

Complete Production Services, Inc.

Form 10-Q

July 29, 2010

Table of Contents

**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 June 30, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number: 1-32858

Complete Production Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

72-1503959

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

**11700 Katy Freeway,
Suite 300**

Houston, Texas

(Address of principal executive offices)

77079

(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 has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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, par value \$0.01 per share, of the registrant outstanding as of July 26, 2010:
77,764,562

INDEX TO FINANCIAL STATEMENTS

Complete Production Services, Inc.

Page

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

<u>Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income (Loss) for the Quarters and Six Months Ended June 30, 2010 and 2009</u>	4
<u>Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2010</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 and 2009</u>	6
<u>Notes to Consolidated Financial Statements</u>	7

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
---	----

<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	33
--	----

<u>Item 4. Controls and Procedures</u>	33
---	----

PART II OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	34
---	----

<u>Item 1A. Risk Factors</u>	34
-------------------------------------	----

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
---	----

<u>Item 3. Defaults Upon Senior Securities</u>	35
---	----

<u>Item 5. Other Information</u>	35
---	----

<u>Item 6. Exhibits</u>	35
--------------------------------	----

Signatures

<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

COMPLETE PRODUCTION SERVICES, INC.
Consolidated Balance Sheets
June 30, 2010 (unaudited) and December 31, 2009

	2010	2009
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 141,648	\$ 77,360
Accounts receivable, net	252,614	171,284
Inventory, net	32,358	37,464
Prepaid expenses	22,071	17,943
Income tax receivable	10,460	57,606
Current deferred tax assets	8,158	8,158
Other current assets	163	111
Total current assets	467,472	369,926
Property, plant and equipment, net	893,599	941,133
Intangible assets, net of accumulated amortization of \$18,549 and \$15,476, respectively	9,638	13,243
Deferred financing costs, net of accumulated amortization of \$7,791 and \$6,266, respectively	11,220	12,744
Goodwill	244,840	243,823
Other long-term assets	6,066	7,985
Total assets	\$ 1,632,835	\$ 1,588,854
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 166	\$ 228
Accounts payable	47,186	31,745
Accrued liabilities	39,027	41,102
Accrued payroll and payroll burdens	22,691	13,559
Accrued interest	2,775	3,206
Notes payable		1,069
Income taxes payable	356	813
Total current liabilities	112,201	91,722
Long-term debt	650,000	650,000
Deferred income taxes	151,995	148,240
Total liabilities	914,196	889,964
Commitments and contingencies		
Stockholders' equity:		
	761	752

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

Common stock, \$0.01 par value per share, 200,000,000 shares authorized, 76,086,612 (2009 75,278,406) issued		
Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	645,086	636,904
Retained earnings	54,916	42,007
Treasury stock, 166,616 (2009 54,313) shares at cost	(1,744)	(334)
Accumulated other comprehensive income	19,620	19,561
Total stockholders' equity	718,639	698,890
Total liabilities and stockholders' equity	\$ 1,632,835	\$ 1,588,854

See accompanying notes to consolidated financial statements.

Table of Contents

COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statements of Operations
Quarters and Six Months Ended June 30, 2010 and 2009 (unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
Revenue:				
Service	\$ 350,905	\$ 221,150	\$ 652,297	\$ 544,067
Product	9,340	17,248	17,652	31,012
	360,245	238,398	669,949	575,079
Service expenses	223,564	150,773	430,384	361,986
Product expenses	7,323	13,492	13,447	23,987
Selling, general and administrative expenses	44,017	45,633	84,869	94,911
Depreciation and amortization	45,472	51,402	90,791	103,091
Income (loss) before interest and taxes	39,869	(22,902)	50,458	(8,896)
Interest expense	14,760	13,899	29,501	28,357
Interest income	(95)	(20)	(143)	(30)
Income (loss) before taxes	25,204	(36,781)	21,100	(37,223)
Taxes	9,533	(10,949)	8,191	(11,055)
Net income (loss)	\$ 15,671	\$ (25,832)	\$ 12,909	\$ (26,168)
Earnings (loss) per share information:				
Basic earnings (loss) per share	\$ 0.21	\$ (0.34)	\$ 0.17	\$ (0.35)
Diluted earnings (loss) per share	\$ 0.20	\$ (0.34)	\$ 0.17	\$ (0.35)
Weighted average shares:				
Basic	76,036	75,036	75,869	74,966
Diluted	77,318	75,036	77,194	74,966

