PATTERSON UTI ENERGY INC
Form 10-K
February 13, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 0-22664

Patterson-UTI Energy, Inc.

(Exact name of registrant as specified in its charter)

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

10713 W. Sam Houston Pkwy N, Suite 800, Houston, Texas 77064

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(281) 765-7100

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.01 Par Value	The Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes or No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes or No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes or No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
	Smaller reporting company
Non-accelerated filer	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $3.9 billion, calculated by reference to the closing price of $18.00 for the common stock on the Nasdaq Global Select Market on that date.

As of February 8, 2019, the registrant had outstanding 213,652,772 shares of common stock, $0.01 par value, its only class of common stock.

Documents incorporated by reference:

Portions of the registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Report”) and other public filings, press releases and presentations by us contain “forward-looking statements” within the meaning of the Securities Act of 1933, as amended (the “Securities Act”), the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995, as amended. As used in this Report, “the Company,” “us,” “we,” our” and like terms refer collectively to Patterson-UTI Energy, Inc. and its consolidated subsidiaries. Patterson-UTI Energy, Inc. conducts its operations through its wholly-owned subsidiaries and has no employees or independent business operations. These forward-looking statements involve risk and uncertainty. These forward-looking statements include, without limitation, statements relating to: liquidity; revenue and cost expectations and backlog; financing of operations; oil and natural gas prices; rig counts; source and sufficiency of funds required for building new equipment, upgrading existing equipment and additional acquisitions (if opportunities arise); impact of inflation; demand for our services; competition; equipment availability; government regulation; debt service obligations; and other matters. Our forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and often use words such as “anticipate,” “believe,” “budgeted,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan, “potential,” “project,” “pursue,” “should,” “strategy,” “target,” or “will,” or the negative thereof and other words and expressio similar meaning. The forward-looking statements are based on certain assumptions and analyses we make in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from actual future results expressed or implied by the forward-looking statements. These risks and uncertainties also include those set forth under “Risk Factors” contained in Item 1A of this Report and in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Report and other sections of our filings with the United States Securities and Exchange Commission (the “SEC”) under the Exchange Act and the Securities Act, as well as, among others, risks and uncertainties relating to:

- adverse oil and natural gas industry conditions;
- global economic conditions;
- volatility in customer spending and in oil and natural gas prices that could adversely affect demand for our services and their associated effect on rates;
- excess availability of land drilling rigs, pressure pumping and directional drilling equipment, including as a result of reactivation, improvement or construction;
- competition and demand for our services;
- strength and financial resources of competitors;
- utilization, margins and planned capital expenditures;
- liabilities from operational risks for which we do not have and receive full indemnification or insurance;
- operating hazards attendant to the oil and natural gas business;
- failure by customers to pay or satisfy their contractual obligations (particularly with respect to fixed-term contracts);
- the ability to realize backlog;
- specialization of methods, equipment and services and new technologies;
- shortages, delays in delivery, and interruptions in supply, of equipment and materials;
- cybersecurity events;
- the ability to retain management and field personnel;
- loss of key customers;

- synergies, costs and financial and operating impacts of acquisitions;
- difficulty in building and deploying new equipment;
- governmental regulation;
- environmental risks and ability to satisfy future environmental costs;
- legal proceedings and actions by governmental or other regulatory agencies;

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- technology-related disputes;
- the ability to effectively identify and enter new markets;
- weather;
- operating costs;
- expansion and development trends of the oil and natural gas industry;
- ability to obtain insurance coverage on commercially reasonable terms;
- financial flexibility;
- interest rate volatility;
- adverse credit and equity market conditions;
- availability of capital and the ability to repay indebtedness when due;
- compliance with covenants under our debt agreements; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our filings with the SEC.

We caution that the foregoing list of factors is not exhaustive. Additional information concerning these and other risk factors is contained in this Report and may be contained in our future filings with the SEC. You are cautioned not to place undue reliance on any of our forward-looking statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to update publicly or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise. In the event that we update any forward-looking statement, no inference should be made that we will make additional updates with respect to that statement, related matters or any other forward-looking statements. All subsequent written and oral forward-looking statements concerning us or other matters and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements above.

