BRISTOL MYERS SQUIBB CO
Form 8-K
February 16, 2016

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act Of 1934

Date of Report (Date of earliest event reported): February 12, 2016

BRISTOL-MYERS SQUIBB COMPANY
(Exact Name of Registrant as Specified in its Charter)

Delaware	1-1136	22-0790350
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification Number)

345 Park Avenue
New York, NY, 10154
(Address of Principal Executive Office)

Registrant's telephone number, including area code: (212) 546-4000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.03. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

(a) Effective February 12, 2016, the Board of Directors of Bristol-Myers Squibb Company (the "Company") adopted and approved amended Bylaws of the Company to provide for a proxy access right for stockholders. Section 4(d) has been added to the Bylaws to permit a stockholder, or group of up to 20 stockholders, owning at least 3% of the Company's outstanding common stock continuously for at least three years to nominate and include in the Company's proxy materials director nominees constituting up to the greater of two individuals or 20% of the Board, provided that the stockholders and the nominees satisfy the requirements specified in the Bylaws. Proxy access will first be available to stockholders in connection with the Company's 2017 annual meeting.

The Bylaws were also amended to make certain clarifications and refinements to the advance notice bylaw for nominations contained in Section 4(a), and other technical and administrative changes.

The foregoing description of the amendments to the Company's Bylaws is qualified in its entirety by reference to the text of the Bylaws, as amended, filed as Exhibit 3.1 to this Current Report on Form 8-K and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

3.1 Bylaws, effective as of February 12, 2016.

SIGNATURES

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

	BRISTOL-MYERS SQUIBB COMPANY	
Dated: February 16, 2016	By:	/s/ Katherine. R. Kelly
	Name:	Katherine R. Kelly
	Title:	Corporate Secretary

EXHIBIT INDEX

Exhibit No.	Description
3.1	Bylaws, effective as of February 12, 2016.

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px solid #000000">**Year Ended December 31, 2012 2011 2010 (In thousands, except per share data)**

	2012	2011	2010
Operating revenues:			
Contract drilling	$1,821,713	$1,669,581	$1,081,898
Pressure pumping	841,771	845,803	350,608
Oil and natural gas	59,930	50,559	30,425
Total operating revenues	2,723,414	2,565,943	1,462,931

Operating costs and expenses:

Contract drilling	1,075,491	972,778	655,678
Pressure pumping	580,878	561,398	235,100
Oil and natural gas	11,303	9,615	7,020
Depreciation, depletion, amortization and impairment	526,614	437,279	333,493
Selling, general and administrative	64,473	64,271	53,042
Net gain on asset disposals	(33,806)	(4,999)	(22,812)
Provision for bad debts	1,100		(2,000)
Acquisition-related expenses			2,485

Total operating costs and expenses	2,226,053	2,040,342	1,262,006
Operating income	497,361	525,601	200,925

Other income (expense):			
Interest income	554	187	1,674
Interest expense	(22,750)	(15,652)	(12,772)
Other	508	582	927
Total other expense	(21,688)	(14,883)	(10,171)

Income from continuing operations before income taxes	475,673	510,718	190,754
Income tax expense (benefit):			
Current	15,760	28,971	(74,634)
Deferred	160,436	158,967	147,490

Total income tax expense			
	176,196	187,938	72,856
Income from continuing operations			
	299,477	322,780	117,898
Loss from discontinued operations, net of income taxes			
		(367)	(956)

Net income

$299,477 $322,413 $116,942

Basic income (loss) per common share:

Income from continuing operations

$1.96 $2.08 $0.77

Loss from discontinued operations, net of income taxes

$0.00 $0.00 $(0.01)

Net income

$1.96 $2.08 $0.76

Diluted income (loss) per common share:

Income from continuing operations

$1.96 $2.06 $0.76

Loss from discontinued operations, net of income taxes

$0.00 $0.00 $(0.01)

Net income

$1.96 $2.06 $0.76

Weighted average number of common shares outstanding:

Basic

151,144 153,871 152,772

Diluted

151,699 155,304 153,276

Cash dividends per common share			
	$0.20	$0.20	$0.20

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

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011 (In thousands)	2010
Net income	$ 299,477	$ 322,413	$ 116,942
Other comprehensive income, net of taxes of $0 for 2012, $0 for 2011 and $2,814 for 2010:			
Foreign currency translation adjustment	2,308	(2,138)	6,601
Total comprehensive income	$ 301,785	$ 320,275	$ 123,543

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

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Common Stock				Accumulated		
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income	Treasury Stock	Total
				(In thousands)			
Balance, December 31, 2009	180,829	1,808	781,635	1,901,853	14,996	(618,592)	2,081,700
Net income				116,942			116,942
Foreign currency translation adjustment, (net of tax of $2,814)					6,601		6,601
Issuance of restricted stock	700	7	(7)				
Vesting of restricted stock units	7						
Forfeitures of restricted stock	(59)	(1)	1				
Exercise of stock options	61	1	524				525
Stock-based compensation			16,779				16,779
Tax expense related to stock-based compensation			(2,291)				(2,291)
Payment of cash dividends				(30,796)			(30,796)
Purchase of treasury stock						(1,853)	(1,853)
Balance, December 31, 2010	181,538	1,815	796,641	1,987,999	21,597	(620,445)	2,187,607
Net income				322,413			322,413
Foreign currency translation adjustment					(2,138)		(2,138)
Issuance of restricted stock	782	8	(8)				
Vesting of restricted stock units	10						
Forfeitures of restricted stock	(83)	(1)	1				
Exercise of stock options	1,048	11	16,800				16,811
Stock-based compensation			20,904				20,904
Tax benefit related to stock-based compensation			6,393				6,393
Payment of cash dividends				(31,045)			(31,045)
Purchase of treasury stock						(4,314)	(4,314)
Balance, December 31, 2011	183,295	1,833	840,731	2,279,367	19,459	(624,759)	2,516,631
Net income				299,477			299,477
Foreign currency translation adjustment					2,308		2,308
Issuance of restricted stock	792	8	(8)				
Vesting of restricted stock units	8						
Forfeitures of restricted stock	(99)	(1)	1				
Exercise of stock options	64	1	933				934
Stock-based compensation			23,185				23,185
Tax expense related to stock-based compensation			(1,284)				(1,284)
Payment of cash dividends				(30,302)			(30,302)
Purchase of treasury stock						(170,292)	(170,292)
Balance, December 31, 2012	184,060	$ 1,841	$ 863,558	$ 2,548,542	$ 21,767	$ (795,051)	$ 2,640,657

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

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 299,477	$ 322,413	$ 116,942
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion, amortization and impairment	526,614	437,279	333,493
Provision for bad debts	1,100		(2,000)
Dry holes and abandonments	308	1,213	519
Deferred income tax expense	160,436	158,967	147,490
Stock-based compensation expense	23,185	20,904	16,779
Net gain on asset disposals	(33,806)	(4,999)	(22,812)
Tax expense related to stock-based compensation	(1,284)		(2,291)
Changes in operating assets and liabilities:			
Accounts receivable	52,612	(183,165)	(178,444)
Income taxes receivable/payable	3,506	77,618	43,522
Inventory and other assets	5,276	(13,491)	(8,772)
Accounts payable	(25,199)	41,995	49,576
Accrued expenses	(6,048)	18,313	18,072
Other liabilities	(837)	(8,111)	3,234
Net cash provided by (used in) operating activities of discontinued operations		(339)	10,390
Net cash provided by operating activities	1,005,340	868,597	525,698
Cash flows from investing activities:			
Acquisitions			(238,022)
Purchases of property and equipment	(973,988)	(1,011,578)	(738,090)
Proceeds from disposal of assets	66,027	22,495	29,409
Net cash provided by investing activities of discontinued operations		25,500	42,638
Net cash used in investing activities	(907,961)	(963,583)	(904,065)
Cash flows from financing activities:			
Purchases of treasury stock	(170,292)	(4,314)	(1,853)
Dividends paid	(30,302)	(31,045)	(30,796)
Tax benefit related to stock-based compensation		6,393	
Proceeds from long-term debt	400,000		400,000
Repayment of long-term debt	(93,750)	(6,250)	(1,250)
Proceeds from borrowings under revolving credit facility	123,400	153,100	200,000
Repayment of borrowings under revolving credit facility	(233,400)	(43,100)	(200,000)
Debt issuance costs	(7,581)		(10,779)
Proceeds from exercise of stock options	934	16,811	525
Net cash provided by (used in) financing activities	(10,991)	91,595	355,847
Effect of foreign exchange rate changes on cash	389	(275)	255
Net increase (decrease) in cash and cash equivalents	86,777	(3,666)	(22,265)
Cash and cash equivalents at beginning of year	23,946	27,612	49,877
Cash and cash equivalents at end of year	$ 110,723	$ 23,946	$ 27,612
Supplemental disclosure of cash flow information:			
Net cash (paid) received during the year for:			
Interest, net of capitalized interest of $8,673 in 2012, $8,415 in 2011 and $2,288 in 2010	$ (16,651)	$ (13,177)	$ (2,220)
Income taxes	(7,964)	59,251	115,666
Non-cash investing and financing activities:			

Net increase (decrease) in payables for purchases of property and equipment	$ (27,838)	$ 37,838	$ 29,188
Net (increase) decrease in deposits on equipment purchases	55,767	(48,459)	(50,170)

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

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

A description of the business and basis of presentation follows:

Description of business Patterson-UTI Energy, Inc., through its wholly-owned subsidiaries (collectively referred to herein as Patterson-UTI or the Company), provides onshore contract drilling services to major and independent oil and natural gas operators in the continental United States, Alaska and western and northern Canada. The Company provides pressure pumping services to oil and natural gas operators primarily in Texas and the Appalachian Basin. The Company also invests in oil and natural gas properties on a non-operating working interest basis.

Basis of presentation The consolidated financial statements include the accounts of Patterson-UTI and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Except for wholly-owned subsidiaries, the Company has no controlling financial interests in any other entity which would require consolidation.

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

A summary of the significant accounting policies follows:

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

Revenue recognition Revenues from daywork drilling and pressure pumping activities are recognized as services are performed. Expenditures reimbursed by customers are recognized as revenue and the related expenses are recognized as direct costs. All of the wells the Company drilled in 2012, 2011 and 2010 were drilled under daywork contracts.

Accounts receivable Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts represents the Company s estimate of the amount of probable credit losses existing in the Company s accounts receivable. The Company reviews the adequacy of its allowance for doubtful accounts at least quarterly. Significant individual accounts receivable balances and balances which have been outstanding greater than 90 days are reviewed individually for collectability. Account balances, when determined to be uncollectable, are charged against the allowance.

