Complete Production Services, Inc.
Form 10-Q
May 15, 2006

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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, 2006

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 No. 1-32058

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 Old Katy Road, 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 o Noþ
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 o	Accelerated filer o	Non-accelerated filer þ

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 of the registrant outstanding as of May 1, 2006: 70,573,490

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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, 2006 (unaudited) and December 31, 2005

	2006	2005
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,065	$ 11,405
Trade accounts receivable, net	198,929	167,395
Inventory, net	44,846	41,290
Prepaid expenses	23,850	25,404
Other current assets	70	1,992
Total current assets	279,760	247,486
Property, plant and equipment, net	436,596	384,580
Intangible assets, net of accumulated amortization of $2,911 and $2,487, respectively	4,565	4,967
Deferred financing costs, net of accumulated amortization of $225 and $96, respectively	2,094	2,048
Goodwill	336,378	298,297
Other long-term assets	280	275
Total assets	$ 1,059,673	$ 937,653
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 5,804	$ 5,953
Accounts payable	63,872	50,693
Accrued liabilities	40,320	40,972
Unearned revenue	5,207	6,407
Notes payable	6,893	14,985
Taxes payable	11,204	1,193
Total current liabilities	133,300	120,203
Long-term debt	562,965	509,990
Deferred income taxes	53,752	54,334
Minority interest	2,664	2,365
Total liabilities	752,681	686,892
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value per share, 200,000,000 shares authorized, 56,779,460 (2005 55,531,510) issued	568	555

Preferred stock, $0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	245,206	220,786
Retained earnings	44,998	16,885
Treasury stock, 35,570 shares at cost	(202)	(202)
Deferred compensation		(3,803)
Accumulated other comprehensive income	16,422	16,540
Total stockholders equity	306,992	250,761
Total liabilities and stockholders equity	$ 1,059,673	$ 937,653

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statements of Operations
Three Months Ended March 31, 2006 and 2005 (unaudited)

	Three Months Ended March 31, 2006	2005
	(In thousands, except per share data)	
Revenue:		
Service	$ 235,119	$ 131,987
Product	40,617	29,264
	275,736	161,251
Service expenses	135,511	79,670
Product expenses	30,373	22,583
Selling, general and administrative expenses	37,608	21,886
Depreciation and amortization	15,727	9,774
Income before interest, taxes and minority interest	56,517	27,338
Interest expense	10,682	4,015
Income before taxes and minority interest	45,835	23,323
Taxes	17,417	8,356
Income before minority interest	28,418	14,967
Minority interest	305	3,212
Net income	$ 28,113	$ 11,755
Earnings per share:		
Basic	$ 0.51	$ 0.28
Diluted	$ 0.48	$ 0.26
Weighted average shares:		
Basic	55,601	41,471
Diluted	58,783	45,860

Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2006 and 2005 (unaudited)

	Three Months Ended March 31, 2006	2005
	(In thousands)	
Net income	$ 28,113	$ 11,755
Change in cumulative translation adjustment	(118)	(264)

Comprehensive income	$ 27,995	$ 11,491

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statement of Stockholders Equity
Three Months Ended March 31, 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
Net income					28,113			28,113
Cumulative translation adjustment							(118)	(118)
Issuance of common stock:								
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	15,474		69					69
Expense related to employee stock options			77					77
Excess tax benefit from share-based compensation			109					109
Issuance of non-vested restricted stock			609			(609)		
Vesting of restricted stock	68,266	1	(1)					
Amortization of deferred compensation						622		622
Adoption of SFAS No. 123R			(3,790)			3,790		
Balance at March 31, 2006	56,779,460	$ 568	$ 245,206	$ (202)	$ 44,998	$	$ 16,422	$ 306,992

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2006 and 2005 (unaudited)