PART I

Item 1. Business

Available Information

This Report, along with our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge through our internet website (www.patenergy.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our website is not part of this Report or other filings that we make with the SEC. The SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Overview

We are a Houston, Texas-based oilfield services company that primarily owns and operates in the United States one of the largest fleets of land-based drilling rigs and a large fleet of pressure pumping equipment. We were formed in 1978 and reincorporated in 1993 as a Delaware corporation.

Our contract drilling business operates in the continental United States and western Canada, and we are pursuing contract drilling opportunities outside of North America. As of December 31, 2018, we had a drilling fleet that consisted of 252 marketed land-based drilling rigs. A drilling rig includes the structure, power source and machinery necessary to cause a drill bit to penetrate the earth to a depth desired by the customer. We also have a substantial inventory of drill pipe and drilling rig components that support our drilling operations.

We provide pressure pumping services to oil and natural gas operators primarily in Texas and the Mid-Continent and Appalachian regions. Substantially all of the revenue in the pressure pumping segment is from well stimulation services (such as hydraulic fracturing) for 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. We also provide cementing services through the pressure pumping segment. Cementing is the process of inserting material between the wall of the well bore and the casing to support and stabilize the casing. As of December 31, 2018, we had approximately 1.6 million fracturing horsepower to provide these services. Our pressure pumping operations are supported by a fleet of other equipment, including blenders, tractors, manifold trailers and numerous trailers for transportation of materials to and from the worksite as well as bins for storage of materials at the worksite.

We also provide a comprehensive suite of directional drilling services in most major producing onshore oil and gas basins in the United States. Our directional drilling services include directional drilling, downhole performance motors, motor rentals, directional surveying, measurement-while-drilling, wireline steering tools and services that improve the accuracy of horizontal wellbore placement.

We have other operations through which we provide oilfield rental tools in select markets in the United States. We also manufacture and sell pipe handling components and related technology to drilling contractors, and provide electrical controls and automation to the energy, marine and mining industries, in North America and other select markets. In addition, we own and invest, as a non-operating working interest owner, in oil and natural gas assets that are primarily located in Texas and New Mexico.

Recent Developments

On October 25, 2018, we acquired all of the issued and outstanding shares of Current Power Solutions, Inc. (“Current Power”). Current Power is a provider of electrical controls and automation to the energy, marine and mining industries.

On March 27, 2018, we entered into an amended and restated credit agreement, which is a committed senior unsecured revolving credit facility that permits aggregate borrowings of up to $600 million, including a letter of credit facility that, at any time outstanding, is limited to $150 million and a swing line facility that, at any time outstanding, is limited to $20 million.

On February 20, 2018, we acquired the business of Superior QC, LLC (“Superior QC”), including its assets and intellectual property. Superior QC is a provider of software and services used to improve the statistical accuracy of horizontal wellbore placement. Superior QC’s measurement-while-drilling (MWD) Survey FDIR (fault detection, isolation and recovery) service is a data analytics technology to analyze MWD survey data in real-time and more accurately identify the position of a well.

On January 19, 2018, we completed an offering of $525 million aggregate principal amount of our 3.95% Senior Notes due 2028 (the “2028 Notes”). The net proceeds before offering expenses were approximately $521 million, of which we used $239 million to repay amounts outstanding under our revolving credit facility.

On October 11, 2017, we acquired all of the issued and outstanding limited liability company interests of MS Directional, LLC (f/k/a Multi-Shot, LLC) (“MS Directional”). MS Directional is a leading directional drilling services company in the United States, with operations in most major producing onshore oil and gas basins. MS Directional provides a comprehensive suite of directional drilling services, including directional drilling, downhole performance motors, motor rentals, directional surveying, measurement-while-drilling, and wireline steering tools.

On April 20, 2017, pursuant to an Agreement and Plan of Merger (the “merger agreement”) with Seventy Seven Energy Inc. (“SSE”), a subsidiary of ours was merged with and into SSE (the “SSE merger”), with SSE continuing as the surviving entity and one of our wholly-owned subsidiaries. On April 20, 2017, following the SSE merger, SSE was merged with and into our newly-formed subsidiary named Seventy Seven Energy LLC (“SSE LLC”), with SSE LLC continuing as the surviving entity and one of our wholly-owned subsidiaries. Through the SSE merger, we acquired a fleet of 91 drilling rigs, 36 of which we consider to be APEX® rigs. Additionally, through the SSE merger, we acquired approximately 500,000 horsepower of fracturing equipment located in Oklahoma and Texas. The oilfield rentals business acquired through the SSE merger has a fleet of premium oilfield rental tools and provides specialized services for land-based oil and natural gas drilling, completion and workover activities.

