

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

**FORM 10-K/A**  
**Amendment to Application or Report**  
**Amendment No. 2**

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

**For the Fiscal Year Ended December 31, 1999**

☐ 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)*

Securities registered pursuant to section 12(b) of the Act:

**Common Stock, Par Value \$.001**

*Title of each class*

**American Stock Exchange**

*Name of each exchange on which registered*

Securities registered pursuant to section 12(g) of the Act: **None**

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     

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ☐ ]

Aggregate market value of the voting stock held by non-affiliates of the registrant.

**\$478,859,388 at March 20, 2000**

Number of shares outstanding of each class of registrant's Common Stock, as of the latest practicable date.

**18,482,397 shares of Common Stock at March 20, 2000**

Documents incorporated by reference.

**None.**

## **PART I**

### **Item 1. BUSINESS**

#### **Introduction**

UTI Energy Corp. is a leading provider of onshore contract drilling services to companies that explore for and produce oil and natural gas. UTI operates one of the largest fleets of drilling rigs used to drill oil and natural gas wells on land in the United States. A drilling rig includes the structure, power source and machinery necessary to allow a drill bit to penetrate rock to a depth desired by the customer. UTI's drilling rigs operate in the oil and natural gas producing basins of:

- Colorado
- Texas
- Louisiana
- Oklahoma
- New Mexico
- Utah
- Wyoming

UTI has a fleet of 125 land drilling rigs. UTI also provides pressure pumping services in the Appalachian Basin. Pressure pumping services consist primarily of well stimulation and cementing for the completion of new wells and remedial work on existing wells. Well stimulation involves processes inside a well designed to enhance the flow of oil, natural gas or other desired substances from the well. Cementing is the process of inserting material between the hole and the pipe to center and stabilize the pipe in the hole.

UTI operates principally in two business segments, drilling oil or natural gas wells on land and pressure pumping. Financial information and other disclosures relating to these business segments are provided in the Notes to Consolidated Financial Statements.

#### **Land Drilling**

UTI's rigs can drill to depths ranging from 8,000 to 30,000 feet. In 1999, UTI continued to increase its number of rigs available for contract. The following table shows the increase:

	As of <u>March 20, 2000</u>	As of <u>December 31, 1998</u>
Number of Rigs Available for Contract	108	90

UTI also has 17 stacked rigs. A stacked rig is a rig that is not currently being marketed and cannot be made available without incurring refurbishing expenditures. UTI could return the stacked rigs to operation at an average estimated cost of approximately \$650,000 per rig. UTI intends to either use the stacked rigs for parts or to place them into service in an orderly manner as regional market conditions merit and trained crews are retained. UTI's rig utilization rate, which is calculated by dividing the operating days by total days rigs are available, including stacked rigs, was 43% for the year ended December 31, 1999. UTI's rig utilization during the fourth quarter of 1999 was 57%.

UTI's land drilling services are performed through regional drilling units:

- East Texas (FWA Drilling Company)
- Mid-Continent (Triad Drilling Company)
- New Mexico/West Texas (FWA/Peterson Drilling Company and Norton Drilling Company)
- Rockies (Norton Drilling Company)
- South Texas (Southland Drilling Company)

UTI's regional offices for contract drilling are located in:

- Oklahoma City, Oklahoma
- Lubbock, Texas
- Midland, Texas
- Tyler, Texas
- Victoria, Texas

UTI deploys rigs and equipment among the various drilling units based on regional need and profitability. UTI's land drilling customers include major oil companies and various sized independent producers.

### *Drilling Rigs*

A land drilling rig consists of various components, including:

- engines
- drawworks or hoist
- derrick or mast
- substructure
- pumps
- blowout preventers
- drill pipe

Over the life of a typical drilling rig, many of these components are replaced or rebuilt on a periodic basis. Other components, including the derrick/mast and substructure, can be utilized for extended periods of time with proper maintenance. UTI follows a policy of keeping its drilling rigs technologically competitive and well maintained.

The following table shows the current distribution of rigs among UTI's regional units as of March 20, 2000:

<u>Region</u>	<u>Active Rigs<sup>(1)</sup></u>	<u>Idle Rigs<sup>(1)</sup></u>	<u>Stacked Rigs<sup>(1)</sup></u>	<u>Total Rigs</u>	<u>Average Rated Drilling Depths</u>
East Texas .....	13	1	2	16	15,500 ft.
Mid Continent .....	12	12	9	33	13,500 ft.
New Mexico/West Texas ...	35	15	6	56	13,500 ft.
Rockies .....	1	3	-	4	18,000 ft.
South Texas .....	<u>11</u>	<u>5</u>	<u>-</u>	<u>16</u>	16,000 ft.
Total .....	<u>72</u>	<u>36</u>	<u>17</u>	<u>125</u>	

(1) A rig is considered active when under contract. An idle rig is one that is not under contract but is available and being marketed. A stacked rig is not currently being marketed and cannot be made available without incurring refurbishing expenditures.

The following table sets forth certain data concerning UTI's utilization of drilling rigs. This utilization data is based on UTI's total fleet, including stacked and idle rigs:

	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	<i>(in thousands, except operating days and rig data)</i>		
Revenues .....	\$ 134,870	\$ 162,600	\$ 161,265
Direct operating costs (excluding depreciation and amortization) .....	\$ 110,958	\$ 124,779	\$ 124,780
Selling, general and administrative .....	\$ 2,818	\$ 3,767	\$ 4,206
Depreciation and amortization .....	\$ 22,490	\$ 18,350	\$ 10,252
Operating days <sup>(1)</sup> .....	17,823	20,308	21,576
Average revenue per day .....	\$ 7.57	\$ 8.01	\$ 7.47
Average direct operating costs (excluding depreciation and amortization) per day ....	\$ 6.23	\$ 6.14	\$ 5.78
Average margin per day <sup>(2)</sup> .....	\$ 1.34	\$ 1.87	\$ 1.69
Number of owned rigs at end of period .....	125	109	89
Average number of rigs owned during period .....	112	100	82
Average rigs operating .....	49	56	59
Rig utilization percentage <sup>(3)</sup> .....	43%	55%	72%
Capital expenditures .....	\$ 7,116	\$ 32,912	\$ 16,282
Capital expenditures per operating day .....	\$ 0.40	\$ 1.62	\$ 0.75

(1) An operating day is defined as a day during which a rig is being operated, mobilized, assembled or dismantled while under contract.

(2) Average margin per day represents average revenue per day minus average direct operating costs per day and excludes provisions for bad debts, other charges, depreciation and amortization and selling, general and administrative expenses.

(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 year ended December 31, 1999, the utilization rate of UTI's rigs, excluding stacked rigs, was 50%.

## *Drilling Contracts*

UTI's land drilling rigs are employed under individual contracts. The drilling contract may be for a single well or a number of wells. Drilling contracts are generally obtained through competitive bidding. UTI bids contracts on the basis of profitability and not to maximize rig utilization. Contracts generally are subject to termination by the customer on short notice. Drilling contracts may provide for compensation on a dayrate, footage or turnkey basis, which are described below.

### 1) Dayrate Contract

A dayrate contract provides for a basic rate per day when drilling. A dayrate contract provides for lower rates when the rig is moving or when drilling operations are interrupted or restricted by:

- equipment breakdowns
- adverse weather conditions
- other conditions beyond the control of UTI

In addition, dayrate contracts typically provide for a lump sum fee for the mobilization and demobilization of the drilling rig. The dayrate depends on:

- market and competitive conditions
- nature of the operations to be performed
- duration of the work
- equipment and services to be provided
- geographic area involved
- other variables

### 2) Footage and Turnkey Contracts

In a footage contract, UTI undertakes to drill a well to a specified depth at a fixed price per foot of hole. In a turnkey contract, UTI undertakes to drill a well to a specified depth for a fixed price. UTI enters into footage and turnkey contracts in situations in which UTI possesses experience and expertise in the geological and operational aspect of the project.

Footage and turnkey contracts have the following characteristics that are not normally found under contracts where UTI is paid on a daily rental basis:

- UTI must bear the cost of performing the drilling services until the target depth is reached
- UTI must make significant cash commitments
- UTI generally furnishes more services including testing, coring and casing the hole and other services
- UTI earns compensation upon completion of the well to the specified depth
- UTI bears the cost of unanticipated downhole problems and other cost overruns

For the year ended December 31, 1999, UTI completed wells under all three types of contracts as the following table shows:

<u>Percentage of Completed Wells</u>	
Dayrate	50%
Footage	31%
Turnkey	19%

UTI also provides horizontal boring services which uses vertical drilling technology to bore horizontal holes. These services are used for the placement of pipelines and cables, including fiber optic cables, under obstacles such as highways and railroads. These services are currently marketed in the eastern half of the United States.

### **Pressure Pumping**

UTI, through its subsidiary Universal Well Services, Inc., is a leading provider of pressure pumping services in the northern Appalachian Basin. Pressure pumping services consist primarily of:

- well stimulation and cementing for the completion of new wells
- remedial work on existing wells

Generally, all completed Appalachian Basin wells require cementing services before production commences. Cementing is the process of inserting material between the hole wall and the pipe to center and stabilize the pipe in the hole. In addition, most completed wells drilled in the Appalachian Basin require some form of fracturing or other stimulation to enhance the flow of natural gas and oil to the well bore.

UTI continuously maintains its pressure pumping equipment. Virtually all of the pressure pumping equipment is in use on a regular basis. As of March 20, 2000, UTI operated the following pressure pumping equipment:

<u>Equipment Type</u>	<u>Number of Units</u>
Cement pumper trucks . . . . .	13
Fracturing pumper trucks . . . . .	22
Nitrogen pumper trucks . . . . .	6
Blender trucks . . . . .	10
Bulk acid trucks . . . . .	8
Bulk cement trucks . . . . .	17
Bulk nitrogen trucks . . . . .	4
Bulk sand trucks . . . . .	18
Connection trucks . . . . .	7
Other trucks . . . . .	<u>3</u>
Total . . . . .	<u><u>108</u></u>

The following table shows certain data concerning UTI's pressure pumping operations:

	Years Ended December 31,		
	1999	1998	1997
	<i>(in thousands, except total jobs)</i>		
Revenues .....	\$ 20,721	\$ 23,365	\$ 20,923
Direct operating costs			
(excluding depreciation and amortization) .....	\$ 12,219	\$ 14,041	\$ 12,615
Selling, general and administrative .....	\$ 3,457	\$ 3,216	\$ 2,945
Depreciation and amortization .....	\$ 1,391	\$ 1,043	\$ 728
Total jobs .....	2,892	3,292	3,196
Average revenue per job .....	\$ 7.17	\$ 7.10	\$ 6.55
Average direct operating costs			
(excluding depreciation and amortization) per job ....	\$ 4.23	\$ 4.27	\$ 3.95
Average margin per job <sup>(1)</sup> .....	\$ 2.94	\$ 2.83	\$ 2.60
Capital expenditures .....	\$ 2,307	\$ 3,895	\$ 1,676

(1) Average margin per job represents average revenue per job minus average direct operating costs per job and excludes provisions for bad debts, other charges, depreciation and amortization and selling, general and administrative expenses.

## Other Operations

In addition to its operating activities, UTI has invested in working interests in natural gas and oil wells. These investments are principally in the Appalachian and Permian Basins. The net book value of such investments at December 31, 1999 was \$318,000. The net book value at December 31, 1998 was \$404,000.

## Industry Conditions

The level of activity in the United States onshore oil and natural gas exploration and production industry influences the demand and prices for UTI's services. The level of activity depends upon numerous factors over which UTI has no control. These factors include:

- the level of oil and natural gas prices
- the expectations about future oil and natural gas prices
- the ability of OPEC to set and maintain production levels and prices
- the cost of exploring for, producing and delivering oil and natural gas
- the level and price of foreign imports of oil and natural gas
- the discovery rate of new oil and natural gas reserves
- the available pipeline and other oil and natural gas transportation capacity
- the worldwide weather conditions
- the international, political, military, regulatory and economic conditions
- the ability of oil and natural gas companies to raise capital

The level of drilling activity in the onshore oil and natural gas exploration and production industry in the United States has been volatile. UTI cannot give assurance that recent levels of oil and natural gas exploration activities in UTI's markets will continue. UTI cannot give assurance that demand for UTI's services will correspond to the level of activity in the industry. Further, any changes in the demand for or supply of oil and natural gas materially impacts the demand for and pricing of UTI's services.

As prices for oil and natural gas have increased, exploration and production companies have increased spending budgets. These increased spending budgets have increased the demand for drilling services. Increased demand for drilling services is expected to increase the contract rates for UTI's contract drilling services.

All of UTI's operating regions have been affected by the above-mentioned factors. However, some of UTI's operating regions, like the Permian Basin, have been more significantly affected than other regions due to greater sensitivity to changes in oil prices.

## **Major Customers**

Providing contract drilling services for Anadarko Petroleum Corp. on a daily rate basis accounted for approximately 10% of UTI's consolidated revenue in 1999. These contractual arrangements may be terminated by Anadarko at any time without penalty. Through August 31, 2000, the revenues related to the contracts with Anadarko represented less than 6% of UTI's total revenues for fiscal 2000 and UTI expects this percentage to decline further as a result of the addition of revenues from acquired business and relative revenue increases from other areas. Accordingly, UTI does not believe that the contracts create any rights or obligations on which UTI's business is substantially dependent. Although the loss of Anadarko Petroleum Corp. as a customer could have a material adverse effect on UTI's revenues, UTI believes that it could substantially set off the lost revenue by deploying those rigs for other customers.

## **Competition**

The land drilling and well servicing industry is:

- highly-fragmented
- intensely competitive
- cyclical

Since 1982, the decline and continued instability in oil and natural gas prices has severely impacted the land drilling business. These depressed economic conditions have reduced the number of competitors and reduced the number of rigs available. However, the supply of available rigs, particularly in the United States land markets, still exceeds the demand for those rigs. This excess capacity has resulted in substantial competition. Competition for services in a particular market is based on:

- price of service
- location of available equipment
- type of available equipment
- condition of available equipment
- quality of service



In addition, drilling rigs are mobile and can be moved from one market to another in response to market conditions.

### **Seasonality**

Seasonality does not significantly affect the overall operations of UTI. However, UTI's pressure pumping services in Appalachia are subject to slow periods of activity during the spring thaw. In addition, UTI's drilling operations in the Rockies are affected by governmental land restrictions during the first quarter.

