

Complete Production Services, Inc.

Form 10-K

March 09, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(MARK ONE)

- b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 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. 1-32858

Complete Production Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

**11700 Old Katy Road, Suite 300
Houston, Texas**

(Address of principal executive offices)

72-1503959

*(I.R.S. Employer
Identification No.)*

77079

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, \$.01 par value
(Title of class)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant is a well-know seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Exchange Act.:
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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$993,166,209, based upon the price at which our common stock was last sold on that date.

Number of shares of the Common Stock of the registrant outstanding as of March 1, 2007: 72,277,676

DOCUMENTS INCORPORATED BY REFERENCE

Description	Part of 10-K into Which Incorporated
Definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 with respect to the 2007 Annual Meeting of Stockholders	Part III Items 10, 11, 12, 13 and 14

Complete Production Services, Inc.

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Certification of CFO Pursuant to Rule 13a-14(a)

Certification of CEO Pursuant to Section 1350

Certification of CFO Pursuant to Section 1350

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PART I

Item 1. *Business*

Our Company

Complete Production Services, Inc., formerly named Integrated Production Services, Inc., is a Delaware corporation formed on May 22, 2001. We provide specialized services and products focused on helping oil and gas companies develop hydrocarbon reserves, reduce costs and enhance production. We focus on basins within North America that we believe have attractive long-term potential for growth, and we deliver targeted, value-added services and products required by our customers within each specific basin. We believe our range of services and products positions us to meet many needs of our customers at the wellsite, from drilling and completion through production and eventual abandonment. We seek to differentiate ourselves from our competitors through our local leadership, our basin-level expertise and the innovative application of proprietary and other technologies. We deliver solutions to our customers that we believe lower their costs and increase their production in a safe and environmentally friendly manner. Virtually all our operations are located in basins within North America, where we manage our operations from regional field service facilities located throughout the U.S. Rocky Mountain region, Texas, Oklahoma, Louisiana, Arkansas, Kansas, western Canada and Mexico. We also have operations in Southeast Asia.

The Combination

Prior to 2001, SCF Partners, a private equity firm that focuses on investments in the oilfield services segment of the energy industry, began to target investment opportunities in service oriented companies in the North American natural gas market with specific focus on the completion and production phase of the exploration and production cycle. On May 22, 2001, SCF Partners through a limited partnership, SCF-IV, L.P. (SCF), formed Saber, a new company, in connection with its acquisition of two companies primarily focused on completion and production related services in Louisiana. In July 2002, SCF became the controlling stockholder of Integrated Production Services, Ltd., a production enhancement company that, at the time, focused its operation in Canada. In September 2002, Saber acquired this company and changed its name to Integrated Production Services, Inc. (IPS). Subsequently, IPS began to grow organically and through several acquisitions, with the ultimate objective of creating a technical leader in the enhancement of natural gas production. In November 2003, SCF formed another production services company, Complete Energy Services, Inc. (CES), establishing a platform from which to grow in the Barnett Shale region of north Texas. Subsequently, through organic growth and several acquisitions, CES extended its presence to the U.S. Rocky Mountain and the Mid-continent regions. In the summer of 2004, SCF formed I.E. Miller Services, Inc. (IEM), which at the time had a presence in Louisiana and Texas. During 2004, IPS and IEM independently began to execute strategic initiatives to establish a presence in both the Barnett Shale and U.S. Rocky Mountain regions.

On September 12, 2005, IPS, CES and IEM were combined and became Complete Production Services, Inc. in a transaction we refer to as the Combination. In the Combination, IPS served as the acquirer. Immediately after the Combination, SCF held approximately 70% of our outstanding common stock, the former CES stockholders (other than SCF) in the aggregate held approximately 18.8% of our outstanding common stock, the former IEM stockholders (other than SCF) in the aggregate held approximately 2.4% of our outstanding common stock and the former IPS stockholders (other than SCF) in the aggregate held approximately 8.4% of our outstanding common stock.

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.