Operational data in the discussion and analysis in this Report includes the results of operations of Current Power since October 25, 2018, the results of operations of Superior QC since February 20, 2018, the results of operations of the MS Directional business since October 11, 2017 and the results of operations of the SSE businesses since April 20, 2017.

Quarterly average oil prices and our quarterly average number of rigs operating in the United States for 2016, 2017 and 2018 are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2016:				
Average oil price per Bbl (1)	$33.18	$45.41	$44.85	$49.15
Average rigs operating per day - U.S. (2)	71	55	60	66
2017:				
Average oil price per Bbl (1)	$51.77	$48.24	$48.16	$55.37
Average rigs operating per day - U.S. (2)	81	145	159	159
2018:				
Average oil price per Bbl (1)	$62.88	$68.04	$69.76	$59.08
Average rigs operating per day - U.S. (2)	166	175	177	182

(1) The average oil price represents the average monthly WTI spot price as reported by the United States Energy Information Administration.
(2) A rig is considered to be operating if it is earning revenue pursuant to a contract on a given day.

The closing price of oil was as high as $107.95 per barrel in June 2014. Prices began to fall in the third quarter of 2014 and reached a twelve-year low of $26.19 in February 2016. Oil prices have recovered from the lows experienced in the first quarter of 2016. Oil prices reached a high of $77.41 in June 2018. Oil prices remain volatile, as the closing price of oil reached a fourth quarter 2018 high of $76.40 per barrel on October 3, 2018, before declining by 42% over the course of three months to reach a low of $44.48 per barrel in late December 2018. Oil prices averaged $59.08 per barrel in the fourth quarter of 2018.

Our rig count declined significantly during the industry downturn that began in late 2014 but has improved since the second quarter of 2016. Our average rig count for the fourth quarter of 2018 was 183 rigs, which included 182 rigs in the United States and one rig in Canada. This was an increase from our average rig count for the third quarter of 2018 of 178 rigs, which included 177 rigs in the United States and one rig in Canada. Our rig count in the United States at December 31, 2018 of 183 rigs was greater than the rig count of 163 rigs at December 31, 2017. Term contracts have supported our operating rig count during the last three years. Based on contracts currently in place, we expect an average of 122 rigs operating under term contracts during the first quarter of 2019 and an average of 78 rigs operating under term contracts throughout 2019.

With the weakness in crude oil prices late in the fourth quarter, operators have been delaying starting new completion projects in the first quarter, and pricing remains extremely competitive. As such, we have made the decision to idle spreads rather than work at unreasonably low prices. We ended the fourth quarter with 20 active spreads and idled three spreads early in the first quarter of 2019.

Industry Segments

Our revenues, operating income (loss) and identifiable assets are primarily attributable to three industry segments:

- contract drilling services,
- pressure pumping services, and

- directional drilling services.

Our contract drilling services industry segment had operating losses in 2018, 2017 and 2016. Our pressure pumping services industry segment had operating losses in 2018 and 2016 and operating income in 2017. Our third industry segment, directional drilling services, was a new segment for us as a result of the MS Directional acquisition in 2017 and accounted for approximately six percent and two percent of our 2018 and 2017 consolidated revenues, respectively. Our directional drilling segment had operating losses in 2018 and 2017.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 16 of Notes to Consolidated Financial Statements included as a part of Items 7 and 8, respectively, of this Report for financial information pertaining to these industry segments.

Contract Drilling Operations

General — We market our contract drilling services to major, independent and other oil and natural gas operators. As of December 31, 2018, we had 252 marketed land-based drilling rigs based in the following regions:

- 74 in west Texas and southeastern New Mexico,
- 24 in north central and east Texas and northern Louisiana,
- 37 in the Rocky Mountain region (Colorado, Wyoming and North Dakota),
- 31 in south Texas,
- 38 in western Oklahoma,
- 42 in the Appalachian region (Pennsylvania, Ohio and West Virginia), and
- 6 in western Canada.

Our marketed drilling rigs have rated maximum depth capabilities ranging from approximately 13,200 feet to 25,000 feet. All of these drilling rigs are electric rigs. An electric rig converts the power from its diesel engines into electricity to power the rig. We also have a substantial inventory of drill pipe and drilling rig components, which may be used in the activation of additional drilling rigs, or as upgrades or replacement parts for marketed rigs.