Inventories Inventories consist primarily of sand and other products to be used in conjunction with the Company s pressure pumping activities. The inventories are stated at the lower of cost or market, determined by the first-in, first-out method.

Property and equipment Property and equipment is carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives. The method of depreciation does not change whenever equipment becomes idle. The estimated useful lives, in years, are shown below:

	Useful Lives
Drilling rigs and other equipment	1.25-15
Buildings	15-20
Other	3-12

Long-lived assets, including property and equipment, are evaluated for impairment when certain triggering events or changes in circumstances indicate that the carrying values may not be recoverable over their estimated remaining useful life.

Oil and natural gas properties Working interests in oil and natural gas properties are accounted for using the successful efforts method of accounting. Under the successful efforts method of accounting, exploration costs which result in the discovery of oil and natural gas reserves and all development costs are capitalized to the appropriate well. Exploration costs which do not result in discovering oil and natural gas reserves are charged to expense when such determination is made. Costs of exploratory wells are initially capitalized to wells-in-progress until the outcome of the drilling is known. The Company reviews wells-in-progress quarterly to determine whether sufficient progress is being made in assessing the reserves and economic viability of the respective projects. If no progress has been made in assessing the reserves and economic viability of a project after one year following the completion of drilling, the Company considers the well costs to be impaired and recognizes the costs as expense. Geological and geophysical costs, including seismic costs, and costs to carry and retain undeveloped properties are charged to expense when incurred. The capitalized costs of both developmental and successful exploratory type wells, consisting of lease and well equipment, lease acquisition costs and intangible development costs, are depreciated, depleted and amortized on the units-of-production method, based on engineering estimates of proved oil and natural gas reserves for each respective field.

The Company reviews its proved oil and natural gas properties for impairment whenever a triggering event occurs, such as downward revisions in reserve estimates or decreases in expected future oil and natural gas prices. Proved properties are grouped by field and undiscounted cash flow estimates are prepared based on management s expectation of future pricing over the lives of the respective fields. These cash flow estimates are reviewed by an independent petroleum engineer. If the net book value of a field exceeds its undiscounted cash flow estimate, impairment expense is measured and recognized as the difference between net book value and discounted cash flow. The discounted cash flow estimates used in measuring impairment are based on management s expectations of future commodity prices over the life of the respective field. The Company reviews unproved oil and natural gas properties quarterly to assess potential impairment. The Company s impairment assessment is made on a lease-by-lease basis and considers factors such as management s intent to drill, lease terms and abandonment of an area. If an unproved property is determined to be impaired, the related property costs are expensed.

Goodwill Goodwill is considered to have an indefinite useful economic life and is not amortized. The Company assesses impairment of its goodwill at least annually as of December 31, or on an interim basis if events or circumstances indicate that the fair value of goodwill may have decreased below its carrying value.

Maintenance and repairs Maintenance and repairs are charged to expense when incurred. Renewals and betterments which extend the life or improve existing property and equipment are capitalized.

Disposals Upon disposition of property and equipment, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in the consolidated statement of operations.

Net income (loss) per common share The Company provides a dual presentation of its net income (loss) per common share in its consolidated statements of operations: Basic net income (loss) per common share (Basic EPS) and diluted net income (loss) per common share (Diluted EPS).

Basic EPS excludes dilution and is computed by first allocating earnings between common stockholders and holders of non-vested shares of restricted stock. Basic EPS is then determined by dividing the earnings attributable to common stockholders by the weighted average number of common shares outstanding during the period, excluding non-vested shares of restricted stock.

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

The following table presents information necessary to calculate income from continuing operations per share, loss from discontinued operations per share and net income per share for the years ended December 31, 2012, 2011 and 2010, as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive (in thousands, except per share amounts):

	2012	2011	2010
BASIC EPS:			
Income from continuing operations	$ 299,477	$ 322,780	$ 117,898
Adjust for income attributed to holders of non-vested restricted stock	(2,532)	(2,545)	(884)
Income from continuing operations attributed to common stockholders	$ 296,945	$ 320,235	$ 117,014
Loss from discontinued operations, net	$	$ (367)	$ (956)
Adjust for loss attributed to holders of non-vested restricted stock		3	7
Loss from discontinued operations attributed to common stockholders	$	$ (364)	$ (949)
Weighted average number of common shares outstanding, excluding non-vested shares of restricted stock	151,144	153,871	152,772
Basic income from continuing operations per common share	$ 1.96	$ 2.08	$ 0.77
Basic loss from discontinued operations per common share	$ 0.00	$ 0.00	$ (0.01)
Basic net income per common share	$ 1.96	$ 2.08	$ 0.76
DILUTED EPS:			
Income from continuing operations attributed to common stockholders	$ 296,945	$ 320,235	$ 117,014
Add incremental earnings related to potential common shares			
Adjusted income from continuing operations attributed to common stockholders	$ 296,945	$ 320,235	$ 117,014
Weighted average number of common shares outstanding, excluding non-vested shares of restricted stock	151,144	153,871	152,772
Add dilutive effect of potential common shares	555	1,433	504
Weighted average number of diluted common shares outstanding	151,699	155,304	153,276
Diluted income from continuing operations per common share	$ 1.96	$ 2.06	$ 0.76
Diluted loss from discontinued operations per common share	$ 0.00	$ 0.00	$ (0.01)
Diluted net income per common share	$ 1.96	$ 2.06	$ 0.76
Potentially dilutive securities excluded as anti-dilutive	5,416	1,641	4,164

Income taxes The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. If applicable, a valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. The Company s policy is to account for interest and penalties with respect to income taxes as operating expenses.

Stock-based compensation The Company recognizes the cost of share-based payments under the fair-value-based method. Under this method, compensation cost related to share-based payments is measured based on the estimated fair value of the awards at the date of grant, net of estimated forfeitures. This expense is recognized over the expected life of the awards (See Note 11).

Statement of cash flows For purposes of reporting cash flows, cash and cash equivalents include cash on deposit and money market funds.

Recently Issued Accounting Standards In June 2011, the FASB issued an accounting standard update that requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. Historically, these components of other comprehensive income and total comprehensive income have been presented in the statement of changes in stockholders equity by many companies, including the Company. This requirement was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and was effective for the Company in the quarter ended March 31, 2012. The adoption of this update resulted in the addition of a new consolidated statement of comprehensive income to the Company s consolidated financial statements beginning with the quarter ended March 31, 2012.

In May 2011, the FASB issued an accounting standard update to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with United States GAAP and International Financial Reporting Standards. The amendments in this update do not require additional fair value measurements, but provide additional guidance as to measuring fair value as well as certain additional disclosure requirements. The requirements in this update were effective during interim and annual periods beginning after December 15, 2011 and were effective for the Company in the quarter ended March 31, 2012. The adoption of this update did not have a material impact on the Company s disclosures included in its consolidated financial statements.

2. Discontinued Operations

On January 20, 2010, the Company exited the drilling and completion fluids business, which had previously been presented as one of the Company s reportable operating segments. On that date, the Company s wholly owned subsidiary, Ambar Lone Star Fluid Services LLC, completed the sale of substantially all of its assets, excluding billed accounts receivable. The sales price was approximately $42.6 million. Upon the Company s exit from the drilling and completion fluids business, the Company classified its drilling and completion fluids operating segment as a discontinued operation and an impairment loss was recognized in 2009 to reduce the carrying value of the assets to be disposed of to fair value less estimated costs to sell and no significant gain or loss was recognized in connection with the sale in 2010. The results of operations of this business have been reclassified and presented as results of discontinued operations for all periods presented in these consolidated financial statements.

On January 27, 2011, the stock of the Company s electric wireline subsidiary, Universal Wireline, Inc., was sold in a cash transaction for $25.5 million. Except for inventory, the working capital of Universal Wireline, Inc. was excluded from the sale and retained by a subsidiary of the Company. Universal Wireline, Inc. was formed in 2010 to acquire the electric wireline business of Key Energy Services, Inc., as discussed in Note 3. The results of operations of this business have been presented as results of discontinued operations in these consolidated financial statements. As of December 31, 2010, the assets to be disposed of were classified as held for sale. Upon being classified as held for sale, the assets to be disposed of were recorded at fair value less estimated costs to sell resulting in a charge of $2.2 million. Due to the fact that the carrying value of the assets had been adjusted to net realizable value, no significant additional gain or loss was recognized in connection with the sale.

Summarized operating results from discontinued operations for the years ended December 31, 2012, 2011 and 2010 are shown below (in thousands):

	2012	2011	2010
Drilling and completion fluids revenues	$	$	$ 3,737
Electric wireline revenues		1,104	5,712
Operating revenues from discontinued operations	$	$ 1,104	$ 9,449
Loss from discontinued operations before income taxes	$	$ (576)	$ (1,499)
Income tax benefit		209	543
Loss from discontinued operations	$	$ (367)	$ (956)

3. Acquisitions

On October 1, 2010, two subsidiaries of the Company, Universal Pressure Pumping, Inc. and Universal Wireline, Inc., completed the acquisition of certain assets from Key Energy Pressure Pumping Services, LLC and Key Electric Wireline Services, LLC relating to the businesses of providing pressure pumping services and electric wireline services to participants in the oil and natural gas industry. This acquisition expanded the Company s pressure pumping operations to additional markets primarily in Texas. The aggregate purchase price was approximately $241 million and was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on fair value. The tangible assets acquired include property and equipment, inventories of sand and chemicals on hand and repair and maintenance supplies on hand. The identifiable intangible assets acquired include an agreement by the seller to not compete for a period of three years and the customer relationships in place at the time of the acquisition. The liabilities assumed arose from pricing agreements in place with certain customers that had pricing below current market rates. A related deferred tax asset was recognized to reflect the temporary difference associated with these below-market pricing arrangements. The excess of the purchase price over the fair values of the tangible assets, the identifiable intangible assets and deferred tax asset, net of the liabilities assumed, is recorded as goodwill and was attributed to the pressure pumping business acquired. A summary of the purchase price allocation follows (in thousands):

Sand and chemical inventory	$ 6,848
Supplies	312
Property and equipment	154,359
Non-compete agreement	1,400
Customer relationships	25,500
Deferred tax asset	8,514
Goodwill	67,575
Below-market pricing agreements	(23,200)
Total purchase price	$ 241,308

In addition to the purchase price, acquisition-related expenses associated with this transaction of approximately $2.5 million were incurred by the Company and are presented in the consolidated statement of operations under the caption acquisition-related expenses for the year ended December 31, 2010. These expenses include certain legal and other professional fees directly related to the transaction, fees incurred in connection with title transfers of the acquired equipment and transition costs related to information technology.

