

SECURITIES AND EXCHANGE COMMISSION

FORM S-8

Initial registration statement for securities to be offered to employees pursuant to employee benefit plans

Filing Date: **1996-12-30**
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FILER

DI INDUSTRIES INC

CIK: **320186** | IRS No.: **742144774** | State of Incorpor.: **TX** | Fiscal Year End: **1231**
Type: **S-8** | Act: **33** | File No.: **333-19027** | Film No.: **96688631**
SIC: **1381** Drilling oil & gas wells

Mailing Address
450 GEARS RD
SUITE 625
HOUSTON TX 77067

Business Address
450 GEARS RD STE 625
HOUSTON TX 77067
7138740202

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-8

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

DI INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

TEXAS	74-2144774
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

450 GEARS ROAD, SUITE 625
HOUSTON, TEXAS 77067
(713) 874-0202
(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

1996 EMPLOYEE STOCK OPTION PLAN
(Full title of the plan)

T. Scott O'Keefe, Senior Vice President and Chief Financial Officer
450 Gears Road, Suite 625
Houston, Texas 77067
(713) 874-0202
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

COPIES TO:

John R. Boyer, Jr. Boyer, Ewing & Harris Incorporated Nine Greenway Plaza, Suite 3100 Houston, Texas 77046 (713) 871-2025	Casey W. Doherty Cokinos, Bosien & Young 1500 Liberty Tower 2919 Allen Parkway Houston, Texas 77019 (713) 535-5500
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CALCULATION OF REGISTRATION FEE

<TABLE>
<CAPTION>

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
<S> Common Stock, \$0.10 par value per share (2)	<C> 7,000,000	<C> \$2.5625	<C> \$17,937,500.00	<C> \$5,435.61

</TABLE>

(1) For all shares issued pursuant to the 1996 Employee Stock Option Plan, estimated pursuant to Rule 457(c) and Rule 457(h) based on the average of the high and low prices of the common stock as reported on the American Stock Exchange on December 24, 1996.

(2) The shares registered pursuant to this registration statement are available for grant as of the date of this registration statement under DI

Industries, Inc.'s 1996 Employee Stock Option Plan and available for issuance pursuant to certain stock option agreements which are attached as exhibits to this registration statement.

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PART II
INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which have been filed by DI Industries, Inc. (the "Company") with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are incorporated herein by reference and made a part of this Prospectus:

1. The Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1995.
2. The Company's Definitive Proxy Statement for the 1996 Annual Meeting of Shareholders held on August 27, 1996.
3. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
4. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
5. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
6. The Company's Current Report on Form 8-K dated June 24, 1996.
7. The Company's Current Report on Form 8-K dated October 2, 1996.
8. The Company's Current Report on Form 8-K dated November 4, 1996.
9. The description of the Common Stock, contained in the Company's Registration Statement on Form 8-A dated June 26, 1981.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of any Prospectus delivered under this Registration Statement and prior to the termination of the offering of the Common Stock covered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the respective dates of filing of such documents. All information appearing in this Prospectus or in any document incorporated herein by reference is not necessarily complete and is qualified in its entirety by the information and financial statements (including notes thereto) appearing in the documents incorporated herein by reference and should be read together with such information and documents. Any statement contained in a document or information incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any subsequently filed document that also is, or is deemed to be, incorporated herein by reference, modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

ITEM 4. DESCRIPTION OF SECURITIES

Not Applicable

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ITEM 5. INTEREST OF NAMED EXPERTS AND COUNSEL

Not Applicable

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Under Article 1302-7.06 of the Texas Miscellaneous Corporation Laws Act, the articles of incorporation of a Texas corporation may provide that a director of that corporation shall not be liable, or shall be liable only to the extent provided in the articles of incorporation, to the corporation or its shareholders for monetary damages for acts or omissions in the director's capacity as a director, except that the articles of incorporation cannot provide for the elimination or limitation of liability of a director to the extent that the director is found liable for (i) a breach of the director's duty of loyalty to the corporation or its shareholders, (ii) acts or omissions not in good faith

that constitutes a breach of duty of the director to the corporation or an act or omission that involves intentional misconduct or a knowing violation of the law, (iii) any transaction from which the director received an improper personal benefit, or (iv) an act or omission for which the liability of a director is expressly provided by an applicable statute. Article XII of the Company's Articles of Incorporation, as amended, states that a director of the Company shall not be liable to the Company or its shareholders for monetary damages except to the extent otherwise expressly provided by the statutes of the State of Texas.

In addition, Article 2.02-1 of the TBCA authorizes a Texas corporation to indemnify a person who was, is, or is threatened to be made a named defendant or respondent in a proceeding, including any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative because the person is or was a director. The indemnification is permitted only if it is determined that the person (1) conducted himself in good faith; (2) reasonably believed (a) in the case of conduct in his official capacity as a director of the corporation, that his conduct was in the corporation's best interests; and (b) in all other cases, that his conduct was at least not opposed to the corporation's best interests; and (3) in the case of any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. A person may be indemnified under Article 2.02-1 against judgments, penalties (including excise and similar taxes), fines, settlements, and reasonable expenses actually incurred by the person (including court costs and attorneys' fees), but if the person is found liable to the corporation or is found liable on the basis that personal benefit was improperly received by him, the indemnification is limited to reasonable expenses actually incurred and may not be made in respect of any proceeding in which the person has been found liable for willful or intentional misconduct in the performance of his duty to the corporation. A corporation is obligated under Article 2.02-1 to indemnify a director or officer against reasonable expenses incurred by him in connection with a proceeding in which he is named defendant or respondent because he is or was a director or officer if he has been wholly successful, on the merits or otherwise, in the defense of the proceeding. Under Article 2.02-1 a corporation may (i) indemnify and advance expenses to an officer, employee, agent or other person who are or were serving at the request of the corporation as a director, officer, partner venturer, proprietor, trustee, employee, agent or similar functionary of another entity to the same extent that it may indemnify and advance expenses to directors, (ii) indemnify and advance expenses to directors and such other persons to such further extent, consistent with law, as may be provided in the corporation's articles of incorporation, bylaws, action of its board of directors, or contract or as permitted by common law and (iii) purchase and maintain insurance or another arrangement on behalf of directors and such other persons against any liability asserted against him and incurred by him in such a capacity or arising out of his status as such a person. The Bylaws of the Company set forth specific provisions for indemnification of directors, officers, agents and other persons

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which are substantially identical to the provisions of Article 2.02-1 described above. The Company maintains directors and officers insurance.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED

Not Applicable.

ITEM 8. EXHIBITS

(A) EXHIBITS

The exhibits listed in the Exhibit Index below are filed as part of the Registration Statement:

Exhibit Number -----	Description -----
4.1	-- DI Industries, Inc. 1996 Employee Stock Option Plan.
4.2	-- Form of Incentive Stock Option Agreement.
4.3	-- Form of Non-Qualified Stock Option Agreement.
5.1	-- Opinion of Cokinos, Bosien & Young.
23.1	-- Consent of Deloitte & Touche LLP.
23.2	-- Consent of Cokinos, Bosien & Young contained in their opinion filed as Exhibit 5.1.
24	-- Powers of Attorney (included as part of signature page filed herewith).

ITEM 9. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by section 10(a)(3) of the Securities Act of 1933 (the "Securities Act");

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

PROVIDED, HOWEVER, that clauses (a)(1)(i) and (a)(1)(ii) of this paragraph do not apply if the information required to be included in a post-effective amendment by those clauses is contained in periodic reports filed by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

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(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM S-8 AND HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF HOUSTON, STATE OF TEXAS, ON DECEMBER 20, 1996.

DI INDUSTRIES, INC.

