

Complete Production Services, Inc.
Form 10-Q
November 04, 2011
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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, 2011

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)

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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 small 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 (Do not check if a smaller reporting company) 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 November 3, 2011: 79,283,178.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****COMPLETE PRODUCTION SERVICES, INC.****Consolidated Balance Sheets****September 30, 2011 (unaudited) and December 31, 2010**

	2011	2010
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 208,281	\$ 119,135
Accounts receivable, net	435,595	341,984
Inventory, net	36,286	28,389
Prepaid expenses	33,378	18,357
Income tax receivable	22,724	23,462
Current deferred tax assets	15,462	2,499
Other current assets		1,384
Current assets of discontinued operations		16,700
Total current assets	751,726	551,910
Property, plant and equipment, net	1,073,825	950,932
Intangible assets, net of accumulated amortization of \$25,180 and \$21,293, respectively	9,802	9,209
Deferred financing costs, net of accumulated amortization of \$11,242 and \$9,316, respectively	10,246	9,694
Goodwill	252,137	247,675
Restricted cash	17,000	17,000
Other long-term assets	6,226	5,259
Long-term assets of discontinued operations		8,897
Total assets	\$ 2,120,962	\$ 1,800,576
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 104,262	\$ 74,502
Accrued liabilities	51,878	42,047
Accrued payroll and payroll burdens	36,113	26,568
Accrued interest	15,668	2,446
Income taxes payable	2,200	
Current liabilities of discontinued operations		2,841
Total current liabilities	210,121	148,404
Long-term debt	650,000	650,000
Deferred income taxes	275,784	190,389
Other long-term liabilities	4,512	5,916
Long-term liabilities of discontinued operations		33
Total liabilities	1,140,417	994,742
Commitments and contingencies		
Stockholders' equity:	780	764

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Common stock, \$0.01 par value per share, 200,000,000 shares authorized, 78,012,457 (2010 76,443,926) issued		
Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	688,709	657,993
Retained earnings	278,790	126,165
Treasury stock, 372,341 (2010 167,643) shares at cost	(7,408)	(1,765)
Accumulated other comprehensive income	19,674	22,677
Total stockholders' equity	980,545	805,834
Total liabilities and stockholders' equity	\$ 2,120,962	\$ 1,800,576

See accompanying notes to consolidated financial statements.

Table of Contents**COMPLETE PRODUCTION SERVICES, INC.****Consolidated Statements of Operations****Quarters and Nine Months Ended September 30, 2011 and 2010 (unaudited)**

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Revenues	\$ 590,289	\$ 410,270	\$ 1,623,707	\$ 1,064,489
Service expenses	379,192	257,776	1,042,269	690,023
Selling, general and administrative expenses	53,830	41,448	152,453	125,128
Depreciation and amortization	48,695	44,563	146,832	134,798
Income from continuing operations before interest and taxes	108,572	66,483	282,153	114,540
Interest expense	12,917	14,151	40,709	43,653
Interest income	(180)	(73)	(407)	(249)
Income from continuing operations before taxes	95,835	52,405	241,851	71,136
Taxes	36,513	20,814	91,420	28,609
Income from continuing operations	59,322	31,591	150,431	42,527
Income (loss) from discontinued operations (net of tax expense of \$707, \$242, \$1,149 and \$638, respectively)	(136)	1,439	2,194	3,412
Net income	\$ 59,186	\$ 33,030	\$ 152,625	\$ 45,939
Earnings (loss) per share information:				
Continuing operations	\$ 0.76	\$ 0.41	\$ 1.94	\$ 0.56
Discontinued operations	(0.00)	0.02	0.03	0.04
Basic earnings per share	\$ 0.76	\$ 0.43	\$ 1.97	\$ 0.60
Continuing operations	\$ 0.75	\$ 0.41	\$ 1.90	\$ 0.55
Discontinued operations	(0.01)	0.01	0.03	0.04
Diluted earnings per share	\$ 0.74	\$ 0.42	\$ 1.93	\$ 0.59
Weighted average shares:				
Basic	78,004	76,130	77,578	75,957
Diluted	79,445	77,792	79,080	77,395

Consolidated Statements of Comprehensive Income**Quarters and Nine Months Ended September 30, 2011 and 2010****(unaudited)****Quarter Ended
September 30,****Nine Months Ended
September 30,**

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	2011	2010	2011	2010
	(In thousands)			
Net income	\$ 59,186	\$ 33,030	\$ 152,625	\$ 45,939
Change in cumulative translation adjustment	(4,647)	1,309	(3,003)	1,368
Comprehensive income	\$ 54,539	\$ 34,339	\$ 149,622	\$ 47,307

See accompanying notes to consolidated financial statements.