As discussed in Note 2, the electric wireline business was sold on January 27, 2011. The results of operations of the wireline business from the date of acquisition through December 31, 2010 included revenue of $5.7 million and a pre-tax operating loss of $1.5 million (including a charge of approximately $2.2 million incurred to reduce the carrying value of the disposal group to its net realizable value) which is included in loss from discontinued operations for the year ended December 31, 2010. Results of operations of the acquired

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pressure pumping business are included in the Company s consolidated results of operations from the date of acquisition. Revenues of $84.7 million and income from operations of $22.8 million from the acquired pressure pumping business are included in the consolidated statement of operations for the year ended December 31, 2010.

4. Property and Equipment

Property and equipment consisted of the following at December 31, 2012 and 2011 (in thousands):

	2012	2011
Equipment	$ 5,387,490	$ 4,730,925
Oil and natural gas properties	156,834	131,812
Buildings	66,490	64,090
Land	10,413	11,467
	5,621,227	4,938,294
Less accumulated depreciation and depletion	(2,005,844)	(1,771,028)
Property and equipment, net	$ 3,615,383	$ 3,167,266

Depreciation, depletion, amortization and impairment The following table summarizes depreciation, depletion, amortization and impairment expense related to property and equipment and intangible assets for 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Depreciation and impairment expense	$ 502,953	$ 419,183	$ 322,308
Amortization expense	4,110	4,110	1,027
Depletion expense	19,551	13,986	10,158
Total	$ 526,614	$ 437,279	$ 333,493

The Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable (a triggering event). In light of levels of activity and revenue per operating day experienced by the Company and its peers in 2010, 2011 and 2012, management concluded that no triggering event had occurred in 2010, 2011 or 2012 with respect to its contract drilling segment as a whole (excluding the rigs which had been removed from the Company s marketable fleet as discussed below). The Company also concluded that no triggering event occurred with respect to its pressure pumping segment in 2010, 2011 or 2012 (excluding the equipment that was retired as discussed below). With respect to the long-lived assets in the Company s oil and natural gas exploration and production segment, the Company assesses the recoverability of long-lived assets at the end of each quarter due to revisions in its oil and natural gas reserve estimates and expectations about future commodity prices.

Long-lived assets are evaluated for impairment at the lowest level for which identifiable cash flows can be separated from other long-lived assets. The Company performs the first step of its impairment assessments by comparing the undiscounted cash flows for each long-lived asset or asset group to its respective carrying value. The Company s analysis indicated that the carrying amounts of certain oil and natural gas properties were not recoverable at various testing dates in 2012, 2011 and 2010. The Company s estimates of expected future net cash flows from impaired properties are used in measuring the fair value of such properties. The Company recorded impairment charges of $1.9 million, $3.0 million and $792,000 in 2012, 2011 and 2010, respectively, related to its oil and natural gas properties. The Company determined the fair value of the impaired assets using internally developed unobservable inputs including future pricing and reserves (level 3 inputs in the fair value hierarchy of fair value accounting).

On a periodic basis, the Company evaluates its fleet of drilling rigs for marketability based on the condition of inactive rigs, expenditures that would be necessary to bring them to working condition and the expected

demand for drilling services by rig type (such as drilling conventional vertical wells versus drilling longer horizontal wells using high capacity rigs). In connection with the Company s ongoing planning process, it evaluated its then-current fleet of marketable drilling rigs in 2012, 2011 and 2010 and identified 36, 53 and four rigs, during each of those years respectively, that it determined were impaired and would no longer be marketed as rigs based on its assessment of estimated expenditures to bring these rigs into condition to operate in the current environment, as well as its assessment of future demand and the suitability of the identified rigs in light of this expected demand. The components comprising these rigs were evaluated, and those components with continuing utility to the Company s other marketed rigs were transferred to other rigs or to its yards to be used as spare equipment. The fair value of the remaining components of these rigs was estimated to be zero as there were no future cash flows expected. The Company also evaluates its fleet of marketable pressure pumping equipment and in 2012 identified approximately 37,000 horsepower of pressure pumping equipment that would be retired. The identified pressure pumping equipment was impaired and estimated to have no fair value as there were no future cash flows expected. The net book value of the impaired assets of $12.5 million in 2012, $15.7 million in 2011 and $4.2 million in 2010 was expensed in the Company s consolidated statements of operations as an impairment charge.

During 2010, the Company sold certain rights to explore and develop zones deeper than depths that it generally targets for certain of the oil and natural gas properties in which it has working interests. The proceeds from this sale were approximately $22.3 million and the sale resulted in a gain on disposal of $20.1 million.

During 2012, the Company sold its flowback operations in a cash transaction. The sale price was $42.5 million and the Company recognized a gain on disposal of $22.6 million. Also during 2012, the Company sold at auction certain excess drilling assets. The total sale price was $10.6 million, and the Company recognized a gain on disposal of $4.5 million.

5. Goodwill and Intangible Assets

Goodwill Goodwill by operating segment as of December 31, 2012 and 2011 and changes for the years then ended are as follows (in thousands):

	Contract Drilling	**Pressure Pumping**	**Total**
Balance December 31, 2010	$ 86,234	$ 67,575	$ 153,809
Changes to goodwill			
Balance December 31, 2011	86,234	67,575	153,809
Changes to goodwill			
Balance December 31, 2012	$ 86,234	$ 67,575	$ 153,809

Goodwill was recorded in connection with a business combination in 2010 as a result of the Company s acquisition of a pressure pumping business on October 1, 2010, as discussed further in Note 3. Approximately $53.2 million of this goodwill is expected to be deductible for tax purposes. There were no accumulated impairment losses as of December 31, 2012 or 2011.

Goodwill is evaluated at least annually on December 31, or when circumstances require, to determine if the fair value of recorded goodwill has decreased below its carrying value. For purposes of impairment testing, goodwill is evaluated at the reporting unit level. The Company s reporting units for impairment testing have been determined to be its operating segments. The Company first determines whether it is more likely than not that the fair value of a reporting unit is less than its carrying value after considering qualitative, market and other factors. If so, then goodwill impairment is determined using a two-step impairment test. The first step is to compare the fair value of an entity s reporting units to the respective carrying value of those reporting units. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed whereby the fair value of the reporting unit is allocated to its identifiable tangible and intangible assets and liabilities with any remaining fair value representing the fair value of goodwill. If this resulting fair value of goodwill is less than the carrying value of goodwill, an impairment loss would be recognized in the amount of the shortfall.

In connection with its annual goodwill impairment assessment as of December 31, 2012 and 2011, the Company determined based on an assessment of qualitative factors that it was more likely than not that the fair values of the Company s reporting units were greater than their carrying amounts and further testing was not necessary. In making this determination, the Company considered the continued demand experienced during 2012 and 2011 for its services in the contract drilling and pressure pumping businesses. The Company also considered the current and expected levels of commodity prices for crude oil and natural gas, which influence its overall level of business activity in these operating segments. Additionally, operating results for 2012 and 2011 and forecasted operating results for 2013 were also taken into account. The Company s overall market capitalization and the large amount of calculated excess of the fair values of the Company s reporting units over their carrying values and lack of significant changes in the key assumptions from its 2010 quantitative Step 1 assessment of goodwill were also considered.

The Company has undertaken extensive efforts in the past several years to upgrade its fleet of equipment and believes that it is positioned well from a competitive standpoint to satisfy demand for high technology drilling of unconventional horizontal wells, which should help mitigate decreases in demand for drilling conventional vertical wells that has resulted from low natural gas prices. In the event that market conditions weaken, the Company may be required to record an impairment of goodwill in its contract drilling or pressure pumping reporting units in the future, and such impairment could be material.

Intangible Assets Intangible assets were recorded in the pressure pumping operating segment in connection with the fourth quarter 2010 acquisition of the assets of the pressure pumping business discussed in Note 3. As a result of the purchase price allocation, the Company recorded intangible assets related to a non-compete agreement and the customer relationships acquired. These intangible assets were recorded at fair value on the date of acquisition.

The non-compete agreement has a term of three years from October 1, 2010. The value of this agreement was estimated using a with and without scenario where cash flows were projected through the term of the agreement assuming the agreement is in place and compared to cash flows assuming the non-compete agreement was not in place. The intangible asset associated with the non-compete agreement is being amortized on a straight-line basis over the three-year term of the agreement. Amortization expense of $467,000, $467,000 and $116,000 was recorded in the years ended December 31, 2012, 2011 and 2010, respectively, associated with the non-compete agreement.

The value of the customer relationships was estimated using a multi-period excess earnings model to determine the present value of the projected cash flows associated with the customers in place at the time of the acquisition and taking into account a contributory asset charge. The resulting intangible asset is being amortized on a straight-line basis over seven years. Amortization expense of $3.6 million, $3.6 million and $910,000 was recorded in the years ended December 31, 2012, 2011 and 2010, respectively, associated with customer relationships.

For both the non-compete agreement and the customer relationships, the Company concluded no triggering events necessitating an impairment assessment had occurred in either 2012 or 2011.

The following table presents the gross carrying amount and accumulated amortization of intangible assets as of December 31, 2012 and 2011 (in thousands):

	2012			2011		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Non-compete agreement	$ 1,400	$ (1,050)	$ 350	$ 1,400	$ (583)	$ 817
Customer relationships	25,500	(8,196)	17,304	25,500	(4,553)	20,947
Total intangible assets	$ 26,900	$ (9,246)	$ 17,654	$ 26,900	$ (5,136)	$ 21,764

6. Accrued Expenses

Accrued expenses consisted of the following at December 31, 2012 and 2011 (in thousands):

	2012	2011
Salaries, wages, payroll taxes and benefits	$ 55,430	$ 58,692
Workers compensation liability	68,441	66,121
Property, sales, use and other taxes	9,749	11,850
Insurance, other than workers compensation	10,419	6,012
Accrued interest payable	7,664	4,937
Deferred revenue current	1,523	7,229
2009 Performance Unit Awards		3,640
Other	5,406	6,148
	$ 158,632	$ 164,629

Deferred revenue was recorded in 2010 in the purchase price allocation associated with the Company s acquisition of a pressure pumping business as discussed in Note 3. The deferred revenue relates to out-of-market pricing agreements that were in place at the acquired business at the time of the acquisition. The deferred revenue is being recognized as pressure pumping revenue over the remaining term of the pricing agreements. Deferred revenue of approximately $7.2 million, $8.4 million and $6.1 million was recognized in the years ended December 31, 2012, 2011 and 2010, respectively, related to these pricing agreements.