By: /s/ T. SCOTT O'KEEFE
T. Scott O'Keefe,
Senior Vice President and Chief Financial
Officer

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints T. Scott O'Keefe with power to act as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all subsequent pre- and post-effective amendments and supplements to this Registration Statement, and to file the same, or cause to be filed the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that any said attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

SIGNATURES

IN ACCORDANCE WITH THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

<TABLE>			
<CAPTION>			
<S>	SIGNATURES	<C>	TITLE
<C>			
DATE			
December 20, 1996	/S/ THOMAS P. RICHARDS (THOMAS P. RICHARDS)	President and Chief Executive Officer	
December 20, 1996	/S/ T. SCOTT O'KEEFE (T. SCOTT O'KEEFE)	Senior Vice President and Chief Financial Officer	
December 20, 1996	/S/ DAVID W. WEHLMANN (DAVID W. WEHLMANN)	Vice President and Controller	
December __, 1996	(IVAR SIEM)	Director	
December __, 1996	(ROY T. OLIVER, JR.)	Director	
December 23, 1996	/S/ STEVEN A. WEBSTER (STEVEN A. WEBSTER)	Director	
December 23, 1996	/S/ WILLIAM R. ZIEGLER (WILLIAM R. ZIEGLER)	Director	
December 23, 1996	/S/ PETER M. HOLT (PETER M. HOLT)	Director	

DI INDUSTRIES, INC.

1996 EMPLOYEE STOCK OPTION PLAN

THIS 1996 EMPLOYEE STOCK OPTION PLAN (this "Plan") is adopted by the Board of Directors (the "Board of Directors") of DI INDUSTRIES, INC., a Texas corporation (the "Corporation"), effective the 29th day of July, 1996 (the "Adoption Date").

W I T N E S S E T H:

WHEREAS, the Corporation believes that allowing certain employees to obtain shares of common stock, \$0.10 par value ("Common Stock"), of the Corporation by granting stock options as hereinafter provided is beneficial to the initial and continued success of the Corporation;

NOW, THEREFORE, the Corporation agrees to provide for the granting and exercising of stock options to certain employees of the Corporation, subject to the following conditions and provisions:

1. PURPOSE. The purpose of this Plan is to secure for the Corporation and its shareholders the benefits that flow from providing certain employees with the incentive inherent in common stock ownership. The Corporation recognizes that an employee stock option plan may aid in attracting and retaining employees of exceptional ability because of the opportunity offered to acquire a proprietary interest in the business of the Corporation.

2. AMOUNT OF STOCK. The total number of shares of Common Stock to be subject to options granted pursuant to this Plan may not exceed 7,000,000 shares. This total number of shares will be subject to appropriate increase or decrease under Section 13 of this Plan in the event of a stock dividend, or upon a subdivision, split-up, combination or reclassification of, the shares purchasable under such options. In the event that options granted under this Plan lapse or terminate without being exercised, additional options may be granted covering the shares not purchased under such options.

3. STOCK OPTION COMMITTEE. The Board of Directors will from time to time appoint a Stock Option Committee (hereinafter called the "Committee") to, among other duties, serve under this Plan. Members of the Committee will serve for such period of time as the Board of Directors may determine and will be subject to removal by the Board of Directors at any time. The initial members of the Committee will consist of either:

(i) two or more persons, each of whom are disinterested persons within the meaning of Paragraph (c) (2) of Rule 16b-3 (or any successor rule) ("Rule 16b-3") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as

amended, as such term is interpreted from time to time; OR

(ii) the entire Board of Directors of the Corporation, so long as each member of the Board of Directors is an individual who qualifies as a disinterested person.

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The Board of Directors may, at any time, terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee; provided, however, that the Committee will have sole and exclusive authority to grant options under this Plan to eligible employees, officers or directors of the Corporation during any and all periods of time when any member of the Board of Directors does not qualify as a disinterested person.

The Board of Directors will, in its discretion, establish such rules and regulations as it may deem appropriate for the proper administration of the Plan and will have full authority and power to interpret and construe any provision of the Plan or the terms and conditions of any option outstanding under the Plan. Decisions of the Board of Directors will be final, binding and conclusive on all persons who have an interest in the Plan or any option outstanding under the Plan.

4. STOCK OPTIONS. Any option granted under this Plan may be either an "Incentive Stock Option" or a "Non-qualified Stock Option." An Incentive Stock Option is any option granted under this Plan that is intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or any equivalent successor provision of the Code, if applicable. A Non-qualified Stock Option is any option granted under this Plan that is not an Incentive Stock Option. Except as specifically provided herein, the provisions of this Plan apply in the same manner to Incentive Stock Options and the Non-qualified Stock Options. Notwithstanding the foregoing, in no event shall an Incentive Stock Option be granted to an individual who is not an employee of the Company. Notwithstanding the foregoing, in no event shall an Incentive Stock Option be granted to an individual who is not an employee of the Company.

5. ELIGIBILITY AND PARTICIPATION. Options may be granted pursuant to this Plan only to employees of the Corporation or any parent or a subsidiary of the Corporation (such employees being hereinafter sometimes called "employees"). For purposes of this Plan, the term "employee" shall be defined to include individuals who perform personal services for the Corporation on a contract basis. From time to time, the Committee may select the employees to whom options may be granted and will determine the number of shares to be covered by each option so granted. The aggregate fair market value (determined at the time an option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any employee in any calendar year (under all such plans of the Corporation and a parent or subsidiary corporation) may not exceed One Hundred Thousand Dollars (\$100,000) or such greater or lesser limit that may hereafter be imposed by the Code or other applicable law. Future

as well as present employees (including employees who are directors) will be eligible to participate in this Plan. Directors who are not employees of the Corporation or a parent or a subsidiary of the Corporation are not eligible to participate in this Plan. No Incentive Stock Option may be granted under this Plan to an employee who, immediately before such option is granted, owns (or is attributed by the Code as owning) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any parent or subsidiary corporation, if any, unless (i) such option price is specially valued as provided in Section 7 of this Plan and (ii) the term of such option is limited as provided in Section 9 of this Plan. The holder of any option granted pursuant to this Plan will not have any of the rights of a shareholder with respect to the shares covered by the option until one or more certificates for such shares are delivered to such holder upon the due exercise of the option.

For purposes of this Agreement, the fair market value of a share of Common Stock on any particular date shall be the last sales price of the Common Stock on that date as reported on a

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national securities exchange or on the NASDAQ National Market System or, if last sale reporting quotation is not available for the Common Stock, the average of the bid and ask prices for the Common Stock at the end of the trading day, as reported by NASDAQ or in the National Quotation Bureau, Inc.'s "Pink Sheets" or, if such quotations are not available, such fair market value will be determined by the Committee, in accordance with its discretion in making a bona fide, good faith determination of fair market value, without regard to any restriction other than a restriction that, by its terms, will never lapse.

6. OPTION AGREEMENT. The terms and provisions of each option granted under this Plan will be set forth in an appropriate Stock Option Agreement (hereinafter called an "Option Agreement") between the Corporation and the employee receiving such option in a form to be approved by the Committee. Each Option Agreement will state the number of shares of Common Stock purchasable thereunder and will identify the option granted thereby as an Incentive Stock Option or a Non-qualified Stock Option.

7. PRICE. The purchase price per share of Common Stock purchasable under options granted pursuant to this Plan will be determined by the Committee but, in the case of an Incentive Stock Option, may not be less than one hundred percent (100%) of the fair market value of a share of Common Stock at the time the Incentive Stock Options are granted. In the event an employee, immediately before an Incentive Stock Option is granted to such employee, owns (or is attributed by the Code as owning) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or of its parent or subsidiary corporations, if any, then the purchase price per share of Common Stock purchasable under the Incentive Stock Options granted to such employee under this Plan may not be less than one hundred and ten percent (110%) of the fair market value at the time the options are granted. The full

purchase price of shares purchased must be paid upon exercise of the option. Under certain circumstances, such purchase price per share may be subject to adjustment as referred to in Section 13 of this Plan.

