Complete Production Services, Inc.
Form 10-Q
April 30, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2010

o **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	**72-1503959**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
11700 Katy Freeway, Suite 300 Houston, Texas	**77079**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 o No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of shares of the common stock, par value $0.01 per share, of the registrant outstanding as of April 27, 2010: 77,741,681

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Complete Production Services, Inc.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

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

	2010	2009
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 105,439	$ 77,360
Accounts receivable, net	206,485	171,284
Inventory, net	34,121	37,464
Prepaid expenses	15,071	17,943
Income tax receivable	56,478	57,606
Current deferred tax assets	8,158	8,158
Other current assets	163	111
Total current assets	425,915	369,926
Property, plant and equipment, net	908,692	941,133
Intangible assets, net of accumulated amortization of $16,681 and $15,476, respectively	11,597	13,243
Deferred financing costs, net of accumulated amortization of $7,028 and $6,266, respectively	11,983	12,744
Goodwill	243,823	243,823
Other long-term assets	8,115	7,985
Total assets	$ 1,610,125	$ 1,588,854
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 193	$ 228
Accounts payable	32,507	31,745
Accrued liabilities	44,647	41,102
Accrued payroll and payroll burdens	20,593	13,559
Accrued interest	15,778	3,206
Notes payable		1,069
Income taxes payable	221	813
Total current liabilities	113,939	91,722
Long-term debt	650,000	650,002
Deferred income taxes	146,415	148,240
Total liabilities	910,354	889,964
Commitments and contingencies		
Stockholders equity:		
	759	752

Common stock, $0.01 par value per share, 200,000,000 shares authorized, 75,922,199 (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	640,321	636,904
Retained earnings	39,245	42,007
Treasury stock, 164,575 (2009 54,313) shares at cost	(1,717)	(334)
Accumulated other comprehensive income	21,163	19,561
Total stockholders equity	699,771	698,890
Total liabilities and stockholders equity	$ 1,610,125	$ 1,588,854

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statements of Operations
Quarters Ended March 31, 2010 and 2009 (unaudited)

	Quarters Ended March 31, 2010	2009
	(In thousands, except per share data)	
Revenue:		
Service	$ 301,392	$ 322,917
Product	8,312	13,764
	309,704	336,681
Service expenses	206,820	211,213
Product expenses	6,124	10,495
Selling, general and administrative expenses	40,852	49,278
Depreciation and amortization	45,319	51,689
Income before interest and taxes	10,589	14,006
Interest expense	14,741	14,458
Interest income	(48)	(10)
Loss before taxes	(4,104)	(442)
Taxes	(1,342)	(106)
Net loss	$ (2,762)	$ (336)
Loss per share information:		
Basic loss per share	$ (0.04)	$ (0.00)
Diluted loss per share	$ (0.04)	$ (0.00)
Weighted average shares:		
Basic	75,699	74,895
Diluted	75,699	74,895

Consolidated Statements of Comprehensive Loss
Quarters Ended March 31, 2010 and 2009 (unaudited)

	Quarters Ended March 31, 2010	2009
	(In thousands)	
Net loss	$ (2,762)	$ (336)
Change in cumulative translation adjustment	1,602	(1,292)

Comprehensive loss	$ (1,160)	$ (1,628)

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statement of Stockholders Equity
Quarter Ended March 31, 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 loss				(2,762)			(2,762)
Cumulative translation adjustment						1,602	1,602
Issuance of common stock:							
Exercise of stock options	86,129		696				696
Expense related to employee stock options			750				750
Excess tax benefit from share-based compensation			94				94
Purchase of treasury shares	(110,262)				(1,383)		(1,383)
Vested restricted stock	667,926	7	(7)				
Amortization of non-vested restricted stock			1,884				1,884
Balance at March 31, 2010	75,922,199	$ 759	$ 640,321	$ 39,245	$ (1,717)	$ 21,163	$ 699,771

See accompanying notes to consolidated financial statements.

COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statements of Cash Flows
Quarters Ended March 31, 2010 and 2009 (unaudited)

	Quarters Ended March 31, 2010	2009
	(In thousands)	
Cash provided by (used in):		
Operating activities:		
Net loss	$ (2,762)	$ (336)
Items not affecting cash:		
Depreciation and amortization	45,319	51,689
Deferred income taxes	(1,485)	4,837
Excess tax benefit from share-based compensation	(94)	(15)
Non-cash compensation expense	2,634	3,460
Loss on non-monetary asset exchange		4,868
Provision for bad debt expense	150	1,497
Other	794	803
Changes in operating assets and liabilities:		
Accounts receivable	(34,289)	99,811
Inventory	3,391	(11,270)
Prepaid expense and other current assets	2,835	6,535
Accounts payable	741	(27,139)
Accrued liabilities and other	23,247	(2,384)
Net cash provided by operating activities	40,481	132,356
Investing activities:		
Additions to property, plant and equipment	(11,343)	(12,828)
Proceeds from disposal of capital assets	518	7,156
Net cash used in investing activities	(10,825)	(5,672)
Financing activities:		
Issuances of long-term debt		3,146
Repayments of long-term debt	(37)	(123,047)
Repayment of notes payable	(1,069)	(1,353)
Proceeds from issuances of common stock	696	25
Purchase of treasury shares	(1,383)	(68)
Excess tax benefit from share-based compensation	94	15
Net cash used in financing activities	(1,699)	(121,282)
Effect of exchange rate changes on cash	122	286
Change in cash and cash equivalents	28,079	5,688
Cash and cash equivalents, beginning of period	77,360	19,090

Cash and cash equivalents, end of period	$ 105,439	$ 24,778
Supplemental cash flow information:		
Cash paid for interest, net of interest capitalized	$ 1,384	$ 701
Cash paid (refund received) for income taxes	$ (660)	$ 2,697

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, Mexico and Southeast Asia.

References to Complete, the Company, we, our and similar phrases used throughout this Quarterly Report on Fo 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 March 31, 2010 and the statements of operations and the statements of comprehensive income for the quarters ended March 31, 2010 and 2009, as well as the statement of stockholders equity for the quarter ended March 31, 2010 and the statements of cash flows for the quarters ended March 31, 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 the Company s 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:

	March 31, 2010	**December 31, 2009**
Trade accounts receivable	$ 172,682	$ 155,871
Related party receivables	14,561	6,593
Unbilled revenue	27,535	19,409
Other receivables	2,647	1,975
	217,425	183,848
Allowance for doubtful accounts	10,940	12,564
	$ 206,485	$ 171,284

3. Inventory:

	March 31, 2010	December 31, 2009
Finished goods	$ 20,812	$ 23,435
Manufacturing parts, materials and other	13,683	14,486
Work in process	557	431
	35,052	38,352
Inventory reserves	931	888
	$ 34,121	$ 37,464

4. Property, plant and equipment:

March 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Land	$ 9,135	$	$ 9,135
Buildings	30,146	3,475	26,671
Field equipment	1,303,698	535,629	768,069
Vehicles	124,983	57,650	67,333
Office furniture and computers	17,114	9,683	7,431
Leasehold improvements	25,146	5,044	20,102
Construction in progress	9,951		9,951
	$ 1,520,173	$ 611,481	$ 908,692

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 March 31, 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 ended March 31, 2010, we recorded capitalized interest of $79 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.

Effective March 1, 2009, our Canadian subsidiary transferred certain property, plant and equipment used in our production testing business to Enseco, a competitor, in exchange for certain electric line (e-line) equipment. This exchange was determined to have commercial substance for us and therefore we recorded the new assets acquired at the fair market value of the assets surrendered which had a carrying value of $9,284. We incurred costs to sell totaling approximately $71. We determined the fair value of the assets with the assistance of a third-party appraiser, assuming an orderly liquidation methodology, to be $4,487, resulting in a loss on the exchange of $4,868. Of the total value assigned to the new assets, $4,209 was included in property, plant and equipment and $279 was included in inventory in the accompanying balance sheet as of December 31, 2009. The fair market value of the assets received was determined to be $5,497, using the same methodology applied to the assets surrendered. We believe that these e-line assets will generate cash flows in excess of the cash flows that would have been received from the production testing assets due to relatively higher demand from our customers for e-line services.

