

Complete Production Services, Inc.  
Form 10-Q  
October 31, 2008

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

**Form 10-Q**

**(MARK ONE)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**

**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**

**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  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares of the Common Stock of the registrant outstanding as of October 27, 2008: 74,952,003



**INDEX TO FINANCIAL STATEMENTS**  
**Complete Production Services, Inc.**

|  | <b>Page</b> |
|--|-------------|
| <b>PART I FINANCIAL INFORMATION</b>  |             |
| <b>Item 1. Financial Statements.</b>   |             |
| Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007   | 3           |
| Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income for the Quarters and Nine Months Ended September 30, 2008 and 2007 | 4           |
| Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2008  | 5           |
| Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007  | 6           |
| Notes to Consolidated Financial Statements   | 7           |
| <b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</b>  | 25          |
| <b>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</b>   | 38          |
| <b>Item 4. Controls and Procedures.</b>  | 39          |
| <b>PART II OTHER INFORMATION</b>   |             |
| <b>Item 1. Legal Proceedings.</b>  | 39          |
| <b>Item 1A. Risk Factors.</b>  | 40          |
| <b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</b>  | 40          |
| <b>Item 3. Defaults Upon Senior Securities.</b>  | 40          |
| <b>Item 4. Submission of Matters to a Vote of Security Holders.</b>  | 40          |
| <b>Item 5. Other Information.</b>  | 40          |
| <b>Item 6. Exhibits.</b>   | 40          |
| Signature  | 42          |

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****COMPLETE PRODUCTION SERVICES, INC.****Consolidated Balance Sheets****September 30, 2008 (unaudited) and December 31, 2007**

|   | <b>2008</b>                                  | <b>2007</b>  |
|---|--|--------------|
|   | <b>(In thousands, except<br/>share data)</b> |              |
| <b>ASSETS</b>   |  |              |
| Current assets:   |  |              |
| Cash and cash equivalents   | \$ 8,543                                     | \$ 13,624    |
| Trade accounts receivable, net  | 357,853                                      | 305,682      |
| Inventory, net  | 38,032                                       | 29,877       |
| Prepaid expenses  | 25,213                                       | 23,743       |
| Other current assets  | 14,422                                       | 5,092        |
| Current assets held for sale  |  | 50,307       |
| Total current assets  | 444,063                                      | 428,325      |
| Property, plant and equipment, net  | 1,115,713                                    | 1,013,190    |
| Intangible assets, net of accumulated amortization of \$8,454 and \$5,762,<br>respectively        | 14,808                                       | 10,606       |
| Deferred financing costs, net of accumulated amortization of \$3,716 and \$2,455,<br>respectively | 12,933                                       | 14,194       |
| Goodwill  | 569,092                                      | 549,130      |
| Other long-term assets  | 3,866  | 6,264        |
| Long-term assets held for sale  |  | 33,050       |
| Total assets  | \$ 2,160,475                                 | \$ 2,054,759 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |  |              |
| Current liabilities:  |  |              |
| Current maturities of long-term debt  | \$ 3,841                                     | \$ 398       |
| Accounts payable  | 63,683                                       | 56,407       |
| Accrued liabilities   | 63,549                                       | 52,572       |
| Accrued payroll and payroll burdens   | 17,366                                       | 24,050       |
| Accrued interest  | 16,766                                       | 4,553        |
| Notes payable   | 2,707  | 15,354       |
| Taxes payable   | 2,560  | 6,506        |
| Current liabilities of held for sale operations   |  | 9,705        |
| Total current liabilities   | 170,472                                      | 169,545      |
| Long-term debt  | 751,545                                      | 825,985      |
| Deferred income taxes   | 154,658                                      | 126,821      |
| Long-term liabilities of held for sale operations   |  | 2,085        |
| Total liabilities   | 1,076,675                                    | 1,124,436    |
| Commitments and contingencies   |  |              |

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

Stockholders' equity:

|  |                  |                  |
|--|------------------|------------------|
| Common stock, \$0.01 par value per share, 200,000,000 shares authorized,<br>74,106,126<br>(2007 72,509,511) issued | 741              | 725              |
| Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized, no shares<br>issued and outstanding      |                  |                  |
| Additional paid-in capital   | 610,842          | 581,404          |
| Retained earnings  | 446,637          | 317,535          |
| Treasury stock, 35,570 shares at cost  | (202)            | (202)            |
| Accumulated other comprehensive income   | 25,782           | 30,861           |
| <br>Total stockholders' equity   | <br>1,083,800    | <br>930,323      |
| <br>Total liabilities and stockholders' equity   | <br>\$ 2,160,475 | <br>\$ 2,054,759 |

See accompanying notes to consolidated financial statements.

**COMPLETE PRODUCTION SERVICES, INC.**  
**Consolidated Statements of Operations**  
**Quarters and Nine Months Ended September 30, 2008 and 2007 (unaudited)**

|  | <b>Quarter Ended</b>                         |             | <b>Nine Months Ended</b> |              |
|--|--|-------------|--------------------------|--------------|
|  | <b>September 30,</b>                         |             | <b>September 30,</b>     |              |
|  | <b>2008</b>                                  | <b>2007</b> | <b>2008</b>              | <b>2007</b>  |
|  | <b>(In thousands, except per share data)</b> |             |                          |              |
| Revenue:   |  |             |                          |              |
| Service  | \$ 479,996                                   | \$ 364,900  | \$ 1,310,807             | \$ 1,075,247 |
| Product  | 13,237                                       | 8,505       | 40,689                   | 31,194       |
|  | 493,233                                      | 373,405     | 1,351,496                | 1,106,441    |
| Service expenses   | 290,166                                      | 219,367     | 800,451                  | 619,239      |
| Product expenses   | 8,888  | 5,458       | 27,438                   | 21,743       |
| Selling, general and administrative expenses   | 50,443                                       | 42,221      | 141,966                  | 133,639      |
| Depreciation and amortization  | 47,695                                       | 34,185      | 129,983                  | 94,514       |
| Income before interest, taxes and minority interest  | 96,041                                       | 72,174      | 251,658                  | 237,306      |
| Interest expense   | 14,647                                       | 16,667      | 46,077                   | 47,335       |
| Interest income  | (680)  | (484)       | (2,067)                  | (1,012)      |
| Income before taxes and minority interest  | 82,074                                       | 55,991      | 207,648                  | 190,983      |
| Taxes  | 29,731                                       | 17,483      | 73,687                   | 68,098       |
| Income before minority interest  | 52,343                                       | 38,508      | 133,961                  | 122,885      |
| Minority interest  |  | (283)       |                          | (227)        |
| Income from continuing operations  | 52,343                                       | 38,791      | 133,961                  | 123,112      |
| Income (loss) from discontinued operations (net of tax expense of \$0, \$1,697, \$3,865 and \$5,796, respectively) | (153)  | 2,817       | (4,859)                  | 9,629        |
| Net income   | \$ 52,190                                    | \$ 41,608   | \$ 129,102               | \$ 132,741   |
| Earnings per share information:  |  |             |                          |              |
| Continuing operations  | \$ 0.71                                      | \$ 0.54     | \$ 1.83                  | \$ 1.71      |
| Discontinued operations  | (0.00)                                       | 0.04        | (0.07)                   | 0.14         |
| Basic earnings per share   | \$ 0.71                                      | \$ 0.58     | \$ 1.76                  | \$ 1.85      |
| Continuing operations  | \$ 0.70                                      | \$ 0.53     | \$ 1.80                  | \$ 1.68      |
| Discontinued operations  | (0.00)                                       | 0.04        | (0.06)                   | 0.13         |
| Diluted earnings per share   | \$ 0.70                                      | \$ 0.57     | \$ 1.74                  | \$ 1.81      |

Weighted average shares:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 73,935 | 72,191 | 73,225 | 71,873 |
| Diluted | 75,008 | 73,495 | 74,370 | 73,296 |

**Consolidated Statements of Comprehensive Income**  
**Quarters and Nine Months Ended September 30, 2008 and 2007 (unaudited)**

|   | <b>Quarter Ended</b>  |             | <b>Nine Months Ended</b> |             |
|---|-----------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>  |             | <b>September 30,</b>     |             |
|   | <b>2008</b>           | <b>2007</b> | <b>2008</b>              | <b>2007</b> |
|   | <b>(In thousands)</b> |             | <b>(In thousands)</b>    |             |
| Net income                                  | \$ 52,190             | \$ 41,608   | \$ 129,102               | \$ 132,741  |
| Change in cumulative translation adjustment | (2,540)               | 6,227       | (5,079)                  | 14,079      |
| Comprehensive income                        | \$ 49,650             | \$ 47,835   | \$ 124,023               | \$ 146,820  |

See accompanying notes to consolidated financial statements.