8. EXERCISE PERIOD. The Committee will determine when each option may be exercised in whole or in part, such exercise period to be contained in the applicable Option Agreement. The Committee may, however, at any time, in its sole discretion, amend any outstanding Option Agreement to shorten the time that the option governed thereby is exercisable or to provide that the time for exercising such option will be shortened upon the occurrence of a specified event.

9. OPTION PERIOD. The Committee will determine the maximum period of time within which options granted under this Plan must be exercised after the granting of such option, which period must terminate by the terms of Option Agreement pertaining to such option no later than ten (10) years from the date that such option is granted. Notwithstanding the preceding sentence, in the event that an employee, immediately before an Incentive Stock Option is granted to such employee, owns (or is deemed under applicable attribution rules prescribed by the Code to own) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation or any parent or subsidiary corporations, then no Incentive Stock Option granted to such employee may be exercisable after the expiration of five (5) years from the date that the Incentive Stock Option is granted. The actual expiration date stated in an Option Agreement is hereinafter called the "Expiration Date". Notwithstanding any other provision of this Plan to the contrary, no option may be granted under this Plan after the tenth anniversary of the Adoption Date.

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10. METHOD OF EXERCISING THE OPTION. Each Option Agreement will provide that the option governed thereby may be exercised by the employee by delivering to the Secretary of the Corporation (i) written notice from the employee designating the number of shares of Common Stock with respect to which the option is being exercised and (ii) the total purchase price for those shares of Common Stock, which purchase price must be in the form of (a) cash or a cashier's or certified check payable to the order of the Corporation, or (b) the tender to the Corporation of such number of shares of Common Stock owned by the employee having an aggregate fair market value as of the date of exercise that is not greater than the total purchase price for the shares of Common Stock with respect to which the option is being exercised and by paying the remaining amount of the purchase price as provided in (a) above. The Board of Directors will have the sole and exclusive discretion to determine whether or not property other than cash or shares of Common Stock may be used to purchase shares of Common Stock upon exercise of an option and, if so, to determine the value of the property received.

11. TERMINATION. Each Option Agreement will provide that:

(a) If the employee for any reason whatsoever, other than

death or permanent and total disability, as defined in (b) below, ceases to be employed by the Corporation, or a parent or subsidiary corporation of the Corporation, and prior to such cessation, the employee was employed at all times from the date of the granting of such option until the date of such cessation, the option must be exercised by the employee (to the extent that the employee is entitled to do so at the date of cessation) within three (3) months following the date of cessation of employment, subject to the Expiration Date; provided, however, that if the employee is terminated for cause, the option will immediately terminate. Notwithstanding the foregoing, the Board of Directors may, in its sole discretion, extend for a reasonable period the time in which an employee may exercise any Non-qualified Stock Option after the date of cessation of employment, subject to the Expiration Date.

(b) If the employee becomes permanently and totally disabled, as hereinafter defined, while employed by the Corporation or a parent or subsidiary corporation of the Corporation, and prior to such disability the employee was employed at all times from the date of the granting of the option until the date of disability, the option must be exercised by the employee (to the extent that the employee is entitled to do so at the date of disability) at any time within one (1) year after the date of disability or the Expiration Date, whichever is earlier.

"Permanently and totally disabled" means being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. Such determination of permanent and total disability must be made in accordance with the requirements of Section 22(e)(3), and applicable regulations, of the Code, or any other applicable method necessary for the continued qualification of this Plan under Section 422 of the Code, or any equivalent successor provision, if applicable. In the absence of any specific requirements for this determination, the decision of the Committee, as aided by any physicians designated by the Committee shall be conclusive and the Board of Directors shall send written notice to the employee of the determination that he has become permanently and totally disabled.

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(c) In the event that the employee dies while employed by the Corporation or a parent or subsidiary corporation of the Corporation, and prior to death the employee was employed at all times from the date of the granting of the option until the date of death, the option must be exercised (to the extent that the employee is entitled to do so at the date of death) by a legatee or legatees of the employee under his will, or by his personal representatives or distributees, at any time

within one (1) year after the date of death or the Expiration Date, whichever is earlier.

Nothing in (a), (b) or (c) shall extend the time for exercising any option granted pursuant to this Plan beyond the Expiration Date.

12. ASSIGNABILITY. Each Option Agreement will provide that the option granted thereby may not be transferable or assignable by the employee in any form or fashion, other than by will or by the laws of decent and distribution, and that the option may be exercised, during the lifetime of the employee, only by the employee.

13. CHANGES IN CAPITAL STRUCTURE. Each Option Agreement will provide that, subject to the provisions set forth in Section 14, if the option is exercised subsequent to any stock split, reverse stock split, split-up, recapitalization, merger, consolidation, combination or exchange of shares, reorganization, or liquidation occurring after the date of the grant of the option, as a result of which shares of any class have been issued in respect of outstanding Common Stock or Common Stock has been changed into the same or a different number of shares of the same or another class or classes, then the employee so exercising the option will receive, for the aggregate price paid upon such exercise, the aggregate number and class of shares that, if Common Stock (as authorized at the date of the grant of the option) had been purchased at the date of the grant of the option for the same aggregate price (on the basis of the price per share set forth in Section 7 hereof) and had not been disposed of, such employee would be holding, at the time of such exercise, as a result of such purchase and all such stock splits, reverse stock splits, split-ups, recapitalizations, mergers, consolidations, combinations or exchanges of shares, reorganizations, or liquidations; provided, however, that no fractional share may be issued upon any such exercise, and the aggregate price paid will be appropriately reduced on account of any fractional share not issued.

14. CORPORATE MERGER, CONSOLIDATION, ETC. In the event of a dissolution or liquidation of the Corporation or a merger or consolidation in which the Corporation is not the surviving corporation, any outstanding options hereunder may be terminated by the Corporation as of the effective date of such dissolution, liquidation, merger or consolidation by giving notice to each holder thereof of its intention to do so not less than ten (10) days preceding such effective date and permitting the exercise of all of outstanding options until such effective date, or the Expiration Date if earlier. Notwithstanding the preceding sentence, if the Corporation is not the surviving corporation as a result of the Corporation being reorganized or merged or consolidated with another corporation while unexercised options are outstanding under this Plan, the surviving corporation may assume the unexercised options outstanding under this Plan or substitute new options in the surviving corporation for the outstanding options; provided, however, that the excess of the aggregate fair market value of the securities subject to the options immediately after the substitution or assumption over the aggregate option price of such shares is not less than the excess of the aggregate fair market value of the Common Stock

subject to the outstanding option immediately before such substitution or assumption over the aggregate option price of such Common Stock. The

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existence of this Plan or of options granted hereunder will not in any way prevent any transaction described herein and no holder of options granted under this Plan will have the right to prevent any such transaction.

15. PAYMENT OF TAXES UPON EXERCISE. If the Committee so requires, the Option Agreement governing any Non-qualified Stock Option will include (i) an acknowledgment by the employee receiving such Non-qualified Stock Option that under currently applicable law, the employee's taxable income may include, at the time of exercise of the option, the amount by which the fair market value of the shares purchased pursuant to the option exceeds the purchase price paid and (ii) the employee's authorization of the Corporation to withhold shares of Common Stock purchased by the employee pursuant to the exercise of such option of a value equivalent to the amount of tax required to be withheld by the Corporation out of any taxable income derived by the employee upon exercise of the option unless the employee delivers to the Corporation cash or other shares of Common Stock owned by the employee in such amount.

16. REGISTRATION RIGHTS. The employees have no registration rights with respect to the shares of Common Stock issuable upon exercise of the options granted under this Plan.

17. SALE OF STOCK AFTER EXERCISE OF OPTION. Any employee exercising any option under the terms of this Plan will be required to agree that, unless the shares obtained as a result of such exercise have been registered under the Securities Act of 1933, as amended (the "Securities Act"), or may otherwise be sold pursuant to an available exemption from such registration under the Securities Act, such employee will not dispose of any such shares thereafter without the prior approval of the Company. The Company intends to file a registration statement with respect to the shares issuable under the Plan in its fiscal year ending December 31, 1996, but has no obligation to do so.