7. Asset Retirement Obligation

The Company records a liability for the estimated costs to be incurred in connection with the abandonment of oil and natural gas properties in the future. This liability is included in the caption other in the liabilities section of the consolidated balance sheet. The following table describes the changes to the Company s asset retirement obligations during 2012 and 2011 (in thousands):

	2012	2011
Balance at beginning of year	$ 3,455	$ 3,063
Liabilities incurred	418	361
Liabilities settled	(150)	(110)
Accretion expense	163	143
Revision in estimated costs of plugging oil and natural gas wells	536	(2)
Asset retirement obligation at end of year	$ 4,422	$ 3,455

8. Long Term Debt

Credit Facilities On August 19, 2010, the Company entered into a committed senior unsecured Credit Agreement (the 2010 Credit Agreement) which included a revolving credit facility that permitted aggregate borrowings of up to $400 million and a $100 million term loan facility. The term loan facility was fully drawn on August 19, 2010. The term loan facility was payable in quarterly principal installments commencing November 10, 2010. The installment amounts were scheduled to vary from 1.25% of the original principal amount for each of the first four quarterly installments, 2.50% of the original principal amount for each of the subsequent eight quarterly installments and 5.00% of the original principal amount for the next subsequent three quarterly installments, with the balance due on the maturity date of August 19, 2014. The outstanding balance of the term loan facility was paid in full on June 14, 2012.

On September 27, 2012, the Company entered into a Credit Agreement (the Credit Agreement) with Wells Fargo Bank, N.A., as administrative agent, letter of credit issuer, swing line lender and lender, and each of the other lenders party thereto. The Credit Agreement is a committed senior unsecured credit facility that includes a revolving credit facility and a term loan facility. The Credit Agreement replaced the 2010 Credit Agreement.

The revolving credit facility permits aggregate borrowings of up to $500 million outstanding at any time. The revolving credit facility contains a letter of credit facility that is limited to $150 million and a swing line facility that is limited to $40 million, in each case outstanding at any time.

The term loan facility provides for a loan of $100 million, which was drawn on December 24, 2012. The term loan facility is payable in quarterly principal installments commencing December 27, 2012. The installment amounts vary from 1.25% of the original principal amount for each of the first four quarterly installments, 2.50% of the original principal amount for each of the subsequent eight quarterly installments, 5.00% of the original principal amount for the subsequent four quarterly installments and 13.75% of the original principal amount for the final four quarterly installments.

Subject to customary conditions, the Company may request that the lenders aggregate commitments with respect to the revolving credit facility and/or the term loan facility be increased by up to $100 million, not to exceed total commitments of $700 million. The maturity date under the Credit Agreement is September 27, 2017 for both the revolving facility and the term facility.

Loans under the Credit Agreement bear interest by reference, at the Company s election, to the LIBOR rate or base rate, provided, that swing line loans bear interest by reference only to the base rate. The applicable margin on LIBOR rate loans varies from 2.25% to 3.25% and the applicable margin on base rate loans varies from 1.25% to 2.25%, in each case determined based upon the Company s debt to capitalization ratio. As of December 31, 2012, the applicable margin on LIBOR rate loans was 2.25% and the applicable margin on base rate loans was 1.25%. A letter of credit fee is payable by the Company equal to the applicable margin for LIBOR rate loans times the daily amount available to be drawn under outstanding letters of credit. The commitment fee rate payable to the lenders for the unused portion of the credit facility is 0.50%.

Each domestic subsidiary of the Company other than immaterial subsidiaries has unconditionally guaranteed all existing and future indebtedness and liabilities of the other guarantors and the Company under the Credit Agreement and other loan documents. Such guarantees also cover obligations of the Company and any subsidiary of the Company arising under any interest rate swap contract with any person while such person is a lender under the Credit Agreement.

The Credit Agreement requires compliance with two financial covenants. The Company must not permit its debt to capitalization ratio to exceed 45%. The Credit Agreement generally defines the debt to capitalization ratio as the ratio of (a) total borrowed money indebtedness to (b) the sum of such indebtedness plus consolidated net worth, with consolidated net worth determined as of the last day of the most recently ended fiscal quarter. The Company also must not permit the interest coverage ratio as of the last day of a fiscal quarter to be less than 3.00 to 1.00. The Credit Agreement generally defines the interest coverage ratio as the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) of the four prior fiscal quarters to interest charges for the same period. The Company was in compliance with these covenants at December 31, 2012. The Credit Agreement also contains customary representations, warranties and affirmative and negative covenants.

Events of default under the Credit Agreement include failure to pay principal or interest when due, failure to comply with the financial and operational covenants, as well as a cross default event, loan document enforceability event, change of control event and bankruptcy and other insolvency events. If an event of default occurs and is continuing, then a majority of the lenders have the right, among others, to (i) terminate the commitments under the Credit Agreement, (ii) accelerate and require the Company to repay all the outstanding amounts owed under any loan document (provided that in limited circumstances with respect to insolvency and bankruptcy of the Company, such acceleration is automatic), and (iii) require the Company to cash collateralize any outstanding letters of credit.

As of December 31, 2012, the Company had $98.8 million principal amount outstanding under the term loan facility at an interest rate of 2.625% and no amounts outstanding under the revolving credit facility. The Company had $39.8 million in letters of credit outstanding at December 31, 2012 and, as a result, had available borrowing capacity of approximately $460 million at that date.

Senior Notes On October 5, 2010, the Company completed the issuance and sale of $300 million in aggregate principal amount of its 4.97% Series A Senior Notes due October 5, 2020 (the Series A Notes) in a private placement. The Series A Notes bear interest at a rate of 4.97% per annum. The Company will pay interest on the Series A Notes on April 5 and October 5 of each year. The Series A Notes will mature on October 5, 2020.

On June 14, 2012, the Company completed the issuance and sale of $300 million in aggregate principal amounts of its 4.27% Series B Senior Notes due June 14, 2022 (the Series B Notes) in a private placement. The Series B Notes bear interest at a rate of 4.27% per annum. The Company will pay interest on the Series B Notes on April 5 and October 5 of each year. The Series B Notes will mature on June 14, 2022.

The Series A Notes and Series B Notes are senior unsecured obligations of the Company which rank equally in right of payment with all other unsubordinated indebtedness of the Company. The Series A Notes and Series B Notes are guaranteed on a senior unsecured basis by each of the existing domestic subsidiaries of the Company other than immaterial subsidiaries.

The Series A Notes and Series B Notes are prepayable at the Company s option, in whole or in part, provided that in the case of a partial prepayment, prepayment must be in an amount not less than 5% of the aggregate principal amount of the notes then outstanding, at any time and from time to time at 100% of the principal amount prepaid, plus accrued and unpaid interest to the prepayment date, plus a make-whole premium as specified in the note purchase agreements. The Company must offer to prepay the notes upon the occurrence of any change of control. In addition, the Company must offer to prepay the notes upon the occurrence of certain asset dispositions if the proceeds therefrom are not timely reinvested in productive assets. If any offer to prepay is accepted, the purchase price of each prepaid note is 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the prepayment date.

The respective note purchase agreements require compliance with two financial covenants. The Company must not permit its debt to capitalization ratio to exceed 50% at any time. The note purchase agreements generally define the debt to capitalization ratio as the ratio of (a) total borrowed money indebtedness to (b) the sum of such indebtedness plus consolidated net worth, with consolidated net worth determined as of the last day of the most recently ended fiscal quarter. The Company also must not permit the interest coverage ratio as of the last day of a fiscal quarter to be less than 2.50 to 1.00. The note purchase agreements generally define the interest coverage ratio as the ratio of EBITDA for the four prior fiscal quarters to interest charges for the same period. The Company was in compliance with these covenants at December 31, 2012.

Events of default under the note purchase agreements include failure to pay principal or interest when due, failure to comply with the financial and operational covenants, a cross default event, a judgment in excess of a threshold event, the guaranty agreement ceasing to be enforceable, the occurrence of certain ERISA events, a change of control event and bankruptcy and other insolvency events. If an event of default under the note purchase agreements occurs and is continuing, then holders of a majority in principal amount of the respective notes have the right to declare all the notes then-outstanding to be immediately due and payable. In addition, if the Company defaults in payments on any note, then until such defaults are cured, the holder thereof may declare all the notes held by it pursuant to the note purchase agreement to be immediately due and payable.

The Company incurred approximately $10.8 million in debt issuance costs during 2010 in connection with the 2010 Credit Agreement and the Series A Notes. The Company incurred approximately $7.6 million in debt issuance costs during 2012 in connection with the Series B Notes and the Credit Agreement. These costs were deferred and are recognized as interest expense over the term of the underlying debt. Interest expense related to the amortization of debt issuance costs for the 2010 Credit Agreement, the Series A Notes, the Series B Notes and the Credit Agreement was approximately $3.4 million, $2.4 million and $1.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. The amount for the year ended December 31, 2012 includes $978,000 of costs related to the early termination of the 2010 Credit Agreement.

Presented below is a schedule of the principal repayment requirements of long-term debt by fiscal year as of December 31, 2012 (in thousands):

Year ending December 31,	
2013	$ 6,250
2014	10,000
2015	12,500
2016	28,750
2017	41,250
Thereafter	600,000
Total	$ 698,750

9. Commitments, Contingencies and Other Matters

Commitments As of December 31, 2012, the Company maintained letters of credit in the aggregate amount of $39.8 million for the benefit of various insurance companies as collateral for retrospective premiums and retained losses which could become payable under the terms of the underlying insurance contracts. These letters of credit expire annually at various times during the year and are typically renewed. As of December 31, 2012, no amounts had been drawn under the letters of credit.

As of December 31, 2012, the Company had commitments to purchase approximately $171 million of major equipment for its drilling and pressure pumping businesses.

The Company s pressure pumping business has entered into agreements to purchase minimum quantities of proppants from certain vendors. These agreements expire in 2013 and 2016. As of December 31, 2012, the remaining obligation under these agreements is approximately $26.7 million, of which materials with a total purchase price of approximately $7.0 million are expected to be delivered during 2013. In the event that the required minimum quantities are not purchased during any contract year, the Company would be required to make a liquidated damages payment to the respective vendor for any shortfall.