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Our Operating Segments

Our business is comprised of three segments:

Completion and Production Services. Through our completion and production services segment, we establish, maintain and enhance the flow of oil and gas throughout the life of a well. This segment is divided into the following primary service lines:

Intervention Services. Well intervention requires the use of specialized equipment to perform an array of wellbore services. Our fleet of intervention service equipment includes coiled tubing units, pressure pumping units, nitrogen units, well service rigs, snubbing units and a variety of support equipment. Our intervention services provide customers with innovative solutions to increase production of oil and gas. For example, in the Barnett Shale region of north Texas we operate advanced coiled tubing units that have electric-line conductors within the units' coiled tubing string. These specially configured units can deploy perforating guns, logging tools and plugs, without a separate electric-line unit in high inclination and horizontal wells that are prevalent throughout that basin.

Downhole and Wellsite Services. Our downhole and wellsite services include electric-line, slickline, production optimization, production testing, rental and fishing services. We also offer several proprietary services and products that we believe create significant value for our customers. Examples of these proprietary services and products include: (1) our Green Flowback system, which permits the flow of gas to our customers while performing drill-outs and flowback operations, increasing production, accelerating time to production and eliminating the need to flare gas, and (2) our patented plunger lift system that, when combined with our diagnostic and installation services, removes fluids from gas wells resulting in increased production and the extension of the life of the well.

Fluid Handling. We provide a variety of services to help our customers obtain, move, store and dispose of fluids that are involved in the development and production of their reservoirs. Through our fleet of specialized trucks, frac tanks and other assets, we provide fluid transportation, heating, pumping and disposal services for our customers.

Drilling Services. Through our drilling services segment, we provide services and equipment that initiate or stimulate oil and gas production by providing land drilling, specialized rig logistics and site preparation. Our drilling rigs currently operate in and around the Barnett Shale region of north Texas.

Product Sales. Through our product sales segment, we provide a variety of equipment used by oil and gas companies throughout the lifecycle of their wells. Our current product offering includes completion, flow control and artificial lift equipment as well as tubular goods. We sell products throughout North America primarily through our supply stores. We also sell products through agents in markets outside of North America.

Our Industry

Our business depends on the level of exploration, development and production expenditures made by our customers. These expenditures are driven by the current and expected future prices for oil and gas, and the perceived stability and sustainability of those prices. Our business is primarily driven by natural gas drilling activity in North America. We believe the following two principal economic factors will positively affect our industry in the coming years:

Higher demand for natural gas in North America. We believe that natural gas will be in high demand in North America over the next several years because of the growing popularity of this clean-burning fuel. According to the International Energy Association's 2004 World Energy Outlook, natural gas demand in North America (United States, Canada and Mexico) is projected to grow by approximately 45% from 2002 to 2030.

Constrained North American gas supply. Although the demand for natural gas is projected to increase, supply is likely to be constrained as North American natural gas basins are becoming more mature and experiencing increased decline rates. Even though the number of wells drilled in North America has

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increased significantly in recent years, a corresponding increase in domestic production has not occurred. As a result, producers are required to increase drilling just to maintain flat production. To supply the growing demand for natural gas, the primary alternatives are to increase drilling, enhance recovery rates or import LNG from overseas. To date minimal increases have occurred, although many forecasts anticipate a material increase of LNG imports in the future.

As a result of the above factors, we expect that there will continue to be a tight supply of, and high demand for, natural gas in North America. We believe this will continue to support high natural gas prices and high levels of drilling activity.

As illustrated in the table below, 2005 marked the third consecutive year of gas price increases and the fourth consecutive year of oil price increases. During 2006, oil commodity prices continued to increase due to worldwide demand for energy and other global and domestic economic factors, while natural gas prices decreased from recent record levels due to short-term oversupply in the market, but still remained high compared to historical averages. The price of a barrel of crude oil reached an all-time high during 2006. The number of drilling rigs under contract in the United States and Canada and the number of well service rigs have increased over the three-year period ended December 31, 2006, according to Baker Hughes Incorporated (BHI). The table below sets forth average daily closing prices for the WTI Cushing spot oil price and the average daily closing prices for the Henry Hub price for natural gas since 1999:

Period	Average Daily Closing Henry Hub Spot Natural Gas Prices (\$/mcf)	Average Daily Closing WTI Cushing Spot Oil Price (\$/bbl)
1/1/99 12/31/99	\$ 2.27	\$ 19.30
1/1/00 12/31/00	4.31	30.37
1/1/01 12/31/01	3.99	25.96
1/1/02 12/31/02	3.37	26.17
1/1/03 12/31/03	5.49	31.06
1/1/04 12/31/04	5.90	41.51
1/1/05 12/31/05	8.89	56.56
1/1/06 12/31/06	6.73	66.09
1/1/07 3/1/07	7.23	56.81

Source: Bloomberg NYMEX prices.

