

Complete Production Services, Inc.

Form 10-Q

August 03, 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 JUNE 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
(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 August 1, 2007: 72,868,288

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COMPLETE PRODUCTION SERVICES, INC.
Consolidated Balance Sheets
June 30, 2007 (unaudited) and December 31, 2006

	2007	2006
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,661	\$ 19,874
Trade accounts receivable, net	313,610	301,764
Inventory, net	59,090	43,930
Prepaid expenses	18,248	24,998
Other current assets	48	74
Total current assets	400,657	390,640
Property, plant and equipment, net	927,484	771,703
Intangible assets, net of accumulated amortization of \$5,271 and \$3,623, respectively	10,876	7,765
Deferred financing costs, net of accumulated amortization of \$1,449 and \$547, respectively	14,898	15,729
Goodwill	571,644	552,671
Other long-term assets	2,564	1,816
Total assets	\$ 1,928,123	\$ 1,740,324
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 1,124	\$ 1,064
Accounts payable	61,371	71,370
Accrued liabilities	62,265	57,280
Accrued interest	4,314	4,085
Notes payable	2,482	17,087
Taxes payable	3,147	10,519
Total current liabilities	134,703	161,405
Long-term debt	839,813	750,577
Deferred income taxes	105,496	90,805
Minority interest	2,631	2,316
Total liabilities	1,082,643	1,005,103
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value per share, 200,000,000 shares authorized, 72,132,405 (2006 71,418,473) issued	721	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	574,273	563,006
Retained earnings	247,104	155,971
Treasury stock, 35,570 shares at cost	(202)	(202)
Accumulated other comprehensive income	23,584	15,732
Total stockholders' equity	845,480	735,221
Total liabilities and stockholders' equity	\$ 1,928,123	\$ 1,740,324

See accompanying notes to consolidated financial statements.

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)		(In thousands, except per share data)	
Revenue:				
Service	\$ 367,405	\$ 234,420	\$ 733,440	\$ 469,539
Product	43,310	30,116	84,342	57,343
	410,715	264,536	817,782	526,882
Service expenses	204,364	139,323	407,877	274,834
Product expenses	33,654	21,942	65,465	41,825
Selling, general and administrative expenses	55,344	35,752	105,914	72,198
Depreciation and amortization	33,492	16,999	62,462	32,606
Income from continuing operations before interest, taxes and minority interest	83,861	50,520	176,064	105,419
Interest expense	15,064	9,488	30,689	20,170
Interest income	(316)	(1,015)	(528)	(1,022)
Income from continuing operations before taxes and minority interest	69,113	42,047	145,903	86,271
Taxes	25,535	15,607	54,714	32,611
Income from continuing operations before minority interest	43,578	26,440	91,189	53,660
Minority interest	(205)	(161)	56	144
Income from continuing operations	43,783	26,601	91,133	53,516
Income from discontinued operations (net of tax expense of \$0, \$329, \$0 and \$742, respectively)		553		1,751
Net income	\$ 43,783	\$ 27,154	\$ 91,133	\$ 55,267
Earnings per share information:				
Continuing operations	\$ 0.61	\$ 0.40	\$ 1.27	\$ 0.87
Discontinued operations	\$	\$	\$	\$ 0.03
Basic earnings per share	\$ 0.61	\$ 0.40	\$ 1.27	\$ 0.90
Continuing operations	\$ 0.60	\$ 0.39	\$ 1.25	\$ 0.84

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Discontinued operations	\$	\$	\$	\$ 0.02
Diluted earnings per share	\$ 0.60	\$ 0.39	\$ 1.25	\$ 0.86
Weighted average shares:				
Basic	71,916	67,067	71,711	61,366
Diluted	73,367	69,065	73,195	63,953

Consolidated Statements of Comprehensive Income
Quarters and Six Months Ended June 30, 2007 and 2006 (unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Net income	\$ 43,783	\$ 27,154	\$ 91,133	\$ 55,267
Change in cumulative translation adjustment	7,096	3,080	7,852	2,962
Comprehensive income	\$ 50,879	\$ 30,234	\$ 98,985	\$ 58,229