	Three Months Ended March 31,	
	2006	2005
	(In thousands)	
Cash provided by (used in):		
Operating activities:		
Net income	$ 28,113	$ 11,755
Items not affecting cash:		
Depreciation and amortization	15,727	9,774
Deferred income taxes	2,422	5,514
Minority interest	306	3,212
Excess tax benefit from share-based compensation	(109)	
Other	1,561	610
Changes in operating assets and liabilities:		
Accounts receivable	(30,426)	(35,923)
Inventory	(4,104)	(8,398)
Prepaid expense and other current assets	2,005	(2,705)
Accounts payable	18,240	14,581
Accrued liabilities and other	(2,207)	2,639
Other	(221)	136
	31,307	1,195
Investing activities:		
Business acquisitions, net of cash acquired	(18,410)	(10,033)
Additions to property, plant and equipment	(58,882)	(20,117)
Proceeds from disposal of capital assets	1,944	
	(75,348)	(30,150)
Financing activities:		
Issuances of long-term debt	116,295	215,670
Repayments of long-term debt	(63,977)	(178,112)
Net repayments under lines of credit		(18,967)
Repayment of notes payable	(7,691)	(779)
Proceeds from issuances of common stock	69	10,000
Repurchase of common stock/warrants		(458)
Deferred financing fees		(1,543)
Excess tax benefit from share-based compensation	109	
	44,805	25,811
Effect of exchange rate changes on cash	(104)	(191)
Change in cash and cash equivalents	660	(3,335)

Cash and cash equivalents, beginning of period		11,405		11,547
Cash and cash equivalents, end of period	$	12,065	$	8,212
Supplemental cash flow information:				
Cash paid for interest	$	10,429	$	3,272
Cash paid for taxes	$	5,484	$	1,276
Significant non-cash investing and financing activities:				
Common stock issued for acquisitions	$	27,359	$	19,065
Non-cash assets as acquisition consideration	$		$	2,899
Debt acquired in acquisition	$	534	$	750

See accompanying notes to consolidated financial statements.

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 (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 13, Subsequent Events.

(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, 2006 and the statements of operations, comprehensive income, stockholders equity and cash flows for the three months ended March 31, 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. These reclassifications had no impact on reported net income.

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2. Business combinations:

(a) Acquisitions During the Quarter Ended March 31, 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. The results of operations for Outpost have been included in our accounts and operating results from the date of acquisition. We recorded goodwill of $2,470 resulting from this acquisition, which has been allocated entirely to the completion and production services business segment. The purchase price allocation has not yet been finalized.

The following table summarizes the preliminary purchase price allocation:

Net assets acquired:	
Property, plant and equipment	$ 4,297
Non-cash working capital	(225)
Goodwill	2,470
Net assets acquired	$ 6,542
Consideration:	
Cash	$ 6,542

We believe that the assets acquired in this transaction will supplement 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 $11,854, net of cash acquired and debt assumed. Rosel has operations in Kansas and Oklahoma. The results of operations for Rosel have been included in our accounts and operating results from the date of acquisition. We recorded goodwill of $8,239 resulting from this acquisition, which has been allocated entirely to the completion and production services business segment. The purchase price allocation has not yet been finalized and is subject to a final working capital adjustment.

The following table summarizes the preliminary purchase price allocation:

Net assets acquired:	
Property, plant and equipment	$ 5,615
Non-cash working capital	379
Goodwill (no tax basis)	8,239
Deferred tax liabilities	(1,845)
Net assets acquired	$ 12,388
Consideration:	
Cash, net of cash and cash equivalents acquired	$ 11,854
Debt assumed	534
Consideration	$ 12,388

We expect this acquisition to extend our presence in the Mid-continent region and enhance our completion and production services business.

