

Complete Production Services, Inc.

Form 10-Q

November 02, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**Form 10-Q**

(MARK ONE)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.  
Commission File No. 1-32858**

**Complete Production Services, Inc.  
(Exact name of registrant as specified in its charter)**

**Delaware**

**72-1503959**

**(State or Other Jurisdiction of  
Incorporation or Organization)**

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

**11700 Old Katy Road,  
Suite 300  
Houston, Texas**

**77079**

**(Address of principal executive offices)**

**(Zip Code)**

**Registrant's telephone number, including area code: (281) 372-2300**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Number of shares of the Common Stock of the registrant outstanding as of November 1, 2007: 73,000,074

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****COMPLETE PRODUCTION SERVICES, INC.****Consolidated Balance Sheets****September 30, 2007 (unaudited) and December 31, 2006**

	<b>2007</b>	<b>2006</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,346	\$ 19,874
Trade accounts receivable, net	317,129	301,764
Inventory, net	62,751	43,930
Prepaid expenses	13,600	24,998
Other current assets	2,976	74
Total current assets	403,802	390,640
Property, plant and equipment, net	975,058	771,703
Intangible assets, net of accumulated amortization of \$5,999 and \$3,623, respectively	11,151	7,765
Deferred financing costs, net of accumulated amortization of \$2,099 and \$547, respectively	14,440	15,729
Goodwill	570,493	552,671
Other long-term assets	2,781	1,816
Total assets	\$ 1,977,725	\$ 1,740,324
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 866	\$ 1,064
Accounts payable	57,287	71,370
Accrued liabilities	65,883	57,280
Accrued interest	17,649	4,085
Notes payable		17,087
Taxes payable		10,519
Total current liabilities	141,685	161,405
Long-term debt	820,549	750,577
Deferred income taxes	116,341	90,805
Minority interest	2,507	2,316
Total liabilities	1,081,082	1,005,103
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value per share, 200,000,000 shares authorized, 72,273,867 (2006 71,418,473) issued	723	714

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Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	577,599	563,006
Retained earnings	288,712	155,971
Treasury stock, 35,570 shares at cost	(202)	(202)
Accumulated other comprehensive income	29,811	15,732
Total stockholders' equity	896,643	735,221
Total liabilities and stockholders' equity	\$ 1,977,725	\$ 1,740,324

See accompanying notes to consolidated financial statements.

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**COMPLETE PRODUCTION SERVICES, INC.**  
**Consolidated Statements of Operations**  
**Quarters and Nine Months Ended September 30, 2007 and 2006 (unaudited)**

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)		(In thousands, except per share data)	
Revenue:				
Service	\$ 377,736	\$ 287,991	\$ 1,111,176	\$ 757,530
Product	35,187	34,043	119,529	91,386
	412,923	322,034	1,230,705	848,916
Service expenses	223,557	160,695	631,434	435,529
Product expenses	27,015	25,213	92,480	67,038
Selling, general and administrative expenses	50,258	42,887	156,172	115,085
Depreciation and amortization	35,396	21,005	97,858	53,611
Income from continuing operations before interest, taxes and minority interest	76,697	72,234	252,761	177,653
Interest expense	16,676	9,142	47,365	29,312
Interest income	(484)	(256)	(1,012)	(1,278)
Income from continuing operations before taxes and minority interest	60,505	63,348	206,408	149,619
Taxes	19,180	23,800	73,894	56,411
Income from continuing operations before minority interest	41,325	39,548	132,514	93,208
Minority interest	(283)	(121)	(227)	23
Income from continuing operations	41,608	39,669	132,741	93,185
Income from discontinued operations (net of tax expense of \$0, \$169, \$0 and \$911, respectively)		570		2,321
Net income	\$ 41,608	\$ 40,239	\$ 132,741	\$ 95,506
Earnings per share information:				
Continuing operations	\$ 0.58	\$ 0.57	\$ 1.85	\$ 1.45
Discontinued operations	\$	\$ 0.01	\$	\$ 0.04
Basic earnings per share	\$ 0.58	\$ 0.58	\$ 1.85	\$ 1.49
Continuing operations	\$ 0.57	\$ 0.55	\$ 1.81	\$ 1.40
Discontinued operations	\$	\$ 0.01	\$	\$ 0.03

Diluted earnings per share \$ 0.57 \$ 0.56 \$ 1.81 \$ 1.43

Weighted average shares:

Basic 72,191 69,816 71,873 64,216  
 Diluted 73,495 71,738 73,296 66,587

**Consolidated Statements of Comprehensive Income**  
**Quarters and Nine Months Ended September 30, 2007 and 2006 (unaudited)**

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Net income	\$ 41,608	\$ 40,239	\$ 132,741	\$ 95,506
Change in cumulative translation adjustment	6,227	419	14,079	3,381
Comprehensive income	\$ 47,835	\$ 40,658	\$ 146,820	\$ 98,887

See accompanying notes to consolidated financial statements.