Consolidated Statements of Comprehensive Income (Loss)
Quarters and Six Months Ended June 30, 2010 and 2009
(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income (loss)	\$ 15,671	\$ (25,832)	\$ 12,909	\$ (26,168)
Change in cumulative translation adjustment	(1,543)	3,636	59	2,344

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

Comprehensive income (loss)	\$ 14,128	\$ (22,196)	\$ 12,968	\$ (23,824)
-----------------------------	-----------	-------------	-----------	-------------

See accompanying notes to consolidated financial statements.

4

Table of Contents

COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statement of Stockholders Equity
Six Months Ended June 30, 2010 (unaudited)

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
	(In thousands, except share data)						
Balance at December 31, 2009	75,278,406	\$ 752	\$ 636,904	\$ 42,007	\$ (334)	\$ 19,561	\$ 698,890
Net income				12,909			12,909
Cumulative translation adjustment						59	59
Issuance of common stock:							
Exercise of stock options	245,750	2	2,261				2,263
Expense related to employee stock options			1,343				1,343
Excess tax benefit from share-based compensation			273				273
Purchase of treasury shares	(112,303)				(1,410)		(1,410)
Vested restricted stock	674,759	7	(7)				
Amortization of non-vested restricted stock			4,312				4,312
Balance at June 30, 2010	76,086,612	\$ 761	\$ 645,086	\$ 54,916	\$ (1,744)	\$ 19,620	\$ 718,639

See accompanying notes to consolidated financial statements.

Table of Contents

COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2010 and 2009 (unaudited)

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Cash provided by:		
Operating activities:		
Net income (loss)	\$ 12,909	\$ (26,168)
Items not affecting cash:		
Depreciation and amortization	90,791	103,091
Deferred income taxes	4,106	10,856
Excess tax benefit from share-based compensation	(273)	(65)
Non-cash compensation expense	5,655	6,706
(Gain) loss on non-monetary asset exchange	(458)	4,868
Provision for bad debt expense	1,177	4,830
Provision for write-off of note receivable	1,926	
(Gain) loss on retirement of assets	(92)	3,293
Other	1,524	940
Changes in operating assets and liabilities:		
Accounts receivable	(82,463)	159,442
Inventory	5,334	(1,924)
Prepaid expense and other current assets	42,611	6,225
Accounts payable	15,404	(33,365)
Accrued liabilities and other	6,364	(19,003)
Net cash provided by operating activities	104,515	219,726
Investing activities:		
Additions to property, plant and equipment	(41,894)	(22,760)
Acquisitions	(1,365)	
Proceeds from disposal of capital assets	3,117	8,218
Net cash used in investing activities	(40,142)	(14,542)
Financing activities:		
Issuances of long-term debt		3,204
Repayments of long-term debt	(64)	(200,376)
Repayment of notes payable	(1,069)	(4,220)
Proceeds from issuances of common stock	2,263	88
Purchase of treasury shares	(1,410)	(123)
Excess tax benefit from share-based compensation	273	65
Net cash used in financing activities	(7)	(201,362)
Effect of exchange rate changes on cash	(78)	(289)

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

Change in cash and cash equivalents	64,288	3,533
Cash and cash equivalents, beginning of period	77,360	18,500
Cash and cash equivalents, end of period	\$ 141,648	\$ 22,033
Supplemental cash flow information:		
Cash paid for interest, net of interest capitalized	\$ 28,243	\$ 26,361
Cash paid (refund received) for income taxes	\$ (42,734)	\$ (18,690)

See accompanying notes to consolidated financial statements.

6

Table of Contents

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, Pennsylvania, western Canada, Mexico and Southeast Asia.

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

On April 21, 2006, our common stock began trading on the New York Stock Exchange under the symbol CPX .

(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 June 30, 2010 and the statements of operations and the statements of comprehensive income for the quarters and six-month periods ended June 30, 2010 and 2009, as well as the statement of stockholders' equity for the six months ended June 30, 2010 and the statements of cash flows for the six months ended June 30, 2010 and 2009. Certain information and disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (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 and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on February 19, 2010. 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. We review our estimates on an on-going basis, 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.