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statement of Stockholders Equity
Six Months Ended June 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				91,133			91,133
Cumulative translation adjustment						7,852	7,852
Issuance of common stock:							
Exercise of stock options	653,872	7	2,937				2,944
Expense related to employee stock options			2,259				2,259
Excess tax benefit from share-based compensation			4,599				4,599
Vested restricted stock	60,060						
Amortization of non-vested restricted stock			1,472				1,472
Balance at June 30, 2007	72,132,405	\$ 721	\$ 574,273	\$ 247,104	\$ (202)	\$ 23,584	\$ 845,480

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Cash provided by (used in):		
Operating activities:		
Net income	\$ 91,133	\$ 55,267
Items not affecting cash:		
Depreciation and amortization	62,462	32,852
Deferred income taxes	7,665	4,853
Minority interest	56	144
Excess tax benefit from share-based compensation	(4,599)	(109)
Non-cash compensation expense	3,731	1,706
Other	4,354	1,150
Changes in operating assets and liabilities:		
Accounts receivable	(12,463)	(29,909)
Inventory	(13,929)	(9,609)
Prepaid expense and other current assets	6,997	5,451
Accounts payable	(948)	13,161
Accrued liabilities and other	(4,535)	(1,517)
Net cash provided by operating activities	139,924	73,440
Investing activities:		
Business acquisitions, net of cash acquired	(40,468)	(36,163)
Additions to property, plant and equipment	(194,479)	(132,423)
Purchase of short-term securities		(165,000)
Proceeds from sale of short-term securities		52,841
Proceeds from disposal of capital assets/other	3,840	3,232
Net cash used in investing activities	(231,107)	(277,513)
Financing activities:		
Issuances of long-term debt	192,901	180,646
Repayments of long-term debt	(103,605)	(256,278)
Repayment of notes payable	(14,604)	(11,272)
Proceeds from issuances of common stock	2,944	290,407
Excess tax benefit from share-based compensation	4,599	109
Net cash provided by financing activities	82,235	203,612
Effect of exchange rate changes on cash	(1,265)	(571)
Change in cash and cash equivalents	(10,213)	(1,032)
Cash and cash equivalents, beginning of period	19,874	11,405

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Cash and cash equivalents, end of period	\$ 9,661	\$ 10,373
Supplemental cash flow information:		
Cash paid for interest, net of interest capitalized	\$ 27,750	\$ 19,652
Cash paid for taxes	\$ 44,340	\$ 16,385
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 June 30, 2007 and the statements of operations and the statements of comprehensive income for the quarters and six months ended June 30, 2007 and 2006, as well as the statement of stockholders' equity for the six months ended June 30, 2007 and the statements of cash flows for the six months ended June 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 claim 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 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 six months ended June 30, 2006 to classify these results as discontinued operations. See Note 10, Discontinued Operations.

2. Business combinations:*Acquisitions During the Six Months Ended June 30, 2007:*

During the first six months of 2007, we acquired substantially all the assets or membership interests in four oilfield service businesses for \$40,010 in cash, resulting in goodwill of \$16,848. 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 six months ended June 30, 2007. The following table summarizes our preliminary purchase price allocations for these acquisitions as of June 30, 2007, each of which is yet to be finalized:

Net assets acquired:	
Property, plant and equipment	\$ 21,833
Non-cash working capital	229
Intangible assets	1,100
Goodwill	16,848
Net assets acquired	\$ 40,010
Consideration:	
Cash, net of cash and cash equivalents acquired	\$ 40,010

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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 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:

	June 30, 2007	December 31, 2006
Trade accounts receivable	\$ 265,708	\$ 260,733
Related party receivables	12,606	12,478
Unbilled revenue	32,780	27,096
Other receivables	6,401	3,888
	317,495	304,195
Allowance for doubtful accounts	3,885	2,431
	\$ 313,610	\$ 301,764

4. Inventory:

	June 30, 2007	December 31, 2006
Finished goods	\$ 50,582	\$ 38,877
Manufacturing parts, materials and other	10,194	6,772
	60,776	45,649
Inventory reserves	1,686	1,719
	\$ 59,090	\$ 43,930

5. Property, plant and equipment:

	Cost	Accumulated Depreciation	Net Book Value
June 30, 2007			
Land	\$ 7,330	\$	\$ 7,330
Building	16,032	1,267	14,765
Field equipment	904,947	182,174	722,773
Vehicles	78,493	18,609	59,884
Office furniture and computers	11,903	3,830	8,073
Leasehold improvements	14,377	1,580	12,797
Construction in progress	101,862		101,862
	\$ 1,134,944	\$ 207,460	\$ 927,484