In November 2011, the Company s pressure pumping business entered into an agreement with a proppant vendor to advance, on a non-revolving basis, up to $12.0 million to such vendor to finance the construction of certain processing facilities. This advance is secured by the underlying processing facilities and bears interest at an annual rate of 5.0%. Repayment of the advance is to be made through discounts applied to purchases from the vendor and repayment of all amounts advanced must be made no later than October 1, 2017. As of December 31, 2012, advances of approximately $10.4 million had been made under this agreement and repayments of approximately $397,000 had been received resulting in a balance outstanding of approximately $10.0 million.

Contingencies The Company s operations are subject to many hazards inherent in the contract drilling and pressure pumping businesses, including inclement weather, blowouts, well fires, loss of well control, pollution and reservoir damage. These hazards could cause personal injury or death, work stoppage, and serious damage to equipment and other property, as well as significant environmental and reservoir damages. These risks could expose the Company to substantial liability for personal injury, wrongful death, property damage, loss of oil and natural gas production, pollution and other environmental damages.

Any contractual right to indemnification that the Company may have for any such risk, may be unenforceable or limited due to negligent or willful acts of commission or omission by the Company, its subcontractors and/or suppliers. The Company s customers may dispute, or be unable to meet, their contractual indemnification obligations to the Company due to financial, legal or other reasons. Accordingly, the Company may be unable to transfer these risks to its customers by contract or indemnification agreements. Incurring a liability for which the Company is not fully indemnified or insured could have a material adverse effect on its business, financial condition, cash flows and results of operations.

The Company has insurance coverage for comprehensive general liability, automobile liability, workers compensation and employer s liability, and certain other specific risks. The Company has also elected in some cases to accept a greater amount of risk through increased deductibles on certain insurance policies. For example, the Company generally maintains a $1.0 million per occurrence deductible on its workers compensation and equipment insurance coverages and a $2.0 million per occurrence self-insured retention on its general liability insurance coverage. The Company self-insures a number of other risks, including loss of earnings and business interruption, and does not carry a significant amount of insurance to cover risks of underground reservoir damage. If a significant accident or other event occurs and is not fully covered by insurance or an enforceable or recoverable indemnity from a customer, it could have a material adverse effect on the Company s business, financial condition, cash flows and results of operations. Accrued expenses related to insurance claims are set forth in Note 6.

The Company is party to various legal proceedings arising in the normal course of its business. The Company does not believe that the outcome of these proceedings, either individually or in the aggregate, will have a material adverse effect on its financial condition, results of operations or cash flows.

Other Matters The Company has Change in Control Agreements with its Chairman of the Board, Chief Executive Officer, two Senior Vice Presidents and its General Counsel (the Key Employees). Each Change in Control Agreement generally has an initial term with automatic twelve-month renewals unless the Company notifies the Key Employee at least ninety days before the end of such renewal period that the term will not be extended. If a change in control of the Company occurs during the term of the agreement and the Key Employee s employment is terminated (i) by the Company other than for cause or other than automatically as a result of death, disability or retirement, or (ii) by the Key Employee for good reason (as those terms are defined in the Change in Control Agreements), then the Key Employee shall generally be entitled to, among other things:

a bonus payment equal to the greater of the highest bonus paid after the Change in Control Agreement was entered into and the average of the two annual bonuses earned in the two fiscal years immediately preceding a change in control (or a benchmark bonus in the case of the Chief Executive Officer) (such bonus payment for each Key Employee prorated for the portion of the fiscal year preceding the termination date);

a payment equal to 2.5 times (in the case of the Chairman of the Board and Chief Executive Officer), 2 times (in the case of the Senior Vice Presidents) or 1.5 times (in the case of the General Counsel) of the sum of (i) the highest annual salary in effect for such Key Employee and (ii) the average of the three annual bonuses earned by the Key Employee for the three fiscal years preceding the termination date (or a benchmark bonus in the case of the Chief Executive Officer); and

continued coverage under the Company s welfare plans for up to three years (in the case of the Chairman of the Board and Chief Executive Officer) or two years (in the case of the Senior Vice Presidents and General Counsel).

Other than with respect to the Chief Executive Officer, each Change in Control Agreement provides the Key Employee with a full gross-up payment for any excise taxes imposed on payments and benefits received under the Change in Control Agreements or otherwise, including other taxes that may be imposed as a result of the gross-up payment.

10. Stockholders Equity

Cash Dividends The Company paid cash dividends during the years ended December 31, 2010, 2011 and 2012 as follows:

	Per Share	Total (in thousands)
2010:		
Paid on March 31, 2010	$ 0.05	$ 7,677
Paid on June 30, 2010	0.05	7,706
Paid on September 30, 2010	0.05	7,704
Paid on December 30, 2010	0.05	7,709
Total cash dividends	$ 0.20	$ 30,796
2011:		
Paid on March 30, 2011	$ 0.05	$ 7,708
Paid on June 30, 2011	0.05	7,772
Paid on September 30, 2011	0.05	7,777
Paid on December 30, 2011	0.05	7,788
Total cash dividends	$ 0.20	$ 31,045
2012:		
Paid on March 30, 2012	$ 0.05	$ 7,788
Paid on June 29, 2012	0.05	7,650
Paid on September 28, 2012	0.05	7,518
Paid on December 28, 2012	0.05	7,346
Total cash dividends	$ 0.20	$ 30,302

On February 6, 2013, the Company s Board of Directors approved a cash dividend on its common stock in the amount of $0.05 per share to be paid on March 29, 2013 to holders of record as of March 15, 2013. The amount and timing of all future dividend payments, if any, are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial condition, terms of the Company s credit facilities and other factors.

On August 1, 2007, the Company s Board of Directors approved a stock buyback program authorizing purchases of up to $250 million of the Company s common stock in open market or privately negotiated transactions. During the year ended December 31, 2010, the Company purchased 8,743 shares of its common stock under the program at a cost of approximately $123,000. During the year ended December 31, 2011, the Company purchased 8,689 shares of its common stock under the program at a cost of approximately $255,000. During the year ended December 31, 2012, the Company purchased 4.7 million shares under the program at a cost of approximately $70.1 million. On July 25, 2012, the Company s Board of Directors terminated the remaining authority under the 2007 stock buyback program, and approved a new stock buyback program authorizing purchases of up to $150 million of the Company s common stock in open market or privately negotiated transactions. During the year ended December 31, 2012, the Company purchased approximately 5.9 million additional shares under the new stock buyback program at a cost of approximately $98.9 million. As of December 31, 2012, the Company has remaining authorization to purchase approximately $51.1 million of the Company s outstanding common stock under the stock buyback program. Shares purchased under the program are accounted for as treasury stock.

The Company purchased an additional 86,932, 135,068 and 117,083 shares of treasury stock from employees during 2012, 2011 and 2010, respectively. These shares were purchased at fair market value upon the vesting of restricted stock to provide the employees with the funds necessary to satisfy payroll tax withholding obligations. The total purchase price for these shares was approximately $1.3 million, $4.1 million and $1.7 million in 2012, 2011 and 2010, respectively. These purchases were made pursuant to the terms of the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (the 2005 Plan) and not pursuant to the stock buyback program.

11. Stock-based Compensation

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

The Company s shareholders have approved the 2005 Plan, and the Board of Directors adopted a resolution that no future grants would be made under any of the Company s other previously existing plans. During 2010, the Company amended the 2005 Plan to, among other things, increase the total number of shares authorized for grant from 10,250,000 to 15,250,000. The Company s share-based compensation plans at December 31, 2012 follow:

Plan Name	Shares Authorized for Grant	Awards Outstanding	Shares Available for Grant
Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan, as amended	15,250,000	7,174,011	2,630,496
Patterson-UTI Energy, Inc. Amended and Restated 1997 Long-Term Incentive Plan, as amended (1997 Plan)		1,950,000	

A summary of the 2005 Plan follows:

The Compensation Committee of the Board of Directors administers the plan.

All employees, officers and directors are eligible for awards.

The Compensation Committee determines the vesting schedule for awards. Awards typically vest over one year for non-employee directors and three years for employees.

The Compensation Committee sets the term of awards and no option term can exceed 10 years.

All options granted under the plan are granted with an exercise price equal to or greater than the fair market value of the Company s common stock at the time the option is granted.

The plan provides for awards of incentive stock options, non-incentive stock options, tandem and freestanding stock appreciation rights, restricted stock awards, other stock unit awards, performance share awards, performance unit awards and dividend equivalents. As of December 31, 2012, non-incentive stock options, restricted stock awards, restricted stock units and performance unit awards had been granted under the plan.

Options granted under the 1997 Plan typically vested over three or five years as dictated by the Compensation Committee. These options have terms of no more than ten years. All options were granted with an exercise price equal to the fair market value of the related common stock at the time of grant. Restricted stock awards granted under the 1997 Plan typically vested over four years.

Stock Options The Company estimates the grant date fair values of stock options using the Black-Scholes-Merton valuation model. Volatility assumptions are based on the historic volatility of the Company s common stock over the most recent period equal to the expected term of the options as of the date the options are granted.

The expected term assumptions are based on the Company s experience with respect to employee stock option activity. Dividend yield assumptions are based on the expected dividends at the time the options are granted. The risk-free interest rate assumptions are determined by reference to United States Treasury yields. Weighted-average assumptions used to estimate grant date fair values for stock options granted in the years ended December 31, 2012, 2011 and 2010 follow:

	2012	2011	2010
Volatility	48.79%	45.97%	45.98%
Expected term (in years)	5.00	5.00	5.00
Dividend yield	1.21%	0.67%	1.35%
Risk-free interest rate	0.87%	2.34%	2.47%

Stock option activity for the year ended December 31, 2012 follows:

	Shares	Weighted-average exercise price
Outstanding at beginning of year	7,081,295	$ 20.73
Granted	815,000	$ 16.52
Exercised	(63,800)	$ 14.64
Cancelled		$
Expired	(5,300)	$ 14.64
Outstanding at end of year	7,827,195	$ 20.35
Exercisable at end of year	6,735,056	$ 20.63

Options outstanding at December 31, 2012 have an aggregate intrinsic value of approximately $14.6 million and a weighted-average remaining contractual term of 4.9 years. Options exercisable at December 31, 2012 have an aggregate intrinsic value of approximately $12.4 million and a weighted-average remaining contractual term of 4.2 years. Additional information with respect to options granted, vested and exercised during the years ended December 31, 2012, 2011 and 2010 follows:

	2012	2011	2010
Weighted-average grant date fair value of stock options granted (per share)	$ 6.37	$ 12.24	$ 5.69
Grant date fair value of stock options vested during the year (in thousands)	$ 5,512	$ 5,639	$ 5,553
Aggregate intrinsic value of stock options exercised (in thousands)	$ 138	$ 12,663	$ 523

As of December 31, 2012, options to purchase 1,092,139 shares were outstanding and not vested. All of these non-vested options are expected to ultimately vest. Additional information as of December 31, 2012 with respect to these non-vested options follows:

Aggregate intrinsic value	$2.2 million
Weighted-average remaining contractual term	8.96 years
Weighted-average remaining expected term	3.96 years
Weighted-average remaining vesting period	1.87 years
Unrecognized compensation cost	$6.5 million

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

Restricted stock activity for the year ended December 31, 2012 follows:

	Shares	Weighted-average Grant Date Fair Value
Non-vested restricted stock outstanding at beginning of year	1,213,799	$ 24.13
Granted	791,650	$ 15.61
Vested	(627,573)	$ 22.19
Forfeited	(98,730)	$ 21.13
Non-vested restricted stock outstanding at end of year	1,279,146	$ 20.03

As of December 31, 2012, approximately 1.2 million shares of non-vested restricted stock outstanding are expected to vest. Additional information as of December 31, 2012 with respect to these non-vested shares follows:

Aggregate intrinsic value	$22.1 million
Weighted-average remaining vesting period	1.86 years
Unrecognized compensation cost	$19.7 million

Restricted Stock Units For all restricted stock unit awards made to date, shares of common stock are not issued until the units vest. Restricted stock units are subject to forfeiture for failure to fulfill service conditions. Non-forfeitable cash dividend equivalents are paid on non-vested restricted stock units.