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**COMPLETE PRODUCTION SERVICES, INC.**  
**Consolidated Statement of Stockholders Equity**  
**Nine Months Ended September 30, 2007 (unaudited)**

	Number of Shares	Common Stock	Additional Paid-in Capital (In thousands, except share data)	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2006	71,418,473	\$ 714	\$ 563,006	\$ 155,971	\$ (202)	\$ 15,732	\$ 735,221
Net income				132,741			132,741
Cumulative translation adjustment						14,079	14,079
Issuance of common stock:							
Exercise of stock options	773,786	8	3,404				3,412
Expense related to employee stock options			3,110				3,110
Excess tax benefit from share-based compensation			5,790				5,790
Vested restricted stock	81,608	1	(1)				
Amortization of non-vested restricted stock			2,290				2,290
Balance at September 30, 2007	72,273,867	\$ 723	\$ 577,599	\$ 288,712	\$ (202)	\$ 29,811	\$ 896,643

See accompanying notes to consolidated financial statements.



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**COMPLETE PRODUCTION SERVICES, INC.**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2007 and 2006 (unaudited)**

	<b>Nine Months Ended September 30, 2007                      2006 (In thousands)</b>	
Cash provided by (used in):		
Operating activities:		
Net income	\$ 132,741	\$ 95,506
Items not affecting cash:		
Depreciation and amortization	97,858	53,978
Deferred income taxes	10,345	6,308
Minority interest	(227)	23
Excess tax benefit from share-based compensation	(5,790)	(461)
Non-cash compensation expense	5,400	2,950
Other	6,721	2,033
Changes in operating assets and liabilities:		
Accounts receivable	(15,030)	(82,986)
Inventory	(16,532)	(9,326)
Prepaid expense and other current assets	11,734	11,149
Accounts payable	(19,829)	13,764
Accrued liabilities and other	32,757	17,759
Net cash provided by operating activities	240,148	110,697
Investing activities:		
Business acquisitions, net of cash acquired	(40,616)	(168,656)
Additions to property, plant and equipment	(274,759)	(215,204)
Purchase of short-term securities		(165,000)
Proceeds from sale of short-term securities		165,000
Proceeds from disposal of capital assets/other	4,935	3,333
Net cash used in investing activities	(310,440)	(380,527)
Financing activities:		
Issuances of long-term debt	247,307	311,796
Repayments of long-term debt	(177,533)	(319,961)
Repayment of notes payable	(17,078)	(13,659)
Proceeds from issuances of common stock	3,412	290,087
Deferred financing costs	(200)	
Excess tax benefit from share-based compensation	5,790	461
Net cash provided by financing activities	61,698	268,724
Effect of exchange rate changes on cash	(3,934)	(975)
Change in cash and cash equivalents	(12,528)	(2,081)
Cash and cash equivalents, beginning of period	19,874	11,405

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Cash and cash equivalents, end of period	\$ 7,346	\$ 9,324
Supplemental cash flow information:		
Cash paid for interest, net of interest capitalized	\$ 31,755	\$ 28,250
Cash paid for taxes	\$ 56,177	\$ 27,873
Significant non-cash investing and financing activities:		
Common stock issued for acquisitions	\$	\$ 27,359
Debt acquired in acquisition	\$	\$ 534

See accompanying notes to consolidated financial statements.

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**COMPLETE PRODUCTION SERVICES, INC.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited, in thousands, except share and per share data)**

**1. General:**

*(a) Nature of operations:*

Complete Production Services, Inc. is a provider of specialized services and products focused on developing hydrocarbon reserves, reducing operating costs and enhancing production for oil and gas companies. Complete Production Services, Inc. focuses its operations on basins within North America and manages its operations from regional field service facilities located throughout the U.S. Rocky Mountain region, Texas, Oklahoma, Louisiana, Arkansas, Kansas, western Canada, Mexico and Southeast Asia.

References to Complete, the Company, we, our and similar phrases are used throughout this Quarterly Report on Form 10-Q and relate collectively to Complete Production Services, Inc. and its consolidated affiliates.

On September 12, 2005, we completed the combination (the Combination) of Complete Energy Services, Inc. (CES), Integrated Production Services, Inc. (IPS) and I.E. Miller Services, Inc. (IEM) pursuant to which the CES and IEM shareholders exchanged all of their common stock for common stock of IPS. The Combination was accounted for using the continuity of interests method of accounting, which yields results similar to the pooling of interest method. Subsequent to the Combination, IPS changed its name to Complete Production Services, Inc.

On April 20, 2006, we entered into an underwriting agreement in connection with our initial public offering and became subject to the reporting requirements of the Securities Exchange Act of 1934. On April 21, 2006, our common stock began trading on the New York Stock Exchange under the symbol CPX. On April 26, 2006, we completed our initial public offering. See Note 8, Stockholders' Equity.

*(b) Basis of presentation:*

The unaudited interim consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the financial position of Complete as of September 30, 2007 and the statements of operations and the statements of comprehensive income for the quarters and nine months ended September 30, 2007 and 2006, as well as the statement of stockholders' equity for the nine months ended September 30, 2007 and the statements of cash flows for the nine months ended September 30, 2007 and 2006. Certain information and disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2006. We believe that these financial statements contain all adjustments necessary so that they are not misleading.