**COMPLETE PRODUCTION SERVICES, INC.**  
**Consolidated Statement of Stockholders Equity**  
**Nine Months Ended September 30, 2008 (unaudited)**

|  | <b>Number<br/>of Shares</b> | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Treasury<br/>Stock</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Total</b> |
|--|-----------------------------|-------------------------|---|------------------------------|---------------------------|---|--------------|
|  |                             |                         | (In thousands, except share data)         |                              |                           |   |              |
| Balance at<br>December 31, 2007  | 72,509,511                  | \$ 725                  | \$ 581,404                                | \$ 317,535                   | \$ (202)                  | \$ 30,861   | \$ 930,323   |
| Net income   |                             |                         |   | 129,102                      |                           |   | 129,102      |
| Cumulative<br>translation<br>adjustment  |                             |                         |   |                              |                           | (5,079)   | (5,079)      |
| Issuance of<br>common stock:<br>Shares issued<br>pursuant to<br>acquisition<br>agreement | 7,234                       |                         | 225                                       |                              |                           |   | 225          |
| Exercise of stock<br>options   | 1,220,182                   | 13                      | 11,888                                    |                              |                           |   | 11,901       |
| Expense related to<br>employee stock<br>options  |                             |                         | 3,898                                     |                              |                           |   | 3,898        |
| Excess tax benefit<br>from<br>share-based<br>compensation                                |                             |                         | 9,109                                     |                              |                           |   | 9,109        |
| Vested restricted<br>stock   | 369,199                     | 3                       | (3)                                       |                              |                           |   |              |
| Amortization of<br>non-vested<br>restricted stock  |                             |                         | 4,321                                     |                              |                           |   | 4,321        |
| Balance at<br>September 30, 2008   | 74,106,126                  | \$ 741                  | \$ 610,842                                | \$ 446,637                   | \$ (202)                  | \$ 25,782   | \$ 1,083,800 |

See accompanying notes to consolidated financial statements.



**COMPLETE PRODUCTION SERVICES, INC.**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2008 and 2007 (unaudited)**

|   | <b>Nine Months Ended<br/>September 30,<br/>2008                      2007<br/>(In thousands)</b> |                  |
|---|--|------------------|
| Cash provided by (used in):   |  |                  |
| Operating activities:   |  |                  |
| Net income  | \$ 129,102   | \$ 132,741       |
| Items not affecting cash:   |  |                  |
| Depreciation and amortization   | 131,977  | 97,858           |
| Deferred income taxes   | 29,475   | 10,345           |
| Loss on sale of discontinued operations                                     | 6,935  |                  |
| Minority interest   |  | (227)            |
| Excess tax benefit from share-based compensation                            | (9,109)  | (5,790)          |
| Non-cash compensation expense   | 8,444  | 5,400            |
| Other   | 4,238  | 6,721            |
| Changes in operating assets and liabilities, net of effect of acquisitions: |  |                  |
| Accounts receivable   | (30,356)   | (15,030)         |
| Inventory   | (6,500)  | (16,532)         |
| Prepaid expense and other current assets                                    | (1,417)  | 11,734           |
| Accounts payable  | (3,985)  | (19,829)         |
| Accrued liabilities and other   | 7,074  | 32,757           |
| <b>Net cash provided by operating activities</b>                            | <b>265,878</b>   | <b>240,148</b>   |
| Investing activities:   |  |                  |
| Business acquisitions, net of cash acquired                                 | (71,823)   | (40,616)         |
| Additions to property, plant and equipment                                  | (193,229)  | (274,759)        |
| Proceeds from sale of discontinued operations                               | 50,150   |                  |
| Collection of notes receivable  | 2,016  |                  |
| Proceeds from disposal of capital assets                                    | 4,940  | 4,935            |
| <b>Net cash used in investing activities</b>                                | <b>(207,946)</b>   | <b>(310,440)</b> |
| Financing activities:   |  |                  |
| Issuances of long-term debt   | 208,355  | 247,307          |
| Repayments of long-term debt  | (280,060)  | (177,533)        |
| Repayment of notes payable  | (12,642)   | (17,078)         |
| Proceeds from issuances of common stock                                     | 11,901   | 3,412            |
| Deferred financing fees   |  | (200)            |
| Excess tax benefit from share-based compensation                            | 9,109  | 5,790            |
| <b>Net cash (used in) provided by financing activities</b>                  | <b>(63,337)</b>  | <b>61,698</b>    |
| Effect of exchange rate changes on cash                                     | 324  | (3,934)          |

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Change in cash and cash equivalents                         | (5,081)   | (12,528)  |
| Cash and cash equivalents, beginning of period              | 13,624    | 19,874    |
| Cash and cash equivalents, end of period                    | \$ 8,543  | \$ 7,346  |
| Supplemental cash flow information:                         |           |           |
| Cash paid for interest, net of interest capitalized         | \$ 30,179 | \$ 31,755 |
| Cash paid for taxes   | \$ 55,077 | \$ 56,177 |
| Non-cash investing and financing activities:                |           |           |
| Debt acquired in acquisition                                | \$ 429    | \$        |
| Assets received as proceeds from the sale of disposal group | \$ 7,987  | \$        |

See accompanying notes to consolidated financial statements.

**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, North Dakota, Pennsylvania, western Canada, Mexico and Southeast Asia.

References to Complete, the Company, we, our and similar phrases used throughout this Quarterly Report on Form 10-Q relate collectively to Complete Production Services, Inc. and its consolidated affiliates.

On April 20, 2006, in connection with our initial public offering, we 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.

*(b) Basis of presentation:*

The unaudited interim consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the financial position of Complete as of September 30, 2008 and the statements of operations and the statements of comprehensive income for the quarters and nine-month periods ended September 30, 2008 and 2007, as well as the statement of stockholders' equity for the nine months ended September 30, 2008 and the statements of cash flows for the nine-month periods ended September 30, 2008 and 2007. Certain information and disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ( 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, 2007. 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. Certain reclassifications have been made to 2007 amounts in order to present these results on a comparable basis with amounts for 2008, including a reclassification of certain payroll benefits and related burdens. For the quarter and nine months ended September 30, 2007, we reclassified \$3,834 and \$9,944, respectively, from selling, general and administrative expense to cost of services. For the 2008 comparative periods, we reclassified \$3,931 for the period from January 1, 2008 through June 30, 2008, with no impact on the results as reported for the quarter ended September 30, 2008. This reclassification was made to allocate payroll benefit costs to the cost of services in an effort to ensure that these costs and their impact on gross margin were aligned consistently throughout our operating units.

In May 2008, our Board of Directors authorized and committed to a plan to sell certain operations in the Barnett Shale region of north Texas, consisting primarily of our supply store business, as well as certain non-strategic drilling logistics assets and other completion and production services assets. On May 19,

2008, we sold these operations to a company owned by a former officer of one of our subsidiaries, for which we received proceeds of \$50,150 and assets with a fair market value of \$7,987. Accordingly, we have revised our financial statement presentation for all periods presented to classify the assets and liabilities of this disposal group as held for sale and the related results of operations as discontinued operations. See Note 10 Discontinued Operations.