Any employee exercising any Incentive Stock Option under this Plan will be required to agree that such employee will not dispose of the shares obtained as a result of such exercise within two (2) years from the date of the grant of the applicable option nor within one (1) year after the exercise of the applicable option.

The restrictions on transfer set forth in this Section 17 will apply to any new, additional or different securities the employee may receive or become entitled to receive with respect to any shares received by such employee pursuant to the exercise of any option granted under this Plan, including (but not limited to) securities received by virtue of a share dividend, stock split, reverse stock split, split-up, recapitalization, merger, consolidation, combination or exchange of shares, reorganization, dissolution, liquidation or any other change in the corporate or capital structure of the Corporation.

The Corporation will require that a legend be placed on any share certificates issued through the exercise of any option granted under this Plan. Such legend will be placed either on the front or back of such share certificates and will note that the shares are governed by this Plan.

This Plan will be kept at the registered office of the Corporation and will be available for inspection by any appropriate party.

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18. AMENDMENT OF THE PLAN. The Board of Directors may from time to time alter, amend, suspend or discontinue this Plan and make rules for its administration, except that the Board of Directors may not amend this Plan in any manner that would have the effect of preventing Incentive Stock Options granted under this Plan from being considered "incentive stock options" as defined in section 422 of the Code.

19. OPTIONS DISCRETIONARY. The granting of options under this Plan will be entirely discretionary and nothing in this Plan will be deemed to give any employee of the Corporation or any parent or subsidiary of the Corporation any right to participate in this Plan or to receive options. No provision of this Plan or any Option Agreement evidencing any options granted under this Plan will confer any right upon any employee to be employed by the Corporation or any parent or subsidiary of the Corporation for any period of specific duration.

20. STOCKHOLDER APPROVAL. This Plan will be submitted to the shareholders of the Corporation (the "Shareholders") for approval and must be approved by a majority vote of the Shareholders on or within twelve (12) months, before or after, of the Adoption Date.

21. TERMINATION OF PLAN. Unless terminated earlier, this Plan shall terminate ten (10) years from the Adoption Date. Any option outstanding under this Plan at the time of the termination of this Plan will remain in effect until such option is exercised or the Expiration Date thereof occurs, whichever is earlier.

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DI INDUSTRIES, INC.

FORM OF
INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT (this "Agreement") made as of _____, _____, by and between DI INDUSTRIES, INC., a corporation organized under the laws of the State of Texas (the "Corporation"), and _____, an individual (the "Optionee");

W I T N E S S E T H:

WHEREAS, the Optionee is currently employed by the Corporation or by a parent or a subsidiary of the Corporation;

WHEREAS, in consideration of the Optionee's record of employment with the Corporation and to provide the Optionee with additional incentive to further the business of the Corporation, the Corporation has agreed to grant the Optionee options to purchase shares of common stock, \$0.10 par value ("Common Stock"), of the Corporation; and

WHEREAS, by granting the Optionee options to purchase shares of Common Stock pursuant to the terms of this Agreement, the Corporation intends to carry out the purposes set forth in the 1995 Employee Stock Option Plan of the Corporation (the "Plan") adopted by the Board of Directors of the Corporation (the "Board of Directors") effective as of July 29, 1996 and the shareholders of the Corporation effective as of August 27, 1996; and

WHEREAS, it is intended that the options granted to Optionee pursuant to this Agreement constitute incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, the Corporation and the Optionee desire to set forth the terms and conditions of such options to purchase Common Stock;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. GRANT OF OPTION. Subject to the terms and conditions hereinafter set forth, the Corporation hereby grants to the Optionee an option (the "Option") to purchase all or any part of an aggregate number of _____ shares of Common Stock (such shares, as increased or decreased in accordance with Section 8 hereof, being referred to hereinafter as the "Option Shares") at an exercise price of \$_____ per share (hereinafter the "Exercise Price").

2. EXERCISE PERIOD. The Option shall be exercisable by Optionee [in full at any time after the date of this Agreement] [as to twenty percent (20%) of the Option Shares one (1) year after the date of this Agreement, as to an additional twenty percent (20%) of the Option Shares two (2)

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years after the date of this Agreement, (iii) as to an additional twenty percent (20%) of the Option Shares three (3) years after the date of this Agreement, (iv) as to an additional twenty percent (20%) of the Option Shares four (4) years after the date of this Agreement until the fifth anniversary of the date of this Agreement, after which time the Option shall be exercisable in full]. The Option shall expire and terminate as to any Option Shares not purchased by the Optionee on or before the tenth anniversary of the date of this Agreement (the "Expiration Date"), subject to earlier termination as set forth herein.

Except as provided in Section 10 hereof, the Option may not be exercised at any time unless the Optionee shall have been in the continuous employ of the Corporation, or a parent or a subsidiary corporation, from the date hereof to the date of the exercise of the Option.

3. METHOD OF EXERCISING THE OPTION. The Option shall be exercised by the Optionee delivering to the Corporation (i) written notice from the Optionee stating that the Optionee is exercising the Option and specifying the number of Option Shares that the Optionee is entitled to purchase (the "Notice"), which shall be in form and content identical to ANNEX I hereto and (ii) the aggregate Exercise Price (the "Payment") for the number of Option Shares that the Optionee is entitled to purchase, which Exercise Price must be in the form of (a) cash or a cashier's or certified check payable to the order of the Corporation, or (b) the tender to the Corporation of such number of shares of Common Stock owned by the Optionee having an aggregate fair market value as of the date of exercise that is not greater than the total Exercise Price for the shares of Common Stock with respect to which the Option is being exercised and by paying the remaining amount of the Exercise Price.

4. TRANSFERABILITY OF OPTION. The Option shall not be transferable or assignable, in whole or in part, and except as otherwise provided in Section 10 of this Agreement, the Option shall be exercisable (i) only by the Optionee during his lifetime, or (ii) in the event of his death, by his heirs, representatives, distributees, or legatees in accordance with his will or the laws of descent and distribution (but only to the extent that the Option would be exercisable by the Optionee under Section 2).

5. INVESTMENT REPRESENTATION. The Optionee represents that the Option Shares available for purchase by the Optionee under this Agreement will be acquired only for investment and not with a view toward resale or distribution.

6. SECURITIES LAW REQUIREMENTS; LEGENDS. The Optionee agrees and understands that the Option Shares may be restricted securities as defined in Rule 144 promulgated under the Securities Act of 1933, as amended (the

"Securities Act"), and may not be sold, assigned or transferred, unless the sale, assignment or transfer of such shares is registered under the Securities Act and applicable blue sky laws, as now in effect or hereafter amended, or there is furnished an opinion of counsel in form and substance satisfactory to the Corporation from counsel acceptable to the Corporation that such registrations are not required. The Optionee further understands and agrees that, unless issued pursuant to an effective registration statement under the Securities Act, the

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following legend shall be set forth on each certificate representing Option Shares:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE BLUE SKY LAWS OF ANY STATE, AND MAY NOT BE SOLD, ASSIGNED OR TRANSFERRED EXCEPT UPON SUCH REGISTRATION OR UPON RECEIPT BY THE CORPORATION OF AN OPINION OF COUNSEL FOR THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED FOR SUCH SALE, ASSIGNMENT OR TRANSFER."

In addition, the following legend shall be placed on each certificate representing Option Shares:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE GOVERNED BY THE TERMS OF THE 1996 EMPLOYEE STOCK OPTION PLAN OF THE CORPORATION, DATED JULY 29, 1996, WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION AND A COPY OF WHICH WILL BE PROVIDED FOR INSPECTION UPON WRITTEN REQUEST."

