

Complete Production Services, Inc.

Form 10-Q

November 03, 2006

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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, 2006**

**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. 1-32058**

**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 Old Katy Road,  
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 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, 2006: 70,658,738

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****COMPLETE PRODUCTION SERVICES, INC.****Consolidated Balance Sheets****September 30, 2006 (unaudited) and December 31, 2005**

	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,324	\$ 11,405
Trade accounts receivable, net	254,999	158,022
Inventory, net	41,345	32,066
Prepaid expenses	12,462	25,333
Other current assets	126	1,992
Current assets held for sale	20,687	18,668
Total current assets	338,943	247,486
Property, plant and equipment, net	641,880	383,707
Intangible assets, net of accumulated amortization of \$3,055 and \$1,370, respectively	7,134	4,235
Deferred financing costs, net of accumulated amortization of \$340 and \$96, respectively	2,086	2,048
Goodwill	387,092	295,195
Other long-term assets	304	275
Long-term assets held for sale	4,792	4,707
Total assets	\$ 1,382,231	\$ 937,653
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 5,920	\$ 5,950
Accounts payable	64,901	46,264
Accrued liabilities	46,062	40,211
Unearned revenue	498	6,407
Notes payable	925	14,985
Taxes payable	21,574	936
Current liabilities of held for sale operations	4,941	5,450
Total current liabilities	144,821	120,203
Long-term debt	502,380	509,981
Deferred income taxes	62,947	54,084
Minority interest	2,507	2,365
Long-term liabilities of held for sale operations	250	259
Total liabilities	712,905	686,892
Commitments and contingencies		

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Stockholders' equity:

Common stock, \$0.01 par value per share, 200,000,000 shares authorized, 69,831,221 (2005 55,531,510) issued	698	555
Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	536,518	220,786
Retained earnings	112,391	16,885
Treasury stock, 35,570 shares at cost	(202)	(202)
Deferred compensation		(3,803)
Accumulated other comprehensive income	19,921	16,540
Total stockholders' equity	669,326	250,761
Total liabilities and stockholders' equity	\$ 1,382,231	\$ 937,653

See accompanying notes to consolidated financial statements.

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**COMPLETE PRODUCTION SERVICES, INC.**  
**Consolidated Statements of Operations**  
**Three Months and Nine Months Ended September 30, 2006 and 2005 (unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except per share data)</b>			
Revenue:				
Service	\$ 287,991	\$ 166,555	\$ 757,530	\$ 440,170
Product	34,043	20,594	91,386	58,455
	322,034	187,149	848,916	498,625
Service expenses	160,695	104,659	435,529	271,769
Product expenses	25,213	14,696	67,038	42,376
Selling, general and administrative expenses	42,887	26,784	115,085	73,511
Depreciation and amortization	21,005	12,282	53,611	32,673
Income from continuing operations before interest, taxes and minority interest	72,234	28,728	177,653	78,296
Interest expense	9,142	5,968	29,312	15,616
Interest income	(256)		(1,278)	
Write-off of deferred financing costs		2,844		2,844
Income from continuing operations before taxes and minority interest	63,348	19,916	149,619	59,836
Taxes	23,800	8,714	56,411	23,408
Income from continuing operations before minority interest	39,548	11,202	93,208	36,428
Minority interest	(121)	(6,186)	23	380
Income from continuing operations	39,669	17,388	93,185	36,048
Income from discontinued operations (net of tax expense of \$169, \$57, \$911 and \$326, respectively)	570	393	2,321	1,864
Net income	\$ 40,239	\$ 17,781	\$ 95,506	\$ 37,912
Earnings per share information:				
Continuing operations	\$ 0.57	\$ 0.38	\$ 1.45	\$ 0.83
Discontinued operations	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.04
Basic earnings per share	\$ 0.58	\$ 0.39	\$ 1.49	\$ 0.87
Continuing operations	\$ 0.55	\$ 0.34	\$ 1.40	\$ 0.74
Discontinued operations	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.04