## 2. Business combinations:

On February 29, 2008, we acquired substantially all the assets of KR Fishing & Rental, Inc. for \$9,464 in cash, which includes a working capital adjustment of \$184, resulting in goodwill of \$6,411. KR Fishing & Rental, Inc. is a provider of fishing, rental and foam unit services in the Piceance Basin and the Raton Basin, and is based in Rangely, Colorado. We believe this acquisition complements our completion and production services business in the Rocky Mountain Region.

On April 15, 2008, we acquired all the equity interests of Frac Source Services, Inc., a pressure pumping business based in Granbury, Texas, for \$62,359 in cash, net of cash acquired, and recorded goodwill of \$15,431. This acquisition supplements our pressure pumping business in the Barnett Shale of north Texas. Upon closing this transaction, we entered into a contract with one of our major customers to provide pressure pumping services in the Barnett Shale utilizing three frac fleets under a contract with a term that extends up to three years from the date each fleet is placed into service.

We accounted for each of 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 these acquired businesses were included in our accounts and results of operations since the date of acquisition, and the related goodwill was allocated entirely to the completion and production services business segment. The following table summarizes our preliminary purchase price allocations for these acquisitions as of September 30, 2008, each of which is yet to be finalized:

|   | <b>KR<br/>Fishing<br/>&amp; Rental</b> | <b>Frac<br/>Source</b> | <b>Totals</b> |
|---|--|------------------------|---------------|
| Net assets acquired:                            |  |                        |               |
| Property, plant and equipment                   | \$ 2,673                               | \$ 41,172              | \$ 43,845     |
| Non-cash working capital                        | 50                                     | (1,806)                | (1,756)       |
| Net deferred tax assets                         |  | 1,031                  | 1,031         |
| Long-term capital lease obligations             |  | (279)                  | (279)         |
| Intangible assets                               | 330                                    | 6,810                  | 7,140         |
| Goodwill  | 6,411                                  | 15,431                 | 21,842        |
| Net assets acquired                             | \$ 9,464                               | \$ 62,359              | \$ 71,823     |
| Consideration:                                  |  |                        |               |
| Cash, net of cash and cash equivalents acquired | \$ 9,464                               | \$ 62,359              | \$ 71,823     |

The purchase price of these acquired businesses was negotiated as an arm's length transaction with the seller. We use various valuation techniques, including an earnings multiple approach, to evaluate acquisition targets. We also consider precedent transactions which we have undertaken and similar transactions of others in our industry. To determine the fair value of assets acquired, we generally retain third-party consultants to assist with the valuation of 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.

We calculated the pro forma impact of the businesses we acquired on our operating results for the quarters and nine months ended September 30, 2008 and 2007, and determined that these acquisitions did not have a material impact on the reported results of operations. Thus, no pro forma disclosures are deemed necessary for the quarters and nine

months ended September 30, 2008 and 2007.

In conjunction with the sale of a disposal group in May 2008, we received cash, as well as property, plant and equipment with a fair market value of \$7,987. The receipt of this equipment has been treated as a non-cash item in the accompanying cash flow statement at September 30, 2008. To value these assets, a valuation was obtained from an independent third-party appraiser.

In October 2008, we acquired substantially all of the assets of two completion and production service companies. See Note 15 Subsequent Events.

**3. Accounts receivable:**

|                                 | <b>September<br/>30,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|---------------------------------|-----------------------------------|----------------------------------|
| Trade accounts receivable       | \$ 291,563                        | \$ 251,361                       |
| Related party receivables       | 17,709                            | 8,048                            |
| Unbilled revenue                | 45,022                            | 41,334                           |
| Notes receivable                | 324                               | 3,378                            |
| Other receivables               | 8,480                             | 7,048                            |
|                                 | 363,098                           | 311,169                          |
| Allowance for doubtful accounts | 5,245                             | 5,487                            |
|                                 | \$ 357,853                        | \$ 305,682                       |

**4. Inventory:**

|  | <b>September<br/>30,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|--|-----------------------------------|----------------------------------|
| Finished goods                           | \$ 20,838                         | \$ 22,235                        |
| Manufacturing parts, materials and other | 14,353                            | 9,312                            |
| Work in process                          | 4,003                             |                                  |
|  | 39,194                            | 31,547                           |
| Inventory reserves                       | 1,162                             | 1,670                            |
|  | \$ 38,032                         | \$ 29,877                        |

**5. Property, plant and equipment:**

| <b>September 30, 2008</b>      | <b>Cost</b>  | <b>Accumulated<br/>Depreciation</b> | <b>Net Book<br/>Value</b> |
|--------------------------------|--------------|-------------------------------------|---------------------------|
| Land                           | \$ 9,998     | \$                                  | \$ 9,998                  |
| Building                       | 18,848       | 2,007                               | 16,841                    |
| Field equipment                | 1,253,178    | 321,029                             | 932,149                   |
| Vehicles                       | 143,519      | 53,316                              | 90,203                    |
| Office furniture and computers | 16,146       | 6,424                               | 9,722                     |
| Leasehold improvements         | 18,470       | 2,951                               | 15,519                    |
| Construction in progress       | 41,281       |                                     | 41,281                    |
|                                | \$ 1,501,440 | \$ 385,727                          | \$ 1,115,713              |

**Accumulated**

| <b>December 31, 2007</b>       | <b>Cost</b>  | <b>Depreciation</b> | <b>Net Book<br/>Value</b> |
|--------------------------------|--------------|---------------------|---------------------------|
| Land                           | \$ 9,259     | \$                  | \$ 9,259                  |
| Building                       | 17,667       | 1,545               | 16,122                    |
| Field equipment                | 1,049,761    | 237,481             | 812,280                   |
| Vehicles                       | 91,853       | 20,550              | 71,303                    |
| Office furniture and computers | 12,391       | 4,212               | 8,179                     |
| Leasehold improvements         | 16,368       | 1,588               | 14,780                    |
| Construction in progress       | 81,267       |                     | 81,267                    |
|                                | \$ 1,278,566 | \$ 265,376          | \$ 1,013,190              |

Construction in progress at September 30, 2008 and December 31, 2007 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 and nine months ended September 30, 2008, we recorded capitalized interest of \$1,338 and \$3,984, 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.

**6. 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. As of December 31, 2007, we recorded a note payable totaling \$15,354 and an offsetting prepaid asset which included a broker's fee of approximately \$625. Of this prepaid asset, we recorded \$3,257 as a long-term asset at December 31, 2007. At September 30, 2008, this note balance totaled \$2,707 and was classified as a current liability. We expect to repay this note payable in full prior to December 31, 2008.

**7. Long-term debt:**

The following table summarizes long-term debt as of September 30, 2008 and December 31, 2007:

|   | <b>2008</b> | <b>2007</b> |
|---|-------------|-------------|
| U.S. revolving credit facility (a)                            | \$ 88,091   | \$ 160,000  |
| Canadian revolving credit facility (a)                        | 13,031      | 12,219      |
| 8.0% senior notes (b)   | 650,000     | 650,000     |
| Subordinated seller notes                                     | 3,450       | 3,450       |
| Capital leases and other                                      | 814         | 714         |
|   | 755,386     | 826,383     |
| Less: current maturities of long-term debt and capital leases | 3,841       | 398         |
|   | \$ 751,545  | \$ 825,985  |

- (a) We maintain a credit agreement related to a syndicated senior secured credit facility (the "Credit Agreement"). The Credit Agreement is comprised of a \$360,000 U.S. revolving credit facility that matures 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) that matures in December 2011. The Credit Agreement is secured by substantially all of our assets. The Credit Agreement contains a "commitment increase" clause, as defined in the Credit Agreement, which permits us to effect up to two separate increases in the aggregate commitments under the facility by designating a participating lender to increase its commitment, by mutual agreement, in increments of at least \$50,000, with the aggregate of such commitment increases not to exceed \$100,000, and in accordance with other provisions as stipulated in the amendment.

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 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 September 30, 2008.

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%.