### **Raw Materials and Subcontractors**

UTI uses many suppliers of raw materials and services. These materials and services have been and continue to be available. Where appropriate, UTI maximizes price discounts through volume purchases. UTI also utilizes numerous independent subcontractors from various trades.

### **Operating Risks and Insurance**

UTI's drilling operations and fleet are subject to the many hazards of the onshore drilling industry. Among other things, these hazards include:

- blowouts
- explosions
- sour gas
- well fires
- spills

These hazards can result in:

- personal injury
- loss of life
- severe damage to or destruction of property and equipment
- environmental damage
- suspension of operations

UTI maintains insurance protection as management deems appropriate. Such insurance coverage, however, may not provide sufficient funds in all situations to protect UTI from all liabilities that could result from its operations. Also, claims will be subject to various retentions and deductibles.

While UTI has generally been able to obtain some degree of contractual indemnification from its customers in most of its dayrate contracts, no such indemnification is typically available for footage and turnkey contracts. These indemnity agreements require the customers to hold UTI harmless in the event of loss of production or reservoir damage. This contractual indemnification may not be supported by adequate insurance maintained by the customer.

UTI's operations and financial condition could be damaged by the occurrence of a significant event not fully insured or indemnified against or the failure of a customer to meet its indemnification. Moreover, UTI may not always be able to secure insurance in the future at reasonable rates.

## **Environmental Regulation**

UTI's activities are subject to existing environmental laws and regulations at the federal, state and local level. UTI does not anticipate that compliance with existing environmental laws and regulations will have a material adverse effect upon its operations, capital expenditures or earnings in the foreseeable future. UTI cannot predict what effect the following could have on its activities:

- additional regulation or legislation
- changes in enforcement policies or practices
- claims for damages to property and the environment

UTI's operations routinely involve the handling of various materials, including hazardous materials. UTI's operations and facilities are subject to numerous state and federal environmental laws, rules and regulations, including but not limited to, laws concerning:

- containment and disposal of hazardous materials, oilfield waste, other waste materials and acids
- use of underground storage tanks

Environmental laws have generally become more restrictive in recent years. In addition, environmental laws and regulations may impose strict liability. If UTI is determined to be strictly liable, UTI could be liable for clean up costs, even if the situation resulted from:

- previous conduct of UTI that was lawful at the time conducted
- improper conduct of or conditions caused by previous property owners or other persons not associated with UTI

From time to time, parties may make claims and bring litigation against UTI under these laws. These claims and related costs could be substantial and could have a material adverse effect on UTI's financial condition. However, this has not happened in the past.

UTI is unable to predict the effect of new regulations and amendments to existing regulations governing its operations. Therefore, UTI is unable to determine the ultimate costs of complying with environmental laws and regulations.

UTI is subject to The Oil Pollution Act of 1990, which amends provisions of the federal Water Pollution Control Act of 1972, commonly known as the Clean Water Act, and other statutes that address the prevention of and response to oil spills into navigable waters. The Oil Pollution Act subjects owners of facilities to:

- strict, joint and several liability for all containment and cleanup costs
- other damages arising from a spill, including but not limited to, the costs of responding to a release of oil to surface waters

The Clean Water Act provides penalties for any discharge of petroleum products in reportable quantities and imposes substantial liability for the costs of removing a spill. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of releases of petroleum or its derivatives into surface waters or into the ground. The Environmental Protection Agency is also authorized to seek preliminary and permanent injunctive relief and in certain cases, criminal penalties and fines. UTI may be exposed to claims that it is liable under the Clean Water Act if a discharge occurs at a well site where UTI is conducting drilling or pressure pumping operations.

UTI is also subject to The Comprehensive Environmental Response Compensation and Liability Act, which is commonly known as CERCLA or the "Superfund Law". CERCLA imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons which release a "hazardous substance" into the environment. These persons include the owner and operator of a site and persons that disposed of or arranged for the disposal of the hazardous substances found at the site. The definition of hazardous substance does not currently include crude oil and certain drilling materials, such as drilling fluids and produced waters, although they may be included in the future. In addition, UTI's operations may involve the use or handling of acids currently classified as hazardous substances and other materials that may in the future be classified as environmentally hazardous substances.

As mentioned above, UTI's operations are subject to local, state and federal regulations for the control of emissions and air pollution. Legal and regulatory requirements in this area are increasing. UTI cannot assure that significant costs and liabilities will not be incurred in the future as a result of new regulatory developments. In particular, regulations promulgated under the Clean Air Act Amendments of 1990 may impose additional compliance requirements that could affect UTI's operations. UTI may in the future be subject to civil or administrative enforcement actions for failure to comply strictly with air regulations and permits. These enforcement actions are generally resolved by paying monetary fines or correcting any identified deficiencies. Alternatively, regulatory agencies could prevent UTI from constructing or operating certain air emission sources.

Management believes that UTI is in substantial compliance with environmental laws and regulations.

## **Employees**

As of March 20, 2000, UTI employed approximately 1,929 full-time employees. 1,828 of these employees were field personnel and 101 of them were employed in selling and administrative capacities.

In addition to the services of its employees, UTI uses consultants periodically. None of UTI's employees are represented by labor unions. There have been no work stoppages or strikes during the last three years that have resulted in the loss of production or production delays. Management believes that employee relations are good.

UTI maintains an incentive compensation plan for its managerial and key employees. The incentive compensation plan is based on operating results and return on invested capital. UTI believes that this plan allows it to attract and retain qualified managers and key operating employees. UTI also provides incentive compensation to its rig workers based on operating results and safety records.

**Item 2. PROPERTIES**

Contract drilling operations are conducted from facilities UTI currently owns in:

- Levelland, Texas
- Midland, Texas
- Oklahoma City, Oklahoma
- Rock Springs, Wyoming
- Tyler, Texas
- Victoria, Texas
- Woodward, Oklahoma

Pressure pumping operations are conducted from five base camps in the Appalachian Basin:

- Allen, Kentucky
- Bradford, Pennsylvania
- Meadville, Pennsylvania
- Punxsutawney, Pennsylvania
- Wooster, Ohio

The Punxsutawney and Meadville camps are owned by UTI. The other camps are leased under leases not exceeding five years.

UTI does not believe that its executive offices or its other leased facilities are material to its operations. Management believes that UTI's properties are suitable and adequate for its operations.

**Item 3. 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.

Sometimes individuals bring personal injury claims against UTI and its operating subsidiaries. UTI management believes that it maintains a reasonable amount of insurance coverage against such claims.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

UTI did not submit any matters to a vote of security holders during the quarter that ended December 31, 1999.

## PART II

### Item 5. MARKET FOR UTI'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

UTI's common stock is the only class of equity of UTI currently outstanding. UTI's common stock is traded on the American Stock Exchange under the symbol "UTI". The following table provides price information for UTI's common stock for 1999 and 1998.

Quarter Ended	1999		1998	
	High	Low	High	Low
March 31 .....	\$ 10.88	\$ 5.13	\$ 26.44	\$ 12.00
June 30 .....	\$ 17.13	\$ 8.63	\$ 20.50	\$ 12.50
September 30 .....	\$ 22.88	\$ 14.69	\$ 13.38	\$ 6.50
December 31 .....	\$ 23.63	\$ 14.75	\$ 12.00	\$ 5.75

As of March 20, 2000, the closing price for UTI's common stock was \$32.50. As of March 20, 2000, UTI's common stock was held by approximately 180 stockholders of record. Management estimates that more than 8,000 persons beneficially owned the stock.

UTI has not paid a cash dividend on its common stock during the two most recent fiscal years and management does not anticipate that any cash dividend will be paid on the common stock for the foreseeable future.

UTI has recently sold unregistered common stock to Canpartners Investments IV, LLC and parties related to Southland Drilling Company, Ltd. These two transactions are described in the following paragraphs.

On March 2, 2000, UTI sold 298,138 shares of common stock to Canpartners Investments IV, LLC. Canpartners Investments IV, LLC exchanged warrants covering 480,000 shares of common stock of UTI that it acquired on September 26, 1997 for the 298,138 shares of common stock of UTI, and no other consideration was given. The fair value of the common stock as agreed by the parties was \$28.58. This sale was exempt from registration under Section 3(a)(9) of the Securities Act of 1933. Under Section 3(a)(9), if an existing security holder exchanges securities of the issuer for other securities of the issuer and no other consideration is paid, then the transaction is exempt from registration.

On March 3, 2000, UTI sold 91,500 shares of common stock to parties related to Southland Drilling Company, Ltd. Like Canpartners Investments IV, LLC, the Southland parties exchanged warrants covering 183,000 shares of common stock of UTI that it acquired on April 11, 1997 for the 91,500 shares of common stock of UTI, and no other consideration was given. The fair value of the common stock as agreed by the parties was \$32.00. This sale was also exempt from registration under Section 3(a)(9) of the Securities Act of 1933. The following table shows the Southland parties and the number of shares of common stock covered by warrants that were exchanged for shares of common stock.

<u>Party</u>	<u>Number of Shares of Common Stock Covered by Warrant</u>	<u>Number of Shares of Common Stock Sold by UTI</u>
Neil E. Hanson	63,240	31,620
Christopher N. Hanson	42,000	21,000
John J. Surko	2,880	1,440
Ben A. McCarthy	72,000	36,000
Southland Minerals Company	2,880	1,440

## Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of UTI for each of the periods indicated. The selected financial data is derived from UTI's audited consolidated financial statements. The information presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Consolidated Financial Statements" and notes to the consolidated financial statements.

	Years Ended December 31,				
	1999	1998	1997	1996	1995
	<i>(in thousands, except per share data)</i>				
<b>Statement of Operations Data<sup>(1)</sup></b>					
Revenues	\$ 155,775	\$ 186,157	\$ 182,437	\$ 97,301	\$ 40,124
Direct operating costs (excluding depreciation and amortization)	123,240	138,935	137,499	78,718	32,720
Selling, general and administrative expenses	10,170	10,781	10,011	7,166	5,057
Provisions for bad debts	548	1,143	623	141	(10)
Other charges (income) <sup>(2)</sup>	(2,861)	206	(774)	(517)	(63)
Depreciation and amortization	24,122	19,529	11,075	4,292	2,552
Operating income (loss)	556	15,563	24,003	7,501	(132)
Other income	585	1,355	461	824	230
Interest expense	(4,168)	(3,815)	(4,330)	(1,148)	(265)
Income (loss) from continuing operations before income taxes	(3,027)	13,103	20,134	7,177	(167)
Income taxes	(425)	5,235	7,609	2,324	(592)
Income (loss) from continuing operations	<u>\$ (2,602)</u>	<u>\$ 7,868</u>	<u>\$ 12,525</u>	<u>\$ 4,853</u>	<u>\$ 425</u>
Income (loss) from continuing operations per common share					
Basic	<u>\$ (0.15)</u>	<u>\$ 0.49</u>	<u>\$ 0.96</u>	<u>\$ 0.46</u>	<u>\$ 0.04</u>
Diluted	<u>\$ (0.15)</u>	<u>\$ 0.47</u>	<u>\$ 0.83</u>	<u>\$ 0.42</u>	<u>\$ 0.04</u>
Average common shares outstanding					
Basic	16,992	16,070	13,083	10,448	9,899
Diluted	16,992	16,795	15,069	11,439	9,899
	As of December 31,				
	1999	1998	1997	1996	1995
	<i>(in thousands)</i>				
<b>Balance Sheet Data</b>					
Working capital <sup>(3)</sup>	\$ 20,895	\$ 22,592	\$ 70,452	\$ 5,761	\$ 5,427
Total assets <sup>(1)</sup>	260,582	234,021	208,987	61,870	33,990
Long-term debt, including Redeemable Stock	32,196	31,721	30,159	14,658	8,701
Shareholders' equity <sup>(3)</sup>	157,032	144,146	137,620	22,696	14,990

- (1) Over the five years presented, UTI's rig fleet has increased by 98 land drilling rigs. This increase in land drilling rigs is the primary cause for the increase in revenue, gross profit, selling, general and administrative expenses, depreciation and amortization and total assets. The net change in land drilling rigs owned was 16 during 1999, 20 during 1998, 24 during 1997, 10 during 1996 and 28 during 1995.
- (2) UTI recognized a \$2.8 million gain from the sale of land drilling assets in the first quarter of 1999.
- (3) In October of 1997, UTI sold approximately 1.8 million shares of its common stock in a public offering. Approximately another 1.7 million shares of UTI common stock were sold by various shareholders of UTI through the exercise of options and warrants. Both of these events resulted in net proceeds to UTI of approximately \$80 million.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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 effect 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 107 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 substantially during 1997 and 1998 as a result of:

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

On January 27, 1997, UTI acquired the land drilling assets of Quarles Drilling Corporation for \$16.2 million. This \$16.2 million consisted of \$8.1 million in cash and approximately .7 million shares of UTI's common stock. The acquired assets consisted of nine land drilling rigs and other equipment used in Quarles' land drilling business. The acquisition increased UTI's presence in its existing markets and provided experienced field workers.

On April 11, 1997, UTI acquired the land drilling operations of Southland Drilling Company Ltd. for approximately \$27.1 million in cash and a five-year warrant to purchase .3 million shares of UTI's common stock at an exercise price of \$16.00 per share. The acquired assets consisted of nine land drilling rigs and other equipment used in Southland's land drilling business. The acquisition established a base for UTI's operations in the natural gas producing regions of the South Texas/Gulf Coast areas.

On September 11, 1997, UTI acquired all of the capital stock of J.S.M. & Associates, Inc. for approximately .6 million shares of UTI's common stock and \$2.6 million in cash. JSM's assets included seven land drilling rigs, drilling equipment and approximately \$1.0 million in net working capital. The acquisition increased UTI's presence in the West Texas market.

On April 9, 1998, UTI acquired Peterson Drilling Company for a total purchase price of \$20.4 million in cash. Peterson's assets included eight land drilling rigs, drilling equipment and approximately \$4.5 million in net working capital. The acquisition allowed UTI to enter the New Mexico market.

On June 24, 1998, UTI acquired the land drilling assets of LaMunyon Drilling Corporation for \$12.2 million in cash. The acquired assets consisted of five land drilling rigs and other assets used in LaMunyon's land drilling business. The acquisition expanded UTI's presence in the mid-continent region.