2. Accounts receivable:

	June 30, 2010	December 31, 2009
Trade accounts receivable	\$ 210,529	\$ 155,871
Related party receivables	24,209	6,593
Unbilled revenue	28,295	19,409
Other receivables	1,308	1,975
	264,341	183,848
Allowance for doubtful accounts	11,727	12,564
	\$ 252,614	\$ 171,284

Of the related party receivables at June 30, 2010 and December 31, 2009, \$23,399 and \$5,968, respectively, related to amounts due from a company for which one of our directors has an ownership interest and serves as chief executive

officer and chairman of the board.

Table of Contents**3. Inventory:**

	June 30, 2010	December 31, 2009
Finished goods	\$ 21,611	\$ 23,435
Manufacturing parts, materials and other	12,843	14,486
Work in process	314	431
	34,768	38,352
Inventory reserves	2,410	888
	\$ 32,358	\$ 37,464

4. Property, plant and equipment:

June 30, 2010	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 9,446	\$	\$ 9,446
Buildings	30,368	3,733	26,635
Field equipment	1,302,221	564,957	737,264
Vehicles	130,575	62,710	67,865
Office furniture and computers	17,228	10,197	7,031
Leasehold improvements	25,114	5,772	19,342
Construction in progress	26,016		26,016
	\$ 1,540,968	\$ 647,369	\$ 893,599

December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 8,884	\$	\$ 8,884
Buildings	30,200	3,168	27,032
Field equipment	1,293,292	497,632	795,660
Vehicles	126,256	55,035	71,221
Office furniture and computers	17,087	9,108	7,979
Leasehold improvements	25,006	4,771	20,235
Construction in progress	10,122		10,122
	\$ 1,510,847	\$ 569,714	\$ 941,133

Construction in progress at June 30, 2010 and December 31, 2009 primarily included progress payments to vendors for equipment to be delivered in future periods and component parts to be used in the final assembly of operating equipment, which in all cases were not yet placed into service at the time. For the quarter and six months ended June 30, 2010, we recorded capitalized interest of \$190 and \$269, respectively related to assets that we are constructing for internal use and amounts paid to vendors under progress payments for assets that are being constructed on our behalf.

5. Long-term notes receivable:

On October 31, 2006, we completed the sale of a disposal group which included certain manufacturing and production enhancement operations of a subsidiary located in Alberta, Canada, as well as operations in south Texas. We sold this disposal group to an oilfield service company located in Calgary, Alberta, Canada. In conjunction with this asset disposal, the buyer issued a note to us for \$2,000 denominated in Canadian dollars. During the second quarter of 2010, we were notified that the seller was in default on a term loan and security agreement which was senior to our note. Therefore, management recorded a provision of \$1,926 for bad debt associated with this note as of June 30, 2010, but we will continue to pursue our interest in this note to the extent a portion may be recoverable in a future period.

6. Notes payable:

We entered into a note arrangement to finance certain of our annual insurance premiums for the policy term from December 1, 2007 to April 30, 2009. Effective May 1, 2009, we renewed our insurance policies and entered into a similar financing arrangement for the twelve-month policy term which extended through

Table of Contents

April 2010. Concurrently, we renewed our workers compensation, general liability and auto insurance policies through our insurance broker for the same policy term. Our accounting policy has been to record a prepaid asset associated with certain of these policies which is amortized over the term and which takes into account actual premium payments and deposits made to date, to record an accrued liability for premiums which are contractually committed for the policy term and to make monthly premium payments in accordance with our premium commitments and monthly note payments for amounts financed. Effective May 1, 2010, we renewed and prepaid our annual insurance premiums for the policy term May 1, 2010 through April 30, 2011, but chose to prepay our premiums which had been financed through a note arrangement in prior renewals. As a result, we recorded a prepaid asset of \$4,267 associated with these renewals. We will continue to make monthly premium payments through our broker for our workers compensation, general liability and auto insurance policies during this twelve-month policy term.

7. Long-term debt:

The following table summarizes long-term debt as of June 30, 2010 and December 31, 2009:

	2010	2009
U.S. revolving credit facility (a)	\$	\$
Canadian revolving credit facility (a)		
8.0% senior notes (b)	650,000	650,000
Capital leases and other	166	230
	650,166	650,230
Less: current maturities of long-term debt and capital leases	166	228
	\$ 650,000 	