		Accumulated	
	Cost	Depreciation	Net Book
December 31, 2006			Value
Land	\$ 5,816	\$	\$ 5,816
Building	7,140	840	6,300
Field equipment	746,314	128,553	617,761
Vehicles	60,505	14,152	46,353
Office furniture and computers	9,891	2,712	7,179
Leasehold improvements	12,895	1,164	11,731
Construction in progress	76,563		76,563
	\$ 919,124	\$ 147,421	\$ 771,703

Construction in progress at June 30, 2007 and December 31, 2006 primarily included progress payments to vendors for equipment to be delivered in future periods and component parts to be used in 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, 2007, we recorded capitalized interest of \$1,462 and \$1,890, 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.

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On January 5, 2006, we entered into a note agreement with our insurance broker to finance our annual insurance premiums for the policy year beginning December 1, 2005 through November 30, 2006. As of December 31, 2005, we recorded a note payable totaling \$14,584 and an offsetting prepaid asset which included a broker's fee of \$600. We amortized the prepaid asset to expense over the policy term, and incurred finance charges totaling \$268 as interest expense related to this arrangement during 2006. This policy was renewed for the policy term beginning December 1, 2006 through November 30, 2007, pursuant to which we recorded a note payable and an offsetting prepaid asset totaling \$17,087 as of December 31, 2006, which includes a broker's fee of approximately \$600. Of this liability, \$14,604 was paid during the six months ended June 30, 2007, and the remainder will be paid during the policy term.

7. Long-term debt:

The following table summarizes long-term debt as of June 30, 2007 and December 31, 2006:

	2007	2006
U.S. revolving credit facility (a)	\$ 173,821	\$ 78,668
Canadian revolving credit facility (a)	11,989	17,575
8.0% senior notes (b)	650,000	650,000
Subordinated seller notes	3,450	3,450
Capital leases and other	1,677	1,948
	840,937	751,641
Less: current maturities of long-term debt and capital leases	1,124	1,064
	\$ 839,813	\$ 750,577

(a) We maintain a credit agreement related to a syndicated senior secured credit facility (the Credit Agreement). The Credit Agreement is comprised of a \$310,000 U.S. revolving credit facility that is to mature in December 2011, and a \$40,000 Canadian revolving credit facility (with Integrated Production Services, Ltd., one of our

wholly-owned subsidiaries, as the borrower thereof) that is to mature in December 2011. The Credit Agreement is secured by substantially all of our assets.

Subject to certain limitations, we have the ability to elect how interest under the Credit Agreement will be computed. Interest under the Credit Agreement may be determined by reference to (1) the London Inter-bank Offered Rate, or LIBOR, plus an applicable margin between 0.75% and 1.75% per annum (with the applicable margin depending upon our ratio of total debt to EBITDA (as defined in the agreement)), or (2) the Base Rate (i.e., the higher of the Canadian bank's prime rate or the CDOR rate plus 1.0%, in the case of Canadian loans or the greater of

the prime rate and the federal funds rate plus 0.5%, in the case of U.S. loans), plus an applicable margin between 0.00% and 0.75% per annum. If an event of default exists under the Credit Agreement, advances will bear interest at the then-applicable rate plus 2%. Interest is payable quarterly for base rate loans and at the end of applicable interest periods for LIBOR loans, except that if the interest period for a LIBOR loan is six months, interest will be paid at the end of each three-month period.

The Credit Agreement also contains various covenants that limit our and our subsidiaries ability to:

- (1) grant certain liens;
- (2) make certain loans and investments;
- (3) make capital

expenditures;
(4) make
distributions;
(5) make
acquisitions;
(6) enter into
hedging
transactions;
(7) merge or
consolidate; or
(8) engage in
certain asset
dispositions.
Additionally, the
Credit
Agreement
limits our and
our subsidiaries
ability to incur
additional
indebtedness if:
(1) we are not in
pro forma
compliance with
all terms under
the Credit
Agreement,
(2) certain
covenants of the
additional
indebtedness are
more onerous
than the
covenants set
forth in the
Credit
Agreement, or
(3) the additional
indebtedness
provides for
amortization,
mandatory
prepayment or
repurchases of
senior unsecured
or subordinated
debt during the
duration of the
Credit
Agreement with
certain

exceptions. The Credit Agreement also limits additional secured debt to 10% of our consolidated net worth (i.e., the excess of our assets over the sum of our liabilities plus the minority interests). The Credit Agreement contains covenants which, among other things, require us and our subsidiaries, on a consolidated basis, to maintain specified ratios or conditions as follows (with such ratios tested at the end of each fiscal quarter): (1) total debt to EBITDA, as defined in the