On July 31, 1998, UTI acquired Suits Enterprises, Inc. for approximately \$11.1 million. This \$11.1 million was comprised of \$2.9 million in cash, \$7.8 million in 7% four-year notes and 100,000 five-year warrants of UTI's common stock. Suits' assets included seven land drilling rigs, drilling equipment and rolling stock. The acquisition expanded UTI's presence in the mid-continent region.

On July 27, 1999, UTI acquired Norton Drilling Services, Inc., for approximately 1.3 million shares of UTI's common stock. The stock was valued at \$13.3 million or \$10.23 per share based on the average price of UTI's common stock shortly before and after the acquisition was announced. UTI also repaid approximately \$8.0 million of Norton's existing debt upon the acquisition. Norton's assets included sixteen land drilling rigs, drilling equipment and rolling stock. The acquisition increased UTI's presence in the West Texas/New Mexico market.

On December 14, 1999, UTI acquired the land drilling assets of Schneider Drilling Corporation for \$7.5 million in cash. Schneider's assets included three land drilling rigs, major components for two additional land drilling rigs and drilling equipment. The acquisition increased UTI's presence in the East Texas market.

Beginning in 1998 and continuing into 1999, UTI and the United States land drilling industry experienced significant declines in demand and pricing for their 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.

In response to these depressed industry conditions, UTI undertook a series of actions during the third quarter of 1998 and the first quarter of 1999 designed to:

- improve efficiency
- increase productivity
- make UTI more competitive in the marketplace

These actions included:

- streamlining of certain contract drilling operations
- personnel changes
- changes to the accounting and administrative functions, including the relocation of certain accounting functions from Oklahoma City to UTI's corporate headquarters in Houston

This consolidation of operations reduced UTI's regional drilling units from seven to four. It also reduced UTI's administrative staff by forty-six persons. As a result of the above actions, UTI recorded other charges of \$.3 million during 1999 and \$.8 million during 1998. The charges consisted primarily of employee-related expenses.

In addition, UTI sold certain non-strategic assets of its Appalachian Basin contract drilling division for \$5.6 million. As a result, UTI recorded a gain of approximately \$2.8 million during the first quarter of 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 expects its average utilization during the first quarter of 2000 to be more than the 43% average utilization experienced during 1999. The dayrate component of drilling contracts also have increased during the first quarter of 2000. As conditions in the land drilling industry improve, UTI believes that its strong liquidity position and balance sheet provide it with the financial ability to react quickly to opportunities in the land drilling industry.

## 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:

	Years Ended December 31,		
	1999	1998	1997
<u>Operating Data:</u>			
Average U.S. active land rig count . . . . .	504	671	801
Number of rigs owned by UTI at end of year . .	125	109	89
Average number of rigs owned during year . . .	112	100	82
Average rigs operating . . . . .	49	56	59
<u>Land Drilling:</u>			
Operating days <sup>(2)</sup> . . . . .	17,823	20,308	21,576
Utilization rate <sup>(3)</sup> . . . . .	43%	55%	72%
<u>Pressure Pumping:</u>			
Cementing jobs . . . . .	2,108	2,296	2,245
Stimulation jobs . . . . .	784	996	951
<u>Financial Data (in thousands):</u>			
Revenues . . . . .	<u>\$ 155,775</u>	<u>\$ 186,157</u>	<u>\$ 182,437</u>
Operating income . . . . .	<u>\$ 556</u>	<u>\$ 15,563</u>	<u>\$ 24,003</u>

- (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 year ended December 31, 1999, the utilization rate of UTI's rigs, excluding stacked rigs, was 50%.

## Comparison of Years Ended 1999 and 1998

Revenues by business segment for the years ended December 31, 1999 and 1998 are as follows:

	Years Ended December 31,		% Increase (Decrease)
	1999	1998	
	<i>(in thousands)</i>		
<u>Revenues:</u>			
Land Drilling	\$ 134,870	\$ 162,600	(17.1)
Pressure Pumping	20,721	23,365	(11.3)
Other	184	192	( 4.2)
	<u>\$ 155,775</u>	<u>\$ 186,157</u>	(16.3)

Land drilling revenue decreased despite revenue generated from recent acquisitions. Acquisitions completed during the years ended December 31, 1999 and 1998 generated an additional \$14.0 million of revenue in the year ended December 31, 1999 compared to the year ended December 31, 1998. The decrease was attributable to depressed market conditions. Pressure pumping revenue also decreased as a result of depressed market conditions. These depressed market conditions resulted in:

- lower utilization rates
- lower rates for services

Direct operating costs, excluding depreciation and amortization, by business segment for the years ended December 31, 1999 and 1998 are as follows:

	Years Ended December 31,		% Increase (Decrease)
	1999	1998	
	<i>(in thousands)</i>		
<u>Direct Operating Costs (excluding depreciation and amortization):</u>			
Land Drilling	\$ 110,958	\$ 124,779	(11.1)
Pressure Pumping	12,219	14,041	(13.0)
Other	63	115	(45.2)
	<u>\$ 123,240</u>	<u>\$ 138,935</u>	(11.3)

The decrease in direct operating costs (excluding depreciation and amortization) in the land drilling and pressure pumping business segments correlates with the decrease in revenue in the respective business segment.

Selling, general and administrative expenses decreased \$.6 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to actions taken to streamline operations during the third quarter of 1998 and the first quarter of 1999. These actions included the relocation of certain accounting functions from Oklahoma City to the Company's corporate headquarters in Houston and personnel changes. The Company also reduced its number of operating units from nine, which included eight regional operating units and one unit that focused on deep drilling in various U.S. markets, to seven regional operating units.

Provisions for bad debts decreased \$.6 million for the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to improved collection efforts.

The other charges (income) for the years ended December 31, 1999 and 1998 include charges as a result of the streamlining of certain contract drilling operations and changes to the accounting and administrative functions as well as gains from the sale of long-lived assets. Included in the December 31, 1999 other charges (income) is a \$2.8 million gain realized as a result of the sale of land drilling assets in 1999. The assets sold consisted of UTI's drilling presence in the Appalachian Basin.

Depreciation and amortization expense increased \$4.6 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to depreciation and amortization on assets acquired during 1998 and 1999.

Interest expense increased \$.4 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This increase was primarily due to an increase in average outstanding debt for the year ended December 31, 1999 compared to the same period of 1998. The following table shows other significant data regarding UTI's debt:

	Year Ended <u>December 31, 1999</u>	Year Ended <u>December 31, 1998</u>
Average Debt Outstanding	\$32.0 million	\$26.7 million
Effective Interest Rate	13.0%	14.3%

Income taxes decreased \$5.7 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to a taxable loss in 1999 compared to taxable income in 1998. UTI's effective tax rate for the year ended December 31, 1999 was 14.0%. UTI's effective tax rate for the year ended December 31, 1998 was 40.0%. The effective tax rate in each year varies from the statutory rate primarily for two reasons:

- goodwill amortization associated with acquisitions that is nondeductible for tax purposes
- state income taxes payable in states where a taxable loss was not incurred

### **Comparison of Years Ended 1998 and 1997**

Revenues by business segment for the years ended December 31, 1998 and 1997 are as follows:

	Years Ended December 31,		% Increase (Decrease)
	<u>1998</u>	<u>1997</u>	
	<i>(in thousands)</i>		
<u>Revenues:</u>			
Land Drilling	\$ 162,600	\$ 161,265	0.8
Pressure Pumping	23,365	20,923	11.7
Other	192	249	(22.9)
	<u>\$ 186,157</u>	<u>\$ 182,437</u>	2.0

Land drilling revenues remained flat as a result of depressed market conditions despite revenue generated from recent acquisitions. These depressed market conditions resulted in:

- lower utilization rates
- lower dayrates and prices received on footage and turnkey contracts

However, these factors were offset by additional revenues from rigs acquired during 1997 and 1998. Acquisitions completed during the year ended December 31, 1998 and 1997 generated an additional \$19.7 million of revenue in the year ended December 31, 1998 compared to the year ended December 31, 1997. The increase in pressure pumping revenue resulted from an increase in pressure pumping jobs and related rates. UTI's pressure pumping operations were not as adversely affected by declining oil and natural gas prices as UTI's land drilling operations.

Direct operating costs, excluding depreciation and amortization, by business segment for the years ended December 31, 1998 and 1997 are as follows:

	Years Ended December 31,		% Increase (Decrease)
	1998	1997	
	<i>(in thousands)</i>		
Direct Operating Costs (excluding depreciation and amortization):			
Land Drilling	\$ 124,779	\$ 124,780	(0.0)
Pressure Pumping	14,041	12,615	11.3
Other	115	104	10.6
	<u>\$ 138,935</u>	<u>\$ 137,499</u>	1.0

The percentage increase in direct operating costs (excluding depreciation and amortization) in the land drilling and pressure pumping business segments corresponds with the percentage increase in revenues from the respective business segment.

Selling, general and administrative expenses increased \$.8 million during the year ended December 31, 1998 compared to the year ended December 31, 1997. This was primarily due to acquisitions consummated during the second and third quarters of 1997 and during 1998.

Provisions for bad debts increased \$.5 million for the year ended December 31, 1998 compared to the year ended December 31, 1997. This was primarily due to existing industry conditions during that time period.

Included in the other charges (income) for the year ended December 31, 1998 was \$.8 million as a result of the streamlining of certain contract drilling operations and changes to the accounting and administrative functions. The other charges (income) also includes gains on the sale of long-lived assets.

Depreciation and amortization expense increased \$8.5 million during the year ended December 31, 1998 compared to the year ended December 31, 1997. This was primarily due to depreciation and amortization on assets acquired during the second and third quarters of 1997 and during 1998.

Interest expense decreased \$.5 million during the year ended December 31, 1998 compared to the year ended December 31, 1997. This decrease was primarily due to a reduction in outstanding debt for the year ended December 31, 1998 compared to the same period of 1997. The following table shows other significant data regarding UTI's debt:

	<u>Year Ended December 31, 1998</u>	<u>Year Ended December 31, 1997</u>
Average Debt Outstanding	\$26.7 million	\$35.7 million
Effective Interest Rate	14.3%	12.1%

Income taxes decreased \$2.4 million during the year ended December 31, 1998 compared to the year ended December 31, 1997, primarily due to lower taxable income in 1998. UTI's effective tax rate for the year ended December 31, 1998 was 40.0%. UTI's effective tax rate for the year ended December 31, 1997 was 37.8%. This increase from 37.8% to 40.0% was primarily attributable to goodwill amortization associated with acquisitions that is nondeductible for tax purposes.

## **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 \$14.4 million in 1999 and \$31.6 million in 1998. UTI used these funds along with available cash balances on hand to fund acquisitions and capital expenditures. Capital expenditures, excluding acquisitions, was \$9.4 million for the year ended December 31, 1999. Capital expenditures, excluding acquisitions, was \$37.4 million for the year ended December 31, 1998.

UTI had \$7.5 million in cash and cash equivalents and no borrowings under the working capital line as of December 31, 1999. This is compared to \$10.3 million in cash and cash equivalents and no borrowings under the working capital line as of December 31, 1998.

#### *Long Term Debt Facilities*

As of December 31, 1999, UTI had outstanding debt, net of unamortized discounts, of \$32.2 million. This indebtedness included \$25.0 million associated with a 1997 private placement of debt securities in connection with an acquisition and refinancing of existing indebtedness and \$7.8 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. This revolving credit facility provides for maximum borrowings of up to \$65.0 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 is based on UTI's trailing twelve-month EBITDA. UTI's assets secure the new facility. As of December 31, 1999, UTI had no outstanding borrowings under this 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, restrictions on dividends, distributions and other restricted payments.

*Promissory Notes.* On July 31, 1998, UTI issued \$7.8 million principal amount of unsecured promissory notes. In the event the average trading value of UTI's common stock for thirty consecutive days exceeds \$30.00 per share, then \$3.5 million of the principal amount becomes payable within 90 days following the event. The triggering event occurred on March 9, 2000. The notes bear interest at 7.0% and 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

The Company 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.

## **Inflation**

Inflation has not had a significant impact on UTI's comparative results of operations.

## **Year 2000**

In late 1999, UTI completed remediating and testing its Year 2000 readiness systems. UTI did not experience any significant disruptions in mission critical information technology and non-information technology systems. UTI believes those systems successfully responded to the Year 2000 date change.

UTI is not aware of any material problems resulting from Year 2000 issues, either with:

- UTI's products and services
- UTI's internal systems
- products and services of third parties

UTI will continue to monitor the mission critical computer applications of the following parties throughout the Year 2000:

- UTI
- UTI's suppliers
- UTI's vendors

## **New Accounting Pronouncement**

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133* (SFAS 137) which is effective for fiscal years beginning after June 15, 2000, requires all derivatives to be recognized at fair value on the balance sheet. UTI plans to adopt SFAS 133 no later than January 1, 2001. The change is not expected to have a significant effect on UTI's financial statements.



## **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. The following words and similar expressions are intended to identify such forward-looking statements:

- anticipate
- believe
- could
- estimate
- expect
- intend
- may
- plan
- predict
- project
- will

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 “Business”, “Properties” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” 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 certainty 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, 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

#### Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The tables below present expected cash flows and related weighted-average interest rates expected by maturity dates. UTI is not subject to interest rate risk due to its indebtedness having fixed rates of interest. The fair value of fixed rate debt is based on the estimated yield to maturity for each debt issue as of December 31, 1999 and 1998.

	Expected Maturity Date					Fair Value
	2000	2001	2002	2003	Total	12/31/99
	(in millions, except interest rate percentages)					
<u>Long Term Debt</u>						
Debt service <sup>(a)</sup> . . . . .	\$ 3.5	\$ 27.0	\$ 8.1	\$ -	\$ 38.6	\$ 33.2
Average effective interest rate . . . . .	12.3%	10.4%	7.0%	-	11.3%	

	Expected Maturity Date					Fair Value
	1999	2000	2001	2002	Total	12/31/98
	(in millions, except interest rate percentages)					
<u>Long Term Debt</u>						
Debt service <sup>(a)</sup> . . . . .	\$ 3.5	\$ 3.5	\$ 27.0	\$ 8.1	\$ 42.1	\$ 33.0
Average effective interest rate . . . . .	12.3%	12.3%	10.4%	7.0%	11.7%	

(a) Assumes scheduled maturities are funded with available resources.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Financial Statements of UTI meeting the requirements of Regulation S-X (except Section 210.3-05 and Article 11 thereof) are included on pages F-1 through F-28 hereof.