Borrowings under the U.S. revolving facility bore interest at rates ranging from 4.16% to 5.25%, a weighted average interest rate of 4.26%, and the Canadian revolving credit facility bore interest at 5.00% at September 30, 2008. For the nine months ended September 30, 2008, the weighted average interest rate on average borrowings under the amended Credit Agreement was 4.35%. There were letters of credit outstanding under the U.S. revolving portion of the facility totaling \$37,699, which reduced the available borrowing capacity as of September 30, 2008. We incurred fees calculated at 1.25% of the total amount outstanding under letter of credit arrangements through September 30, 2008. Our available borrowing capacity under the U.S. and Canadian revolving facilities at September 30, 2008 was \$234,210 and \$26,969, respectively. During October 2008, we borrowed approximately \$106,000 under our U.S. revolving facility to acquire two businesses. See Note 15 Subsequent Events.

- (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 have a maturity of 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.

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 substantially identical terms. These holders exchanged 100% of the notes for publicly traded notes on July 25, 2007. On August 28, 2007, we entered into a supplement

to the indenture governing the 8.0% senior notes, whereby additional domestic subsidiaries became guarantors under the indenture.

**8. Stockholders equity:**

*(a) Stock-based Compensation Stock Options:*

We maintain option plans under which stock-based compensation can 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 account for our stock-based compensation awards pursuant to Statement of Financial Accounting Standards ( SFAS ) No. 123R, whereby 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. We record stock compensation expense associated with our stock-based compensation awards pursuant to SFAS No. 123R in accordance with the transition guidance of that statement, as further described in our Annual Report on Form 10-K as of December 31, 2007.

On January 31, 2008, the Compensation Committee of our Board of Directors approved the annual grant of stock options and non-vested restricted stock to certain employees, officers and directors. Pursuant to this authorization, we issued 287,500 shares of non-vested restricted stock at a grant price of \$15.90 per share. We expect to recognize compensation expense associated with this grant of non-vested restricted stock totaling \$4,571 ratably over the three-year vesting period. In addition, we granted 345,000 stock options to purchase shares of our common stock at an exercise price of \$15.90 per share. These stock options vest ratably over a three-year period. We will recognize compensation expense associated with these stock option grants over the vesting period in accordance with SFAS No. 123R. Further, we obtained shareholder approval in May 2008 to increase the shares available for grant through our stock compensation plans. Pursuant to this approval, we issued an additional 326,556 shares of non-vested restricted stock during the nine months ended September 30, 2008, of which 313,100 shares had grant prices ranging from \$23.01 to \$36.22 per share and were granted to certain members of senior management and other employees and 13,456 shares had a grant price of \$29.88 per share and were granted to our directors. The fair value of the stock options granted during the nine months ended September 30, 2008 was determined by applying a Black-Scholes option pricing model based on the following assumptions:

| <b>Assumptions:</b>              | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> |
|----------------------------------|---|
| Risk-free rate                   | 2.47% to 3.24%  |
| Expected term (in years)         | 2.2 to 5.1  |
| Volatility                       | 16.7% to 24.5%  |
| Calculated fair value per option | \$ 4.39 to \$6.75                                       |

We completed our initial public offering in April 2006. Prior to the second quarter of 2008, 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 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 prior to the second quarter of 2008. For stock options granted during or after the second quarter of 2008, we calculated an average volatility factor for our common stock for the period from April 21, 2006 through the respective quarter end. These volatility calculations were used to compute the calculation of the fair market value of these stock option grants during the second and third quarters of 2008.

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 \$1,696 over the vesting period of these 2008 stock option grants. For the



quarter and nine months ended September 30, 2008, we have recognized expense related to these stock option grants totaling \$141 and \$339, respectively, which represents a reduction of net income before taxes. The impact on net income for the quarter and nine months ended September 30, 2008 was a reduction of \$90 and \$219, respectively, resulting in no impact on diluted earnings per share as reported. The unrecognized compensation costs related to the non-vested portion of these awards was \$1,357 as of September 30, 2008 and will be recognized over the applicable remaining vesting periods.

For the quarters ended September 30, 2008 and 2007, we recognized compensation expense associated with all stock option awards totaling \$1,332 and \$851, respectively, resulting in a reduction of net income of \$850 and \$581, respectively, and a \$0.01 reduction in diluted earnings per share for each of the quarters ended September 30, 2008 and 2007. For the nine months ended September 30, 2008 and 2007, we recognized compensation expense associated with all stock option awards totaling \$3,898 and \$3,110, respectively, resulting in a reduction of net income of \$2,514 and \$1,997, respectively, and a \$0.03 in diluted earnings per share for the nine months ended September 30, 2008 and 2007, respectively. Total unrecognized compensation expense associated with outstanding stock option awards at September 30, 2008 was \$6,012, or \$3,728, net of tax.

The following tables provide a roll forward of stock options from December 31, 2007 to September 30, 2008 and a summary of stock options outstanding by exercise price range at September 30, 2008:

|                               | <b>Options Outstanding</b> |  |
|-------------------------------|----------------------------|--|
|                               | <b>Number</b>              | <b>Weighted Average Exercise Price</b> |
| Balance at December 31, 2007  | 3,730,761                  | \$13.36                                |
| Granted                       | 402,000                    | \$18.06                                |
| Exercised                     | (1,220,181)                | \$ 9.75                                |
| Cancelled                     | (134,859)                  | \$20.34                                |
| Balance at September 30, 2008 | 2,777,721                  | \$15.30                                |

| <b>Range of Exercise Price</b> | <b>Options Outstanding</b>               |   |  | <b>Options Exercisable</b>               |   |  |
|--------------------------------|--|---|--|--|---|--|
|                                | <b>Outstanding at September 30, 2008</b> | <b>Weighted Average Remaining Life (months)</b> | <b>Weighted Average Exercise Price</b> | <b>Exercisable at September 30, 2008</b> | <b>Weighted Average Remaining Life (months)</b> | <b>Weighted Average Exercise Price</b> |
| \$2.00                         | 61,074                                   | 10  | \$ 2.00                                | 61,074                                   | 10  | \$ 2.00                                |
| \$4.48 \$4.80                  | 63,723                                   | 16  | \$ 4.76                                | 63,723                                   | 16  | \$ 4.76                                |
| \$5.00                         | 127,865                                  | 49  | \$ 5.00                                | 68,590                                   | 42  | \$ 5.00                                |
| \$6.69                         | 597,637                                  | 78  | \$ 6.69                                | 448,222                                  | 77  | \$ 6.69                                |
| \$11.66                        | 302,090                                  | 85  | \$11.66                                | 225,423                                  | 84  | \$11.66                                |
| \$15.90                        | 345,000                                  | 112   | \$15.90                                |  |   |  |
| \$17.60 \$19.87                | 667,186                                  | 100   | \$19.83                                | 141,493                                  | 100   | \$19.83                                |
| \$22.55 \$24.07                | 511,146                                  | 91  | \$23.95                                | 267,201                                  | 91  | \$23.97                                |
| \$26.26 \$27.11                | 45,000                                   | 104   | \$26.35                                | 15,000                                   | 104   | \$26.35                                |
| \$29.88                        | 40,000                                   | 116   | \$29.88                                |  |   |  |
| \$34.19                        | 17,000                                   | 117   | \$34.19                                |  |   |  |

|           |    |         |           |    |         |
|-----------|----|---------|-----------|----|---------|
| 2,777,721 | 88 | \$15.30 | 1,290,726 | 76 | \$12.40 |
|-----------|----|---------|-----------|----|---------|

The total intrinsic value of stock options exercised during the quarter and nine months ended September 30, 2008 was \$903 and \$12,660, respectively. The total intrinsic value of all vested outstanding stock options at September 30, 2008 was \$9,982. Assuming all stock options outstanding at September 30, 2008 were vested, the total intrinsic value of all outstanding stock options would have been \$13,408.