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Credit Agreement, of not more than 3.0 to 1.0; and (2) EBITDA, as defined, to total interest expense of not less than 3.0 to 1.0. We were in compliance with all debt covenants under the amended and restated Credit Agreement as of June 30, 2007.

Under the Credit Agreement, we are permitted to prepay our borrowings.

All of the obligations under the U.S. portion of the Credit Agreement are secured by first priority liens on substantially all of the assets of our U.S. subsidiaries as well as a pledge of approximately 66% of the stock of our first-tier foreign subsidiaries. Additionally, all of the obligations under the U.S.

portion of the
Credit
Agreement are
guaranteed by
substantially all
of our U.S.
subsidiaries. All
of the
obligations
under the
Canadian
portions of the
Credit
Agreement are
secured by first
priority liens on
substantially all
of the assets of
our subsidiaries.
Additionally, all
of the
obligations
under the
Canadian
portions of the
Credit
Agreement are
guaranteed by
us as well as
certain of our
subsidiaries.

If an event of
default exists
under the Credit
Agreement, as
defined, the
lenders may
accelerate the
maturity of the
obligations
outstanding
under the Credit
Agreement and
exercise other
rights and
remedies. While
an event of
default is
continuing,
advances will

bear interest at the then-applicable rate plus 2%.

For a description of an event of default, see our Credit Agreement which was filed with the Securities and Exchange Commission on December 8, 2006 as an exhibit to a Current Report on Form 8-K.

Borrowings under the U.S. revolving facility bore interest at rates ranging from 6.6% to 8.5% and the Canadian revolving credit facility bore interest at 6.0% at June 30, 2007. For the quarter and six months ended June 30, 2007, the weighted average interest rate on average borrowings under the amended Credit Agreement was approximately 6.5%. There were letters of credit outstanding under the U.S.

revolving portion of the facility totaling \$20,599, which reduced the available borrowing capacity as of June 30, 2007. We incurred fees calculated at 1.25% of the total amount outstanding under letter of credit arrangements through June 30, 2007. Our available borrowing capacity under the U.S. and Canadian revolving facilities at June 30, 2007 was \$115,580 and \$28,011, respectively.

On June 29, 2007, we amended our Credit Agreement in conjunction with the restructuring of certain legal entities for tax purposes with no material changes to the financial provisions or covenants.

- (b) On December 6, 2006, we issued 8.0% senior

notes with a face value of \$650,000 through a private placement of debt. These notes mature in 10 years, on December 15, 2016, and require semi-annual interest payments, paid in arrears and calculated based on an annual rate of 8.0%, on June 15 and December 15 of each year, commencing on June 15, 2007. There was no discount or premium associated with the issuance of these notes. The senior notes are guaranteed on a senior unsecured basis by all of our current domestic subsidiaries. The senior notes have covenants which, among other things:

- (1) limit the amount of additional indebtedness we can incur;
- (2) limit restricted payments such as a dividend;
- (3) limit our

ability to incur liens or encumbrances; (4) limit our ability to purchase, transfer or dispose of significant assets; (5) purchase or redeem stock or subordinated debt; (6) enter into transactions with affiliates; (7) merge with or into other companies or transfer all or substantially all our assets; and (8) limit our ability to enter into sale and leaseback transactions. We have the option to redeem all or part of these notes on or after December 15, 2011. We can redeem 35% of these notes on or before December 15, 2009 using the proceeds of certain equity offerings. Additionally, we may redeem some or all of the notes prior to December 15, 2011 at a price equal to 100% of the principal amount of the notes plus a

make-whole premium. On June 15, 2007, we paid interest associated with these senior notes totaling \$27,300.