Other financial statements and schedules required under Regulation S-X, if any, are filed under Item 14, Exhibits, Financial Statement Schedules and Reports on Form 8-K of this Form 10-K.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## PART III

### Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is the name, age and position as of April 1, 2000 for each of the directors and executive officers of UTI. Pursuant to UTI's bylaws, directors are elected to serve for three-year terms until their successors are elected or their earlier resignation or removal. Class I directors' terms expire in 2001, Class II directors' terms expire in 2002 and Class III directors' terms expire in 2000.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mark S. Siegel	49	Chairman of the Board and Class II Director (director since 1995)
Vaughn E. Drum	54	President, Chief Executive Officer and Class III Director (director since 1986)
Kenneth N. Berns	40	Class II Director (director since 1995)
Curtis W. Huff	42	Class I Director (director since 1997)
Terry H. Hunt	51	Class I Director (director since 1994)
Nadine C. Smith	42	Class I Director (director since 1995)
Robert B. Spears	73	Class III Director (director since 1994)
John E. Vollmer III	44	Senior Vice President, Secretary, Treasurer and Chief Financial Officer
Bruce Sauers	36	Vice President and Corporate Controller

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*Mark S. Siegel* - Mr. Siegel has served as Chairman of the Board and a director of UTI since March 14, 1995. Mr. Siegel has been President of Remy Investors & Consultants, Incorporated ("Remy Investors") since 1993. From 1992 to 1993, Mr. Siegel was President, Music Division, Blockbuster Entertainment Corp. From 1988 through 1992, Mr. Siegel was an Executive Vice President of Shamrock Holdings, Inc. and Managing Director of Shamrock Capital Advisors, Incorporated. Mr. Siegel is also Chairman of the Board and a director of Variflex Inc. Mr. Siegel holds a B.A. from Colgate University and a J.D. from Boalt Hall School of Law.

*Vaughn E. Drum* - Mr. Drum has served as President, Chief Executive Officer and a director of UTI since December 1986. From 1980 through November 1986, Mr. Drum served in various capacities for UGI Development Company, a subsidiary of UGI Corporation. Mr. Drum holds a B.S. in Petroleum Engineering from Marietta College.

*Kenneth N. Berns* - Mr. Berns has served as a director of UTI since May 24, 1995. Mr. Berns has been an executive employee of Remy Investors since 1994. From 1990 through 1994, Mr. Berns was employed by affiliated real estate development and management companies, including Ridge Properties, Ltd., Ridge Development, Ltd. and Spound Company. Prior to 1990, Mr. Berns was a senior manager of Spicer & Oppenheim and a Vice President of Cantor Fitzgerald Financial Corporation. Mr. Berns is the sole stockholder of RD Management, Inc., which was the General Partner of Ridge Properties, Ltd. Mr. Berns is a Certified Public Accountant and holds a Bachelors Degree in Business Administration from San Diego State University and a Masters Degree in Taxation from Golden Gate University.

*Curtis W. Huff* - Mr. Huff has been Executive Vice President, Chief Financial Officer and General Counsel of Weatherford International, Inc. since January 2000. He served as Senior Vice President and General Counsel of Weatherford from May 1998 to January 2000. Prior to that time, Mr. Huff was a partner with the law firm of Fulbright & Jaworski L.L.P., our counsel, and held that position for more than five years.

*Terry H. Hunt* - Mr. Hunt served as Senior Vice President - Strategic Planning of PPL Corporation, an international electricity and natural gas supplier, from October 1998 to March 2000 following the merger of Penn Fuel Gas, Inc. into PPL. Mr. Hunt served as the President and Chief Executive Officer of Penn Fuel Gas, Inc. a natural gas and propane distribution company from 1992 to April 1999. From 1989 to 1992, Mr. Hunt was President and Chairman of Carnegie Natural Gas Company, a natural gas distribution and transportation company and of Apollo Gas Company, a natural gas distributor. From 1984 through 1988, he served as Vice President of Delhi Gas Pipeline Corporation, an intrastate pipeline company. Mr. Hunt holds a Bachelor of Engineering degree from the University of Saskatchewan, Canada and a M.B.A. from Southern Methodist University.

*Nadine C. Smith* - Prior to April 2000, Ms. Smith was President and Chief Executive Officer of Enidan Capital Corp., an investment company that makes equity investments in public and privately held companies. Previously, Ms. Smith was an investment banker and principal with NC Smith & Co. and The First Boston Corporation and a management consultant with McKinsey & Co. Ms. Smith is a director of American Retirement Corporation, Aegis Asset Management and American Southwest Holdings. Ms. Smith earned a bachelors degree in economics from Smith College and a masters degree in business from Yale University.

*Robert B. Spears* - Since 1989, Mr. Spears has served as the Chairman and Vice President, Business Development of Spears & Associates, Inc., a firm which he founded in 1965. Spears & Associates is a leading research-based consulting firm to the oil and natural gas industry worldwide.

*John E. Vollmer III* - Mr. Vollmer joined UTI in July 1998 and serves as Senior Vice President and Chief Financial Officer. Mr. Vollmer was a financial consultant from October 1997 until joining UTI in 1998. From 1992 until October 1997, Mr. Vollmer served in a variety of capacities at Blockbuster Entertainment, including Senior Vice President-Finance and Chief Financial Officer of Blockbuster Entertainment's Music Division. Mr. Vollmer is a Certified Public Accountant and holds a B. A. in Accounting from Michigan State University.

*Bruce Sauers* - Mr. Sauers has served as Vice President of UTI since August 1998 and as Corporate Controller since December 1996. Prior to joining UTI in 1996, Mr. Sauers was a manager in a regional public accounting firm. Mr. Sauers is a Certified Public Accountant and holds a B. S. in Business Administration from Shippensburg University of Pennsylvania.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires UTI's officers and directors, and persons who beneficially own more than ten percent of a registered class of UTI's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent stockholders are required by the regulations promulgated under Section 16(a) to furnish UTI with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Form 5s were required for those persons, UTI believes that, during 1999, all filing requirements applicable to officers, directors, and greater than ten percent stockholders were complied with, except that UTI's reporting persons filed Form 5s one day late.

## Item 11. EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets forth information concerning compensation for 1999, 1998 and 1997 earned by or paid to (collectively, the “Named Executive Officers”):

- UTI’s Chief Executive Officer
- UTI’s other executive officers whose total annual salary and bonus exceeded \$100,000 in 1999
- each employee for whom disclosure would be required except for the fact that such individual was not serving as an executive officer of UTI as of December 31, 1999

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards		
		Salary \$	Bonus \$	Other Annual Compensation <sup>(1)</sup> \$	Restricted Stock Award(s)	Securities Underlying Options SARs(#)	All Other Compensation <sup>(3)</sup> \$
<i>Vaughn E. Drum</i> President and Chief Executive Officer	1999	170,040	25,000	—	—	90,000	3,270
	1998	170,040	200,000	—	—	12,500 <sup>(4)</sup>	3,229
	1997	156,350	115,681	—	—	42,500	5,959
<i>Mark S. Siegel</i> Chairman of the Board	1999	100,000	—	—	—	85,000	—
	1998	100,000	—	—	—	385,000 <sup>(4)</sup>	—
	1997	—	—	—	—	550,000	—
<i>John E. Vollmer III</i> <sup>(5)</sup> Senior Vice President, Treasurer and Chief Financial Officer	1999	150,000	25,000	—	—	100,000	2,140
	1998	63,462	26,250	8,615 <sup>(2)</sup>	—	125,000	—
	1997	—	—	—	—	—	—

- (1) The aggregate amounts of perquisites and other personal benefits, securities or property is less than 10% of each executive officer’s combined annual salary and bonus during the applicable year.
- (2) Relates to consultant services provided prior to employment.
- (3) Amounts set forth for 1999, 1998 and 1997 reflect UTI’s contributions or other allocations to defined contribution plans.
- (4) In August 1998, the Board of Directors of UTI approved the repricing of options to purchase an aggregate of 743,375 shares granted to employees of UTI during 1998 and 1997. Pursuant to such action, Messrs. Drum and Siegel had options to purchase 12,500 and 385,000 shares of common stock, respectively, which were repriced and are included in this table as new grants during 1998 although new options were not actually granted as a result of such repricing.
- (5) Mr. Vollmer became an officer of UTI in July 1998.

### *Compensation Pursuant to Employee Benefit Plans*

UTI maintains several plans intended to provide incentives to its key employees. These plans are described below:

*Incentive Compensation Plan.* UTI maintains an Incentive Compensation Plan established in 1987 (the “ICP”). Under the ICP, specified management employees of UTI and its subsidiaries with at least 90 days of service may be eligible to receive a cash bonus following each plan year based on a comparison of financial performance against targets established for each plan year.

*Norton 1997 Stock Option Plan.* In July of 1999, UTI acquired Norton Drilling Services, Inc. Norton Drilling Services, Inc. had a stock option plan which UTI assumed. The options vest over three years. No further shares of common stock are available for grant under the plan.

*1996 Employee Stock Option Plan.* In August 1996, UTI’s stockholders approved UTI’s 1996 Employee Stock Option Plan (the “1996 Plan”). Under the 1996 Plan, UTI can award options on up to 900,000 shares of common stock to certain employees of UTI and its subsidiaries at a price equal to the fair market value of the stock at the date the option is granted. In August of 1998 certain of the options were repriced to the fair market value on the date of repricing. During 1998 and 1999, net of cancellations, UTI did not award any options to purchase shares of common stock under the 1996 Plan. The 1996 Plan currently is administered by UTI’s Compensation Committee. There are currently only 92,300 shares of common stock available for grant under the 1996 Plan.

*1997 Long-Term Incentive Plan.* In August 1997, UTI’s stockholders approved UTI’s 1997 Long-Term Incentive Plan (the “1997 Plan”). Under the 1997 Plan, UTI may grant stock options, stock appreciation rights issued independent or in tandem with such options (“SAR”), restricted stock awards and performance awards to certain employees of UTI and its subsidiaries. In August of 1998, certain of the options were repriced to the fair market value on the date of repricing. In June 1999, UTI’s stockholders increased the number of shares of common stock authorized for issuance under the 1997 Plan from 600,000 to 1,500,000. Options are to be granted at a price not less than the fair market value of the common stock on the date the option is granted. During 1998 and 1999, UTI awarded options, net of cancellations, to purchase 687,375 shares of common stock pursuant to the 1997 Plan. The options that have been granted under the 1997 Plan vest over zero to five years. The 1997 Plan currently is administered by UTI’s Compensation Committee. There are currently 370,250 shares of common stock available for grant under the 1997 Plan.



The following table sets forth information regarding grants of stock options to the Named Executive Officers during 1999.

#### OPTION/SAR GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5% (\$)	10% (\$)
Vaughn E. Drum	85,000	13.71%	9.8125	4/25/09	524,357	1,329,281
Mark S. Siegel	90,000	14.52%	9.8125	4/25/09	555,393	1,407,474
John E. Vollmer III	100,000	16.13%	9.8125	4/25/09	617,103	1,563,860

The following table sets forth information concerning stock options exercised in 1999 and stock options unexercised at December 31, 1999 for the Named Executive Officers:

#### AGGREGATED OPTION/SAR EXERCISES IN 1999 AND VALUE TABLE AT DECEMBER 31, 1999

Name	Shares Acquired on Exercise	Value Realized (\$)	Number of Unexercised Options/SARs at December 31, 1999 Exercisable/Unexercisable	Value of Unexercised In-the-money Options/SARs at December 31, 1999 Exercisable/Unexercisable
Vaughn E. Drum	100,000	347,613	184,460/85,000	\$3,543,188/\$1,099,688
Mark S. Siegel	—	—	416,667/223,333	\$5,639,308/\$2,881,042
John E. Vollmer III	—	—	33,333/191,667	\$429,167/\$2,473,958

#### *Employment Contracts*

UTI has an employment agreement with Mr. Drum. The annual salary currently payable under such agreement is \$225,000, which may be increased by UTI's Board of Directors or the Compensation Committee. The agreement has an initial term of five years continuing through December 2000, and automatically extends for an additional year upon the completion of the five-year term unless either party provides notice to the other of the intention to terminate such contract 120 days prior to the termination date. In addition, the employment agreement entitles Mr. Drum to receive four weeks paid vacation per year and to participate fully in all employee plans and fringe benefit programs established by UTI after the date of the contract in which other senior executives of UTI are eligible to participate.

In the event of a termination due to Mr. Drum's death or disability, his estate is entitled to receive:

- unused vacation pay
- a pro-rated portion of the bonus (the "Pro-rated Bonus") which would have been payable to Mr. Drum under the ICP Plan had he been employed at the end of the year in which the termination occurred (the "Annual Bonus")
- separation payment not more than fifty percent of Mr. Drum's compensation in the most recent calendar year (the "Separation Payment")
- vesting of all of Mr. Drum's interests, if any, under UTI stock option plans and any other employee plans of UTI ("Plan Vesting")

In the event Mr. Drum retires in accordance with UTI's retirement policies, he is entitled to receive:

- unused vacation pay
- Pro-rated Bonus
- Separation Payment
- Plan Vesting (but only to the extent provided in UTI's employee benefit plans for retiring employees)

If Mr. Drum is terminated by UTI without cause, he is entitled to receive:

- termination pay of one year's salary
- unused vacation pay
- Separation Payment
- Annual Bonus
- Plan Vesting
- continuation of all employee benefits, without any increase in cost to him, for a period of 18 months following termination

In connection with UTI's relocation of its corporate headquarters from Wayne, Pennsylvania to Houston, Texas, UTI agreed to provide relocation assistance if and when Mr. Drum's employment with UTI is terminated.