Restricted stock unit activity for the year ended December 31, 2012 follows:

	Shares	Weighted-average Grant Date Fair Value
Non-vested restricted stock units outstanding at beginning of year	17,501	$ 23.47
Granted	9,000	$ 14.91
Vested	(7,830)	$ 21.08
Forfeited	(1,001)	$ 25.02
Non-vested restricted stock units outstanding at end of year	17,670	$ 20.08

Performance Unit Awards. In 2009, the Company granted cash-settled performance unit awards to certain executive officers (the 2009 Performance Units). The 2009 Performance Units provided for those executive officers to receive a cash payment upon the achievement of certain performance goals established by the Compensation Committee during a specified period. The performance period for the 2009 Performance Units was the period from April 1, 2009 through March 31, 2012. The performance goals for the 2009 Performance Units were tied to the Company s total shareholder return for the performance period as compared to total shareholder return for a peer group determined by the Compensation Committee. These goals were considered to be market conditions under the relevant accounting standards and the market conditions were factored into the determination of the fair value of the performance units. Generally, the recipients would receive a target payment if the Company s total shareholder return was positive and, when compared to the peer group, was at or above the 50^{th} percentile but less than the 75^{th} percentile and two times the target if at the 75^{th} percentile or higher. If the Company s total shareholder return was positive, and, when compared to the peer group, was at or above the 25^{th} percentile but less than the 50^{th} percentile, the recipients would only receive one-half of the target payment. The total target amount with respect to the 2009 Performance Units was approximately $3.4 million. Because the 2009 Performance Units were settled in cash at the end of the performance period, they were accounted for as liability awards and the Company s pro-rated obligation was measured at estimated fair value at the end of each reporting period using a Monte Carlo simulation model. The performance period ended on March 31, 2012 and the Company s total shareholder return was at the 46^{th} percentile. The resulting cash payments totaling $1.7

million were paid in April 2012. For the year ended December 31, 2012, a compensation benefit of approximately $1.9 million was recognized. For the years ended December 31, 2011 and 2010, compensation expense associated with the 2009 Performance Units was approximately $1.3 million and $1.5 million, respectively.

In 2010, 2011 and 2012, the Company granted stock-settled performance unit awards to certain executive officers (the Stock-Settled Performance Units). The Stock-Settled Performance Units provide for the recipients to receive a grant of shares of stock upon the achievement of certain performance goals established by the Compensation Committee during a specified period. The performance period for the Stock-Settled Performance Units is the three year period commencing on April 1 of the year of grant, but can extend for an additional two years in certain circumstances. The performance goals for the Stock-Settled Performance Units are tied to the Company s total shareholder return for the performance period as compared to total shareholder return for a peer group determined by the Compensation Committee. These goals are considered to be market conditions under the relevant accounting standards and the market conditions are factored into the determination of the fair value of the respective performance units. Generally, the recipients will receive a target number of shares if the Company s total shareholder return is positive and, when compared to the peer group, is at the 50th percentile and two times the target if at the 75th percentile or higher. If the Company s total shareholder return is positive, and, when compared to the peer group, is at the 25th percentile, the recipients will only receive one-half of the target number of shares. The grant of shares when achievement is between the 25th and 75th percentile will be determined on a pro-rata basis. The total target number of shares with respect to the Stock-Settled Performance Units is set forth below:

	2012 Performance Unit Awards	2011 Performance Unit Awards	2010 Performance Unit Awards
Target number of shares	192,000	144,375	178,750

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

	2012 Performance Unit Awards	2011 Performance Unit Awards	2010 Performance Unit Awards
Fair value at date of grant	$ 3,065	$ 5,569	$ 3,117

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

	2012 Performance Unit Awards	2011 Performance Unit Awards	2010 Performance Unit Awards
Year ended December 31, 2012	$ 766	$ 1,856	$ 1,039
Year ended December 31, 2011	NA	$ 1,392	$ 1,039
Year ended December 31, 2010	NA	NA	$ 779

Dividends on Equity Awards Non-forfeitable cash dividends are paid on restricted stock awards and dividend equivalents are paid on restricted stock units. These payments are recognized as follows:

Dividends are recognized as reductions of retained earnings for the portion of restricted stock awards expected to vest.

Dividends are recognized as additional compensation cost for the portion of restricted stock awards that are not expected to vest or that ultimately do not vest.

Dividend equivalents are recognized as additional compensation cost for restricted stock units.

12. Leases

The Company incurred rent expense of $39.0 million, $35.0 million and $18.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Rent expense is primarily related to short-term equipment rentals that are generally passed through to customers. The Company s obligations under non-cancelable operating lease agreements are not material to its operations or cash flows.

13. Income Taxes

Components of the income tax provision applicable to federal, state and foreign income taxes for the years ended December 31, 2012, 2011 and 2010 are as follows (in thousands):

	2012	2011	2010
Federal income tax expense (benefit):			
Current	$ (512)	$ 16,336	$ (77,310)
Deferred	156,003	146,842	145,198
	155,491	163,178	67,888
State income tax expense:			
Current	12,455	6,056	19
Deferred	5,483	13,196	3,246
	17,938	19,252	3,265
Foreign income tax expense (benefit):			
Current	3,817	6,579	2,657
Deferred	(1,050)	(1,071)	(954)
	2,767	5,508	1,703
Total income tax expense (benefit):			
Current	15,760	28,971	(74,634)
Deferred	160,436	158,967	147,490
Total income tax expense:	$ 176,196	$ 187,938	$ 72,856

The difference between the statutory federal income tax rate and the effective income tax rate for the years ended December 31, 2012, 2011 and 2010 is summarized as follows:

	2012	2011	2010
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes	2.5	2.5	1.1
Permanent differences	(0.2)	(0.1)	2.3
Other, net	(0.3)	(0.6)	(0.2)
Effective tax rate	37.0%	36.8%	38.2%

The Domestic Production Activities Deduction was enacted as part of the American Jobs Creation Act of 2004 (as revised by the Emergency Economic Stabilization Act of 2008,) and allows a deduction of 9% in 2010 and thereafter on the lesser of qualified production activities income or taxable income. The permanent difference for 2010 reflects the recapture of a portion of this deduction due to the carryback of the 2010 net operating loss to prior years. The permanent difference for 2011 does not include any deduction as it is limited to taxable income and the Company had a tax loss in 2011. The permanent difference for 2012 does not include any deduction as it is limited to taxable income and the Company does not have taxable income in 2012 due to the utilization of net operating loss carryforwards.

The tax effect of significant temporary differences representing deferred tax assets and liabilities and changes therein were as follows (in thousands):

	December 31, 2012	Net Change	December 31, 2011	Net Change	December 31, 2010	Net Change	December 31, 2009
Deferred tax assets:							
Current:							
Net operating loss carryforwards	$ 18,914	$ (95,662)	$ 114,576	$ 114,576	$	$	$
Workers compensation allowance	25,078	1,074	24,004	714	23,290	(1,334)	24,624
Other	20,451	1,651	18,800	146	18,654	(962)	19,616
	64,443	(92,937)	157,380	115,436	41,944	(2,296)	44,240
Non-current:							
Net operating loss carryforwards	11,762	(6,672)	18,434	11,969	6,465	1,593	4,872
Expense associated with employee stock options	14,672	1,944	12,728	1,476	11,252	2,123	9,129
Federal benefit of foreign deferred tax liabilities						(9,160)	9,160
Federal benefit of state deferred tax liabilities	22,022	1,762	20,260	7,105	13,155	3,383	9,772
Other	15,124	4,454	10,670	(5,361)	16,031	6,546	9,485
	63,580	1,488	62,092	15,189	46,903	4,485	42,418
Total deferred tax assets	128,023	(91,449)	219,472	130,625	88,847	2,189	86,658
Deferred tax liabilities:							
Current:							
Other	(11,484)	3,171	(14,655)	474	(15,129)	(3,766)	(11,363)
Non-current:							
Property and equipment basis difference	(905,597)	(69,774)	(835,823)	(289,168)	(546,655)	(133,542)	(413,113)
Other	(15,285)	(2,384)	(12,901)	(1,231)	(11,670)	(709)	(10,961)
	(920,882)	(72,158)	(848,724)	(290,399)	(558,325)	(134,251)	(424,074)
Total deferred tax liabilities	(932,366)	(68,987)	(863,379)	(289,925)	(573,454)	(138,017)	(435,437)
Net deferred tax liability	$ (804,343)	$ (160,436)	$ (643,907)	$ (159,300)	$ (484,607)	$ (135,828)	$ (348,779)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The Company expects the deferred tax assets at December 31, 2012 and 2011 to be realized as a result of the reversal of existing taxable temporary differences giving rise to deferred tax liabilities and the generation of taxable income; therefore, no valuation allowance is considered necessary.

Other deferred tax assets consist primarily of the tax effect of various allowance accounts and tax-deferred expenses expected to generate future tax benefits of approximately $35.6 million. Other deferred tax liabilities consist primarily of the tax effect of receivables from insurance companies and tax-deferred income not yet recognized for tax purposes.