7. NO RIGHTS AS SHAREHOLDER. The Optionee shall not have any rights as a shareholder with respect to any of the Option Shares until the date of issuance by the Corporation to the Optionee of a stock certificate representing such Option Shares. Except as otherwise provided in Section 8 hereof, the Optionee shall not be entitled to any dividends, cash or otherwise, or any adjustment of the Option Shares for such dividends, if the record date therefor is prior to the date of issuance of such stock certificate. Upon valid exercise of the Option by the Optionee, the Corporation agrees to cause a valid stock certificate for the number of Option Shares then purchased to be issued and delivered to the Optionee within seven (7) business days thereafter.

8. CORPORATE PROCEEDINGS OF THE CORPORATION.

(a) The existence of the Option shall not affect in any way the right or power of the Corporation or its officers, directors and shareholders, as the case may be, to (i) make or authorize any adjustments, recapitalizations, reorganizations or other changes in the capital structure or business of the Corporation, (ii) participate in any merger or consolidation of the Corporation, (iii) issue any Common Stock, bonds, debentures, preferred or prior preference stock or any other securities affecting the Common Stock or the rights of holders

thereof, (iv) dissolve or liquidate the Corporation, (v) sell or transfer all or any part of the assets or business of the Corporation, or (vi) perform any other corporate act or proceedings, whether of a similar character or otherwise.

(b) If the Corporation merges into or with or consolidates with (such events collectively referred herein as a "Merger") any corporation or corporations and is not the surviving corporation, then the surviving corporation may assume the Option or substitute a new option of the surviving corporation for the Option; provided, however, that the excess of the aggregate fair market value of the securities subject to the Option immediately after such assumption, or the new option immediately after such substitution, over the aggregate Exercise Price of such shares must be, based upon a good faith determination by the Board

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of Directors of the Corporation, not less than the excess of the aggregate fair market value of the Common Stock subject to the Option immediately before such substitution or assumption over the aggregate Exercise Price of such Common Stock.

(c) In the event that the surviving corporation does not utilize the provisions of (b) above, or in the event of a dissolution or liquidation of the Corporation, the Corporation shall cause written notice of such Merger or dissolution or liquidation (and the material terms and conditions thereof) to be delivered to the Optionee at least ten (10) days prior to the proposed effective date (the "Effective Date") of such event. The Optionee shall be entitled to exercise the Option until the Effective Date, or until the Expiration Date if earlier. To the extent that the Merger or liquidation is consummated after the Effective Date, the Option shall terminate and the Corporation shall have no further obligations of any type hereunder. The provisions of this paragraph shall not apply to any merger or reorganization, the principal purpose of which is to change the jurisdiction of the domicile of the Corporation.

(d) If, while the Option is outstanding, the Corporation shall effect a subdivision or consolidation of the shares of Common Stock or other capital readjustment, the payment of a common stock dividend, or other increase or reduction of the number of shares of Common Stock outstanding, without receiving compensation therefor in money, services or property, then (i) in the event of an increase in the number of shares of Common Stock outstanding, the number of Option Shares shall be proportionately increased, and the per share Exercise Price shall be proportionately reduced, and (ii) in the event of a reduction in the number of shares of Common Stock outstanding, the number of Option Shares shall be proportionately reduced, and the per share Exercise Price shall be proportionately increased. No fractional share of Common Stock shall be issued upon any such exercise and the Exercise Price

shall be appropriately reduced on account of any fractional share not issued.

(e) The issuance by the Corporation of shares of stock of any class of securities convertible into shares of stock of any class, including Common Stock, for cash, property, labor or services rendered, either upon direct sale or upon the exercise of rights, options, or warrants to subscribe therefor, or upon conversion of shares or obligations of the Corporation convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of Option Shares or the Exercise Price.

9. REGISTRATION RIGHTS. The Optionee shall have no registration rights with respect to the Option Shares.

10. TERMINATION.

(a) If the Optionee for any reason whatsoever, other than death or permanent and total disability, as defined in (b) below, ceases to be employed by the Corporation, or a parent or subsidiary corporation of the Corporation, and prior to such cessation, the Optionee was employed at all times from the date of the granting of the Option until the date of such cessation, the Option must be exercised by the Optionee (to the extent that the Optionee is entitled to do so at the date of cessation) within three (3) months following the date of cessation of employment, subject to the Expiration Date; provided, however, that if the

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Optionee is terminated for cause, the Option will immediately terminate.

(b) If the Optionee becomes permanently and totally disabled, as hereinafter defined, while employed by the Corporation or a parent or subsidiary corporation of the Corporation, and prior to such disability the Optionee was employed at all times from the date of the granting of the Option until the date of disability, the Option must be exercised by the Optionee (to the extent that the Optionee is entitled to do so at the date of disability) at any time within one (1) year after the date of disability or the Expiration Date, whichever is earlier.

"Permanently and totally disabled" means being unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. Such determination of permanent and total disability must be made in accordance with the requirements of Section 22(e)(3), and applicable regulations, of the Code, or any other applicable method necessary for the continued qualification of this Plan under Section 422 of the Code,

or any equivalent successor provision, if applicable. In the absence of any specific requirements for this determination, the decision of the Corporation, as aided by any physicians designated by the Corporation shall be conclusive and the Corporation shall send written notice to the Optionee of the determination that the Optionee has become permanently and totally disabled.

(c) In the event that the Optionee dies while employed by the Corporation or a parent or subsidiary corporation of the Corporation, and prior to death the Optionee was employed at all times from the date of the granting of the Option until the date of death, the Option must be exercised (to the extent that the Optionee is entitled to do so at the date of death) by a legatee or legatees of the Optionee under the Optionee's will, or by the Optionee's personal representatives or distributes, at any time within one (1) year after the date of death or the Expiration Date, whichever is earlier, and if not so exercised, the Option shall thereupon terminate.

Nothing in (a), (b) or (c) shall extend the time for exercising the Option granted pursuant to this Agreement beyond the Expiration Date.

11. DISPOSITION OF STOCK AFTER EXERCISE OF OPTION. Notwithstanding any other provision of this Agreement to the contrary, in consideration of the granting of the Option, the Optionee agrees (i) not to dispose of any Option Shares within two (2) years after the date of this Agreement nor within one (1) year after the date of exercise of the Option and (ii) not to dispose of any Option Shares thereafter without the prior approval of the Corporation unless such shares have been registered under the Securities Act.

12. NOTICES. All notices, demands, requests and other communications required or permitted hereunder shall be in writing and shall be deemed to be delivered when actually received through U.S. Express Mail or any private express service (as evidenced by a written receipt), or, if earlier, and regardless of whether actually received (except where receipt is specified in this Agreement), four (4) days following deposit in a regularly maintained receptacle for the United States mail, registered or certified, return receipt requested, postage fully prepaid, addressed to the

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addressee at its address set forth below or at such other address as such party may have specified theretofore by notice delivered in accordance with this Section:

If to the Corporation:

DI Industries, Inc.
450 Gears Road, Suite 625
Houston, Texas 77067
Attn: President

If to Optionee:

13. TRANSFERABILITY; BINDING EFFECT. The Option shall be transferable only as set forth in Section 4. Subject to the foregoing, all covenants, terms, agreements and conditions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the Corporation and the Optionee and their respective successors and assigns.

14. ENTIRE AGREEMENT. This Agreement embodies the entire agreement and understanding between the Corporation and the Optionee relating to the subject matter hereof.

15. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean any present or future corporation which would be a "parent corporation" or a "subsidiary corporation" of the Corporation, as such term is defined in Section 425 of the Internal Revenue Code.

16. GOVERNING LAW. This Agreement shall be governed by the laws of the State of Texas.

17. CAPTIONS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

18. COUNTERPARTS. This Agreement may be executed in multiple original counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date first written above.

CORPORATION:

DI INDUSTRIES, INC.