In 1997, the Compensation Committee approved employment arrangements with Messrs. Siegel and Berns providing for annual salaries of \$100,000 and \$50,000 for a period of five years. Effective February 20, 2000, the annual salaries of Messrs. Siegel and Berns increased to \$125,000 and \$90,000, respectively. In the event of a change in control of UTI, UTI's obligation to pay such salaries would end and Messrs. Siegel and Berns would each be entitled to payment of one year's salary and vesting of all options granted in connection with such employment arrangements. Both Messrs. Siegel and Berns are entitled to receive bonuses for extraordinary services solely within the discretion of the Board of Directors and Compensation Committee.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Prior to November 1997, grants of stock options to UTI's executive officers and Messrs. Siegel and Berns as well as salary levels of UTI's executive officers were approved by the full Board of Directors. In November 1997, the Board of Directors delegated these responsibilities to the Compensation Committee, which is comprised of Messrs. Hunt and Spears. Although the full Board of Directors authorized the repricing of options during 1998 (with Messrs. Siegel, Drum and Berns abstaining), it is intended that the Compensation Committee will determine compensation awarded to UTI's executive officers, as well as Messrs. Siegel and Berns, in the future. Item 13 sets forth certain transactions between members of the Board of Directors and UTI.

### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of March 31, 2000, the stock ownership of UTI's Named Executive Officers and directors individually, all directors and executive officers as a group and each person known by UTI to be the beneficial owner of more than 5% of UTI's common stock.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Other Beneficial Owners:		
REMY Capital Partners III, L.P. 1801 Century Park East, Suite 1111 Los Angeles, CA 90067	3,514,762 <sup>(1)</sup>	19.0%
REMY Investors & Consultants, Incorporated 1801 Century Park East, Suite 1111 Los Angeles, CA 90067	3,580,762 <sup>(1)</sup>	19.3%
Directors and Named Executive Officers:		
Mark S. Siegel	4,037,762 <sup>(1)</sup>	21.2%
Vaughn E. Drum	287,316 <sup>(2)</sup>	1.5%
Kenneth N. Berns	95,333 <sup>(3)</sup>	□
Curtis W. Huff	11,250 <sup>(4)</sup>	□
Terry H. Hunt	14,250 <sup>(4)</sup>	□
Nadine C. Smith	13,250 <sup>(4)</sup>	□
Robert B. Spears	13,350 <sup>(4)</sup>	□
John E. Vollmer III	65,416 <sup>(2)</sup>	□

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
(All directors and executive officers as a group -- 9 persons)	4,541,177 <sup>(5)</sup>	23.6%

<sup>□</sup> indicates less than 1.0%

- (1) The common stock beneficially owned by Remy Investors, which is the General Partner of Remy, includes the 3,514,762 shares of common stock owned by Remy as well as presently exercisable options held by Remy Investors to purchase 66,000 shares of common stock. The common stock beneficially owned by Mr. Siegel, who is the President and sole stockholder of Remy Investors, includes the 3,580,762 shares of common stock and warrants beneficially owned by Remy Investors as well as presently exercisable options held by Mr. Siegel to purchase 457,000 shares of common stock, but does not include 183,000 shares underlying stock options held by Mr. Siegel, which options are not presently exercisable within sixty days.
- (2) Includes shares underlying presently exercisable stock options held by Mr. Drum to purchase 60,916 shares and presently exercisable stock options held by Mr. Vollmer to purchase 65,416 shares. Does not include shares underlying stock options held by Mr. Drum to purchase 66,584 shares and stock options held by Mr. Vollmer to purchase 159,584 shares that are not presently exercisable and will not become exercisable within sixty days.
- (3) Represents presently exercisable warrants and options owned by Mr. Berns to purchase 95,333 shares. Does not include 61,667 shares underlying options that are not presently exercisable within 60 days and does not include shares of common stock or warrants beneficially owned by Remy Investors by whom Mr. Berns is employed. Mr. Berns disclaims beneficial ownership of such shares and warrants beneficially owned by Remy Investors.
- (4) Includes presently exercisable options owned by Messrs. Huff, Hunt and Spears and Ms. Smith to purchase 11,250 shares. Does not include 3,750 shares underlying stock options held by Messrs. Huff, Hunt and Spears and Ms. Smith that are not presently exercisable and will not become exercisable within sixty days.
- (5) Includes presently exercisable options to purchase 792,915 shares of common stock. Does not include options to purchase 497,585 shares owned by such individuals that are not exercisable within 60 days.

Except as stated herein, UTI is not aware of any arrangements which may result in a change in control of UTI and each stockholder has sole voting and investment power with respect to UTI's common stock included in the above table.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

In connection with Remy Capital Partners III, L.P.'s ("Remy") acquisition of its ownership interest in UTI in March 1995, Remy succeeded to a registration rights agreement with UTI which provides Remy with the right to require UTI to use its best efforts to register shares held by Remy under the Securities Act. In the event that such rights are exercised in connection with a primary offering proposed by UTI (or a secondary offering with which UTI agrees to participate), Remy would bear its pro rata share of the costs of the offering, other than legal, accounting and printing costs which UTI shall bear. In the event that Remy elected to exercise such rights other than in connection with an offering proposed by UTI, Remy will bear all costs of the offering. These rights continue so long as Remy continues to own the common stock that it acquired. The right to a demand registration may be exercised three times.

Mr. Mark S. Siegel, Chairman of UTI, is President and sole stockholder of Remy Investors, which is the General Partner of Remy. Kenneth N. Berns, a director and employee of UTI, is an executive employee of Remy Investors.

Mr. Curtis W. Huff, a director of UTI, is Executive Vice President, Chief Financial Officer, General Counsel and Secretary of Weatherford International, Inc., one of UTI's vendors. UTI purchased \$2.2 million of supplies, materials and drill pipe from Weatherford during 1999, and owed \$1.2 million to Weatherford or wholly-owned subsidiaries of Weatherford as of December 31, 1999. UTI believes that the terms of these transactions were at least as favorable to UTI as those that could have been obtained from unrelated third parties through arms-length negotiations.

## PART IV

### Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Annual Report on Form 10-K:

	Page
(1) Financial Statements of UTI Energy Corp.:	
Contents .....	F-1
Report of Independent Auditors .....	F-2
Consolidated Balance Sheets at December 31, 1999 and 1998 .....	F-3
Consolidated Statements of Operations for the Years Ended December 31, 1999, 1998 and 1997 .....	F-4
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 1999, 1998 and 1997 .....	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 1998 and 1997 .....	F-6
Notes to Consolidated Financial Statements .....	F-7

(2) Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts .....	S-1
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All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or do not apply and therefore have been omitted.

(3) The following Exhibits are filed as part of this Annual Report on Form 10-K.

<b>Exhibit Number</b>	<b>Title or Description</b>
3.1	- Restated Certificate of Incorporation of UTI (incorporated by reference to Amendment No. 1 to UTI's Registration Statement on Form S-1 (No. 33-69726)).
3.2	- Amendment to Restated Certificate of Incorporation (incorporated by reference to Amendment No. 1 to UTI's Registration Statement on Form S-1 (No. 33-69726)).
3.3	- Amendment to Restated Certificate of Incorporation (incorporated by reference to UTI's Annual Report on Form 10-K for the year ended December 31, 1994).
3.4	- Amendment to Restated Certificate of Incorporation, dated August 28, 1997 (incorporated by reference to Exhibit 3.4 to UTI's Registration Statement on Form S-3 (No. 333-35109)).
3.5	- By-laws of UTI, as amended (incorporated by reference to Exhibit 3.3 to UTI's Annual Report on Form 10-K for the year ended December 31, 1993).
3.6	- Rights Agreement, dated February 26, 1999, between UTI Energy Corp. and ChaseMellon Shareholder Services, L.L.C. as Rights Agent (incorporated by reference to Exhibit 4.1 to UTI's Current Report on Form 8-K, dated February 26, 1999, filed with the Securities and Exchange Commission on March 4, 1999).
3.7	- Certificate of Designation, Powers, Preferences and Rights of Series I Preferred Stock, dated February 26, 1999 (incorporated by reference to Exhibit 4.2 to UTI's Current Report on Form 8-K, dated February 26, 1999, filed with the Securities and Exchange Commission on March 4, 1999).
3.8	- Form of Right Certificate (incorporated by reference to Exhibit 4.3 to UTI's Current Report on Form 8-K, dated February 26, 1999, filed with the Securities and Exchange Commission on March 4, 1999).
4.1	- See Exhibit No. 3.1 through 3.8 for provisions of the Restated Certificate of Incorporation and amended By-laws of UTI defining the rights of the holders of Common Stock.
4.2	- Form of Common Stock Certificate (incorporated by reference to Amendment No. 1 to UTI's Registration Statement on Form S-1 (No. 33-69726)).
4.3	- Registration Rights Agreement with Bear Stearns & Co. Inc., dated March 25, 1994, as assigned to Remy Capital Partners III, L.P. (incorporated by reference to Exhibit 10.17 to UTI's Annual Report on Form 10-K for the year ended December 31, 1993).
4.4	- Stock Option Agreement, dated December 19, 1995, between UTI and Remy Consultants Incorporated (incorporated by reference to Exhibit 2 to UTI's Amendment No. 1 to Schedule 13D dated August 8, 1996).

<b>Exhibit Number</b>	<b>Title or Description</b>
4.5 <sup>(1)</sup>	- Amended and Restated UTI Energy Corp. 1996 Employee Stock Option Plan (incorporated by reference to Exhibit 4.6 to UTI's Annual Report on Form 10-K for the year ended December 31, 1997).
4.6	- Note Purchase Agreement, dated April 11, 1997, by and among FWA Drilling Company, Inc., International Petroleum Service Company, Triad Drilling Company, Universal Well Services, Inc., USC, Incorporated, Panther Drilling, Inc. and Canpartners Investments IV, LLC (incorporated by reference to Schedule 13D relating to UTI filed on April 22, 1997 by Canpartners Investments IV, LLC, Canpartners Incorporated, Mitchell R. Julis, Joshua S. Friedman and R. Christian B. Evensen).
4.7	- Note, dated April 11, 1997, payable by FWA Drilling Company, Inc., International Petroleum Service Company, Triad Drilling Company, Universal Well Services, Inc., USC, Incorporated and Panther Drilling, Inc. to Canpartners Investments IV, LLC (incorporated by reference to Exhibit 10.5 to UTI's Current Report on Form 8-K dated April 11, 1997).
4.8	- Warrant Agreement, dated April 11, 1997, by and between UTI Energy Corp. and Southland Drilling Company, Ltd. (incorporated by reference to Exhibit 10.1 to UTI's Current Report on Form 8-K dated April 11, 1997).
4.9 <sup>(1)</sup>	- Amended and Restated UTI Energy Corp. Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 4.18 to UTI's Annual Report on Form 10-K for the year ended December 31, 1997).
4.10 <sup>(1)</sup>	- Amended and Restated 1997 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.2 to UTI's Annual Report on Form 10-K for the year ended December 31, 1997).
4.11 <sup>(1)</sup>	- Amendment No. 1 to the Amended and Restated 1997 Long-Term Incentive Plan adopted by the Board of Directors on April 26, 1999 (incorporated by reference to Exhibit 4.11 to UTI's Annual Report on Form 10-K for the year ended December 31, 1999).
4.12	- Form of Warrant to purchase an aggregate of 75,000 shares of Common Stock at \$26.50 per share, which was issued to the former shareholders of Suits Enterprises, Inc. listed on such exhibit in the amounts set forth opposite such former shareholder's name on such exhibit (incorporated by reference from UTI's Quarterly Report on Form 10-Q for the six months ended June 30, 1998).
4.13	- Form of Warrant to purchase an aggregate of 25,000 shares of Common Stock at \$35.00 per share, which was issued to the former shareholders of Suits Enterprises, Inc. listed on such exhibit in the amounts set forth opposite such former shareholder's name on such exhibit (incorporated by reference from UTI's Quarterly Report on Form 10-Q for the six months ended June 30, 1998).



**Exhibit  
Number**

**Title or Description**

- 
- |                     |   |  |
|---------------------|---|--|
| 4.14                | - | Form of Note Payable, in the aggregate amount of \$7.79 million, which was issued to the former shareholders of Suits Enterprises, Inc. listed on such exhibit in the amounts set forth opposite such former shareholder's name on such exhibit (incorporated by reference from UTI's Quarterly Report on Form 10-Q for the six months ended June 30, 1998).   |
| 4.15                | - | Loan and Security Agreement, dated 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 Company, Universal Well Services, Inc., UTI Management Services, L.P. and SUITS Drilling Company as Borrowers (incorporated by reference to Exhibit 4.15 to UTI's Annual Report on Form 10-K for the year ended December 31, 1999). |
| 10.1                | - | For additional material contracts see Exhibits 4.3 through 4.15.   |
| 10.2 <sup>(1)</sup> | - | Amended and Restated Employment Agreement with Vaughn E. Drum, dated December 19, 1996 (incorporated by reference to Exhibit 10.4 to UTI's Current Report on Form 8-K dated January 27, 1997).   |
| 10.3                | - | Agreement and Plan of Merger, dated April 26, 1999, by and between UTI Energy Corp. and Norton Drilling Services, Inc. (incorporated by reference to Exhibit 2.1 to UTI's Current Report on Form 8-K dated July 26, 1999).   |
| 21.1                | - | List of subsidiaries of UTI (incorporated by reference to Exhibit 21.1 to UTI's Annual Report on Form 10-K for the year ended December 31, 1999).  |
| 23.1 <sup>(2)</sup> | - | Consent of Ernst & Young LLP.  |
| 27.1                | - | Financial Data Schedule (incorporated by reference to Exhibit 4.15 to UTI's Annual Report on Form 10-K for the year ended December 31, 1999).  |

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(1) Management contract or compensatory plan, identified as required by Item 14(a)(3) of Form 10-K.

(2) Filed herewith as part of this Form 10-K.

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, UTI has not filed with this Form 10-K certain instruments defining the right of holders of long-term debt of UTI and its subsidiaries. This is because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of UTI and its subsidiaries on a consolidated basis. UTI agrees to furnish a copy of any of these agreements to the Securities and Exchange Commission upon request.

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

UTI did not submit a Form 8-K during the quarter that ended December 31, 1999

**UTI ENERGY CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**Contents**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors .....	F-2
Consolidated Balance Sheets .....	F-3
Consolidated Statements of Operations .....	F-4
Consolidated Statements of Changes in Shareholders' Equity .....	F-5
Consolidated Statements of Cash Flows .....	F-6
Notes to Consolidated Financial Statements .....	F-7

## Report of Independent Auditors

To the Board of Directors  
UTI Energy Corp.