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Diluted earnings per share	\$ 0.56	\$ 0.35	\$ 1.43	\$ 0.78
Weighted average shares:				
Basic	69,816	45,961	64,216	43,651
Diluted	71,738	50,896	66,587	48,397

**Consolidated Statements of Comprehensive Income**  
**Three Months and Nine Months Ended September 30, 2006 and 2005 (unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>			
Net income	\$ 40,239	\$ 17,781	\$ 95,506	\$ 37,912
Change in cumulative translation adjustment	419	3,023	3,381	1,698
Comprehensive income	\$ 40,658	\$ 20,804	\$ 98,887	\$ 39,610

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, 2006 (unaudited)**

	Number of Shares	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income	Total
(In thousands, except share data)								
Balance at December 31, 2005	55,531,510	\$ 555	\$ 220,786	\$ (202)	\$ 16,885	\$ (3,803)	\$ 16,540	\$ 250,761
Adoption of SFAS No. 123R			(3,803)			3,803		
Net income					95,506			95,506
Cumulative translation adjustment							3,381	3,381
Issuance of common stock: Net proceeds from initial public offering	13,000,000	130	288,505					288,635
Acquisition of Parchman	1,000,000	10	23,490					23,500
Acquisition of MGM	164,210	2	3,857					3,859
Exercise of stock options	63,963		273					273
Expense related to employee stock options			1,092					1,092
Excess tax benefit from share-based compensation			461					461
Vested restricted stock	71,538	1	(1)					
Amortization of non-vested restricted stock			1,858					1,858
Balance at September 30, 2006	69,831,221	\$ 698	\$ 536,518	\$ (202)	\$ 112,391	\$	\$ 19,921	\$ 669,326

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, 2006 and 2005 (unaudited)**

	<b>Nine Months Ended September 30, 2006                      2005 (In thousands)</b>	
Cash provided by (used in):		
Operating activities:		
Net income	\$ 95,506	\$ 37,912
Items not affecting cash:		
Depreciation and amortization	53,978	32,902
Deferred income taxes	6,308	19,276
Minority interest	23	380
Excess tax benefit from share-based compensation	(461)	
Non-cash compensation expense	2,950	452
Other	2,033	3,753
Changes in operating assets and liabilities:		
Accounts receivable	(82,986)	(43,718)
Inventory	(9,326)	(16,489)
Prepaid expense and other current assets	11,149	(6,901)
Accounts payable	13,764	16,265
Accrued liabilities and other	17,759	4,638
Net cash provided by operating activities	110,697	48,470
Investing activities:		
Business acquisitions, net of cash acquired	(168,656)	(18,163)
Additions to property, plant and equipment	(215,204)	(84,885)
Purchase of short-term securities	(165,000)	
Proceeds from sale of short-term securities	165,000	
Proceeds from disposal of capital assets/other	3,333	3,903
Net cash used in investing activities	(380,527)	(99,145)
Financing activities:		
Issuances of long-term debt	311,796	634,109
Repayments of long-term debt	(319,961)	(413,055)
Net repayments under lines of credit		(17,060)
Repayment of convertible debentures		(4,069)
Repayment of notes payable	(13,659)	(1,203)
Proceeds from issuances of common stock	290,087	11,268
Dividend paid		(146,890)
Repurchase of common stock/warrants		(458)
Deferred financing fees		(4,076)
Excess tax benefit from share-based compensation	461	
Net cash provided by financing activities	268,724	58,566

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Effect of exchange rate changes on cash	(975)	(376)
Change in cash and cash equivalents	(2,081)	7,515
Cash and cash equivalents, beginning of period	11,405	11,547
Cash and cash equivalents, end of period	\$ 9,324	\$ 19,062
Supplemental cash flow information:		
Cash paid for interest, net of interest capitalized	\$ 28,250	\$ 14,983
Cash paid for taxes	\$ 27,873	\$ 6,717
Significant non-cash investing and financing activities:		
Common stock issued for acquisitions	\$ 27,359	\$ 20,118
Non-cash consideration for acquisitions	\$	\$ 7,899
Debt acquired in acquisition	\$ 534	\$ 750

See accompanying notes to consolidated financial statements.