(b) Acquisitions During the Quarter Ended March 31, 2005:

(i) Parchman Energy Group, Inc. (Parchman):

On February 11, 2005, we acquired all of the common shares of Parchman in a business combination accounted for as a purchase. Parchman performs coiled tubing services, well testing services, snubbing services and wireline services in Louisiana, Texas, Wyoming and Mexico. The results of operations for Parchman were included in our accounts and results of operations from the date of acquisition. In addition, the purchase agreement provided for the issuance of up to 1,000,000 shares of our common stock based upon certain operating results of Parchman in the United States. Effective March 31, 2006, we issued

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1,000,000 shares of our common stock pursuant to this provision and recorded goodwill totaling $23,500. Total goodwill for the Parchman acquisition was $46,375 as of March 31, 2006, and has been allocated entirely to the completion and production services business segment. Intangible assets other than goodwill totaled $459 and included customer relationships and patents that are being amortized over a three to five year period. In addition, we awarded 344,664 shares of non-vested restricted common stock to certain former Parchman employees, which will vest over a three-year term. Of these restricted shares, 179,824 shares vested and 6,363 shares were forfeited as of March 31, 2006. We recorded deferred compensation associated with these shares totaling $2,152, net of forfeitures, of which we have recognized expense totaling $1,144, including $166 of net expense for the three months ended March 31, 2006.

The following table summarizes the Parchman purchase price allocation:

Net assets acquired:	
Non-cash working capital	$ (963)
Property, plant and equipment	49,975
Intangible assets	459
Goodwill (no tax basis)	46,375
Long-term debt	(32,017)
Deferred income taxes	(8,608)
Net assets acquired	$ 55,221
Consideration:	
Cash, net of cash and cash equivalents acquired	$ 9,833
Subordinated note	5,000
Issuance of common stock (3,655,336 shares)	40,388
Consideration	$ 55,221

The price of our common shares was based on internal calculations of the fair value and consultations with the seller.

(ii) Premier Integrated Technologies (Premier):

On January 1, 2005, we acquired a 50% interest in Premier in a business combination accounted for as a purchase. Premier provides optimization services in Alberta, British Columbia and Saskatchewan. We have consolidated Premier in our accounts and recorded its operating results from the date of acquisition. We recorded the minority interest ownership as a reduction of net assets. Goodwill of $997 resulted from this acquisition and was allocated entirely to the completion and production services segment.

The following table summarizes the purchase price allocated to our 50% interest in Premier:

Net assets acquired:	
Non-cash working capital	$ 2,390
Property, plant and equipment	2,164
Goodwill	997
Long-term debt	(750)
Minority interest	(1,902)
Net assets acquired	$ 2,899
Consideration:	
Non-cash working capital	$ 1,559
Property, plant and equipment	1,340

Consideration	$ 2,899

The following table provides pro forma information for Complete for the three months ended March 31, 2006 and 2005, related to the acquisitions of Outpost, Rosel and Parchman, assuming complete acquisition occurred on January 1, 2005:

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	Pro Forma Results Three Months Ended March 31,	
	2006	2005
Revenue	$ 276,551	$ 170,694
Income before taxes and minority interest	45,989	24,172
Net income	28,207	12,254
Earnings per share:		
Basic	$ 0.51	$ 0.30
Diluted	$ 0.48	$ 0.27

We calculated the pro forma results for Outpost and Rosel by annualizing results obtained for the period, pro-rated for the quarter, from the date of acquisition through March 31, 2006 and based upon certain management assumptions, including debt service costs computed at an assumed rate of 7% to finance the transaction, net of tax effect calculated at the statutory rate of 35%. For the Parchman transaction, a similar calculation was performed for the period between the date of acquisition and March 31, 2005. Because the operations of Parchman were included in the actual results for the three months ended March 31, 2006, no pro forma adjustment was required during that period related to the Parchman operations.

3. Inventory:

	March 31, 2006	December 31, 2005
	(unaudited)	
Finished goods	$ 32,174	$ 30,306
Manufacturing parts and materials	14,657	12,966
Bulk fuel	42	88
	46,873	43,360
Inventory reserves	2,027	2,070