We have audited the accompanying consolidated balance sheets of UTI Energy Corp. as of December 31, 1999 and 1998 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UTI Energy Corp. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Houston, Texas  
February 11, 2000

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

	<b>December 31,</b>	
	<b>1999</b>	<b>1998</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 7,547	\$ 10,337
Accounts receivable, net of allowance for doubtful accounts of \$3,143 in 1999 and \$1,919 in 1998 . . . . .	33,522	25,485
Federal income tax receivables . . . . .	5,043	3,200
Materials and supplies . . . . .	748	887
Deferred income taxes . . . . .	1,762	1,954
Prepaid expenses . . . . .	1,487	4,648
	<u>50,109</u>	<u>46,511</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land . . . . .	1,224	1,224
Buildings and improvements . . . . .	3,538	3,324
Machinery and equipment . . . . .	244,657	202,698
Oil and natural gas working interests . . . . .	1,856	1,943
Construction in process . . . . .	376	2,729
	<u>251,651</u>	<u>211,918</u>
Less accumulated depreciation and amortization . . . . .	62,807	47,070
	<u>188,844</u>	<u>164,848</u>
 GOODWILL, less accumulated amortization of \$3,616 in 1999 and \$2,086 in 1998 . . . . .	 19,261	 20,791
OTHER ASSETS . . . . .	2,368	1,871
	<u>\$ 260,582</u>	<u>\$ 234,021</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable . . . . .	\$ 19,672	\$ 17,649
Accrued payroll and related costs . . . . .	4,536	2,387
Accrued health insurance . . . . .	1,058	1,284
Other accrued expenses . . . . .	3,948	2,599
	<u>29,214</u>	<u>23,919</u>
 LONG-TERM DEBT . . . . .	 32,196	 31,721
DEFERRED INCOME TAXES . . . . .	41,668	33,579
OTHER LIABILITIES . . . . .	472	656
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, \$.01 par value, 5,000 shares authorized, 0 shares issued or outstanding in 1999 and 1998 . . . . .	-	-
Common Stock, \$.001 par value, 50,000 shares authorized, 18,432 shares issued and 17,829 outstanding in 1999, 16,612 shares issued and 16,009 outstanding in 1998 . . . . .	18	17
Additional capital . . . . .	144,312	128,825
Retained earnings . . . . .	22,707	25,309
Treasury Stock, 603 shares in 1999 and 1998, at cost . . . . .	(10,005)	(10,005)
	<u>157,032</u>	<u>144,146</u>
	<u>\$ 260,582</u>	<u>\$ 234,021</u>

*See accompanying notes.*

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

	<b>Years Ended December 31,</b>		
	<b><u>1999</u></b>	<b><u>1998</u></b>	<b><u>1997</u></b>
REVENUES .....	\$ 155,775	\$ 186,157	\$ 182,437
<b>COSTS AND EXPENSES</b>			
Direct operating costs (excluding depreciation and amortization) ....	123,240	138,935	137,499
Selling, general and administrative .....	10,170	10,781	10,011
Provisions for bad debts .....	548	1,143	623
Other charges (income) .....	(2,861)	206	(774)
Depreciation and amortization .....	<u>24,122</u>	<u>19,529</u>	<u>11,075</u>
	<u>155,219</u>	<u>170,594</u>	<u>158,434</u>
OPERATING INCOME .....	556	15,563	24,003
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense .....	(4,168)	(3,815)	(4,330)
Interest income .....	602	1,084	689
Other, net .....	<u>(17)</u>	<u>271</u>	<u>(228)</u>
	<u>(3,583)</u>	<u>(2,460)</u>	<u>(3,869)</u>
INCOME (LOSS) BEFORE INCOME TAXES .....	(3,027)	13,103	20,134
INCOME TAXES .....	<u>(425)</u>	<u>5,235</u>	<u>7,609</u>
NET INCOME (LOSS) .....	<u>\$ (2,602)</u>	<u>\$ 7,868</u>	<u>\$ 12,525</u>
BASIC EARNINGS (LOSS) PER COMMON SHARE .....	<u>\$ (0.15)</u>	<u>\$ 0.49</u>	<u>\$ 0.96</u>
DILUTED EARNINGS (LOSS) PER COMMON SHARE .....	<u>\$ (0.15)</u>	<u>\$ 0.47</u>	<u>\$ 0.83</u>
<b>AVERAGE COMMON SHARES OUTSTANDING</b>			
Basic .....	16,992	16,070	13,083
Diluted .....	16,992	16,795	15,069

*See accompanying notes.*

**UTI ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(in thousands)*

	Common Stock		Additional Capital	Retained Earnings	Restricted Stock Plan Unearned Compensation	Treasury Stock	Total
	Number of Shares	Par \$.001					
Balance at December 31, 1996 .	10,807	\$ 11	\$ 17,870	\$ 4,916	\$ (101)	\$ -	\$ 22,696
Net income . . . . .	-	-	-	12,525	-	-	12,525
Issuance of Common Stock . . . .	2,836	3	84,528	-	-	-	84,531
Warrants issued . . . . .	-	-	1,410	-	-	-	1,410
Exercise of warrants . . . . .	1,911	2	13,773	-	-	-	13,775
Exercise of options . . . . .	593	-	2,627	-	-	-	2,627
Vesting of restricted stock plan .	-	-	-	-	56	-	56
Balance at December 31, 1997 .	16,147	16	120,208	17,441	(45)	-	137,620
Net income . . . . .	-	-	-	7,868	-	-	7,868
Redemption of Redeemable Stock	-	1	6,701	-	-	(6,702)	-
Warrants issued . . . . .	-	-	411	-	-	-	411
Exercise of options . . . . .	156	-	1,505	-	-	-	1,505
Purchase of Treasury Stock . . . .	(294)	-	-	-	-	(3,303)	(3,303)
Vesting of restricted stock plan .	-	-	-	-	45	-	45
Balance at December 31, 1998 .	16,009	17	128,825	25,309	-	(10,005)	144,146
Net loss . . . . .	-	-	-	(2,602)	-	-	(2,602)
Issuance of Common Stock . . . .	1,298	1	13,264	-	-	-	13,265
Exercise of options . . . . .	522	-	2,223	-	-	-	2,223
Balance at December 31, 1999 .	<u>17,829</u>	<u>\$ 18</u>	<u>\$ 144,312</u>	<u>\$ 22,707</u>	<u>\$ -</u>	<u>\$ (10,005)</u>	<u>\$ 157,032</u>

*See accompanying notes.*

**UTI ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	<b>Years Ended December 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss) . . . . .	\$ (2,602)	\$ 7,868	\$ 12,525
Adjustments to reconcile net income to net cash provided by operations			
Depreciation . . . . .	21,924	17,630	10,410
Amortization . . . . .	2,198	1,899	665
Deferred income taxes . . . . .	2,208	2,549	1,012
Amortization of debt discount . . . . .	475	475	402
Stock compensation expense . . . . .	-	45	56
Provisions for bad debts . . . . .	282	1,104	510
Gain on disposal of fixed assets . . . . .	(3,121)	(579)	(774)
Change in operating assets and liabilities, net of effect of businesses acquired			
Receivables and prepaids . . . . .	(4,079)	5,445	(16,670)
Materials and supplies . . . . .	(109)	477	(489)
Accounts payable and accruals . . . . .	(1,556)	(2,622)	16,357
Other . . . . .	(1,220)	(2,723)	217
Net cash provided by operating activities . . . . .	14,400	31,568	24,221
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment . . . . .	(9,444)	(37,429)	(18,356)
Acquisitions, net of cash . . . . .	(7,540)	(34,300)	(36,847)
Net proceeds from disposition . . . . .	4,935	-	-
Proceeds from sale of property and equipment . . . . .	1,286	1,530	1,373
Net cash used by investing activities . . . . .	(10,763)	(70,199)	(53,830)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of long-term debt . . . . .	-	-	58,900
Repayments of long-term debt . . . . .	(7,951)	(52)	(52,559)
Repurchased stock . . . . .	-	(10,005)	-
Proceeds from issuance of Common Stock . . . . .	1,524	678	81,045
Net cash provided (used) by financing activities . . . . .	(6,427)	(9,379)	87,386
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
. . . . .	(2,790)	(48,010)	57,777
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
. . . . .	10,337	58,347	570
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> . . . . .	<u>\$ 7,547</u>	<u>\$ 10,337</u>	<u>\$ 58,347</u>

*See accompanying notes.*

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business*

UTI Energy Corp. is a leading provider of onshore contract drilling services to companies that explore for and produce oil and natural gas. UTI was incorporated in Delaware and commenced its current business on December 31, 1986. UTI operates one of the largest fleets of drilling rigs used to drill oil and natural gas wells on land in the United States. A drilling rig includes the structure, power source and machinery necessary to allow a drill bit to penetrate rock to a depth desired by the customer. UTI's drilling rigs operate in the oil and natural gas producing basins of Texas, Oklahoma, New Mexico and Wyoming. As of December 31, 1999, UTI's fleet consisted of 125 land drilling rigs. UTI also provides pressure pumping services in the Appalachian Basin. Pressure pumping services consist primarily of well stimulation and cementing for the completion of new wells and remedial work on existing wells. Well stimulation involves processes inside a well designed to enhance the flow of oil, natural gas or other desired substances from the well. Cementing is the process of inserting material between the hole and the pipe to center and stabilize the pipe in the hole.

*Principles of Consolidation*

The consolidated financial statements include the accounts of UTI and its subsidiaries. All of UTI's subsidiaries are wholly owned. Intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

UTI considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

*Materials and Supplies*

Materials and supplies are composed of replacement parts and supplies held for use in the operations of UTI. Material and supplies are stated at the lower of cost or market. Cost is determined by the first in, first out method.



**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property and Equipment*

Property and equipment are stated at cost. Improvements are capitalized and depreciated over the period of benefit. UTI periodically reviews its long-lived assets for impairment. Provisions for impairment are charged to income when indicators of impairment are present and when it is considered probable that the carrying values of producing asset groups may not be recovered over their remaining service lives based on estimates of future net cash flows on an undiscounted basis.

Upon retirement or other disposal of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts. Any gains or losses are included in results of operations. Depreciation is determined by the straight-line method over the estimated useful lives of the related assets which are as follows:

- buildings--30 years
- building improvements--7-10 years
- machinery and equipment--2-15 years

*Oil and Natural Gas Working Interests*

UTI accounts for its oil and natural gas operations under the successful efforts method of accounting. Under the successful efforts method of accounting, costs which result directly in the discovery of oil and natural gas reserves and all developments costs are capitalized. Exploration costs which do not result directly in discovering oil and natural gas reserves are charged to expense as incurred. The capitalized costs are depreciated, depleted and amortized on the units-of-production method, based on estimates of recoverable proved developed oil and natural gas reserves of each respective field.

*Goodwill*

The excess of the purchase price over the estimated fair value of net assets acquired is accounted for as goodwill and is amortized on a straight-line basis over 15 years. UTI's management periodically assesses recorded goodwill, net of accumulated amortization, for impairment based on the undiscounted cash flows associated with the assets acquired compared to the carrying amount of those assets. Management believes that there have been no events or circumstances which affect the recoverability of its recorded goodwill.

*Revenue Recognition*

Revenues are recognized when services have been performed. Revenues from footage and turnkey drilling contracts are recognized using the percentage of completion method of accounting. Any losses are provided for in the period in which the loss is determinable.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Stock-Based Compensation*

UTI follows the method of accounting for employee stock compensation plans prescribed by APB No. 25, which is permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). In accordance with APB No. 25, UTI has not recognized compensation expense for stock options. This is because the exercise price of the options equal the market price of the underlying stock on the date of grant, which is the measurement date.

*New Accounting Pronouncement*

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133* (SFAS 137), which is effective for fiscal years beginning after June 15, 2001, and requires all derivatives to be recognized at fair value on the balance sheet. UTI plans to adopt SFAS 133 no later than January 1, 2001. The change is not expected to have a significant effect on UTI's financial statements.

*Reclassifications*

Certain items in the prior years' financial statements have been reclassified to conform with the presentation in the current year.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. ACQUISITIONS**

(a) Quarles Drilling Corporation

On January 27, 1997, UTI acquired the land drilling assets of Quarles Drilling Corporation for \$16.2 million. This \$16.2 million consisted of \$8.1 million in cash and approximately .7 million shares of UTI's common stock. The stock was valued at \$8.1 million or \$11.04 per share based on the average price of UTI's common stock shortly before and after the acquisition was announced. The acquisition was accounted for using the purchase method. Quarles' operating results since January 27, 1997 have been consolidated with the operating results of UTI. The acquired assets consisted of nine land drilling rigs, drilling equipment, rig components and other equipment used in Quarles' land drilling business. The fair market value of the assets acquired were estimated and the purchase price was allocated as follows (in thousands):

Property and Equipment .....	\$ 16,651
Goodwill .....	-
Liabilities Assumed .....	<u>(451)</u>
Purchase Price .....	<u><u>\$ 16,200</u></u>

(b) Southland Drilling Company

On April 11, 1997, UTI acquired the land drilling operations of Southland Drilling Company Ltd. for approximately \$27.1 million in cash and a five-year warrant to purchase 300,000 shares of UTI's common stock at an exercise price of \$16.00 per share. Warrants to purchase 105,000 shares of UTI's common stock were exercised in 1997. The remaining warrants were unexercised at December 31, 1999. The acquisition was accounted for using the purchase method. Southland's operating results since April 11, 1997 have been consolidated with the operating results of UTI. The acquired assets consisted of nine land drilling rigs, drilling equipment, rig components and other equipment used in Southland's land drilling business. The fair market value of the assets acquired were estimated and the purchase price was allocated as follows (in thousands):

Property and Equipment .....	\$ 17,219
Goodwill .....	10,139
Liabilities Assumed .....	<u>(201)</u>
Purchase Price .....	<u><u>\$ 27,157</u></u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. ACQUISITIONS (Continued)**

(c) J.S.M. & Associates, Inc.