In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we review our estimates, including those related to impairment of long-lived assets and goodwill, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

The results of operations for interim periods are not necessarily indicative of the results of operations that could be expected for the full year. Certain reclassifications have been made to 2006 amounts in order to present these results on a comparable basis with amounts for 2007.

On January 1, 2007, we began a self-insurance program to pay claims associated with health care benefits provided to certain of our employees in the United States. Pursuant to this program, we have purchased a stop-loss insurance policy from an insurance company. Our accounting policy for this self-insurance program is to accrue expense based upon the number of employees enrolled in the plan at pre-

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determined rates. As claims are processed and paid, we compare our claims history to our expected claims in order to estimate incurred but not reported claims. If our estimate of claims incurred but not reported exceeds our current accrual, we record additional expense during the current period.

In August 2006, our Board of Directors authorized and committed to a plan to sell certain manufacturing and production enhancement product operations of a subsidiary located in Alberta, Canada, which included certain assets located in south Texas. Accordingly, we have revised our statement of operations for the quarter and nine months ended September 30, 2006 to classify these results as discontinued operations. See Note 10, Discontinued Operations.

**2. Business combinations:***Acquisitions During the Nine Months Ended September 30, 2007:*

During the nine months ended September 30, 2007, we acquired substantially all the assets or membership interests in four oilfield service businesses for \$40,737 in cash, resulting in goodwill of \$16,104. Several of these acquisitions are subject to a final working capital adjustment.

(a) On January 4, 2007, we acquired substantially all of the assets of a company located in LaSalle, Colorado which provides frac tank rental and fresh water hauling services to customers in the Wattenburg Field of the DJ Basin, which supplements our fluid handling and rental business in the Rocky Mountain region.

(b) On February 28, 2007, we acquired substantially all of the assets of a company located in Greeley, Colorado which provides fluid handling and fresh frac water heating services to customers in the Wattenburg Field of the DJ Basin, which also supplements our fluid handling business in the Rocky Mountain region.

(c) On April 1, 2007, we acquired substantially all of the assets of a company located in Borger, Texas which provides fluid handling and disposal services to customers in the Texas panhandle. We believe this acquisition complements certain operations that we acquired in 2006 within the Texas panhandle area and broadens our ability to provide fluid handling and disposal services throughout the Mid-continent region.

(d) On June 8, 2007, we acquired all the membership interests in a business located in Rangely, Colorado which provides rig workover and roustabout services to customers in the Rangely Weber Sand Unit and northern Piceance Basin area. This acquisition expands our geographic reach in the northern Piceance Basin, expands our workover rig capabilities and provides a beneficial customer relationship.

We accounted for these acquisitions using the purchase method of accounting, whereby the purchase price was allocated to the fair value of net assets acquired, including intangibles and property, plant and equipment at depreciated replacement costs, with the excess recorded as goodwill. Results for each of these acquisitions were included in our accounts and results of operations since the date of acquisition, and goodwill associated with these acquisitions was allocated entirely to the completion and production services business segment. No pro forma disclosure for these acquisitions is provided as we do not deem these acquisitions to be significant to our consolidated operations for the quarter or nine months ended September 30, 2007. The following table summarizes our preliminary purchase price allocations for these acquisitions as of September 30, 2007, each of which is yet to be finalized:

Net assets acquired:	
Property, plant and equipment	\$ 21,833
Non-cash working capital	956
Intangible assets	1,844
Goodwill	16,104
Net assets acquired	\$ 40,737
Consideration:	
Cash, net of cash and cash equivalents acquired	\$ 40,737

The purchase price of each of the businesses that we acquire is negotiated as an arm's length transaction with the seller. We generally evaluate acquisition targets based on an earnings multiple approach, whereby



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we consider precedent transactions which we have undertaken and those of others in our industry. To determine the fair value of assets acquired, we generally retain third-party consultants to perform valuation techniques related to identifiable intangible assets and to evaluate property, plant and equipment acquired based upon, at minimum, the replacement cost of the assets. Working capital items are deemed to be acquired at fair market value.

**3. Accounts receivable:**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Trade accounts receivable	\$ 260,963	\$ 260,733
Related party receivables	10,847	12,478
Unbilled revenue	40,819	27,096
Other receivables	9,107	3,888
	321,736	304,195
Allowance for doubtful accounts	4,607	2,431
	\$ 317,129	\$ 301,764

**4. Inventory:**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Finished goods	\$ 49,753	\$ 38,877
Manufacturing parts, materials and other	15,138	6,772
	64,891	45,649
Inventory reserves	2,140	1,719
	\$ 62,751	\$ 43,930

**5. Property, plant and equipment:**

<b>September 30, 2007</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land	\$ 8,274	\$	\$ 8,274
Building	16,363	1,504	14,859
Field equipment	975,585	214,310	761,275
Vehicles	80,181	20,727	59,454
Office furniture and computers	12,092	4,362	7,730
Leasehold improvements	16,834	1,894	14,940
Construction in progress			