Pursuant to a registration rights agreement with the holders of our 8.0% senior notes, on June 1, 2007, we filed a registration statement on Form S-4 with the Securities and Exchange Commission which enabled these holders to exchange their notes for publicly registered notes with identical terms. See Note 16, Subsequent Events.

Table of Contents**8. Stockholders equity (unaudited):***(a) Initial Public Offering:*

On April 26, 2006, we sold 13,000,000 shares of our common stock, \$.01 par value per share, in our initial public offering. These shares were offered to the public at \$24.00 per share, and we recorded proceeds of approximately \$292,500 after underwriter fees. Our stock began trading on the New York Stock Exchange on April 21, 2006.

The following table summarizes the pro forma impact of our initial public offering on earnings per share for the quarter and six months ended June 30, 2006, assuming the 13,000,000 shares had been issued on January 1, 2006. No pro forma adjustments have been made to net income as reported.

	Quarter Ended June 30, 2006	Six Months Ended June 30, 2006
Net income as reported	\$ 27,154	\$ 55,267
Basic earnings per share, as reported:		
Continuing operations	\$ 0.40	\$ 0.87
Discontinued operations	\$ 0.00	\$ 0.03
	\$ 0.40	\$ 0.90
Basic earnings per share, pro forma:		
Continuing operations	\$ 0.38	\$ 0.77
Discontinued operations	\$ 0.01	\$ 0.03
	\$ 0.39	\$ 0.80
Diluted earnings per share, as reported:		
Continuing operations	\$ 0.39	\$ 0.84
Discontinued operations	\$ 0.00	\$ 0.02
	\$ 0.39	\$ 0.86
Diluted earnings per share, pro forma:		
Continuing operations	\$ 0.37	\$ 0.75
Discontinued operations	\$ 0.01	\$ 0.02
	\$ 0.38	\$ 0.77

(b) Stock-based Compensation Stock Options:

We maintain option plans under which stock-based compensation could be granted to employees, officers and directors. Stock option grants under these plans have an exercise price based on the fair value of our common stock on the date of grant. These stock options may be exercised over a five or ten-year period and generally a third of the options vest on each of the first three anniversaries from the grant date. Upon exercise of stock options, we issue our common stock.

We adopted Statement of Financial Accounting Standards (SFAS) No. 123R on January 1, 2006. This pronouncement requires that we measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions, by using an option pricing model to determine fair value. For employee stock options granted prior to September 30, 2005, the date of our initial filing with the Securities and Exchange Commission, we use the intrinsic value method prescribed by Accounting Principles Board (APB) No. 25, as required by SFAS No. 123R. Under this method, we do not recognize compensation cost for stock-based compensation grants that have an exercise price equal to the fair value of the stock on the date of grant. For employee stock options granted between October 1, 2005 and December 31, 2005, we applied the modified prospective transition method to record expense associated with these stock-based awards, as further described in our Annual Report on Form 10-K. For grants of stock-based compensation on or after January 1, 2006, we applied the prospective transition method under SFAS No. 123R, whereby we recognize expense associated with new awards of stock-based compensation ratably, as determined using a Black-Scholes pricing model, over the expected term of the award.

On January 24, 2007, the Compensation Committee of our Board of Directors authorized the grant of 877,000 stock options and 56,800 shares of non-vested restricted shares, effective January 31, 2007, for

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issuance to our officers and key members of our management team. Additional shares were authorized for issuance to certain members of senior management and for our directors, pursuant to their annual award of stock options and restricted stock. Of the authorized stock options, we granted 53,000 and 920,700 options to purchase shares of our common stock during the quarter and six months ended June 30, 2007, respectively, at an exercise price ranging from \$18.65 to \$27.11, which represented the fair market value of the shares on the applicable date of grant. Each of these stock options vests over a three-year term at 33 1/3% per year. The fair value of these stock option grants was determined by applying a Black-Scholes option pricing model based on the following assumptions:

	Six Months Ended June 30, 2007
Assumptions:	
Risk-free rate	4.47% to 4.98%
Expected term (in years)	2.23 to 5.08
Volatility	30% to 31% \$4.21 to \$9.33
Calculated fair value per option	\$9.33

We completed our initial public offering in April 2006. Therefore, we did not have sufficient historical market data in order to determine the volatility of our common stock. In accordance with the provisions of SFAS No. 123R, we analyzed the market data of peer companies and calculated an average volatility factor based upon changes in the closing price of these companies' common stock for a three-year period. This volatility factor was then applied as a variable to determine the fair value of our stock options granted during the six months ended June 30, 2007.