On September 11, 1997, UTI acquired all of the capital stock of J.S.M. & Associates, Inc. for approximately .6 million shares of UTI's common stock and \$2.6 million in cash. The stock was valued at \$16.1 million or \$26.00 per share based on the average price of UTI's common stock shortly before and after the acquisition was announced. Approximately .3 million shares of the .6 million shares were redeemable and were redeemed on January 6, 1998. The acquisition was accounted for using the purchase method of accounting. JSM's operating results since September 11, 1997 have been consolidated with the operating results of UTI. JSM's assets included seven land drilling rigs, drilling equipment and approximately \$1.0 million in net working capital. The fair market value of the assets acquired were estimated and the purchase price was allocated as follows (in thousands):

Property and Equipment .....	\$ 14,314
Goodwill .....	9,131
Other Assets Assumed, net .....	324
Deferred Taxes .....	<u>(5,183)</u>
Purchase Price .....	<u>\$ 18,586</u>

(d) Peterson Drilling Company

On April 9, 1998, UTI acquired Peterson Drilling Company for a total purchase price of \$20.4 million in cash. The acquisition has been accounted for under the purchase method of accounting. Peterson's operating results since April 9, 1998 have been consolidated with the operating results of UTI. Peterson's assets included eight land drilling rigs, drilling equipment and approximately \$4.5 million in net working capital. The fair market value of the assets acquired were estimated and the purchase price was allocated as follows (in thousands):

Property and Equipment .....	\$ 20,318
Goodwill .....	3,607
Other Assets Assumed, net .....	3,835
Deferred Taxes .....	<u>(7,360)</u>
Purchase Price .....	<u>\$ 20,400</u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. ACQUISITIONS (Continued)**

(e) LaMunyon Drilling Corporation

On June 24, 1998, UTI acquired the land drilling assets of LaMunyon Drilling Corporation for \$12.2 million in cash. The acquisition has been accounted for using the purchase method of accounting. LaMunyon's operating results since June 24, 1998 have been consolidated with the operating results of UTI. The acquired assets consisted of five land drilling rigs, drilling equipment, rolling stock and other assets used in LaMunyon's land drilling business. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (in thousands):

Property and Equipment .....	\$ 12,560
Goodwill .....	-
Liabilities Assumed .....	<u>(360)</u>
Purchase Price .....	<u><u>\$ 12,200</u></u>

(f) Suits Enterprises, Inc.

On July 31, 1998, UTI acquired Suits Enterprises, Inc. for approximately \$11.1 million. This \$11.1 million was comprised of \$2.9 million in cash, \$7.8 million in 7% four-year notes and 100,000 five-year warrants of UTI's common stock. Warrants to purchase 75,000 shares of UTI's common stock are exercisable at \$26.50 per share and warrants to purchase 25,000 shares of UTI's common stock are exercisable at \$35.00 per share. Using the Black-Scholes valuation model, the warrants were valued at \$4.27 and \$3.62 per respective warrant. As of December 31, 1999, none of the warrants were exercised. The acquisition has been accounted for using the purchase method of accounting. Suits' operating results since July 31, 1998 have been consolidated with the operating results of UTI. Suits' assets included seven land drilling rigs, drilling equipment and rolling stock. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (in thousands):

Property and Equipment .....	\$ 17,856
Goodwill .....	-
Deferred Taxes .....	(6,460)
Other Liabilities Assumed, net .....	<u>(306)</u>
Purchase Price .....	<u><u>\$ 11,090</u></u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. ACQUISITIONS (Continued)**

(g) 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. The stock was valued at \$13.3 million or \$10.23 per share based on the average price of UTI's common stock shortly before and after the acquisition was announced. 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. Norton's assets included sixteen land drilling rigs, drilling equipment and rolling stock. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (in thousands).

Property and Equipment .....	\$ 31,381
Goodwill .....	-
Deferred Taxes .....	(6,073)
Long-Term Debt Assumed .....	(7,951)
Other Liabilities Assumed, net .....	<u>(4,073)</u>
Purchase Price .....	<u>\$ 13,284</u>

(h) 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. Schneider's assets included three land drilling rigs, major components for two additional land drilling rigs and drilling equipment. The fair market value of the drilling rigs and related equipment was allocated as follows (in thousands):

Property and Equipment .....	\$ 7,712
Goodwill .....	-
Other Liabilities Assumed .....	<u>(212)</u>
Purchase Price .....	<u>\$ 7,500</u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. LONG-TERM DEBT**

UTI's long-term debt at December 31, 1999 and 1998 consisted of the following:

	December 31,	
	1999	1998
	<i>(in thousands)</i>	
Subordinated notes .....	\$ 25,000	\$ 25,000
Promissory notes .....	<u>7,790</u>	<u>7,790</u>
	32,790	32,790
Less: unamortized discount .....	<u>594</u>	<u>1,069</u>
	<u><u>\$ 32,196</u></u>	<u><u>\$ 31,721</u></u>

*Subordinated Notes*

On April 11, 1997, UTI issued \$25.0 million principal amount of 12.0% subordinated notes due 2001. The proceeds of the note were \$24.5 million after discount. The subordinated notes were issued 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. UTI assigned a value of \$1.4 million to the warrants issued. UTI is amortizing the cost of the warrants to interest expense over the life of the borrowing. The subordinated notes contain various affirmative and negative covenants customary in such private placements, including restrictions on:

- additional indebtedness
- dividends
- distributions
- other restricted payments

In addition to the subordinated note borrowing, UTI also borrowed \$34.4 million from a financial institution during 1997 primarily to finance acquisitions which was subsequently repaid in 1997 with proceeds from the issuance of common stock.

*Promissory Notes*

On July 31, 1998, UTI issued approximately \$7.8 million principal amount of unsecured promissory notes. In the event the average trading value of UTI's common stock for thirty consecutive trading days exceeds \$30.00 per share, then \$3.5 million of the principal amount becomes payable within ninety days following the event. The triggering event occurred on March 9, 2000. The notes bear interest at 7.0% and mature on July 31, 2002. The notes were issued in connection with the acquisition of Suits.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. LONG-TERM DEBT (Continued)**

*Working Capital Line*

UTI entered into a \$65.0 million four-year revolving credit agreement with certain financial institutions on November 22, 1999. The credit facility calls for periodic interest at a floating rate ranging from LIBOR plus 1.75% to LIBOR plus 2.75%. The facility has restrictions customary in financial instruments of this type including restrictions on certain investments, acquisitions and loans. If availability under the facility is less than \$15.0 million then covenants related to net worth and earnings before income taxes and depreciation apply. UTI's assets secure the facility. There were no borrowings under this facility in 1999. UTI incurs a fee of .375% on the unused facility amount. A \$2.6 million standby letter of credit is issued under this agreement.

Prior to entering into the \$65.0 million revolving credit agreement, UTI maintained a \$30.0 million revolving credit agreement with a bank. There were no borrowings under this facility in 1998 or 1999. A \$1.6 million standby letter of credit was issued under this agreement.

**4. LEASES**

Future minimum payments, for each year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more consist of the following at December 31, 1999 (*in thousands*):

2000 .....	\$ 421
2001 .....	307
2002 .....	203
2003 .....	<u>38</u>
Total minimum lease payments .....	<u>\$ 969</u>

The following table shows the approximate rental expense for all operating leases for the last three years:

<u>1999</u>	<u>1998</u>	<u>1997</u>
\$469,000	\$511,000	\$472,000



**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. CONTINGENCIES**

UTI is involved in several claims arising in the ordinary course of business. UTI's management believes that 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's operations are subject to the many hazards inherent in the onshore drilling industry, such as blowouts, explosions, sour gas, well fires and spills. These hazards can result in personal injury and loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage and suspension of operations. Although UTI maintains insurance protection as management deems appropriate, such insurance coverage may not provide sufficient funds to protect UTI from all liabilities that could result from its operations. Also claims will be subject to various retentions and deductibles. While UTI has generally been able to obtain some degree of contractual indemnification from its customers in most of its dayrate drilling contracts, no such indemnification is typically available for footage or dayrate contracts. The indemnity agreements require the customers to hold UTI harmless in the event of loss of production or reservoir damage. This contractual indemnification may not be supported by adequate insurance maintained by the customer.

UTI's operations routinely involve the handling of various materials, including hazardous materials. UTI may be exposed to liability under numerous state and federal environmental laws, rules and regulations, including dealing with hazardous materials. In addition, environmental laws and regulations including The Comprehensive Environmental Response, Compensation and Liability Act (also known as the "Superfund Law"), may impose strict liability whereby UTI could be liable for clean-up costs, even if the situation resulted from previous conduct of UTI that was lawful at the time conducted or from improper conduct of or conditions caused by previous property owners or other persons not associated with UTI. UTI maintains insurance coverage against some environmental liabilities, including pollution caused by sudden and accidental oil spills.

Management believes it has adequately reserved for these contingencies. Management is of the opinion that the outcome of known and potential claims will not have a material adverse effect on UTI's operations.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. OTHER CHARGES (INCOME)**

During 1999 and 1998, UTI incurred charges related to a series of actions taken to:

- improve efficiency
- increase productivity
- make UTI more competitive in the marketplace

The actions included the reduction of regional operating offices and reductions of UTI's administrative staff. These charges were \$.3 million and \$.8 million for the years ended December 31, 1999 and 1998, respectively. There were no accruals at December 31, 1999 or December 31, 1998 related to these charges.

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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. INCOME TAXES**

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of UTI's deferred tax assets and liabilities as of December 31, 1999 and 1998, are as follows:

	December 31,	
	1999	1998
	(in thousands)	
<i>Deferred tax assets:</i>		
Alternative minimum tax credits . . . . .	\$ 614	\$ 36
Investment tax credits . . . . .	21	184
Accrued expenses . . . . .	<u>1,988</u>	<u>1,845</u>
Total deferred tax asset . . . . .	2,623	2,065
<i>Deferred tax liabilities:</i>		
Depreciation . . . . .	<u>(42,529)</u>	<u>(33,690)</u>
Net deferred tax liability . . . . .	<u>\$ (39,906)</u>	<u>\$ (31,625)</u>

UTI's investment tax credit carryforwards will expire in 2000 if not utilized. UTI uses the flow-through method for recognizing investment tax credits. UTI's alternative minimum tax credit carryforwards may be carried forward indefinitely. UTI's valuation allowance related to these tax credit carryforwards is zero since management believes that these credits will be utilized to offset future tax. UTI's management adjusts the valuation allowance as circumstances change affecting the expected realization of the deferred tax assets.

The components of the provision for income taxes are as follows:

	<u>Years Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	<i>(in thousands)</i>		
<i><u>Current:</u></i>			
Federal . . . . .	\$ (3,031)	\$ 2,372	\$ 5,681
State . . . . .	<u>398</u>	<u>314</u>	<u>916</u>
	(2,633)	2,686	6,597
<i><u>Deferred:</u></i>			
Federal . . . . .	2,281	2,540	1,005
State . . . . .	<u>(73)</u>	<u>9</u>	<u>7</u>
	<u>2,208</u>	<u>2,549</u>	<u>1,012</u>
	\$ (425)	\$ 5,235	\$ 7,609

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. INCOME TAXES (Continued)**

The difference between tax expense computed at the federal income tax rate of 35% for 1999, 1998 and 1997 and actual tax expense is as follows:

	Years Ended December 31,		
	1999	1998	1997
	<i>(in thousands)</i>		
Taxes applied to pre-tax income . . . . .	\$ (1,059)	\$ 4,586	\$ 7,047
State income tax . . . . .	211	204	595
Change in statutory tax rate . . . . .	-	-	435
Permanent differences, principally nondeductible expenses . . . . .	423	588	38
Change in valuation allowance . . . . .	-	-	(232)
Other . . . . .	-	(143)	(274)
	<u>\$ (425)</u>	<u>\$ 5,235</u>	<u>\$ 7,609</u>

**8. EARNINGS PER SHARE**

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

	Years Ended December 31,		
	1999	1998	1997
	<i>(in thousands, except per share amounts)</i>		
<i>Numerator:</i>			
Net income (loss) . . . . .	<u>\$ (2,602)</u>	<u>\$ 7,868</u>	<u>\$ 12,525</u>
<i>Denominator:</i>			
Denominator for basic earnings per share - weighted-average shares . . . . .	16,992	16,070	13,083
Effect of dilutive securities:			
Stock options . . . . .	-	649	1,286
Warrants . . . . .	-	76	676
Other . . . . .	-	-	24
Dilutive potential common shares . . . . .	-	725	1,986
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions . . . . .	<u>16,992</u>	<u>16,795</u>	<u>15,069</u>
Basic earnings (loss) per share . . . . .	<u>\$ (0.15)</u>	<u>\$ 0.49</u>	<u>\$ 0.96</u>
Diluted earnings (loss) per share . . . . .	<u>\$ (0.15)</u>	<u>\$ 0.47</u>	<u>\$ 0.83</u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. EARNINGS PER SHARE (Continued)**

Options to purchase 530,000 shares of UTI's common stock and warrants to purchase 147,000 shares of UTI's common stock were not included in the computation of diluted earnings per share for 1999 as the effect would have been antidilutive due to the net loss for the year.

**9. RELATED-PARTY TRANSACTIONS**

A director of UTI is an officer of one of UTI's vendors. UTI purchased \$2.2 million of supplies, materials and drill pipe from that vendor during 1999. UTI owed that vendor \$1.2 million at December 31, 1999.

UTI has employment contracts with certain of its executive officers.

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

	Years Ended December 31,	
	1999	1998
	<i>(in thousands)</i>	

Noncash Investing and Financing Activities:

Tax benefit of exercised stock options reflected in additional capital . . . . .	\$	699	\$	828
Peterson acquisition, deferred tax liability recorded . . . . .		-		7,360
Suits acquisition with long-term debt issued . . . . .		-		7,790
Suits acquisition with warrants granted . . . . .		-		411
Suits acquisition, deferred tax liability recorded . . . . .		-		6,460
Norton acquisition with UTI common stock . . . . .		13,284		-
Norton acquisition, deferred tax liability recorded . . . . .		6,073		-

	Years Ended December 31,		
	1999	1998	1997
	<i>(in thousands)</i>		

Cash Paid During the Period for:

Interest . . . . .	\$	3,561	\$	3,239	\$	3,523
Income taxes . . . . .		964		7,996		1,624

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. WARRANTS**

The following warrants to purchase UTI common stock were outstanding at December 31, 1999:

<u>Related Event</u>	<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
Subordinated Notes	480,000	\$ 10.83	April 11, 2004
Southland Acquisition	195,000	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

**12. STOCK PLANS**

UTI has authorized options to purchase UTI common stock under the following stock plans:

<u>Plan Name</u>	<u>Authorized Options</u>	<u>Options Available for Future Grants</u>
1993 Non-Qualified Stock Option Plan	1,459,800	0
Remy Investors Stock Option Agreement	360,000	0
Non-Employee Director Stock Option Plan	300,000	217,500
1996 Employee Stock Option Plan	900,000	92,300
1997 Long-Term Incentive Plan	1,500,000	370,250
Norton 1997 Stock Option Plan	106,825	0

Other pertinent data related to the stock option plans are as follows:

<u>Plan Name</u>	<u>Vesting</u>	<u>Term</u>
1993 Non-Qualified Stock Option Plan	5 years	5 years
Remy Investors Stock Option Agreement	Immediate	5 years
Non-Employee Director Stock Option Plan	1 year	5 years
1996 Employee Stock Option Plan	1 - 5 years	5 - 10 years
1997 Long-Term Incentive Plan	1 - 5 years	5 - 10 years
Norton 1997 Stock Option Plan	3 years	10 years

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. STOCK PLANS (Continued)**

On August 12, 1998, certain of the options under the 1996 Employee Stock Option Plan and the 1997 Long-Term Incentive Plan were repriced. The original exercise prices of \$11.38, \$13.94, \$16.25, \$20.00 and \$31.63 were repriced to \$9.88 (the fair market value on the date of repricing). The repricing did not have an effect on UTI's results of operations or future accounting for the plan.