*(b) Non-vested Restricted Stock:*

We recognize compensation expense associated with grants of non-vested restricted stock, based on the fair value of the shares on the date of grant, ratably over the applicable vesting periods. At September 30, 2008, amounts not yet recognized related to non-vested restricted stock totaled \$12,783, which represented the unamortized expense associated with awards of non-vested stock granted to employees, officers and directors under our compensation plans, including \$11,567 related to grants during the nine months ended September 30, 2008. We recognized compensation expense associated with non-vested restricted stock

totaling \$2,070 and \$819 for the quarters ended September 30, 2008 and 2007, respectively, and \$4,321 and \$2,290 for the nine months ended September 30, 2008 and 2007, respectively.

The following table summarizes the change in non-vested restricted stock from December 31, 2007 to September 30, 2008:

|                               | <b>Non-vested<br/>Restricted Stock</b> | <b>Weighted<br/>Average<br/>Grant<br/>Price</b> |
|-------------------------------|--|---|
|                               | <b>Number</b>                          |   |
| Balance at December 31, 2007  | 625,871                                | \$ 9.46   |
| Granted                       | 614,056                                | \$23.43   |
| Vested                        | (369,199)                              | \$ 8.22   |
| Forfeited                     | (24,851)                               | \$11.36   |
| Balance at September 30, 2008 | 845,877                                | \$20.09   |

#### 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 and non-vested restricted stock, 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 nine months ended September 30, 2008 and 2007:

|   | <b>Quarter Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2008</b>                            | <b>2007</b> | <b>2008</b>                                | <b>2007</b> |
|   | <b>(in thousands)</b>                  |             |  |             |
| Weighted average basic common shares outstanding                        | 73,935                                 | 72,191      | 73,225                                     | 71,873      |
| Effect of dilutive securities:  |  |             |  |             |
| Employee stock options  | 747                                    | 1,013       | 814  | 1,149       |
| Non-vested restricted stock   | 326                                    | 291         | 331  | 274         |
| Weighted average diluted common and potential common shares outstanding | 75,008                                 | 73,495      | 74,370                                     | 73,296      |

We excluded the impact of anti-dilutive potential common shares from the calculation of diluted weighted average shares for the quarters and nine months ended September 30, 2008 and 2007. If these potential common shares were included in the calculation, the impact would have been a decrease in diluted weighted average shares outstanding of 24,160 shares and 149,827 shares for the quarters ended September 30, 2008 and 2007, respectively, and a decrease in diluted weighted average shares outstanding of 137,289 shares and 199,434 shares for the nine months ended September 30, 2008 and 2007, respectively.

#### 10. Discontinued operations:

In May 2008, our Board of Directors authorized and committed to a plan to sell certain business assets located primarily in north Texas which included our product supply stores, certain drilling logistics assets and other completion and production services assets. Although this sale does not represent a material disposition of assets



relative to our total assets as presented in the accompanying balance sheets, the disposal group does represent a significant portion of the assets and operations which were attributable to our product sales business segment for the periods presented, and therefore, was accounted for as a disposal group that is held for sale in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We revised our financial statements, pursuant to SFAS No. 144, and reclassified the assets and liabilities of the disposal group as held for sale as of the date of each balance sheet presented 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, for each of the accompanying statements of operations. We ceased depreciating the assets of this disposal group in May 2008 and adjusted the net assets to the lower of carrying value or fair value less selling costs, which resulted in a pre-tax charge of approximately \$200. In addition, we allocated \$11,109 of goodwill

associated with the original formation of Complete Production Services, Inc. to this business. Our company was formed from the combination of three entities under common control in September 2005, which resulted in goodwill of \$93,792. Of this amount, \$11,109 was deemed to be attributable to this disposal group and was impaired as of the date of the transaction. Thus, this amount has been included in the calculation of the loss on the sale of this disposal group.

On May 19, 2008, we completed the sale of the disposal group for \$50,150 in cash and we received assets with a fair market value of \$7,987. In addition, we retained the receivables and payables associated with the operating results of these entities as of the date of the sale. The carrying value of the related net assets was approximately \$51,353 on May 19, 2008, excluding allocated goodwill of \$11,109. We recorded a loss of \$6,935 associated with the sale of this disposal group, which represents the excess of the carrying value of the assets less selling costs over the sales price and a charge of approximately \$2,610 related to income tax on the transaction. The income tax on the disposal was primarily attributable to the \$11,109 of allocated goodwill which was non-deductible for tax purposes and resulted in a taxable gain on the disposal. We sold this disposal group to Select Energy Services, L.L.C., an oilfield service company located in Gainesville, Texas which is owned by a former officer of one of our subsidiaries. Pursuant to the agreement, we will sublet office space to Select Energy Services, L.L.C., and provide certain administrative functions for a period of one year at an agreed-upon rate for services per hour. Proceeds from the sale of this disposal group were used to repay outstanding borrowings under our U.S. revolving credit facility and for other general corporate purposes.

The following table summarizes operating results for the disposal group for the periods indicated:

|  | <b>Quarter<br/>Ended<br/>September<br/>30,<br/>2007</b> | <b>Period<br/>January 1,<br/>2008<br/>through<br/>May 19,<br/>2008</b> | <b>Nine Months<br/>Ended<br/>September<br/>30,<br/>2007</b> |
|--|---|--|---|
| Revenue                                    | \$ 39,518   | \$ 59,553  | \$ 124,264  |
| Income before taxes                        | \$ 4,514  | \$ 3,330   | \$ 15,425   |
| Net income before loss on disposal in 2008 | \$ 2,817  | \$ 2,076   | \$ 9,629  |
| Net income (loss)                          | \$ 2,817  | \$ (4,859)   | \$ 9,629  |

The captions related to discontinued operations in the accompanying balance sheet at December 31, 2007 were comprised of the following accounts:

|  | <b>December<br/>31,<br/>2007</b> |
|--|----------------------------------|
| <b>Current assets held for sale:</b>   |                                  |
| Accounts receivable                    | \$ 23,003                        |
| Inventory                              | 27,191                           |
| Other                                  | 113                              |
|  | <b>\$ 50,307</b>                 |
| <b>Long-term assets held for sale:</b> |                                  |
| Property, plant and equipment, net     | \$ 21,505                        |
| Goodwill                               | 11,358                           |
| Intangible assets                      | 187                              |

|   |    |        |
|---|----|--------|
|   | \$ | 33,050 |
| <b>Current liabilities of held for sale operations:</b>   |    |        |
| Accounts payable  | \$ | 8,260  |
| Accrued expenses  |    | 1,168  |
| Other   |    | 277    |
|   | \$ | 9,705  |
| <b>Long-term liabilities of held for sale operations:</b> |    |        |
| Long-term deferred tax liabilities and other              | \$ | 2,085  |
|   | \$ | 2,085  |

**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, minority interest and impairment loss ( EBITDA ). The calculation of EBITDA should not be viewed as a substitute for calculations under U.S. GAAP, in particular, with respect to net income. EBITDA calculated by us may not be comparable to the EBITDA calculation of another company.