We projected a rate of stock option forfeitures based upon historical experience and management assumptions related to the expected term of the options. After adjusting for these forfeitures, we expect to recognize expense totaling \$5,080 over the vesting period of these 2007 stock option grants. For the quarter and six months ended June 30, 2007, we have recognized expense related to these stock option grants totaling \$404 and \$652, respectively, which represents a reduction of net income before taxes and minority interest. The impact on net income for the quarter and six months ended June 30, 2007 was a reduction of \$255 and \$407, respectively, with no impact on diluted earnings per share as reported. The unrecognized compensation costs related to the non-vested portion of these awards was \$4,428 as of June 30, 2007 and will be recognized over the applicable remaining vesting periods.

For the quarters ended June 30, 2007 and 2006, we recognized compensation expense associated with all stock option awards totaling \$1,149 and \$411, respectively, resulting in a reduction of net income of \$725 and \$256, respectively, and a \$0.01 reduction in diluted earnings per share for the quarters ended June 30, 2007 and 2006. For the six months ended June 30, 2007 and 2006, we recognized compensation expense associated with all stock option awards totaling \$2,259 and \$488, respectively, resulting in a reduction of net income of \$1,412 and \$303, respectively, and a \$0.01 reduction in diluted earnings per share for the six months ended June 30, 2007 and 2006. Total unrecognized compensation expense associated with outstanding stock option awards at June 30, 2007 was \$6,556.

The following tables provide a roll forward of stock options from December 31, 2006 to June 30, 2007 and a summary of stock options outstanding by exercise price range at June 30, 2007:

	Options Outstanding	
	Number	Weighted Average Exercise Price
Balance at December 31, 2006	3,864,560	\$ 9.67
Granted	920,700	\$20.18

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Exercised	(653,872)	\$ 4.39
Cancelled	(87,106)	\$17.60
Balance at June 30, 2007	4,044,282	\$12.75

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	Options Outstanding			Options Exercisable		
	Outstanding at June 30, 2007	Weighted Average Remaining Life (months)	Weighted Average Exercise Price	Exercisable at June 30, 2007	Weighted Average Remaining Life (months)	Weighted Average Exercise Price
Range of Exercise Price						
\$2.00	303,806	23	\$ 2.00	298,875	23	\$ 2.00
\$4.48 \$4.80	698,444	25	\$ 4.68	536,185	24	\$ 4.66
\$5.00	283,817	49	\$ 5.00	101,711	30	\$ 5.00
\$6.69	630,175	93	\$ 6.69	373,887	94	\$ 6.69
\$11.66	448,137	99	\$11.66	149,379	99	\$11.66
\$17.60 \$19.87	858,200	115	\$19.84			
\$23.27 \$24.07	776,703	106	\$23.97	246,401	106	\$24.00
\$26.26 \$27.11	45,000	110	\$26.35			
	4,044,282	81	\$12.75	1,706,438	58	\$ 8.06

The total intrinsic value of stock options exercised during the quarter and six months ended June 30, 2007 was \$8,760 and \$12,103, respectively. The total intrinsic value of all vested outstanding stock options at June 30, 2007 was \$30,352.

(b) Non-vested Restricted Stock:

We recognize compensation expense associated with grants of non-vested restricted stock which is determined based on the fair value of the shares on the date of grant, and recorded ratably over the applicable vesting period. At June 30, 2007, amounts not yet recognized related to non-vested stock totaled \$4,546, which represented the unamortized expense associated with awards of non-vested stock granted to employees, officers and directors under our compensation plans, including \$1,679 related to grants made during the six months ended June 30, 2007. We recognized compensation expense associated with non-vested restricted stock totaling \$787 and \$596 for the quarters ended June 30, 2007 and 2006, respectively, and \$1,472 and \$1,218 for the six-month periods ended June 30, 2007 and 2006, respectively.