SFAS 123 requires that pro forma information regarding net income and earnings per share be presented as if UTI had accounted for its employee stock options under the fair value method as defined in that Statement for options granted or modified after December 31, 1994. The fair value for applicable options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Risk-free interest rates:	4.53%	4.91%	5.11%
Dividend yield:	0.00%	0.00%	0.00%
Volatility factors:	1.219	.669	.529
Expected life of the option:	2.0 years	3.20 years	2.60 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restriction and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. UTI's management believes that the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options because:

- UTI's employee stock options have characteristics significantly different from those of trade options
- changes in the subjective input assumptions can materially affect the fair value estimate

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. STOCK PLANS (Continued)**

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. UTI's pro forma information follows:

	Years Ended December 31,		
	1999	1998	1997
	<i>(in thousands, except per share amounts)</i>		
Pro forma net income (loss) .....	\$ (4,381)	\$ 5,105	\$ 10,359
<i>Pro forma earnings (loss) per share:</i>			
Basic .....	\$ (0.26)	\$ 0.32	\$ 0.79
Diluted .....	\$ (0.26)	\$ 0.30	\$ 0.69
Weighted-average fair value of options granted per share .....	\$ 6.84	\$ 5.12	\$ 8.72

A summary of UTI's stock option activity and related information for the years ended December 31 follows:

	Shares Under Option	Weighted- Average Exercise Price
Outstanding, December 31, 1996 .....	1,569,630	\$ 2.43
Granted .....	997,825	21.22
Exercised .....	(592,980)	2.02
Outstanding, December 31, 1997 .....	1,974,475	12.05
Granted .....	1,006,375	10.51
Exercised .....	(156,480)	4.33
Canceled .....	(907,125)	22.17
Outstanding, December 31, 1998 .....	1,917,245	7.05
Granted .....	742,877	11.14
Exercised .....	(521,555)	2.92
Canceled .....	(34,031)	10.78
Outstanding, December 31, 1999 .....	<u>2,104,536</u>	\$ 9.47
<i>Exercisable, December 31,</i>		
1996 .....	923,040	\$ 1.88
1997 .....	1,123,172	7.85
1998 .....	1,302,620	5.45
1999 .....	1,045,674	8.16



**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. STOCK PLANS (Continued)**

Exercise price for options outstanding as of December 31, 1999, ranged from \$1.79 per share to \$28.50 per share. The weighted-average remaining contractual life of those options is 7.06 years.

In February 1999, UTI adopted a Rights Plan which provided for the distribution by UTI of one preferred stock purchase right for each outstanding share of common stock to holders of record of common stock at the close of business on March 10, 1999. The Rights Plan provided that UTI shall issue one Right with each share of common stock prior to the earliest of the following:

- the date the rights first become exercisable, known as the distribution date of the rights
- the date of redemption of the rights
- February 26, 2009, which is the expiration date of the rights

Until such time that the rights become exercisable, the rights will be evidenced by the certificates representing the shares of common stock and may only be traded with such shares. Each right, once exercisable, will entitle the registered holder to purchase from UTI one one-thousandth of a share of UTI's Series I Preferred Stock, par value \$.01 per share, at a price of \$42.50 per one one-thousandth of a share, subject to adjustments.

The rights become exercisable only if, without the prior consent of UTI, the following occurs:

- a person or group of associated or related persons acquire, or obtain the right to acquire, 15% or more of the voting power of all outstanding common stock of UTI, or
- any person or group of related persons makes a tender offer or exchange offer which could result in such person or group owning beneficially 15% or more of the voting power of all outstanding common stock of UTI

**13. DEFINED CONTRIBUTION PLANS**

UTI maintains defined contribution plans for the benefit of its employees. Prior to January 1, 2000, employees were eligible to participate upon reaching 21 years of age and completion of one year of service with 1,000 or more active work hours. Effective January 1, 2000, employees are eligible to participate after one hour of service without regard to their age. UTI matches \$.50 for each dollar contributed by the employee up to 4% of the employee's total annual compensation. UTI may make an additional discretionary contribution. The following table shows the matching that UTI made for the last three years:

<u>1999</u>	<u>1998</u>	<u>1997</u>
\$289,000	\$298,000	\$396,000

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. FINANCIAL INSTRUMENTS**

Cash, cash equivalents and trade accounts receivable are the financial instruments that potentially subject UTI to significant concentrations of credit risk. UTI performs ongoing credit evaluations of its customers and generally does not require material collateral. UTI provides allowances for potential credit losses when necessary.

UTI maintains cash balances with various financial institutions. These financial institutions are located throughout the country. UTI's policy is designed to limit exposure to any one institution. However, at December 31, 1999, UTI had 75% of its cash and cash equivalents in one institution. UTI performs periodic evaluations of the relative credit standing of those financial institutions to ensure high credit quality.

*Cash and cash equivalents, accounts receivable and accounts payable:* The carrying amounts reported in the balance sheets approximate fair value.

*Long-term debt:* The carrying amounts included in the balance sheets of UTI's borrowings under its subordinated notes and promissory notes approximate fair value. The fair value of the subordinated notes and the promissory notes are estimated to be \$33.2 million versus its carrying value of \$32.2 million. The fair value was estimated by management based upon estimates of current interest rates available at the balance sheet date for similar issues.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. INDUSTRY SEGMENT INFORMATION**

UTI has two reportable segments: land drilling and pressure pumping. 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 or 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 natural gas properties. This segment has not met the quantitative thresholds for determining reportable segments. There are no intersegment sales and transfers.

	Years Ended December 31,		
	1999	1998	1997
	(in thousands)		
<i><u>Revenues:</u></i>			
Land Drilling .....	\$ 134,870	\$ 162,600	\$ 161,265
Pressure Pumping .....	20,721	23,365	20,923
Other .....	184	192	249
	<u>\$ 155,775</u>	<u>\$ 186,157</u>	<u>\$ 182,437</u>
<i><u>Selling, General and Administrative:</u></i>			
Land Drilling .....	\$ 2,818	\$ 3,767	\$ 4,206
Pressure Pumping .....	3,457	3,216	2,945
Other .....	-	-	-
	<u>6,275</u>	<u>6,983</u>	<u>7,151</u>
Corporate .....	3,895	3,798	2,860
	<u>\$ 10,170</u>	<u>\$ 10,781</u>	<u>\$ 10,011</u>
<i><u>Operating Income:</u></i>			
Land Drilling <sup>(1)</sup> .....	\$ (1,953)	\$ 13,915	\$ 21,499
Pressure Pumping <sup>(1)</sup> .....	3,662	5,098	4,540
Other <sup>(1)</sup> .....	39	19	91
	<u>1,748</u>	<u>19,032</u>	<u>26,130</u>
Corporate .....	(4,053)	(3,263)	(2,901)
Other Charges (Income) .....	2,861	(206)	774
	<u>\$ 556</u>	<u>\$ 15,563</u>	<u>\$ 24,003</u>
<i><u>Depreciation and Amortization:</u></i>			
Land Drilling .....	\$ 22,490	\$ 18,350	\$ 10,252
Pressure Pumping .....	1,391	1,043	728
Other .....	82	58	54
	<u>23,963</u>	<u>19,451</u>	<u>11,034</u>
Corporate .....	159	78	41
	<u>\$ 24,122</u>	<u>\$ 19,529</u>	<u>\$ 11,075</u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Years Ended December 31,		
	1999	1998	1997
	<i>(in thousands)</i>		
<i><u>Capital Expenditures:</u></i>			
Land Drilling .....	\$ 7,116	\$ 32,912	\$ 16,282
Pressure Pumping .....	2,307	3,895	1,676
Other .....	-	50	136
	<u>9,423</u>	<u>36,857</u>	<u>18,094</u>
Corporate .....	21	572	262
	<u>\$ 9,444</u>	<u>\$ 37,429</u>	<u>\$ 18,356</u>
	December 31,	December 31,	
	1999	1998	
	<i>(in thousands)</i>		
<i><u>Segment Assets:</u></i>			
Land Drilling .....	\$ 233,341	\$ 204,283	
Pressure Pumping .....	16,399	14,799	
Other .....	318	404	
	<u>250,058</u>	<u>219,486</u>	
Corporate .....	10,524	14,535	
	<u>\$ 260,582</u>	<u>\$ 234,021</u>	

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

One customer of UTI's land drilling segment, Anadarko Petroleum Corp., represented approximately 10% of consolidated revenue in 1999 and 11% of consolidated revenue in 1998. Furthermore, Anadarko represented approximately 10% of total accounts receivable at December 31, 1998.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16. SELECTED QUARTERLY FINANCIAL RESULTS (Unaudited)**

Quarterly financial information for the years ended December 31, 1999, 1998 and 1997 is as follows:

	<u>1<sup>st</sup> Qtr</u>	<u>2<sup>nd</sup> Qtr</u>	<u>3<sup>rd</sup> Qtr</u>	<u>4<sup>th</sup> Qtr</u>	<u>Total</u>
	<i>(in thousands, except per share amounts)</i>				
<u>1999</u>					
Revenues . . . . .	\$ 32,536	\$ 28,884	\$ 42,396	\$ 51,959	\$ 155,775
Gross Profit <sup>(1)</sup> . . . . .	795	95	3,040	4,483	8,413
Net Income (Loss) . . . . .	(256)	(2,928)	(355)	937	(2,602)
Earnings (Deficit) Per Share <sup>(2)</sup>					
Basic . . . . .	(0.02)	(0.18)	(0.02)	0.05	(0.15)
Diluted . . . . .	(0.02)	(0.18)	(0.02)	0.05	(0.15)
<u>1998</u>					
Revenues . . . . .	\$ 48,317	\$ 48,403	\$ 48,690	\$ 40,747	\$ 186,157
Gross Profit <sup>(1)</sup> . . . . .	9,126	8,535	7,371	2,661	27,693
Net Income (Loss) . . . . .	3,547	3,102	1,624	(405)	7,868
Earnings (Deficit) Per Share <sup>(2)</sup>					
Basic . . . . .	0.22	0.19	0.10	(0.03)	0.49
Diluted . . . . .	0.21	0.18	0.10	(0.03)	0.47
<u>1997</u>					
Revenues . . . . .	\$ 34,368	\$ 42,440	\$ 50,310	\$ 55,319	\$ 182,437
Gross Profit <sup>(1)</sup> . . . . .	5,205	6,709	9,978	11,971	33,863
Net Income . . . . .	1,844	1,777	3,894	5,010	12,525
Earnings Per Share <sup>(2)</sup> . . . . .					
Basic . . . . .	0.16	0.15	0.31	0.30	0.96
Diluted . . . . .	0.14	0.13	0.26	0.28	0.83

(1) Gross profit represents revenues minus direct operating costs and depreciation and amortization and excludes provisions for bad debts, other charges (income), and selling, general and administrative expenses.

(2) Earnings (deficit) per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.

**UTI ENERGY CORP.**  
**SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions<sup>(1)</sup></u>		<u>Deductions</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Acquisition Costs</u> <i>(in thousands)</i>		
Year Ended December 31, 1999					
Deducted from asset accounts:					
Allowance for doubtful accounts	<u>\$ 1,919</u>	<u>\$ 548</u>	<u>\$ 942</u>	<u>\$ 266<sup>(2)</sup></u>	<u>\$ 3,143</u>
Year Ended December 31, 1998					
Deducted from asset accounts:					
Allowance for doubtful accounts	<u>\$ 815</u>	<u>\$ 1,143</u>	<u>\$ -</u>	<u>\$ 39<sup>(2)</sup></u>	<u>\$ 1,919</u>
Year Ended December 31, 1997					
Deducted from asset accounts:					
Allowance for doubtful accounts	<u>\$ 305</u>	<u>\$ 623</u>	<u>\$ -</u>	<u>\$ 113<sup>(2)</sup></u>	<u>\$ 815</u>

(1) Net of recoveries.

(2) Uncollectible accounts written off.

## SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, UTI has duly caused this report to be signed on its behalf by the undersigned, who has been duly authorized.

UTI ENERGY CORP.

By: /s/ Vaughn E. Drum  
Vaughn E. Drum, President,  
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>*s/ Mark S. Siegel</u> Mark S. Siegel	Chairman and Director	October 10, 2000
<u>/s/ Vaughn E. Drum</u> Vaughn E. Drum	President, Chief Executive Officer and Director	October 10, 2000
<u>/s/ John E. Vollmer III</u> John E. Vollmer III	Senior Vice President, Treasurer and Chief Financial Officer	October 10, 2000
<u>/s/ Bruce Sauers</u> Bruce Sauers	Vice President and Chief Accounting Officer	October 10, 2000
<u>*s/ Kenneth N. Berns</u> Kenneth N. Berns	Director	October 10, 2000
<u>*s/ Curtis W. Huff</u> Curtis W. Huff	Director	October 10, 2000
<u>/s/ Terry H. Hunt</u> Terry H. Hunt	Director	October 10, 2000
<u>Nadine C. Smith</u>	Director	
<u>*s/ Robert B. Spears</u> Robert B. Spears	Director	October 10, 2000
<u>*By /s/ John E. Vollmer III</u> John E. Vollmer III Attorney-in-Fact		