By: _____
Name: _____
Title: _____

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OPTIONEE:

(Signature)

(Name)

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ACKNOWLEDGMENT OF SPOUSE TO
TERMS OF INCENTIVE STOCK OPTION AGREEMENT

I, _____, am the spouse of _____, ("Optionee"), and I am fully aware of, understand, and fully consent and agree to the provisions of the Incentive Stock Option Agreement, dated _____, _____ executed by Optionee and DI Industries, Inc. (the "Corporation"). I understand the binding effect of this Agreement and its binding effect upon any interest, community or otherwise, I may now or hereafter own, and I agree that the termination for any reason of my marital relationship with Optionee shall not have the effect of removing any stock of the Corporation otherwise subject to the terms of this Agreement from the coverage hereof.

Signed this day of _____, _____.

Spouse of _____

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ANNEX I

DI INDUSTRIES, INC.

EXERCISE NOTICE

-----, -----

DI Industries, Inc.
450 Gears Road, Suite 625
Houston, Texas 77067

Gentlemen:

I hereby acknowledge that I am acquiring _____ shares ("Shares") of common stock, \$0.10 par value, of DI Industries, Inc. ("Corporation") pursuant to that certain Incentive Stock Option Agreement dated _____, _____ (the "Agreement").

I understand that the Shares have not been registered under the Securities Act of 1933 (the "Act") on the grounds that the transfer to me is exempt from registration pursuant to Section 4(2) of the Act.

By executing this letter, I represent that I am acquiring the Shares for investment for my own account and not as a nominee or agent or with a view to,

or for resale in connection with, any distribution of such Shares within the meaning of the Act. I further represent that I do not have any contract, undertaking, agreement, or arrangement with any person to sell, transfer or grant participations in any of the Shares to any third persons.

By executing this letter, I also represent that, unless indicated otherwise, as of the date of the Agreement I did not own, or was attributed as owning under the Internal Revenue Code of 1986, stock of the Corporation possessing more than 10% of the total combined voting power or value of all classes of stock of the Corporation or of its parent or any subsidiary corporations.

I understand that I may experience adverse tax consequences if I dispose of the Shares within two years after the date of the Agreement or dispose of the Shares within one year from the date of receiving them.

I also understand that I may not dispose of the Shares within two years after the date of receiving them and that, unless the Shares are then registered under the Act, that I may only dispose of the Shares thereafter with the prior written consent of the Corporation unless the Shares have been registered pursuant to the Act.

I also understand that, unless the Shares are issued pursuant to an effective registration statement under the Act, a legend substantially in the form set below shall be placed on each certificate representing the Shares and on any substitutes thereof:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE BLUE

SKY LAWS OF ANY STATE, AND MAY NOT BE SOLD, ASSIGNED OR TRANSFERRED EXCEPT UPON SUCH REGISTRATION OR UPON RECEIPT BY THE CORPORATION OF AN OPINION OF COUNSEL FOR THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED FOR SUCH SALE, ASSIGNMENT OR TRANSFER."

I also understand that the Corporation may issue stop transfer instructions to the Corporation's transfer agent, if any, with respect to the Shares or, if the Corporation transfers its own securities, it may make a notation in the appropriate records that the Shares cannot be transferred without an opinion of counsel in the form required by this paragraph.

I also understand that a legend as set forth below shall be placed on each certificate representing the Shares or any substitutes thereof:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE GOVERNED BY THE TERMS OF THE 1996 EMPLOYEE STOCK OPTION PLAN OF THE CORPORATION, DATED JULY 29, 1996, WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION AND A COPY OF WHICH WILL BE PROVIDED FOR INSPECTION UPON WRITTEN REQUEST."

I understand the nature of the Shares and the financial risks thereof. I do not desire any further information or data concerning the Corporation.

Very truly yours,

(Signature)

(Name)

Date: _____

DI INDUSTRIES, INC.

FORM OF
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") made as of _____, _____, by and between DI INDUSTRIES, INC., a corporation organized under the laws of the State of Texas (the "Corporation"), and _____, an individual (the "Optionee");

W I T N E S S E T H:

WHEREAS, as an inducement to Optionee to enter into a contract of employment with the Corporation under the terms of an Employment Agreement dated of even date herewith by and between the Optionee and the Corporation (the "Employment Agreement") and to further provide the Optionee with additional incentive to further the business of the Corporation, the Corporation has agreed to grant the Optionee options to purchase shares of common stock, \$0.10 par value ("Common Stock"), of the Corporation; and

WHEREAS, by granting the Optionee options to purchase shares of Common Stock pursuant to the terms of this Agreement, the Corporation intends to carry out the purposes set forth in the 1996 Employee Stock Option Plan of the Corporation (the "Plan") adopted by the Board of Directors of the Corporation (the "Board of Directors") effective July 29, 1996 and the shareholders of the Corporation effective as of August 27, 1996; and

WHEREAS, the Corporation and the Optionee desire to set forth the terms and conditions of such options to purchase Common Stock;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. GRANT OF OPTION. Subject to the terms and conditions hereinafter set forth, the Corporation hereby grants to the Optionee an option (the "Option") to purchase all or any part of an aggregate number of _____ shares of Common Stock (such shares, as increased or decreased in accordance with Section 9 hereof, being referred to hereinafter as the "Option Shares") at an exercise price of \$ _____ per share (hereinafter the "Exercise Price").

2. EXERCISE PERIOD. The Option shall be exercisable [in full at any time after the date of this Agreement] [as to twenty percent (20%) of the Option Shares one (1) year after the date of this Agreement, as to an additional twenty percent (20%) of the Option Shares two (2) years after the date of this Agreement, (iii) as to an additional twenty percent (20%) of the Option Shares

three (3) years after the date of this Agreement, (iv) as to an additional twenty percent (20%) of the Option Shares four (4) years after the date of this Agreement until the fifth anniversary of the date of this Agreement, after which time the Option shall be exercisable in full]. The Option shall expire and

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terminate as to any Option Shares not purchased by the Optionee on or before the tenth anniversary of the date of this Agreement (the "Expiration Date"), subject to earlier termination as set forth herein.

3. METHOD OF EXERCISING THE OPTION. The Option shall be exercised by the Optionee delivering to the Corporation (i) written notice from the Optionee stating that the Optionee is exercising the Option and specifying the number of Option Shares that the Optionee is entitled to purchase (the "Notice"), which shall be in form and content identical to ANNEX I hereto and (ii) the aggregate Exercise Price (the "Payment") for the number of Option Shares that the Optionee is entitled to purchase, which Exercise Price must be in the form of (a) cash or a cashier's or certified check payable to the order of the Corporation, or (b) the tender to the Corporation of such number of shares of Common Stock owned by the Optionee having an aggregate fair market value as of the date of exercise that is not greater than the total Exercise Price for the shares of Common Stock with respect to which the Option is being exercised and by paying the remaining amount of the Exercise Price.

4. TRANSFERABILITY OF OPTION. The Option shall not be transferable or assignable, in whole or in part, and except as otherwise provided in Section 11 of this Agreement, the Option shall be exercisable (i) only by the Optionee during his lifetime, or (ii) in the event of his death, by his heirs, representatives, distributees, or legatees in accordance with his will or the laws of descent and distribution (but only to the extent that the Option would be exercisable by the Optionee under Section 2).

5. PAYMENT OF TAXES UPON EXERCISE. The Optionee understands and acknowledges that under currently applicable law, the Optionee may be required to include in the Optionee's taxable income, at the time of exercise of the Option, the amount by which the value of the Option Shares purchased (the "Exercise Shares") exceeds the Exercise Price paid. The Optionee hereby authorizes the Corporation to withhold Exercise Shares of a value equivalent to the amount of tax required to be withheld by the Corporation out of any taxable income derived by the Optionee upon exercise of the Option; provided, however, that the Optionee may, in the alternative, in order to satisfy such withholding requirement, deliver to the Corporation cash or other shares of Common Stock owned by the Optionee.

6. INVESTMENT REPRESENTATION. The Optionee represents that the Option Shares available for purchase by the Optionee under this Agreement will be acquired only for investment and not with a view toward resale or distribution.