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 September 30, 2008. Inter-segment transactions are accounted for on a cost recovery basis.

|   | <b>C&amp;PS</b> | <b>Drilling Services</b> | <b>Product Sales</b> | <b>Corporate</b> | <b>Total</b> |
|---|-----------------|--------------------------|----------------------|------------------|--------------|
| <b>Quarter Ended September 30, 2008</b>     |                 |                          |                      |                  |              |
| Revenue from external customers             | \$ 417,788      | \$ 62,208                | \$ 13,237            | \$               | \$ 493,233   |
| Inter-segment revenues                      | \$              | \$ 486                   | \$ 15,002            | \$ (15,488)      | \$           |
| EBITDA, as defined                          | \$ 133,229      | \$ 17,005                | \$ 3,387             | \$ (9,885)       | \$ 143,736   |
| Depreciation and amortization               | \$ 41,169       | \$ 5,223                 | \$ 657               | \$ 646           | \$ 47,695    |
| Operating income (loss)                     | \$ 92,060       | \$ 11,782                | \$ 2,730             | \$ (10,531)      | \$ 96,041    |
| Capital expenditures                        | \$ 51,486       | \$ 6,581                 | \$ 592               | \$ 187           | \$ 58,846    |
| <b>Quarter Ended September 30, 2007</b>     |                 |                          |                      |                  |              |
| Revenue from external customers             | \$ 312,020      | \$ 52,880                | \$ 8,505             | \$               | \$ 373,405   |
| Inter-segment revenues                      | \$              | \$ 597                   | \$ 7,294             | \$ (7,891)       | \$           |
| EBITDA, as defined                          | \$ 95,493       | \$ 14,211                | \$ 2,235             | \$ (5,580)       | \$ 106,359   |
| Depreciation and amortization               | \$ 29,475       | \$ 3,933                 | \$ 577               | \$ 200           | \$ 34,185    |
| Operating income (loss)                     | \$ 66,018       | \$ 10,278                | \$ 1,658             | \$ (5,780)       | \$ 72,174    |
| Capital expenditures                        | \$ 64,305       | \$ 12,937                | \$ 2,338             | \$ 701           | \$ 80,281    |
| <b>As of September 30, 2008</b>             |                 |                          |                      |                  |              |
| Segment assets                              | \$ 1,799,491    | \$ 278,652               | \$ 49,589            | \$ 32,743        | \$ 2,160,475 |
| <b>Nine Months Ended September 30, 2008</b> |                 |                          |                      |                  |              |
| Revenue from external customers             | \$ 1,138,096    | \$ 172,711               | \$ 40,689            | \$               | \$ 1,351,496 |
| Inter-segment revenues                      | \$ 370          | \$ 758                   | \$ 25,541            | \$ (26,669)      | \$           |
| EBITDA, as defined                          | \$ 352,940      | \$ 44,733                | \$ 10,209            | \$ (26,241)      | \$ 381,641   |
| Depreciation and amortization               | \$ 111,897      | \$ 14,527                | \$ 1,762             | \$ 1,797         | \$ 129,983   |
| Operating income (loss)                     | \$ 241,043      | \$ 30,206                | \$ 8,447             | \$ (28,038)      | \$ 251,658   |
| Capital expenditures                        | \$ 157,865      | \$ 31,816                | \$ 2,317             | \$ 1,231         | \$ 193,229   |
| <b>Nine Months Ended September 30, 2007</b> |                 |                          |                      |                  |              |
| Revenue from external customers             | \$ 917,146      | \$ 158,101               | \$ 31,194            | \$               | \$ 1,106,441 |
| Inter-segment revenues                      | \$ 332          | \$ 1,754                 | \$ 25,836            | \$ (27,922)      | \$           |
| EBITDA, as defined                          | \$ 297,619      | \$ 47,050                | \$ 7,215             | \$ (20,064)      | \$ 331,820   |
| Depreciation and amortization               | \$ 81,307       | \$ 10,460                | \$ 1,535             | \$ 1,212         | \$ 94,514    |

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

|                         |            |           |          |             |            |
|-------------------------|------------|-----------|----------|-------------|------------|
| Operating income (loss) | \$ 216,312 | \$ 36,590 | \$ 5,680 | \$ (21,276) | \$ 237,306 |
| Capital expenditures    | \$ 223,216 | \$ 42,923 | \$ 6,833 | \$ 1,787    | \$ 274,759 |

**As of December 31, 2007**

|                |              |            |           |           |              |
|----------------|--------------|------------|-----------|-----------|--------------|
| Segment assets | \$ 1,651,653 | \$ 287,563 | \$ 89,492 | \$ 26,051 | \$ 2,054,759 |
|----------------|--------------|------------|-----------|-----------|--------------|

The following table reconciles segment information for our business segments as originally reported for the quarter and nine months ended September 30, 2007, to the information revised for discontinued operations:

|  | <b>Original<br/>Presentation</b> | <b>Discontinued<br/>Operations</b> | <b>Revised<br/>Presentation</b> |
|--|----------------------------------|------------------------------------|---------------------------------|
| <b>Quarter Ended September 30, 2007</b>    |                                  |                                    |                                 |
| <i>Completion and production services:</i> |                                  |                                    |                                 |
| Revenue from external customers            | \$ 317,170                       | \$ 5,150                           | \$ 312,020                      |
| EBITDA, as defined                         | \$ 97,070                        | \$ 1,577                           | \$ 95,493                       |
| Depreciation and amortization              | 29,817                           | 342                                | 29,475                          |
| Operating income                           | \$ 67,253                        | \$ 1,235                           | \$ 66,018                       |
| <i>Drilling services:</i>                  |                                  |                                    |                                 |
| Revenue from external customers            | \$ 60,566                        | \$ 7,686                           | \$ 52,880                       |

|   | <b>Original<br/>Presentation</b> | <b>Discontinued<br/>Operations</b> | <b>Revised<br/>Presentation</b> |
|---|----------------------------------|------------------------------------|---------------------------------|
| EBITDA, as defined                                | \$ 16,701                        | \$ 2,490                           | \$ 14,211                       |
| Depreciation and amortization                     | 4,586                            | 653                                | 3,933                           |
| Operating income                                  | \$ 12,115                        | \$ 1,837                           | \$ 10,278                       |
| <b><i>Product Sales:</i></b>                      |                                  |                                    |                                 |
| Revenue from external customers                   | \$ 35,187                        | \$ 26,682                          | \$ 8,505                        |
| EBITDA, as defined                                | \$ 3,901                         | \$ 1,666                           | \$ 2,235                        |
| Depreciation and amortization                     | 793                              | 216                                | 577                             |
| Operating income                                  | \$ 3,108                         | \$ 1,450                           | \$ 1,658                        |
| <b>Nine Months Ended September 30, 2007</b>       |                                  |                                    |                                 |
| <b><i>Completion and production services:</i></b> |                                  |                                    |                                 |
| Revenue from external customers                   | \$ 932,021                       | \$ 14,875                          | \$ 917,146                      |
| EBITDA, as defined                                | \$ 302,412                       | \$ 4,793                           | \$ 297,619                      |
| Depreciation and amortization                     | 82,235                           | 928                                | 81,307                          |
| Operating income                                  | \$ 220,177                       | \$ 3,865                           | \$ 216,312                      |
| <b><i>Drilling services:</i></b>                  |                                  |                                    |                                 |
| Revenue from external customers                   | \$ 179,155                       | \$ 21,054                          | \$ 158,101                      |
| EBITDA, as defined                                | \$ 53,772                        | \$ 6,722                           | \$ 47,050                       |
| Depreciation and amortization                     | 12,238                           | 1,778                              | 10,460                          |
| Operating income                                  | \$ 41,534                        | \$ 4,944                           | \$ 36,590                       |
| <b><i>Product Sales:</i></b>                      |                                  |                                    |                                 |
| Revenue from external customers                   | \$ 119,529                       | \$ 88,335                          | \$ 31,194                       |
| EBITDA, as defined                                | \$ 14,498                        | \$ 7,283                           | \$ 7,215                        |
| Depreciation and amortization                     | 2,173                            | 638                                | 1,535                           |
| Operating income                                  | \$ 12,325                        | \$ 6,645                           | \$ 5,680                        |

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 nine months ended September 30, 2008 and 2007:

| <b>Quarters Ended</b> |             | <b>Nine Months Ended</b> |             |
|-----------------------|-------------|--------------------------|-------------|
| <b>September 30,</b>  |             | <b>September 30,</b>     |             |
| <b>2008</b>           | <b>2007</b> | <b>2008</b>              | <b>2007</b> |

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

|                                       |           |           |            |            |
|---------------------------------------|-----------|-----------|------------|------------|
| Segment operating income              | \$ 96,041 | \$ 72,174 | \$ 251,658 | \$ 237,306 |
| Interest expense                      | 14,647    | 16,667    | 46,077     | 47,335     |
| Interest income                       | (680)     | (484)     | (2,067)    | (1,012)    |
| Income taxes                          | 29,731    | 17,483    | 73,687     | 68,098     |
| Minority interest                     |           | (283)     |            | (227)      |
| Net income from continuing operations | \$ 52,343 | \$ 38,791 | \$ 133,961 | \$ 123,112 |

Changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2008 are summarized below:

|   | <b>C&amp;PS</b> | <b>Drilling<br/>Services</b> | <b>Product<br/>Sales</b> | <b>Total</b> |
|---|-----------------|------------------------------|--------------------------|--------------|
| Balance at December 31, 2007  | \$ 513,704      | \$ 34,297                    | \$ 12,487                | \$ 560,488   |
| Impairment associated with discontinued operations (b)              | (1,341)         | (1,324)                      | (8,693)                  | (11,358)     |
| Balance at December 31, 2007 (adjusted for discontinued operations) | 512,363         | 32,973                       | 3,794                    | 549,130      |
| Acquisitions  | 21,842          |                              |                          | 21,842       |
| Contingency adjustment and other (a)                                | 86              |                              |                          | 86           |
| Foreign currency translation  | (1,966)         |                              |                          | (1,966)      |
| Balance at September 30, 2008                                       | \$ 532,325      | \$ 32,973                    | \$ 3,794                 | \$ 569,092   |

(a) The contingency adjustment represents additional costs associated with acquisitions for the period from January 1, 2007 through September 30, 2008.

(b) See Note 10 Discontinued operations.

**12. Legal matters and contingencies:**

In the normal course of our business, we are a party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters, including warranty and product liability claims and occasional claims by individuals alleging exposure to hazardous materials, on the job injuries and fatalities as a result of our products or operations. Many of the claims filed against us relate to motor vehicle accidents which can result in the loss of life or serious bodily injury. Some of these claims relate to matters occurring prior

to our acquisition of businesses. In certain cases, we are entitled to indemnification from the sellers of the businesses.

Although we cannot know or predict with certainty the outcome of any claim or proceeding or the effect such outcomes may have on us, we believe that any liability resulting from the resolution of any of these matters to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on our financial position, results of operations or liquidity.

We have historically incurred additional insurance premium related to a cost-sharing provision of our general liability policy, and we cannot be certain that we will not incur additional costs until either existing claims become further developed or until the limitation periods expire for each respective policy year. Any such additional premiums should not have a material adverse effect on our financial position, results of operations or liquidity.

### 13. Guarantor and Non-Guarantor Condensed Consolidating Financial Statements:

On December 6, 2006, we issued 8.0% Senior Notes at a face value of \$650,000 in a private placement transaction. On June 1, 2007, we filed a registration statement on Form S-4 with the SEC to register these 8.0% Senior Notes and became subject to the disclosure requirements of SEC Regulation S-X Rule 3-10(f). The following tables present the financial data required pursuant to SEC Regulation S-X Rule 3-10(f), which includes: (1) unaudited condensed consolidating balance sheets as of September 30, 2008 and December 31, 2007; (2) unaudited condensed consolidating statements of operations for the quarters ended September 30, 2008 and 2007; (3) unaudited condensed consolidating statements of operations for the nine months ended September 30, 2008 and 2007; and (4) unaudited condensed consolidating statements of cash flows for the nine months ended September 30, 2008 and 2007.

#### Condensed Consolidating Balance Sheet September 30, 2008

|  | Parent       | Guarantor<br>Subsidiaries | Non-<br>guarantor<br>Subsidiaries | Eliminations/<br>Reclassifications | Consolidated |
|--|--------------|---------------------------|-----------------------------------|------------------------------------|--------------|
| Current assets                               |              |                           |                                   |                                    |              |
| Cash and cash equivalents                    | \$ 3,206     | \$ 1,158                  | \$ 7,277                          | \$ (3,098)                         | \$ 8,543     |
| Trade accounts receivable, net               | 140          | 320,446                   | 37,267                            |                                    | 357,853      |
| Inventory, net                               |              | 24,570                    | 13,462                            |                                    | 38,032       |
| Prepaid expenses and other<br>current assets | 12,957       | 24,207                    | 2,471                             |                                    | 39,635       |
| Total current assets                         | 16,303       | 370,381                   | 60,477                            | (3,098)                            | 444,063      |
| Property, plant and equipment,<br>net        | 4,913        | 1,043,217                 | 67,583                            |                                    | 1,115,713    |
| Investment in consolidated<br>subsidiaries   | 1,007,563    | 122,537                   |                                   | (1,130,100)                        |              |
| Inter-company receivable                     | 855,246      | 2,737                     |                                   | (857,983)                          |              |
| Goodwill                                     | 82,683       | 453,121                   | 33,288                            |                                    | 569,092      |
| Other long-term assets, net                  | 14,624       | 13,407                    | 3,576                             |                                    | 31,607       |
| Total assets                                 | \$ 1,981,332 | \$ 2,005,400              | \$ 164,924                        | \$ (1,991,181)                     | \$ 2,160,475 |
| Current liabilities                          |              |                           |                                   |                                    |              |
| Current maturities of long-term<br>debt      | \$           | \$ 3,816                  | \$ 25                             | \$                                 | \$ 3,841     |
| Accounts payable                             | 344          | 58,397                    | 8,040                             | (3,098)                            | 63,683       |
| Accrued liabilities                          | 19,895       | 34,800                    | 8,854                             |                                    | 63,549       |
| Accrued payroll and payroll<br>burdens       |              | 16,752                    | 614                               |                                    | 17,366       |



Edgar Filing: Complete Production Services, Inc. - Form 10-Q

|  |              |              |            |                |              |
|--|--------------|--------------|------------|----------------|--------------|
| Accrued interest                           | 16,693       | 6            | 67         |                | 16,766       |
| Notes payable                              | 2,707        |              |            |                | 2,707        |
| Taxes payable                              |              |              | 2,560      |                | 2,560        |
| Total current liabilities                  | 39,639       | 113,771      | 20,160     | (3,098)        | 170,472      |
| Long-term debt                             | 738,087      | 361          | 13,097     |                | 751,545      |
| Inter-company payable                      |              | 855,246      | 2,737      | (857,983)      |              |
| Deferred income taxes                      | 119,807      | 28,459       | 6,392      |                | 154,658      |
| Total liabilities                          | 897,533      | 997,837      | 42,386     | (861,081)      | 1,076,675    |
| Stockholders' equity                       |              |              |            |                |              |
| Total stockholders' equity                 | 1,083,799    | 1,007,563    | 122,538    | (1,130,100)    | 1,083,800    |
| Total liabilities and stockholders' equity | \$ 1,981,332 | \$ 2,005,400 | \$ 164,924 | \$ (1,991,181) | \$ 2,160,475 |