Continued demand for natural gas and a constrained gas supply have resulted in higher prices and increased drilling activity. The increase in prices and drilling activity are driving the following long-term trends that we believe will benefit us:

Trend toward drilling and developing unconventional North American natural gas resources. Due to the maturity of conventional North American oil and gas reservoirs and their accelerating production decline rates, unconventional oil and gas resources will comprise an increasing proportion of future North American oil and gas production. Unconventional resources include tight sands, shales and coalbed methane. These resources require more wells to be drilled and maintained, frequently on tighter acreage spacing. The appropriate technology to recover unconventional

gas resources varies from region to region; therefore, knowledge of local conditions and operating procedures, and selection of the right technologies is key to providing customers with appropriate solutions.

The advent of the resource play. A resource play is a term used to describe an accumulation of hydrocarbons known to exist over a large area which, when compared to a conventional play, has lower commercial development risks and a higher average decline rate. Once identified, resource plays have the potential to make a material impact because of their size and long reserve life. The application of appropriate technology and program execution are important to obtain value from resource plays. Resource play developments occur over long periods of time, well by well, in large-scale developments that repeat common tasks in an assembly-line fashion and capture economies of scale to drive down costs.

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Complex technologies and Equipment. Increasing prices and the development of unconventional oil and gas resources are driving the need for complex, new technologies and equipment to help increase recovery rates, lower production costs and accelerate field development.

Our Business Strategy

Our goal is to build the leading oilfield services company focused on the completion and production phases in the life of an oil and gas well. We intend to capitalize on the emerging trends in the North American marketplace through the execution of a growth strategy that consists of the following components:

Expand and capitalize on local leadership and basin-level expertise. A key component of our strategy is to build upon our base of strong local leadership and basin-level expertise. We have a significant presence in most of the key onshore continental U.S. and Canadian gas plays we believe have the potential for long-term growth. Our position in these basins capitalizes on our strong local leadership that has accumulated a valuable knowledge base and strong customer relationships. We intend to leverage our existing market presence, expertise and customer relationships to expand our business within these gas plays. We also intend to replicate this approach in new regions by building and acquiring new businesses that have strong regional management with extensive local knowledge.

Develop and deploy technical and operational solutions. We are focused on developing and deploying technical services, equipment and expertise that lower our customers' costs.

Capitalize on organic and acquisition-related growth opportunities. We believe there are numerous opportunities to sell new services and products to customers in our current geographic areas and to sell our current services and products to customers in new geographic areas. We have a proven track record of organic growth and successful acquisitions, and we intend to continue using capital investments and acquisitions to strategically expand our business. We employ a rigorous acquisition screening process and have developed comprehensive post-acquisition integration capabilities designed to ensure each acquisition is effectively assimilated. We use a returns method for evaluating capital investment opportunities, and we apply a disciplined approach to adding new equipment.

Focus on execution and performance. We have established and intend to develop further a culture of performance and accountability. Senior management spends a significant portion of its time ensuring that our customers receive the highest quality of service by focusing on the following:

clear business direction;

thorough planning process;

clearly defined targets and accountabilities;

close performance monitoring;

strong performance incentives for management and employees; and

effective communication.

Our Competitive Strengths

We believe that we are well positioned to execute our strategy and capitalize on opportunities in the North American oil and gas market based on the following competitive strengths:

Strong local leadership and basin-level expertise. We operate our business with a focus on each regional basin complemented by our local reputations. We believe our local and regional businesses, some of which have been operating for more than 50 years, provide us with a significant advantage over many of our competitors. Our managers, sales engineers and field operators have extensive expertise in their local geological basins and understand the regional challenges our customers face. We have long-term relationships with many customers, and most of the services and products we offer are sold or contracted at a local level, allowing our operations personnel to bring their expertise to bear while selling services and products to our

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customers. We strive to leverage this basin-level expertise to establish ourselves as the preferred provider of our services in the basins in which we operate.