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**COMPLETE PRODUCTION SERVICES, INC.  
Notes to Consolidated Financial Statements  
(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, 2006 and the statements of operations and the statements of comprehensive income for the three months and nine months ended September 30, 2006, as well as the statement of stockholders' equity at September 30, 2006 and the statements of cash flows for the nine months ended September 30, 2006 and 2005. 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, 2005. 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 2005 amounts in order to present these results on a comparable basis with amounts for 2006.

In August 2006, our Board of Directors authorized and committed to a plan to sell certain manufacturing and production enhancement operations of a subsidiary located in Alberta, Canada, which includes certain assets located in south Texas. Accordingly, we have revised our financial statements for all periods presented to classify the assets and liabilities of this disposal group as held for sale and the related results of operations as discontinued operations. See Note 10, Discontinued Operations.

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**2. Business combinations:**

*(a) Acquisitions During the Nine Months Ended September 30, 2006:*

*(i) Outpost Office Inc. ( Outpost ):*

On January 3, 2006, we acquired all of the operating assets of Outpost Office Inc., an oilfield equipment rental company based in Grand Junction, Colorado, for \$6,542 in cash, and recorded goodwill of \$2,348, which has been allocated entirely to the completion and production services business segment. We believe this acquisition supplemented our completion and production services business in the Rocky Mountain Region.

*(ii) The Rosel Company ( Rosel ):*

On January 25, 2006, we acquired all the equity interests of The Rosel Company, a cased-hole and open-hole electric-line business based in Liberal, Kansas, for approximately \$11,953, net of cash acquired and debt assumed, and recorded goodwill of \$7,997 resulting from this acquisition, which has been allocated entirely to the completion and production services business segment. We believe this acquisition expanded our presence in the Mid-continent region and enhanced our completion and production services business.

*(iii) The Arkoma Group of Companies ( Arkoma ):*

On June 30, 2006, we acquired certain operating assets of J&M Rental Tool, Inc. dba Arkoma Machine & Fishing Tools, Arkoma Machine Shop, Inc. and N&M Supply, LLC, collectively referred to as The Arkoma Group of Companies, a provider of rental tools, machining and fishing services in the Fayetteville Shale and Arkoma Basin, located in Ft. Smith, Arkansas. We paid \$18,002 to acquire Arkoma, subject to a final working capital adjustment, and recorded goodwill totaling \$9,257, which has been allocated entirely to the completion and production services business segment. We believe this acquisition provides a platform to further expand our presence in the Fayetteville Shale and Arkoma Basin and supplement our completion and production services business in that region.

*(iv) CHB Holdings Partnership, Ltd. ( CHB ):*

On July 17, 2006, we acquired all the assets of CHB Holdings Partnership, Ltd., a fluid handling and disposal services business located in Henderson, Texas, for \$12,738 in cash, and recorded goodwill of \$8,319, which was allocated entirely to the completion and production services business segment. We believe this acquisition is complementary to our fluid handling business in the Bossier Trend region of east Texas.

*(v) Turner Group of Companies ( Turner ):*

On July 28, 2006, we acquired all of the outstanding equity interests of the Turner Group of Companies (Turner Energy Services, LLC, Turner Energy SWD, LLC, T. & J. Energy, LLC, T. & J. SWD, LLC and Lloyd Jones Well Service, LLC) for \$54,328 in cash, subject to a final working capital adjustment, and recorded goodwill totaling \$14,749. The Turner Group of Companies ( Turner ) is based in the Texas panhandle in Canadian, Texas, and owns a fleet of well service rigs, and provides other wellsite services such as fishing, equipment rental, fluid handling and salt water disposal services. We included the accounts of Turner in our completion and production services business segment and believe that Turner will supplement our completion and production business in the Mid-continent region.

*(vi) Quinn Well Control Ltd. ( Quinn ):*

On July 31, 2006, we acquired certain assets of Quinn Well Control Ltd., a slick line business located in Grande Prairie, Alberta, Canada, for \$8,876 in cash and recorded goodwill of \$2,998. We included the accounts of Quinn in our completion and production

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