5. Notes payable:

We entered into a note arrangement to finance our annual insurance premiums for the policy term beginning December 1, 2007 and extending through April 30, 2009. Effective May 1, 2009, we renewed our insurance policies and entered into a similar financing arrangement through April 2010. We recorded a note payable of $7,960. The balance of this note at December 31, 2009 was $1,069. We repaid this amount in January 2010, resulting in a zero balance at March 31, 2010. We have a prepaid asset associated

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with our insurance policies. Our primary insurance policies extend through April 30, 2010 and we expect to renew these policies effective May 1, 2010.

6. Long-term debt:

The following table summarizes long-term debt as of March 31, 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	193	230
	650,193	650,230
Less: current maturities of long-term debt and capital leases	193	228
	$ 650,000	$ 650,002

(a) We maintain a senior secured facility (the Credit Agreement) with Wells Fargo Bank, National Association, as U.S. Administrative Agent, HSBC Bank Canada, as Canadian Administrative Agent, and certain other financial institutions. On October 13, 2009, we entered into the Third Amendment (the Credit Agreement after giving effect to the Third Amendment, the Amended Credit Agreement) and modified the structure of our existing credit facility to an asset-based facility subject to borrowing base restrictions. In connection with the Third Amendment, Wells Fargo Capital Finance, LLC (formerly known as Wells Fargo Foothill, LLC) replaced Wells Fargo Bank, National Association, as U.S. Administrative Agent and also serves as U.S. Issuing Lender and U.S. Swingline Lender under the Amended Credit Agreement. The Amended Credit Agreement provides for a U.S. revolving credit facility of up to $225,000 that matures in December 2011 and a Canadian revolving credit facility of up to $15,000 (with Integrated Production Services Ltd., one of our wholly-owned subsidiaries, as the borrower thereof (Canadian Borrower)) that matures in December 2011.

The Amended Credit Agreement includes a provision for a commitment increase , as defined therein, which permits us to effect up to two separate increases in the aggregate commitments under the Amended Credit Agreement by designating one or more existing lenders or other banks or financial institutions, subject to the bank s sole discretion as to participation, to provide additional aggregate financing up to $75,000, with each committed increase equal to at least $25,000 in the U.S., or $5,000 in Canada, and in accordance with other provisions as stipulated in the Amended Credit Agreement. Certain portions of the credit facilities are available to be borrowed in U.S. dollars, Canadian dollars and other currencies approved by the lenders.

We were in compliance with the fixed charge coverage ratio covenant in the Amended Credit Agreement as of March 31, 2010. For a discussion of the methodology to calculate the borrowing base for the U.S. and Canadian portions of the facility, as well as our debt covenant requirements, prepayment options and potential exposure in the event of a default under the Amended Credit Agreement, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K as of December 31, 2009.

All of the obligations under the U.S. portion of the

Amended Credit Agreement are secured by first priority liens on substantially all of our assets and 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 Amended Credit Agreement are guaranteed by substantially all of our U.S. subsidiaries. The obligations under the Canadian portion of the Amended Credit Agreement are secured by first priority liens on substantially all of our assets and the assets of our subsidiaries (other than our Mexican subsidiary). Additionally, all of the obligations under the Canadian portion of the Amended Credit Agreement are guaranteed by us as well as certain of our subsidiaries.

Subject to certain limitations set forth in the Amended Credit Agreement, we have the ability to elect how interest under the Amended Credit Agreement will be computed. Interest under the Amended Credit Agreement may be determined by reference to (1) the London Inter-bank Offered Rate, or LIBOR, plus an applicable margin between 3.75% and 4.25% per annum (with the applicable margin depending upon our excess availability amount , as defined in the Amended Credit Agreement) or (2) the Base Rate (which means the higher of the Prime Rate, Federal Funds Rate plus 0.50%, 3-month LIBOR plus 1.00% and 3.50%), plus the applicable margin, as described above. For the period from the effective date of the Third Amendment until the six month anniversary of the effective date of the Third Amendment, interest will be computed as described above with an applicable margin rate of 4.00%. If an event of default exists or continues under the Amended Credit Agreement, advances will bear interest as described above with an applicable margin rate of 4.25% plus 2.00%. Additionally, if an event of default exists under the Amended Credit Agreement, as defined therein, the lenders could accelerate the maturity of the obligations outstanding thereunder and exercise other rights and remedies. Interest is payable monthly.

There were no borrowings outstanding under our U.S. or Canadian revolving credit facilities as of or during the