Table of Contents**COMPLETE PRODUCTION SERVICES, INC.****Consolidated Statement of Stockholders Equity****Nine Months Ended September 30, 2011 (unaudited)**

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2010	76,443,926	\$ 764	\$ 657,993	\$ 126,165	\$ (1,765)	\$ 22,677	\$ 805,834
Net income				152,625			152,625
Cumulative translation adjustment						(3,003)	(3,003)
Issuance of common stock:							
Exercise of stock options	929,852	9	15,943				15,952
Expense related to employee stock options			1,734				1,734
Excess tax benefit from share-based compensation			4,990				4,990
Purchase of treasury shares	(204,698)	(2)	2		(5,643)		(5,643)
Vested restricted stock	843,377	9	(9)				
Amortization of non-vested restricted stock			8,056				8,056
Balance at September 30, 2011	78,012,457	\$ 780	\$ 688,709	\$ 278,790	\$ (7,408)	\$ 19,674	\$ 980,545

See accompanying notes to consolidated financial statements.

Table of Contents**COMPLETE PRODUCTION SERVICES, INC.****Consolidated Statements of Cash Flows****Nine Months Ended September 30, 2011 and 2010 (unaudited)**

	Nine Months Ended September 30, 2011 2010 (In thousands)	
Cash provided by:		
Operating activities:		
Net income	\$ 152,625	\$ 45,939
Items not affecting cash:		
Depreciation and amortization	147,308	135,596
Deferred income taxes	72,441	7,575
Excess tax benefit from share-based compensation	(4,990)	(612)
Non-cash compensation expense	9,790	8,571
Gain on non-monetary asset exchange		(458)
Provision for bad debt expense	844	(158)
Provision for write-off of note receivable		1,926
(Gain) loss on retirement of assets	1,667	(94)
Loss on discontinued operations	136	
Other	1,756	2,288
Changes in operating assets and liabilities:		
Accounts receivable	(90,532)	(110,494)
Inventory	(8,509)	5,606
Prepaid expense and other current assets	(13,108)	(2,935)
Accounts payable	20,625	17,480
Income taxes	5,833	50,410
Accrued liabilities and other	30,817	10,130
Net cash provided by operating activities	326,703	170,770
Investing activities:		
Additions to property, plant and equipment	(259,925)	(89,855)
Acquisitions	(15,576)	(21,332)
Proceeds from the sale of disposal group	19,300	
Proceeds from disposal of capital assets	6,333	4,436
Other	169	
Net cash used in investing activities	(249,699)	(106,751)
Financing activities:		
Repayments of long-term debt		(141)
Repayment of notes payable		(1,069)
Proceeds from issuances of common stock	15,952	3,106
Purchase of treasury shares	(5,643)	(1,418)
Deferred financing fees	(2,477)	
Excess tax benefit from share-based compensation	4,990	612
Net cash provided by financing activities	12,822	1,090
Effect of exchange rate changes on cash	(680)	126
Change in cash and cash equivalents	89,146	65,235

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Cash and cash equivalents, beginning of period	119,135	71,770
Cash and cash equivalents, end of period	\$ 208,281	\$ 137,005
Supplemental cash flow information:		
Cash paid for interest, net of interest capitalized	\$ 25,825	\$ 28,489
Cash paid (refund received) for income taxes	\$ 10,616	\$ (29,033)
Significant non-cash investing activities:		
Non-cash capital expenditures	\$ 28,665	\$
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, Pennsylvania, western Canada and Mexico. We also had operations in 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 September 30, 2011 and the statements of operations and the statements of comprehensive income for the quarters and nine-month periods ended September 30, 2011 and 2010, as well as the statement of stockholders equity for the nine months ended September 30, 2011 and the statements of cash flows for the nine months ended September 30, 2011 and 2010. 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, 2010 filed with the Securities and Exchange Commission on February 18, 2011. 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.