For income tax purposes, the Company has approximately $54.0 million of federal net operating losses and approximately $169.0 million of state net operating losses that can be carried forward as of December 31, 2012. The federal net operating loss that can be carried forward, if unused, would expire in 2031. The state net operating losses that can be carried forward, if unused, are scheduled to expire as follows: 2014 $4.1 million; 2015 $12.9 million; 2016 $8.3 million; 2028 $14.5 million; 2029 $29.8 million; 2030 $17.1 million and 2031 $82.3 million.

As of December 31, 2012, the Company had no unrecognized tax benefits. The Company has established a policy to account for interest and penalties related to uncertain income tax positions as operating expenses. As of December 31, 2012, the tax years ended December 31, 2009 through December 31, 2011 are open for examination by U.S. taxing authorities. As of December 31, 2012, the tax years ended December 31, 2008 through December 31, 2011 are open for examination by Canadian taxing authorities.

On January 1, 2010, the Company converted its Canadian operations from a Canadian branch to a controlled foreign corporation for federal income tax purposes. Because the statutory tax rates in Canada are lower than those in the United States, this transaction triggered a $5.1 million reduction in deferred tax liabilities, which is being amortized as a reduction to deferred income tax expense over the weighted average remaining useful life of the Canadian assets.

As a result of the above conversion, the Company s Canadian assets are no longer directly subject to United States taxation, provided that the related unremitted earnings are permanently reinvested in Canada. Effective January 1, 2010, the Company has elected to permanently reinvest these unremitted earnings in Canada, and intends to do so for the foreseeable future. As a result, no deferred United States federal or state income taxes have been provided on such unremitted foreign earnings, which totaled approximately $27.8 million as of December 31, 2012. The unrecognized deferred tax liability associated with these earnings was approximately $4.2 million, net of available foreign tax credits. This liability would be recognized if the Company received a dividend of the unremitted earnings.

14. Employee Benefits

The Company maintains a 401(k) plan for all eligible employees. The Company s operating results include expenses of approximately $5.4 million in 2012, $4.6 million in 2011 and $3.1 million in 2010 for the Company s contributions to the plan.

15. Business Segments

The Company s revenues, operating profits and identifiable assets are primarily attributable to three business segments: (i) contract drilling of oil and natural gas wells, (ii) pressure pumping services and (iii) the investment, on a non-operating working interest basis, in oil and natural gas properties. Each of these segments represents a distinct type of business. These segments have separate management teams which report to the Company s chief operating decision maker. The results of operations in these segments are regularly reviewed by the chief operating decision maker for purposes of determining resource allocation and assessing performance. As discussed in Note 2, in January 2010, the Company exited the drilling and completion fluids services business which previously was reported as a business segment. Operating results for that business for the year ended December 31, 2010 is presented as discontinued operations in the consolidated statements of operations. Also included in discontinued operations for the years ended December 31, 2011 and 2010 are the operating results for an electric wireline business that was acquired on October 1, 2010 and sold in January 2011.

Contract Drilling The Company markets its contract drilling services to major and independent oil and natural gas operators. As of December 31, 2012, the Company had 314 marketable land-based drilling rigs in the continental United States, Alaska and western and northern Canada.

For the years ended December 31, 2012, 2011 and, 2010, contract drilling revenue earned in Canada was $79.4 million, $106 million and $65.7 million, respectively. Additionally, long-lived assets within the contract drilling segment located in Canada totaled $72.6 million and $69.8 million as of December 31, 2012 and 2011, respectively.

Pressure Pumping The Company provides pressure pumping services to oil and natural gas operators primarily in Texas and the Appalachian Basin. Pressure pumping services are primarily 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.

Oil and Natural Gas The Company owns and invests in oil and natural gas assets as a non-operating working interest owner. The Company s oil and natural gas interests are located primarily in Texas and New Mexico.

The following tables summarize selected financial information relating to the Company s business segments (in thousands):

	Years Ended December 31, 2012	2011	2010
Revenues:			
Contract drilling	$ 1,826,519	$ 1,673,629	$ 1,085,722
Pressure pumping	841,771	845,803	350,608
Oil and natural gas	59,930	50,559	30,425
Total segment revenues	2,728,220	2,569,991	1,466,755
Elimination of intercompany revenues(a)	(4,806)	(4,048)	(3,824)
Total revenues	$ 2,723,414	$ 2,565,943	$ 1,462,931
Income from continuing operations before income taxes:			
Contract drilling	$ 349,393	$ 346,083	$ 140,483
Pressure pumping	132,795	193,440	62,194
Oil and natural gas	27,210	23,982	12,455
	509,398	563,505	215,132
Corporate and other	(45,843)	(42,903)	(37,019)
Net gain on asset disposals(b)	33,806	4,999	22,812
Interest income	554	187	1,674
Interest expense	(22,750)	(15,652)	(12,772)
Other	508	582	927
Income from continuing operations before income taxes	$ 475,673	$ 510,718	$ 190,754
Identifiable assets:			
Contract drilling	$ 3,538,289	$ 3,252,116	$ 2,678,250
Pressure pumping	784,128	748,643	533,597
Oil and natural gas	54,188	44,990	36,508
Corporate and other(c)	180,306	176,152	174,676
Total assets	$ 4,556,911	$ 4,221,901	$ 3,423,031
Depreciation, depletion, amortization and impairment:			
Contract drilling	$ 390,316	$ 344,312	$ 280,458
Pressure pumping	111,062	73,279	40,724
Oil and natural gas	21,417	16,962	10,950
Corporate and other	3,819	2,726	1,361
Total depreciation, depletion, amortization and impairment	$ 526,614	$ 437,279	$ 333,493
Capital expenditures:			
Contract drilling	$ 744,949	$ 784,686	$ 655,550
Pressure pumping	194,117	198,061	51,064
Oil and natural gas	29,888	22,884	23,067
Corporate and other	5,034	5,947	8,409
Total capital expenditures	$ 973,988	$ 1,011,578	$ 738,090

(a)

Includes contract drilling intercompany revenues related to drilling services provided to the oil and natural gas exploration and production segment.

(b) Net gains or losses associated with the disposal of assets relate to corporate strategy decisions of the executive management group. Accordingly, the related gains or losses have been separately presented and excluded from the results of specific segments.

(c) Corporate and other assets primarily include identifiable assets associated with assets held for sale as well as cash on hand, income taxes receivable and certain deferred federal income tax assets.

16. Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of demand deposits, temporary cash investments and trade receivables.

The Company believes it has placed its demand deposits and temporary cash investments with high credit-quality financial institutions. At December 31, 2012 and 2011, the Company s demand deposits and temporary cash investments consisted of the following (in thousands):

	2012	2011
Deposits in FDIC and SIPC-insured institutions under insurance limits	$ 270	$ 289
Deposits in FDIC and SIPC-insured institutions over insurance limits	161,195	50,035
Deposits in foreign banks	22,511	18,823
	183,976	69,147
Less outstanding checks and other reconciling items	(73,253)	(45,201)
Cash and cash equivalents	$ 110,723	$ 23,946

Concentrations of credit risk with respect to trade receivables are primarily focused on companies involved in the exploration and development of oil and natural gas properties. The concentration is somewhat mitigated by the diversification of customers for which the Company provides services. As is general industry practice, the Company typically does not require customers to provide collateral. No significant losses from individual customers were experienced during the years ended December 31, 2012, 2011 or 2010. The Company recorded a $1.1 million provision for bad debt in 2012. No provision for bad debts was recognized in 2011. The Company recorded a negative provision for bad debts of $2.0 million in 2010.

17. Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, trade receivables and accounts payable approximate fair value due to the short-term maturity of these items.

The estimated fair value of the Company s outstanding debt balances (including current portion) as of December 31, 2012 and 2011 is set forth below (in thousands):

	December 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Borrowings under credit agreements:				
Revolving credit facilities	$	$	$ 110,000	$ 110,000
Term loan facilities	98,750	98,750	92,500	92,500
4.97% Series A Senior Notes	300,000	329,281	300,000	315,942
4.27% Series B Senior Notes	300,000	310,591		
Total debt	$ 698,750	$ 738,622	$ 502,500	$ 518,442

The carrying values of the balances outstanding under the term loan facilities and revolving credit facilities approximate their fair values as these instruments have floating interest rates. The fair value of the Series A Notes at December 31, 2012 and 2011 and the Series B Notes at December 31, 2012 are based on discounted cash flows associated with the respective notes using current market rates of interest at those respective dates. These fair value estimates are based on observable market inputs and are considered level 2 fair value estimates in the fair value hierarchy of fair value accounting.

18. Quarterly Financial Information (in thousands, except per share amounts) (unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2011				
Operating revenues	$ 567,404	$ 600,064	$ 673,828	$ 724,647
Operating income	117,547	131,860	132,294	143,900
Income from continuing operations, net of income taxes	71,619	81,638	81,928	87,595
Loss from discontinued operations, net of income taxes	(367)			
Net income	71,252	81,638	81,928	87,595
Basic income per common share:				
From continuing operations	$ 0.46	$ 0.53	$ 0.53	$ 0.56
From discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income	$ 0.46	$ 0.53	$ 0.53	$ 0.56
Diluted income per common share:				
From continuing operations	$ 0.46	$ 0.52	$ 0.53	$ 0.56
From discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income	$ 0.46	$ 0.52	$ 0.53	$ 0.56
2012				
Operating revenues	$ 745,921	$ 681,112	$ 643,631	$ 652,750
Operating income	157,664	150,894	88,594	100,209
Income from continuing operations, net of income taxes	97,274	92,538	50,806	58,859
Loss from discontinued operations, net of income taxes				
Net income	97,274	92,538	50,806	58,859
Basic income per common share:				
From continuing operations	$ 0.62	$ 0.60	$ 0.34	$ 0.40
From discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income	$ 0.62	$ 0.60	$ 0.34	$ 0.40
Diluted income per common share:				
From continuing operations	$ 0.62	$ 0.60	$ 0.33	$ 0.40
From discontinued operations	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income	$ 0.62	$ 0.60	$ 0.33	$ 0.40

As discussed in Note 2, the Company exited the drilling and completion fluids services business in January 2010 and sold the wireline business in January 2011. The results of operations related to those businesses have been reclassified and presented as discontinued operations in the quarterly financial information above.