7. SECURITIES LAW REQUIREMENTS; LEGENDS. The Optionee agrees and

understands that the Option Shares may be restricted securities as defined in Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and may not be sold, assigned or transferred, unless the sale, assignment or transfer of such shares is registered under the Securities Act and applicable blue sky laws, as now in effect or hereafter amended, or there is furnished an opinion of counsel in form and substance satisfactory to the Corporation from counsel acceptable to the Corporation that such registrations are not required. The Optionee further understands and agrees that, unless issued pursuant to an effective registration statement under the Securities Act, the following legend shall be set forth on each certificate representing Option Shares:

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"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE BLUE SKY LAWS OF ANY STATE, AND MAY NOT BE SOLD, ASSIGNED OR TRANSFERRED EXCEPT UPON SUCH REGISTRATION OR UPON RECEIPT BY THE CORPORATION OF AN OPINION OF COUNSEL FOR THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED FOR SUCH SALE, ASSIGNMENT OR TRANSFER."

In addition, the following legend shall be placed on each certificate representing Option Shares:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE GOVERNED BY THE TERMS OF THE 1996 EMPLOYEE STOCK OPTION PLAN OF THE CORPORATION, DATED JULY 29, 1996, WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION AND A COPY OF WHICH WILL BE PROVIDED FOR INSPECTION UPON WRITTEN REQUEST."

8. NO RIGHTS AS SHAREHOLDER. The Optionee shall not have any rights as a shareholder with respect to any of the Option Shares until the date of issuance by the Corporation to the Optionee of a stock certificate representing such Option Shares. Except as otherwise provided in Section 9 hereof, the Optionee shall not be entitled to any dividends, cash or otherwise, or any adjustment of the Option Shares for such dividends, if the record date therefor is prior to the date of issuance of such stock certificate. Upon valid exercise of the Option by the Optionee, the Corporation agrees to cause a valid stock certificate for the number of Option Shares then purchased to be issued and delivered to the Optionee within seven (7) business days thereafter.

9. CORPORATE PROCEEDINGS OF THE CORPORATION.

(a) The existence of the Option shall not affect in any way the right or power of the Corporation or its officers, directors and shareholders, as the case may be, to (i) make or authorize any adjustments, recapitalizations, reorganizations or other changes in the capital structure or business of the Corporation, (ii) participate in any merger or consolidation of the Corporation, (iii) issue any Common Stock, bonds, debentures, preferred or prior preference stock or any other securities affecting the Common Stock or the rights of holders

thereof, (iv) dissolve or liquidate the Corporation, (v) sell or transfer all or any part of the assets or business of the Corporation, or (vi) perform any other corporate act or proceedings, whether of a similar character or otherwise.

(b) If the Corporation merges into or with or consolidates with (such events collectively referred herein as a "Merger") any corporation or corporations and is not the surviving corporation, then the surviving corporation may assume the Option or substitute a new option of the surviving corporation for the Option; provided, however, that the excess of the aggregate fair market value of the securities subject to the Option immediately after such assumption, or the new option immediately after such substitution, over the aggregate Exercise Price of such shares must be, based upon a good faith determination by the Board of Directors of the Corporation, not less than the excess of the aggregate fair market value

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of the Common Stock subject to the Option immediately before such substitution or assumption over the aggregate Exercise Price of such Common Stock.

(c) In the event that the surviving corporation does not utilize the provisions of (b) above, or in the event of a dissolution or liquidation of the Corporation, the Corporation shall cause written notice of such Merger or dissolution or liquidation (and the material terms and conditions thereof) to be delivered to the Optionee at least ten (10) days prior to the proposed effective date (the "Effective Date") of such event. The Optionee shall be entitled to exercise the Option until the Effective Date, or until the Expiration Date if earlier. To the extent that the Merger or liquidation is consummated after the Effective Date, the Option shall terminate and the Corporation shall have no further obligations of any type hereunder. The provisions of this paragraph shall not apply to any merger or reorganization, the principal purpose of which is to change the jurisdiction of the domicile of the Corporation.

(d) If, while the Option is outstanding, the Corporation shall effect a subdivision or consolidation of the shares of Common Stock or other capital readjustment, the payment of a common stock dividend, or other increase or reduction of the number of shares of Common Stock outstanding, without receiving compensation therefor in money, services or property, then (i) in the event of an increase in the number of shares of Common Stock outstanding, the number of Option Shares shall be proportionately increased, and the per share Exercise Price shall be proportionately reduced, and (ii) in the event of a reduction in the number of shares of Common Stock outstanding, the number of Option Shares shall be proportionately reduced, and the per share Exercise Price shall be proportionately increased. No fractional share of Common

Stock shall be issued upon any such exercise and the Exercise Price shall be appropriately reduced on account of any fractional share not issued.

(e) The issuance by the Corporation of shares of stock of any class of securities convertible into shares of stock of any class, including Common Stock, for cash, property, labor or services rendered, either upon direct sale or upon the exercise of rights, options, or warrants to subscribe therefor, or upon conversion of shares or obligations of the Corporation convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of Option Shares or the Exercise Price.

10. REGISTRATION RIGHTS. The Optionee shall have no registration rights with respect to the Option Shares.

11. TERMINATION.

(a) Except as otherwise provided in this Section 11, if the Optionee for any reason whatsoever, other than death or permanent and total disability, as defined in (b) below, ceases to be employed by the Corporation, or a parent or subsidiary corporation of the Corporation, and prior to such cessation, the Optionee was employed at all times from the date of the granting of the Option until the date of such cessation, the Option must be exercised by the Optionee (to the extent that the Optionee is entitled to do so at the date of cessation) within three (3) months following the date of cessation of employment, subject to the Expiration Date; provided, however, that if the Optionee is terminated for cause (as defined in the Employment Agreement), the Option will immediately terminate.

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Notwithstanding the foregoing, the Corporation may, in its sole discretion, extend for a reasonable period the time in which the Optionee may exercise the Option after the date of cessation of employment, subject to the Expiration Date.

(b) If the Optionee becomes permanently and totally disabled, as hereinafter defined, while employed by the Corporation or a parent or subsidiary corporation of the Corporation, and prior to such disability the Optionee was employed at all times from the date of the granting of the Option until the date of disability, the Option must be exercised by the Optionee (to the extent that the Optionee is entitled to do so at the date of disability) at any time within one (1) year after the date of disability or the Expiration Date, whichever is earlier.

"Permanently and totally disabled" means being unable to engage in any substantial gainful activity by reason of any medically

determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. In the absence of any specific requirements for this determination, the decision of the Corporation, as aided by any physicians designated by the Corporation shall be conclusive and the Corporation shall send written notice to the Optionee of the determination that the Optionee has become permanently and totally disabled.

(c) In the event that the Optionee dies while employed by the Corporation or a parent or subsidiary corporation of the Corporation, and prior to death the Optionee was employed at all times from the date of the granting of the Option until the date of death, the Option must be exercised (to the extent that the Optionee is entitled to do so at the date of death) by a legatee or legatees of the Optionee under the Optionee's will, or by the Optionee's personal representatives or distributes, at any time within one (1) year after the date of death or the Expiration Date, whichever is earlier, and if not so exercised, the Option shall thereupon terminate.

Nothing in (a), (b) or (c) shall extend the time for exercising the Option granted pursuant to this Agreement beyond the Expiration Date.

12. DISPOSITION OF STOCK AFTER EXERCISE OF OPTION. Notwithstanding any other provision of this Agreement to the contrary, in consideration of the granting of the Option, the Optionee agrees not to dispose of any Option Shares without the prior approval of the Corporation unless such shares have been registered under the Securities Act.