Significant presence in major North American basins. We operate in major oil and gas producing regions of the U.S. Rocky Mountains, Texas, Louisiana, Arkansas, Kansas and Oklahoma, western Canada and Mexico, with concentrations in key resource play and unconventional basins. Resource plays are expected to become increasingly important in future North American oil and gas production as more conventional resources enter later stages of the exploration and development cycle. We believe we have an excellent position in highly active markets such as the Barnett Shale region of north Texas, the Fayetteville Shale in Arkansas and the Piceance Basin in Colorado, for example. Each of these markets is among the most active areas for exploration and development of onshore oil and gas. Accelerating production and driving down development and production costs are key goals for oil and gas operators in these areas, resulting in strong demand for our services and products. In addition, our strong presence in these regions allows us to build solid customer relationships and take advantage of cross-selling opportunities.

Focus on complementary production and field development services. Our breadth of service and product offerings positions us well relative to our competitors. Our services encompass the entire lifecycle of a well from drilling and completion, through production and eventual abandonment. We deliver complementary services and products, which we may provide in tandem or sequentially over the life of the well. This suite of services and products gives us the opportunity to cross-sell to our customer base and throughout our geographic regions. Leveraging our strong local leadership and basin-level expertise, we are able to offer expanded services and products to existing customers or current services and products to new customers.

Innovative approach to technical and operational solutions. We develop and deploy services and products that enable our customers to increase production rates, stem production declines and reduce the costs of drilling, completion and production. The significant expertise we have developed in our areas of operation offers our customers customized operational solutions to meet their particular needs. Our ability to develop these technical and operational solutions is possible due to our understanding of applicable technology, our basin-level expertise and our close local relationships with customers.

Modern and active asset base. We have a modern and well-maintained fleet of coiled tubing units, pressure pumping equipment, wireline units, well service rigs, snubbing units, fluid transports, frac tanks and other specialized equipment. We believe our ongoing investment in our equipment allows us to better serve the diverse and increasingly challenging needs of our customer base. New equipment is generally less costly to maintain and operate on an annual basis and is more efficient for our customers. Modern equipment reduces the downtime and associated expenditures and enables the increased utilization of our assets. We believe our future expenditures will be used to capitalize on growth opportunities within the areas we currently operate and to build out new platforms obtained through targeted acquisitions.

Experienced management team with proven track record. Each member of our operating management team has extensive experience in the oilfield services industry. We believe that their considerable knowledge of and experience in our industry enhances our ability to operate effectively throughout industry cycles. Our management also has substantial experience in identifying, completing and integrating acquisitions. In addition, our management supports local leadership by developing corporate strategy, implementing corporate governance procedures and overseeing a company-wide safety program.

Overview of Our Segments

We manage our business through three segments: completion and production services, drilling services and product sales. Within each of these segments, we perform services and deliver products, as detailed in the table below. We

constantly monitor the North American market for opportunities to expand our business by building our presence in existing regions and expanding our services and products into attractive, new regions.

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See Note 17 of the notes to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K for financial information about our operating segments and about geographic areas.

Product/Service Offering	Gulf Coast		Central & Eastern		DJ Basin		Western Slope		Western North Canadian	
	North Texas	South Texas	East Texas	South Louisiana	West Oklahoma	East Oklahoma	Arkansas (CO & UT)	Wyoming	Rocky Mountain (MT & ND)	Basin Mexico
Completion and Production Services:										
Coiled Tubing	ü	ü	ü	ü	ü	ü			ü	ü
Pressure Pumping	ü									
Well Servicing	ü	ü	ü		ü		ü	ü	ü	
Snubbing	ü	ü						ü		
Electric-line	ü			ü	ü	ü				ü
Slickline	ü	ü	ü							ü
Production Optimization	ü	ü	ü		ü			ü	ü	ü
Production Testing	ü	ü	ü					ü	ü	ü
Rental Equipment	ü		ü		ü	ü	ü	ü		ü
Pressure Testing								ü	ü	ü
Fluid Handling	ü	ü	ü		ü	ü	ü	ü	ü	
Drilling Services:										
Contract Drilling	ü									
Drilling Logistics	ü	ü	ü	ü	ü			ü		