The following table summarizes the change in non-vested restricted stock from December 31, 2006 to June 30, 2007:

	Non-vested Restricted Stock	
	Number	Weighted Average Grant Price
Balance at December 31, 2006	690,073	\$ 8.67
Granted	96,254	\$21.30
Vested	(60,060)	\$18.12
Forfeited	(3,512)	\$23.50
Balance at June 30, 2007	722,755	\$ 9.50

9. Earnings per share:

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common share includes the weighted average of additional shares associated with the incremental effect of dilutive employee stock options, non-vested restricted stock and contingent shares, as determined using the treasury stock method prescribed by SFAS No. 128,

Earnings Per Share. The following table reconciles basic and diluted weighted average shares used in the computation of earnings per share for the quarters and six-month periods ended June 30, 2007 and 2006:

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	Quarter Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in thousands)			
Weighted average basic common shares outstanding	71,916	67,067	71,711	61,366
Effect of dilutive securities:				
Employee stock options	1,190	1,715	1,218	1,684
Non-vested restricted stock	261	283	266	295
Contingent shares (a)				608
Weighted average diluted common and potential common shares outstanding	73,367	69,065	73,195	63,953

(a) Contingent shares represent potential common stock issuable to the former owners of Parchman and MGM pursuant to the respective purchase agreements based upon 2005 operating results. On March 31, 2006, we calculated and issued the actual shares earned totaling 1,214 shares.

We excluded the impact of anti-dilutive potential common shares from the calculation of diluted weighted average shares for the quarter and six months ended June 30, 2007. If these potential common shares were included in the calculation, diluted weighted average shares outstanding for the quarter ended June 30, 2007 would have been 73,270,607 shares, or a reduction of 96,183 shares, and diluted weighted average shares for the six months ended June 30, 2007 would have been 72,970,329 shares, or a reduction of 224,648 shares, respectively. For the quarter and six months ended June 30, 2006, the diluted weighted average shares outstanding would have been 69,059,398 shares, or a reduction of 5,758 shares, for the quarter ended June 30, 2007, and 63,949,771 shares, or a reduction of 2,895 shares, for the six months ended June 30, 2007. If these anti-dilutive potential common shares had been included in the calculation of diluted weighted average shares for the periods indicated, there would have been no impact on diluted earnings per share as disclosed for all periods presented in the accompanying statements of operations.

10. Discontinued operations:

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. We revised our financial statements, pursuant to SFAS No. 144, and removed the results of operations of the disposal group from net income from continuing operations, and presented these separately as income from discontinued operations, net of tax, in the accompanying statements of operations for the quarter and six months ended June 30, 2006. We completed the sale of this disposal group in October 2006.

The following table summarizes the operating results for this disposal group for the quarter and six months ended June 30, 2006:

	Quarter Ended June 30, 2006	Six Months Ended June 30, 2006
Revenue	\$ 10,890	\$ 24,280
Income before taxes and minority interest	\$ 882	\$ 2,493
Net income	\$ 553	\$ 1,751

11. Segment information:

SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information, establishes standards for the reporting of information about operating segments, products and services, geographic areas, and major customers. The method of determining what information to report is based on the way our management organizes the operating segments for making operational decisions and assessing financial performance. We evaluate performance and allocate resources based on net income (loss) from continuing operations before net interest expense, taxes, depreciation and amortization and minority interest (EBITDA). The calculation of EBITDA should not be viewed as a substitute for calculations under U.S. GAAP, in particular net income. EBITDA calculated by us may not be comparable to the EBITDA calculation of another company.

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We have three reportable operating segments: completion and production services (C&PS), drilling services and product sales. The accounting policies of our reporting segments are the same as those used to prepare our unaudited consolidated financial statements as of June 30, 2007. Inter-segment transactions are accounted for on a cost recovery basis.