13. NOTICES. All notices, demands, requests and other communications required or permitted hereunder shall be in writing and shall be deemed to be delivered when actually received through U.S. Express Mail or any private express service (as evidenced by a written receipt), or, if earlier, and regardless of whether actually received (except where receipt is specified in this Agreement), four (4) days following deposit in a regularly maintained receptacle for the United States mail, registered or certified, return receipt requested, postage fully prepaid, addressed to the addressee at its address set forth below or at such other address as such party may have specified theretofore by notice delivered in accordance with this Section:

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If to the Corporation: DI Industries, Inc.
 450 Gears Road, Suite 625
 Houston, Texas 77067
 Attn: President

If to Optionee: _____

14. TRANSFERABILITY; BINDING EFFECT. The Option shall be transferable only as set forth in Section 4. Subject to the foregoing, all covenants, terms, agreements and conditions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the Corporation and the Optionee and their respective successors and assigns.

15. ENTIRE AGREEMENT. This Agreement embodies the entire agreement and understanding between the Corporation and the Optionee relating to the subject matter hereof.

16. GOVERNING LAW. This Agreement shall be governed by the laws of the State of Texas.

17. CAPTIONS. The section and paragraph headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

19. COUNTERPARTS. This Agreement may be executed in multiple original counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date first written above.

CORPORATION:

DI INDUSTRIES, INC.

By: _____
Name: _____
Title: _____

OPTIONEE:

(Signature)

(Name)

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ACKNOWLEDGMENT OF SPOUSE TO
TERMS OF NON-QUALIFIED STOCK OPTION AGREEMENT

I, _____, am the spouse of _____ ("Optionee"),

and I am fully aware of, understand, and fully consent and agree to the provisions of the Non-Qualified Stock Option Agreement, dated _____, _____ executed by Optionee and DI Industries, Inc. (the "Corporation"). I understand the binding effect of this Agreement and its binding effect upon any interest, community or otherwise, I may now or hereafter own, and I agree that the termination for any reason of my marital relationship with Optionee shall not have the effect of removing any stock of the Corporation otherwise subject to the terms of this Agreement from the coverage hereof.

Signed this day of _____, _____.

Spouse of _____

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ANNEX I

DI INDUSTRIES, INC.

EXERCISE NOTICE

-----, -----

DI Industries, Inc.
450 Gears Road, Suite 625
Houston, Texas 77067

Gentlemen:

I hereby acknowledge that I am acquiring _____ shares ("Shares") of common stock, \$0.10 par value, of DI Industries, Inc. ("Corporation") pursuant to that certain Non-Qualified Stock Option Agreement dated _____, _____ (the "Agreement").

I understand that the Shares have not been registered under the Securities Act of 1933 (the "Act") on the grounds that the transfer to me is exempt from registration pursuant to Section 4(2) of the Act.

By executing this letter, I represent that I am acquiring the Shares for investment for my own account and not as a nominee or agent or with a view to, or for resale in connection with, any distribution of such Shares within the meaning of the Act. I further represent that I do not have any contract, undertaking, agreement, or arrangement with any person to sell, transfer or grant participations in any of the Shares to any third persons.

I understand that, unless the Shares are then registered under the Act, I may only dispose of the Shares with the prior written consent of the Corporation.

I also understand that, unless the Shares are issued pursuant to an effective registration statement under the Act, a legend substantially in the form set below shall be placed on each certificate representing the Shares and on any substitutes thereof:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE BLUE SKY LAWS OF ANY STATE, AND MAY NOT BE SOLD, ASSIGNED OR TRANSFERRED EXCEPT UPON SUCH REGISTRATION OR UPON RECEIPT BY THE CORPORATION OF AN OPINION OF COUNSEL FOR THE CORPORATION THAT SUCH REGISTRATION IS NOT REQUIRED FOR SUCH SALE, ASSIGNMENT OR TRANSFER."

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I also understand that the Corporation may issue stop transfer instructions to the Corporation's transfer agent, if any, with respect to the Shares or, if the Corporation transfers its own securities, it may make a notation in the appropriate records that the Shares cannot be transferred without an opinion of counsel in the form required by this paragraph.

I also understand that a legend as set forth below will be placed on each certificate representing the Shares or any substitutes thereof:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE GOVERNED BY THE TERMS OF THE 1996 EMPLOYEE STOCK OPTION PLAN OF THE CORPORATION, DATED JULY 29, 1996, WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION AND A COPY OF WHICH WILL BE PROVIDED FOR INSPECTION UPON WRITTEN REQUEST."

I understand that I may be required to include in my taxable income the amount by which the value of the Shares exceeds the exercise price paid and I hereby authorizes the Corporation to withhold Shares of a value equivalent to the amount of tax required to be withheld by the Corporation out of any taxable income derived by me; provided, however, that I may, in the alternative, in order to satisfy such withholding requirement, deliver to the Corporation cash or other shares of the Corporation's common stock owned by me.

I understand the nature of the Shares and the financial risks thereof. I do not desire any further information or data concerning the Corporation.

Very truly yours,

Date: _____

December 30, 1996

DI Industries, Inc.
450 Gears Road, Suite 625
Houston, Texas 77067

RE: Registration with the Securities & Exchange Commission of
certain shares of the Common Stock of DI Industries, Inc.

Ladies and Gentlemen:

We have acted as counsel to DI Industries, Inc., a Texas corporation (the "Company"), in connection with the adoption of the 1996 Employee Stock Option Plan of the Company (the "Plan").

The Company is registering 7,000,000 shares of its Common Stock which are issuable pursuant to the Plan (the "Shares") pursuant to a Registration Statement on Form S-8 filed with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Registration Statement"). As set forth in the Registration Statement, certain legal matters are being passed on for the Company by us. This opinion is being furnished to the Company for filing as Exhibit 5.1 to the Registration Statement.

In connection with rendering this opinion, we have examined copies of the Plan, each represented to us to be in the form executed and delivered by the Company. Further, we have examined and relied upon a copy of the articles of incorporation of the Company, as amended, certified by the Secretary of State of Texas, and a copy of the bylaws of the Company, certified by the secretary of the Company.

In such examination, we have assumed, without any independent verification or investigation, (i) the genuineness and authenticity of all signatures on documents and instruments we have examined and reviewed, and (ii) the genuineness and authenticity of all documents submitted to us as originals, and the conformity with the original documents of all documents submitted to us as certified or photostatic copies. We have also examined such certificates of officers of the Company and public officials and such other documents and records as we deem necessary as the basis for the opinions set forth below.

Based solely upon our examination of the documents described above and having regard for such legal considerations as we deem relevant, and subject to the qualifications set forth below, we are of the opinion that when the Shares have been issued and paid for in accordance with the terms of the Plan, the Shares will be legally issued, fully paid, and nonassessable shares of the Common Stock, par value \$0.10 per share, of the Company.

DI Industries, Inc.
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December 30, 1996

We are not licensed to practice law in any jurisdiction other than the state of Texas. We express no opinion as to the laws of any jurisdiction other than the state of Texas.

This opinion is governed by, and shall be interpreted in accordance with, the Legal Opinion Accord (the "Accord") of the ABA Section of Business Law (1991). As a consequence, it is subject to a number of qualifications, exceptions, definitions, limitations on coverage, and other limitations, all as more particularly described in the Accord, and this opinion should be read in conjunction therewith. To the extent, however, that any of the express qualifications, exceptions, definitions, or limitations set forth in this opinion shall conflict with the Accord, the express provisions of this opinion shall control.

This opinion is solely for the use by the Company in filing the Registration Statement and may not be relied upon for any other purpose without the express written consent of the undersigned firm. This opinion is given as of the date hereof, and we undertake no, and hereby disclaim any, obligation to advise you of any change in any matter set forth herein.

Yours very truly,

COKINOS, BOSIEN & YOUNG

BY:/S/ CASEY DOHERTY
CASEY DOHERTY

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement of DI Industries Inc. on Form S-8 of our report dated March 28, 1996 (June 10, 1996 as to Note 13) appearing in DI Industries Inc.'s Definitive Proxy Statement for the 1996 Annual Meeting of Shareholders for the year ended December 31, 1995.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Houston, Texas
December 13, 1996