated notes. These subordinated notes come due 2001. The subordinated notes were issued at a 2.0% discount along with seven-year warrants to purchase 1.2 million shares of UTI's common stock at an exercise price of \$10.83 per share. The subordinated notes contain various affirmative and negative covenants customary in such private placements, including restrictions on additional indebtedness, dividends, distributions and other payments.

*Promissory Notes.* On July 31, 1998, UTI issued \$7.8 million principal amount of unsecured promissory notes. An early principal repayment of \$3.5 million became payable because the average trading value of UTI's common stock for thirty consecutive days exceeded \$30.00 per share on March 9, 2000. Half of this repayment was made on June 8, 2000 with the balance to be paid by July 31, 2000. The repayments are being funded by long-term borrowings under the revolving credit facility. The notes bear interest at 7.0% and, except for the \$3.5 million discussed above, mature on July 31, 2002. The notes were issued in connection with an acquisition.

#### *Future Acquisitions and Capital Needs*

Management believes UTI will be able to meet its working capital, capital expenditure and debt service requirements for the next twelve months by using:

- internally generated cash
- availability under the revolving credit facility
- cash balances on hand

Management believes that UTI's strong liquidity position will allow it to react quickly to opportunities in the land drilling industry. These opportunities include making strategic acquisitions.

## **Risks Associated with Forward-Looking Statements**

From time to time, UTI may make certain statements that contain “forward-looking” information. Forward-looking statements speak to the future. Words such as “anticipate”, “believe”, “expect”, “estimate”, “predict”, “project”, “should” and similar expressions usually identify such forward-looking statements. Forward-looking statements may be made by management both orally or in writing. Written forward-looking statements may appear:

- in press releases
- as part of the “Management’s Discussion and Analysis of Financial Condition and Results of Operation” contained in this report
- in UTI’s other filings with the Securities and Exchange Commission

UTI believes that the expectations reflected in these forward-looking statements are reasonable. However, UTI cannot give any assurance that such expectations will materialize. These forward-looking statements are subject to:

- risks
- uncertainties
- assumptions

If any of these risks or uncertainties materialize, actual results of current and future operations may not be as expected. Therefore, readers should not place undue reliance on these forward-looking statements. These forward looking statements speak only as of their dates.

Among the factors that will directly affect UTI’s results of operations and the contract drilling service industry are:

- changes in the price of oil and natural gas
- the volatility of the contract drilling service industry
- UTI’s ability to successfully integrate recent acquisitions
- presence of competitors with greater financial resources
- labor shortages
- contractual risk associated with turnkey and footage contracts
- operating risks inherent in the contract drilling service industry, such as blowouts, explosions, cratering, sour gas, well fires and spills
- domestic and world-wide political stability and economic growth
- risks associated with UTI’s successful execution of internal operating plans
- regulatory uncertainties
- legal proceedings
- drill pipe shortages
- exposure to environmental liabilities
- currency risk factors

## **PART II    OTHER INFORMATION**

### **ITEM 1.    LEGAL PROCEEDINGS**

UTI is involved in several claims arising in the ordinary course of business. In the opinion of management, all of these claims are covered by insurance or will not have a material adverse effect on UTI's financial position.

UTI and its operating subsidiaries are sometimes named as a defendant in litigation usually relating to personal injuries alleged to result from negligence. UTI maintains insurance coverage against such claims to the extent deemed prudent by management.

There can be no assurance that UTI will be able to maintain adequate insurance at rates it considers reasonable and there can be no assurance that insurance will continue to be available on terms as favorable as those that currently exist. The occurrence of an adverse claim in excess of the coverage limits maintained by UTI could have a material adverse effect on UTI's financial condition and results of operations.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K****(a) Exhibits**

Exhibit Number	Title or Description
3.1	Restated Certificate of Incorporation of UTI Energy Corp. dated July 25, 2000. (Incorporated by reference to UTI's registration statement on Form S-3 (No. 333-42576)).
10.1*	Asset Purchase Agreement dated March 24, 2000 by and among UTI Energy Corp., 584022 Alberta Ltd., the major shareholders of 584022 Alberta Ltd. and Phelps Drilling Ltd.
10.2*	Asset Purchase Agreement dated March 24, 2000 by and among UTI Energy Corp., Phelps Drilling International Ltd., the shareholders of 592655 Alberta Ltd. and Phelps Drilling Ltd.
10.3*	Asset Purchase Agreement dated March 24, 2000 by and among UTI Energy Corp., 700392 Alberta Ltd., the major shareholders of 700392 Alberta Ltd. and Phelps Drilling Ltd.
10.4	First Amendment dated as of May 2, 2000 to the Loan and Security Agreement, dated as of November 22, 1999, by and among The CIT Group/Business Credit, Inc., GMAC Business Credit, LLC and Foothill Capital Corporation as Lenders, UTI Energy Corp., UTICO, Inc., UTICO Hard Rock Boring, Inc., International Petroleum Service Company and Norton Drilling Services, Inc. as Guarantors and UTI Drilling, L.P., Norton Drilling LP, a successor in interest by conversion to Norton Drilling Company, Universal Well Services, Inc., UTI Management Services, L.P. and SUITS Drilling Company as Borrowers. (Incorporated by reference to UTI's registration statement on Form S-3 (No. 333-42576)).
10.5	Second Amendment dated as of May 8, 2000 to the Loan and Security Agreement, dated as of November 22, 1999, by and among The CIT Group/Business Credit, Inc., GMAC Business Credit, LLC and Foothill Capital Corporation as Lenders, UTI Energy Corp., UTICO, Inc., UTICO Hard Rock Boring, Inc., International Petroleum Service Company and Norton Drilling Services, Inc. as Guarantors and UTI Drilling, L.P., Norton Drilling LP, a successor in interest by conversion to Norton Drilling Company, Universal Well Services, Inc., UTI Management Services, L.P. and SUITS Drilling Company as Borrowers. (Incorporated by reference to UTI's registration statement on Form S-3 (No. 333-42576)).
27.1*	Financial Data Schedule.

\* Filed herewith.

**(b) Reports on 8-K**

None.

## SIGNATURES

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

UTI ENERGY CORP.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John E. Vollmer III</u> John E. Vollmer III	Senior Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer)	<u>July 31, 2000</u>
<u>/s/ Bruce Sauers</u> Bruce Sauers	Vice President and Corporate Controller (Principal Accounting Officer)	<u>July 31, 2000</u>