Drilling rigs are typically equipped with engines, drawworks, top drives, masts, pumps to circulate the drilling fluid, blowout preventers, drill pipe and other related equipment. Over time, components on a drilling rig are replaced or rebuilt. We spend significant funds each year as part of a program to modify, upgrade and maintain our drilling rigs. We have spent approximately $822 million during the last three years on capital expenditures to (1) build new land drilling rigs and (2) modify, upgrade and extend the lives of components of our drilling fleet. During fiscal years 2018, 2017 and 2016, we spent approximately $395 million, $354 million and $72.5 million, respectively, on these capital expenditures.

Depth and complexity of the well, drill site conditions and the number of wells to be drilled on a pad are the principal factors in determining the specifications of the rig selected for a particular job.

Our contract drilling operations depend on the availability of drill pipe, drill bits, replacement parts and other related rig equipment, fuel and other materials and qualified personnel. Some of these have been in short supply from time to time.

Drilling Contracts — Most of our drilling contracts are with established customers on a competitive bid or negotiated basis. Our bid for each job depends upon location, equipment to be used, estimated risks involved, estimated duration of the job, availability of drilling rigs and other factors particular to each proposed contract. Our drilling contracts are either on a well-to-well basis or a term basis. Well-to-well contracts are generally short-term in nature and cover the drilling of a single well or a series of wells. Term contracts are entered into for a specified period of time (frequently six months to four years) or for a specified number of wells. During 2018, our average number of days to drill a well (which includes moving to the drill site, rigging up and rigging down) was approximately 21 days.

Our drilling contracts obligate us to provide and operate a drilling rig and to pay certain operating expenses, including wages of our drilling personnel and necessary maintenance expenses. Most drilling contracts are subject to termination by the customer on short notice and may or may not contain provisions for an early termination payment to us in the event that the contract is terminated by the customer.

Our drilling contracts provide for payment on a daywork basis, pursuant to which we provide the drilling rig and crew to the customer. The customer provides the program for the drilling of the well. Our compensation is based on a contracted rate per day during the period the drilling rig is utilized. We often receive a lower rate when the drilling rig is moving or when drilling operations are interrupted or restricted by adverse weather conditions or other conditions beyond our control. Daywork contracts typically provide separately for mobilization of the drilling rig.

Contract Drilling Activity — Information regarding our contract drilling activity for the last three years follows:

	Year Ended December 31,		
	2018	2017	2016
Average rigs operating per day - U.S. (1)	175	136	63
Average rigs operating per day - Canada (1)	1	2	2
Number of rigs operated during the year	193	179	100
Number of wells drilled during the year	3,088	2,553	1,164
Number of operating days	64,479	50,427	23,596

(1) A rig is considered to be operating if it is earning revenue pursuant to a contract on a given day.

Drilling Rigs and Related Equipment — We have made significant upgrades during the last several years to our drilling fleet to match the needs of our customers. While conventional wells remain a source of oil and natural gas, our customers have expanded the development of shale and other unconventional wells to help supply the long-term demand for oil and natural gas in North America.

To address our customers' needs for drilling horizontal wells in shale and other unconventional resource plays, we have expanded our areas of operation and improved the capability of our drilling fleet. We have delivered new APEX® rigs to the market and have made performance and safety improvements to existing high capacity rigs. APEX® rigs are electric rigs with advanced electronic drilling systems, 500-ton top drives, iron roughnecks, hydraulic catwalks, and other automated pipe handling equipment. APEX® rigs that are pad-capable are designed to efficiently drill multiple wells from a single pad, by "walking" between the wellbores without requiring time to lower the mast and lay down the drill pipe. As of December 31, 2018, our marketed land-based drilling fleet was comprised of the following:

	Number of Rigs			
Classification	United States	Canada	Total	Percent Pad-Capable
APEX® 1500 HP rigs	169	—	169	94 %
APEX® 1000 HP rigs	14	—	14	100 %
APEX® 1200 HP rigs	4	—	4	100 %
APEX® 1400 HP rigs	5	—	5	100 %
APEX® 2000 HP rigs	6	—	6	67 %
Other electric rigs	48	6	54	59 %
Total	246	6	252	87 %
Average horsepower	1,465	1,117	1,457	

The U.S. land rig industry refers to certain high specification rigs as “super-spec” rigs. We consider a super-spec rig to be at least a 1,500 horsepower, AC powered rig that has a 750,000-pound hookload, a 7,500-psi circulating system, and is pad-capable. We currently estimate there are approximately 650 super-spec rigs in the United States, which includes 149 of our APEX® rigs.