(c) Discontinued operations:

On July 6, 2011, we sold our Southeast Asian products business, through which we provided oilfield equipment sales, rentals and refurbishment services, to MTQ Corporation Limited (MTQ), a Singapore firm which provides engineering services to oilfield and industrial equipment users and manufacturers. Proceeds from the sale of this business totaled \$21,913, of which \$2,613 represented cash on hand at July 6, 2011 which was transferred to us in October 2011 pursuant to the final settlement. We recorded a loss on the sale of this business of \$136 as of September 30, 2011. See Note 10, Discontinued operations.

Table of Contents**2. Business acquisition:**

On May 11, 2011, we completed the purchase of the hydraulic snubbing and production testing assets of a business with operations in the Marcellus, Eagle Ford and Barnett Shales. We paid a total of \$15,576 in cash for these assets, which included goodwill of \$4,433. The entire purchase price was allocated to the completion and production services business segment. We believe this acquisition will supplement our hydraulic snubbing and production testing service offerings in Pennsylvania and Texas. The following table summarizes our preliminary purchase price allocation for this acquisition as of September 30, 2011:

Net assets acquired:	
Other current assets	\$ 725
Property, plant and equipment	5,868
Current liabilities	(10)
Intangible assets	4,560
Goodwill	4,433
Net assets acquired	\$ 15,576
Consideration:	
Cash, net of cash and cash equivalents acquired	\$ 15,576

The purchase price of this acquired business was negotiated as an arm's length transaction with the seller. We use various valuation techniques, including an earnings multiple approach, to evaluate acquisition targets. We also consider precedent transactions which we have undertaken and similar transactions of others in our industry. We determine the fair value of assets acquired, including identifiable intangible assets, and evaluate property, plant and equipment acquired based upon, at minimum, the replacement cost of the assets, by applying valuation techniques and by obtaining other supporting documentation from third-party consultants.

This acquisition was not deemed to be significant to our overall results for the nine months ended September 30, 2011, therefore no pro forma disclosure of the impact of this acquisition has been provided.

3. Accounts receivable:

	September 30, 2011	December 31, 2010
Trade accounts receivable	\$ 332,169	\$ 249,998
Related party receivables	38,285	51,046
Unbilled revenue	65,257	42,747
Other receivables	3,749	2,353
	439,460	346,144
Allowance for doubtful accounts	3,865	4,160
	\$ 435,595	\$ 341,984

Of the related party receivables at September 30, 2011 and December 31, 2010, \$37,722 and \$50,048, 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.

4. Inventory:

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	September 30, 2011	December 31, 2010
Finished goods	\$ 15,565	\$ 13,497
Manufacturing parts, materials and other	20,167	16,063
Work in process	1,663	1,282
	37,395	30,842
Inventory reserves	1,109	2,453
	\$ 36,286	\$ 28,389

Table of Contents**5. Property, plant and equipment:**

	Cost	Accumulated Depreciation	Net Book Value
<u>September 30, 2011</u>			
Land	\$ 11,357	\$	\$ 11,357
Buildings	36,310	5,385	30,925
Field equipment	1,575,633	748,501	827,132
Vehicles	126,227	67,577	58,650
Office furniture and computers	21,995	13,603	8,392
Leasehold improvements	22,749	7,609	15,140
Construction in progress	122,229		122,229
	\$ 1,916,500	\$ 842,675	\$ 1,073,825

	Cost	Accumulated Depreciation	Net Book Value
<u>December 31, 2010</u>			
Land	\$ 8,475	\$	\$ 8,475
Buildings	32,083	4,456	27,627
Field equipment	1,437,343	639,282	798,061
Vehicles	128,098	57,930	70,168
Office furniture and computers	17,938	11,712	6,226
Leasehold improvements	22,503	6,007	16,496
Construction in progress	23,879		23,879
	\$ 1,670,319	\$ 719,387	\$ 950,932

Construction in progress at September 30, 2011 and December 31, 2010 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. Significant assets included in construction in progress at September 30, 2011 included a Marcellus Frac fleet, two drilling rigs and coiled tubing assets. For the quarter and nine months ended September 30, 2011, we recorded capitalized interest of \$922