	C&PS	Drilling Services	Product Sales	Corporate	Total
Quarter Ended June 30, 2007					
Revenue from external customers	\$ 307,212	\$ 60,193	\$ 43,310	\$	\$ 410,715
Inter-segment revenues	\$ 261	\$ 1,517	\$ 18,648	\$ (20,426)	\$
EBITDA, as defined	\$ 101,180	\$ 19,004	\$ 5,440	\$ (8,271)	\$ 117,353
Depreciation and amortization	\$ 28,134	\$ 4,017	\$ 702	\$ 639	\$ 33,492
Operating income (loss)	\$ 73,046	\$ 14,987	\$ 4,738	\$ (8,910)	\$ 83,861
Capital expenditures	\$ 70,561	\$ 22,714	\$ 454	\$ 848	\$ 94,577
Six Months Ended June 30, 2007					
Revenue from external customers	\$ 614,851	\$ 118,589	\$ 84,342	\$	\$ 817,782
Inter-segment revenues	\$ 332	\$ 1,866	\$ 29,781	\$ (31,979)	\$
EBITDA, as defined	\$ 205,342	\$ 37,072	\$ 10,596	\$ (14,484)	\$ 238,526
Depreciation and amortization	\$ 52,418	\$ 7,652	\$ 1,380	\$ 1,012	\$ 62,462
Operating income (loss)	\$ 152,924	\$ 29,420	\$ 9,216	\$ (15,496)	\$ 176,064
Capital expenditures	\$ 158,911	\$ 29,986	\$ 4,495	\$ 1,087	\$ 194,479
As of June 30, 2007					
Segment assets	\$ 1,554,655	\$ 252,892	\$ 97,673	\$ 22,903	\$ 1,928,123
Quarter Ended June 30, 2006					
Revenue from external customers	\$ 183,270	\$ 51,150	\$ 30,116	\$	\$ 264,536
Inter-segment revenues	\$ 96	\$ 1,202	\$ 13,485	\$ (14,783)	\$
EBITDA, as defined	\$ 49,291	\$ 18,236	\$ 3,988	\$ (3,996)	\$ 67,519
Depreciation and amortization	\$ 14,001	\$ 2,284	\$ 449	\$ 265	\$ 16,999
Operating income (loss)	\$ 35,290	\$ 15,952	\$ 3,539	\$ (4,261)	\$ 50,520
Capital expenditures	\$ 57,483	\$ 12,990	\$ 2,575	\$ 379	\$ 73,427
Six Months Ended June 30, 2006					
Revenue from external customers	\$ 374,359	\$ 95,180	\$ 57,343	\$	\$ 526,882
Inter-segment revenues	\$ 105	\$ 1,638	\$ 20,951	\$ (22,694)	\$
EBITDA, as defined	\$ 103,901	\$ 34,257	\$ 7,794	\$ (7,927)	\$ 138,025
Depreciation and amortization	\$ 26,835	\$ 4,302	\$ 832	\$ 637	\$ 32,606
Operating income (loss)	\$ 77,066	\$ 29,955	\$ 6,962	\$ (8,564)	\$ 105,419
Capital expenditures	\$ 97,832	\$ 25,706	\$ 6,138	\$ 2,747	\$ 132,423
As of December 31, 2006					
Segment assets	\$ 1,369,906	\$ 245,806	\$ 96,537	\$ 28,075	\$ 1,740,324

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We do not allocate net interest expense, tax expense or minority interest to the operating segments. The following table reconciles operating income as reported above to net income from continuing operations for the quarters and six-month periods ended June 30, 2007 and 2006:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Segment operating income	\$ 83,861	\$ 50,520	\$ 176,064	\$ 105,419
Interest expense	15,064	9,488	30,689	20,170
Interest income	(316)	(1,015)	(528)	(1,022)
Income taxes	25,535	15,607	54,714	32,611
Minority interest	(205)	(161)	56	144
Net income from continuing operations	\$ 43,783	\$ 26,601	\$ 91,133	\$ 53,516

The product sales business segment results have been adjusted for discontinued operations. See Note 10, Discontinued Operations. The following table reconciles the product sales segment information as originally reported for the quarter and six months ended June 30, 2006, to the information revised for discontinued operations:

	Original Presentation	Discontinued Operations	Revised Presentation
Quarter Ended June 30, 2006			
Revenue from external customers	\$ 41,006	\$ 10,890	\$ 30,116
EBITDA, as defined	\$ 4,996	\$ 1,008	\$ 3,988
Depreciation and amortization	\$ 575	\$ 126	\$ 449
Operating income	\$ 4,421	\$ 882	\$ 3,539

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	Original Presentation	Discontinued Operations	Revised Presentation
Six Months Ended June 30, 2006			
Revenue from external customers	\$ 81,623	\$ 24,280	\$ 57,343
EBITDA, as defined	\$ 10,533	\$ 2,739	\$ 7,794
Depreciation and amortization	\$ 1,078	\$ 246	\$ 832
Operating income	\$ 9,455	\$ 2,493	\$ 6,962