We perform repair and/or overhaul work to our drilling rig equipment at our yard facilities located in Texas, Oklahoma, Wyoming, Colorado, North Dakota, Pennsylvania, Ohio and western Canada.

Pressure Pumping Operations

General — We provide pressure pumping services to oil and natural gas operators, primarily in Texas (West and South Regions), the Mid-Continent region (Mid-Con Region) and the Appalachian region (Northeast Region). Pressure pumping services consist primarily of well stimulation services (such as hydraulic fracturing) for the completion of new wells and remedial work on existing wells. Wells drilled in shale formations and other unconventional plays require well stimulation through hydraulic fracturing to allow the flow of oil and natural gas. This is accomplished by pumping fluids and proppant under pressure into the well bore to fracture the formation. Many wells in conventional plays also receive well stimulation services. We also provide cementing services through the pressure pumping segment. The cementing process inserts material between the wall of the well bore and the casing to support and stabilize the casing.

Pressure Pumping Contracts – Our pressure pumping operations are conducted pursuant to a work order for a specific job or pursuant to a term contract. The term contracts are generally entered into for a specified period of time and may include minimum revenue, usage or stage requirements. We are compensated based on a combination of charges for equipment, personnel, materials, mobilization and other items.

Equipment — We have pressure pumping equipment used in providing hydraulic fracturing services as well as cementing and acid pumping services, with a total of approximately 1.6 million horsepower as of December 31, 2018. Pressure pumping equipment at December 31, 2018 included:

	Fracturing Equipment	Other Pumping Equipment	Total
West Texas Region			
Number of units	229	31	260
Approximate horsepower	524,450	32,340	556,790
South Texas Region			
Number of units	138	1	139
Approximate horsepower	334,750	950	335,700
Mid-Con Region			
Number of units	118	—	118
Approximate horsepower	269,250	—	269,250
Northeast Region			
Number of units	200	78	278
Approximate horsepower	430,050	44,700	474,750
Combined:			
Number of units	685	110	795
Approximate horsepower	1,558,500	77,990	1,636,490

Our pressure pumping operations are supported by a fleet of other equipment including blenders, tractors, manifold trailers and numerous trailers for transportation of materials to and from the worksite, as well as bins for storage of materials at the worksite.

Materials – Our pressure pumping operations require the use of acids, chemicals, proppants, fluid supplies and other materials, any of which can be in short supply, including severe shortages, from time to time. We purchase these materials from various suppliers. These purchases are made in the spot market or pursuant to other arrangements that may not cover all of our required supply. These supply arrangements sometimes require us to purchase the supply or pay liquidated damages if we do not purchase the material. Given the limited number of suppliers of certain of our materials, we may not always be able to make alternative arrangements if we are unable to reach an agreement with a supplier for delivery of any particular material or should one of our suppliers fail to timely deliver our materials.

Directional Drilling Operations

General – We generally utilize our own proprietary downhole motors and equipment to provide a comprehensive suite of directional drilling services, including directional drilling, downhole performance motors, motor rentals, directional surveying, measurement-while-drilling (MWD), and wireline steering tools, in most major onshore oil and natural gas basins in the United States. We generally design, assemble and maintain our own fleet of downhole drilling motors and MWD equipment. We sometimes rent motors and equipment from third parties during periods in which we experience shortages from our vendors, which can occur during periods of increased industry activity. As a complement to our core directional drilling services, we provide downhole survey services and rent our proprietary drilling motors to both oil and natural gas operators and other oilfield service companies. Our customers primarily consist of major integrated energy companies and large North American independent oil and natural gas operators. We believe our customers use our services because of the quality of our specialized, technology-driven equipment and our well-trained and experienced workforce, which enable us to provide our customers with high-quality, reliable and safe directional drilling services. We utilize our fleet of directional drilling motors, MWD equipment and survey equipment to provide: (1) directional drilling services, (2) third-party motor rentals and (3) downhole survey services.