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Description	Beginning Balance	Charged to Costs and Expenses	Deductions(1)	Ending Balance
	(In thousands)			
Year Ended December 31, 2012				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 4,887	$ 1,100	$ 2,474	$ 3,513
Year Ended December 31, 2011				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 5,114	$ 0	$ 227	$ 4,887
Year Ended December 31, 2010				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 10,911	$ (2,000)	$ 3,797	$ 5,114

(1) Consists of uncollectible accounts written off.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Patterson-UTI Energy, Inc. has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

PATTERSON-UTI ENERGY, INC.

By: /s/ William Andrew Hendricks, Jr.
William Andrew Hendricks, Jr.
President and Chief Executive Officer

Date: February 13, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons on behalf of Patterson-UTI Energy, Inc. and in the capacities indicated as of February 13, 2013.

Signature	**Title**
/s/ Mark S. Siegel Mark S. Siegel	Chairman of the Board
/s/ William Andrew Hendricks, Jr. William Andrew Hendricks, Jr. *(Principal Executive Officer)*	President and Chief Executive Officer
/s/ John E. Vollmer III John E. Vollmer III *(Principal Financial and Accounting Officer)*	Senior Vice President Corporate Development, Chief Financial Officer and Treasurer
/s/ Kenneth N. Berns Kenneth N. Berns	Senior Vice President and Director
/s/ Charles O. Buckner Charles O. Buckner	Director
/s/ Michael W. Conlon Michael W. Conlon	Director
/s/ Curtis W. Huff Curtis W. Huff	Director
/s/ Terry H. Hunt Terry H. Hunt	Director
Kenneth R. Peak	Director
/s/ Cloyce A. Talbott Cloyce A. Talbott	Director

EXHIBIT INDEX

2.1	Asset Purchase Agreement dated July 2, 2010 by and among Patterson-UTI Energy, Inc., Portofino Acquisition Company (n/k/a Universal Pressure Pumping, Inc.), Key Energy Pressure Pumping Services, LLC, Key Electric Wireline Services, LLC and Key Energy Services, Inc. (filed July 6, 2010 as Exhibit 2.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
2.2	Letter Agreement dated September 1, 2010 by and among Patterson-UTI Energy, Inc., Universal Pressure Pumping, Inc., Universal Wireline, Inc., Key Energy Services, Inc., Key Energy Pressure Pumping Services, LLC, and Key Electric Wireline Services LLC (filed November 1, 2010 as Exhibit 2.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 and incorporated herein by reference).
2.3	Letter Agreement dated October 1, 2010 by and among Patterson-UTI Energy, Inc., Universal Pressure Pumping, Inc., Universal Wireline, Inc., Key Energy Services, Inc., Key Energy Pressure Pumping Services, LLC, and Key Electric Wireline Services LLC (filed November 1, 2010 as Exhibit 2.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 and incorporated herein by reference).
3.1	Restated Certificate of Incorporation, as amended (filed August 9, 2004 as Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 and incorporated herein by reference).
3.2	Amendment to Restated Certificate of Incorporation, as amended (filed August 9, 2004 as Exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 and incorporated herein by reference).
3.3	Certificate of Elimination with respect to Series A Participating Preferred Stock (filed October 27, 2011 as Exhibit 3.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
3.4	Second Amended and Restated Bylaws (filed August 6, 2007 as Exhibit 3.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 and incorporated herein by reference).
10.1	Registration Rights Agreement with Bear, Stearns and Co. Inc., dated March 25, 1994, as assigned to REMY Capital Partners III, L.P. (filed March 19, 2002 as Exhibit 4.3 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference).
10.2	Patterson-UTI Energy, Inc. Amended and Restated 1997 Long-Term Incentive Plan (filed July 28, 2003 as Exhibit 4.7 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference).*
10.3	Amendment to the Patterson-UTI Energy, Inc. Amended and Restated 1997 Long-Term Incentive Plan (filed August 9, 2004 as Exhibit 10.7 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 and incorporated herein by reference).*
10.4	Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan, including Form of Executive Officer Restricted Stock Award Agreement, Form of Executive Officer Stock Option Agreement, Form of Non-Employee Director Restricted Stock Award Agreement and Form of Non-Employee Director Stock Option Agreement (filed June 21, 2005 as Exhibit 10.1 to the Company s Current Report on Form 8-K, and incorporated herein by reference).*
10.5	First Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed June 6, 2008 as Exhibit 10.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
10.6	Second Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed June 6, 2008 as Exhibit 10.2 to the Company s Current Report on Form 8-K and incorporated herein by reference).
10.7	Third Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed April 27, 2010 as Exhibit 10.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).*

10.8	Fourth Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed April 27, 2010 as Exhibit 10.2 to the Company s Current Report on Form 8-K and incorporated herein by reference).*
10.9	Fifth Amendment to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed August 2, 2010 as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q and incorporated herein by reference).*
10.10	Form of Cash-Settled Performance Unit Award Agreement pursuant to the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan, as amended from time to time (filed February 19, 2010 as Exhibit 10.9 to the Company s Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated herein by reference).*
10.11	Form of Amendment to Cash-Settled Performance Unit Award Agreement under the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed May 4, 2010 as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 and incorporated herein by reference).*
10.12	Form of Share-Settled Performance Unit Award Agreement under the Patterson-UTI Energy, Inc. 2005 Long-Term Incentive Plan (filed August 2, 2010 as Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 and incorporated herein by reference).*
10.13	Form of Letter Agreement regarding termination, effective as of January 29, 2004, entered into by Patterson-UTI Energy, Inc. with each of Mark S. Siegel, Kenneth N. Berns and John E. Vollmer III (filed on February 25, 2005 as Exhibit 10.23 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).*
10.14	Letter Agreement dated February 6, 2006 between Patterson-UTI Energy, Inc. and John E. Vollmer III (filed May 1, 2006 as Exhibit 10.25 to the Company s Annual Report on Form 10-K, as amended, and incorporated herein by reference).*
10.15	Employment Agreement, dated as of September 1, 2007 between Patterson-UTI Management Services, LLC and Douglas J. Wall (filed September 24, 2012 as Exhibit 10.1 to the Company s Current Report on Form 8-K, and incorporated herein by reference).*
10.16	Employment Agreement, effective as of January 1, 2012, by and between Patterson-UTI Drilling Company LLC and James M. Holcomb (filed February 10, 2012 as Exhibit 10.17 to the Company s Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference).*
10.17	Form of Indemnification Agreement entered into by Patterson-UTI Energy, Inc. with each of Mark S. Siegel, Cloyce A. Talbott, Douglas J. Wall, Kenneth N. Berns, Curtis W. Huff, Terry H. Hunt, Kenneth R. Peak, Charles O. Buckner, John E. Vollmer III, Seth D. Wexler, William Andrew Hendricks, Jr. and Michael W. Conlon (filed April 28, 2004 as Exhibit 10.11 to the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2003 and incorporated herein by reference).*
10.18	Patterson-UTI Energy, Inc. Change in Control Agreement, effective as of January 29, 2004, by and between Patterson-UTI Energy, Inc. and Mark S. Siegel (filed on February 4, 2004 as Exhibit 10.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).*
10.19	Patterson-UTI Energy, Inc. Change in Control Agreement, effective as of August 31, 2007, by and between Patterson-UTI Energy, Inc. and Douglas J. Wall (filed September 4, 2007 as Exhibit 10.2 to the Company s Current Report on Form 8-K and incorporated herein by reference).*
10.20	Patterson-UTI Energy, Inc. Change in Control Agreement, effective as of January 29, 2004, by and between Patterson-UTI Energy, Inc. and Kenneth N. Berns (filed on February 4, 2004 as Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).*

10.21	Patterson-UTI Energy, Inc. Change in Control Agreement, effective as of January 29, 2004, by and between Patterson-UTI Energy, Inc. and John E. Vollmer III (filed on February 4, 2004 as Exhibit 10.7 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).*
10.22	First Amendment to Change in Control Agreement Between Patterson-UTI Energy, Inc. and Mark S. Siegel, entered into November 1, 2007 (filed November 5, 2007 as Exhibit 10.8 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference).*
10.23	First Amendment to Change in Control Agreement Between Patterson-UTI Energy, Inc. and Douglas J. Wall, entered into November 1, 2007 (filed November 5, 2007 as Exhibit 10.9 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference).*
10.24	First Amendment to Change in Control Agreement Between Patterson-UTI Energy, Inc. and John E. Vollmer, III, entered into November 1, 2007 (filed November 5, 2007 as Exhibit 10.10 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference).*
10.25	First Amendment to Change in Control Agreement Between Patterson-UTI Energy, Inc. and Kenneth N. Berns, entered into November 1, 2007 (filed November 5, 2007 as Exhibit 10.11 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference).*
10.26	Patterson-UTI Energy, Inc. Change in Control Agreement, effective as of November 2, 2009, by and between Patterson-UTI Energy, Inc. and Seth D. Wexler (filed November 2, 2009 as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 and incorporated herein by reference).*
10.27	Patterson-UTI Energy, Inc. Change in Control Agreement, effective as of April 2, 2012, by and between Patterson-UTI Energy, Inc. and William Andrew Hendricks, Jr. (filed July 30, 2012 as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 and incorporated herein by reference).*
10.28	Form of Offer Letter to William Andrew Hendricks, Jr. dated March 14, 2012 (filed March 16, 2012 as Exhibit 99.3 to the Company s Current Report on Form 8-K and incorporated herein by reference).*
10.29	Severance Agreement, effective as of April 2, 2012, by and between Patterson-UTI Energy, Inc. and William A. Hendricks, Jr. (filed July 30, 2012 as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended July 30, 2012 and incorporated herein by reference).*
10.30	Credit Agreement dated September 27, 2012, among Patterson-UTI Energy, Inc., as borrower, Wells Fargo Bank, N.A., as administrative agent, letter of credit issuer, swing line lender and lender and each of the other letter of credit issuer and lender parties thereto (filed September 28, 2012 as Exhibit 10.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
10.31	Note Purchase Agreement dated October 5, 2010 by and among Patterson-UTI Energy, Inc. and the purchasers named therein (filed October 6, 2010 as Exhibit 10.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
10.32	Note Purchase Agreement dated June 14, 2012 by and among Patterson-UTI Energy, Inc. and the purchasers named therein (filed June 18, 2012 as Exhibit 10.1 to the Company s Current Report on Form 8-K and incorporated herein by reference).
21.1	Subsidiaries of the Registrant.+
23.1	Consent of Independent Registered Public Accounting Firm.+
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.+

31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.+
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
101	The following materials from Patterson-UTI Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.+

* Management Contract or Compensatory Plan identified as required by Item 15(a)(3) of Form 10-K.
\+ Filed herewith.