**Condensed Consolidating Balance Sheet**  
**December 31, 2007**

|  | <b>Parent</b>       | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations/<br/>Reclassifications</b> | <b>Consolidated</b> |
|--|---------------------|-----------------------------------|--|--|---------------------|
| <b>Current assets</b>                                |                     |                                   |  |  |                     |
| Cash and cash equivalents                            | \$ 8,217            | \$ 5,549                          | \$ 6,605                                   | \$ (6,747)                                 | \$ 13,624           |
| Trade accounts receivable, net                       | 62                  | 276,706                           | 28,914                                     |  | 305,682             |
| Inventory, net                                       |                     | 16,022                            | 13,855                                     |  | 29,877              |
| Prepaid expenses and other<br>current assets         | 7,113               | 20,826                            | 896  |  | 28,835              |
| Current assets held for sale                         |                     | 50,307                            |  |  | 50,307              |
| <b>Total current assets</b>                          | <b>15,392</b>       | <b>369,410</b>                    | <b>50,270</b>                              | <b>(6,747)</b>                             | <b>428,325</b>      |
| Property, plant and equipment,<br>net                | 4,623               | 953,169                           | 55,398                                     |  | 1,013,190           |
| Investment in consolidated<br>subsidiaries           | 850,238             | 114,529                           |  | (964,767)                                  |                     |
| Inter-company receivable                             | 894,356             | 371                               |  | (894,727)                                  |                     |
| Goodwill   | 82,683              | 418,035                           | 48,412                                     |  | 549,130             |
| Other long-term assets, net                          | 14,804              | 12,321                            | 3,939                                      |  | 31,064              |
| Long-term assets held for sale                       |                     | 33,050                            |  |  | 33,050              |
| <b>Total assets</b>                                  | <b>\$ 1,862,096</b> | <b>\$ 1,900,885</b>               | <b>\$ 158,019</b>                          | <b>\$ (1,866,241)</b>                      | <b>\$ 2,054,759</b> |
| <b>Current liabilities</b>                           |                     |                                   |  |  |                     |
| Current maturities of long-term<br>debt              | \$                  | \$ 328                            | \$ 70                                      | \$   | \$ 398              |
| Accounts payable                                     | 1,364               | 53,159                            | 8,631                                      | (6,747)                                    | 56,407              |
| Accrued liabilities                                  | 5,792               | 39,355                            | 7,425                                      |  | 52,572              |
| Accrued payroll and payroll<br>burdens               | 1,278               | 21,555                            | 1,217                                      |  | 24,050              |
| Accrued interest                                     | 4,462               |                                   | 91   |  | 4,553               |
| Notes payable  | 15,319              | 35                                |  |  | 15,354              |
| Taxes payable  |                     |                                   | 6,506                                      |  | 6,506               |
| Current liabilities of held for<br>sale operations   |                     | 9,705                             |  |  | 9,705               |
| <b>Total current liabilities</b>                     | <b>28,215</b>       | <b>124,137</b>                    | <b>23,940</b>                              | <b>(6,747)</b>                             | <b>169,545</b>      |
| Long-term debt                                       | 810,000             | 3,690                             | 12,295                                     |  | 825,985             |
| Inter-company payable                                |                     | 894,356                           | 371  | (894,727)                                  |                     |
| Deferred tax liabilities                             | 93,557              | 26,379                            | 6,885                                      |  | 126,821             |
| Long-term liabilities of held for<br>sale operations |                     | 2,085                             |  |  | 2,085               |
| <b>Total liabilities</b>                             | <b>931,772</b>      | <b>1,050,647</b>                  | <b>43,491</b>                              | <b>(901,474)</b>                           | <b>1,124,436</b>    |
| Stockholders' equity                                 |                     |                                   |  |  |                     |
| <b>Total stockholders' equity</b>                    | <b>930,324</b>      | <b>850,238</b>                    | <b>114,528</b>                             | <b>(964,767)</b>                           | <b>930,323</b>      |

|   |              |              |            |                |              |
|---|--------------|--------------|------------|----------------|--------------|
| Total liabilities and stockholders equity | \$ 1,862,096 | \$ 1,900,885 | \$ 158,019 | \$ (1,866,241) | \$ 2,054,759 |
|---|--------------|--------------|------------|----------------|--------------|

**Condensed Consolidated Statement of Operations**  
**Quarter Ended September 30, 2008**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations/<br/>Reclassifications</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|--|--|---------------------|
| Revenue:  |               |                                   |  |  |                     |
| Service   | \$            | \$ 444,725                        | \$ 36,449                                  | \$ (1,178)                                 | \$ 479,996          |
| Product   |               | 3,015                             | 10,222                                     |  | 13,237              |
|   |               | 447,740                           | 46,671                                     | (1,178)                                    | 493,233             |
| Service expenses  |               | 266,314                           | 25,030                                     | (1,178)                                    | 290,166             |
| Product expenses  |               | 1,915                             | 6,973                                      |  | 8,888               |
| Selling, general and administrative expenses                | 9,884         | 35,823                            | 4,736                                      |  | 50,443              |
| Depreciation and amortization                               | 418           | 42,554                            | 4,723                                      |  | 47,695              |
| Income from continuing operations before interest and taxes | (10,302)      | 101,134                           | 5,209                                      |  | 96,041              |
| Interest expense  | 15,012        | 2,878                             | 151  | (3,394)                                    | 14,647              |
| Interest income   | (3,443)       | (598)                             | (33)                                       | 3,394                                      | (680)               |
| Equity in earnings of consolidated affiliates               | (64,851)      | (4,229)                           |  | 69,080                                     |                     |
| Income from continuing operations before Taxes              | 42,980        | 103,083                           | 5,091                                      | (69,080)                                   | 82,074              |

|   | Parent    | Non-Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations/Reclassifications | Consolidated |
|---|-----------|----------------------------|----------------------------|--------------------------------|--------------|
| Taxes   | (9,210)   | 38,079                     | 862                        |                                | 29,731       |
| Income (loss) from continuing operations                | \$ 52,190 | \$ 65,004                  | \$ 4,229                   | \$ (69,080)                    | \$ 52,343    |
| Income (loss) from discontinued operations (net of tax) |           | (153)                      |                            |                                | (153)        |
| Net income (loss)                                       | \$ 52,190 | \$ 64,851                  | \$ 4,229                   | \$ (69,080)                    | \$ 52,190    |

**Condensed Consolidated Statement of Operations**  
**Quarter Ended September 30, 2007**

|   | Parent   | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations/Reclassifications | Consolidated |
|---|----------|------------------------|----------------------------|--------------------------------|--------------|
| Revenue:  |          |                        |                            |                                |              |
| Service   | \$       | \$ 337,506             | \$ 28,721                  | (1,327)                        | \$ 364,900   |
| Product   |          | 227                    | 8,278                      |                                | 8,505        |
|   |          | 337,733                | 36,999                     | (1,327)                        | 373,405      |
| Service expenses  |          | 198,526                | 22,168                     | (1,327)                        | 219,367      |
| Product expenses  |          | 223                    | 5,235                      |                                | 5,458        |
| Selling, general and administrative expenses                      | 5,218    | 34,379                 | 2,624                      |                                | 42,221       |
| Depreciation and amortization                                     | 213      | 31,298                 | 2,674                      |                                | 34,185       |
| Income from continuing operations before interest and taxes       | (5,431)  | 73,307                 | 4,298                      |                                | 72,174       |
| Interest expense  | 16,769   | 6,150                  | 243                        | (6,495)                        | 16,667       |
| Interest income   | (6,560)  | (308)                  | (111)                      | 6,495                          | (484)        |
| Equity in earnings of consolidated affiliates                     | (46,480) | (1,905)                |                            | 48,385                         |              |
| Income from continuing operations before Taxes                    | 30,840   | 69,370                 | 4,166                      | (48,385)                       | 55,991       |
| Taxes   | (10,768) | 25,707                 | 2,544                      |                                | 17,483       |
| Income (loss) from continuing operations before minority interest | 41,608   | 43,663                 | 1,622                      | (48,385)                       | 38,508       |
| Minority interest   |          |                        | (283)                      |                                | (283)        |
| Income from continuing operations                                 | 41,608   | 43,663                 | 1,905                      | (48,385)                       | 38,791       |
| Income (loss) from discontinued operations (net of tax)           |          | 2,817                  |                            |                                | 2,817        |

|                   |           |           |          |             |           |
|-------------------|-----------|-----------|----------|-------------|-----------|
| Net income (loss) | \$ 41,608 | \$ 46,480 | \$ 1,905 | \$ (48,385) | \$ 41,608 |
|-------------------|-----------|-----------|----------|-------------|-----------|

**Condensed Consolidated Statement of Operations  
Nine Months Ended September 30, 2008**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations/<br/>Reclassifications</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|--|--|---------------------|
| Revenue:  |               |                                   |  |  |                     |
| Service   | \$            | \$ 1,208,286                      | \$ 105,924                                 | \$ (3,403)                                 | \$ 1,310,807        |
| Product   |               | 5,557                             | 35,132                                     |  | 40,689              |
|   |               | 1,213,843                         | 141,056                                    | (3,403)                                    | 1,351,496           |
| Service expenses  |               | 726,303                           | 77,551                                     | (3,403)                                    | 800,451             |
| Product expenses  |               | 3,831                             | 23,607                                     |  | 27,438              |
| Selling, general and<br>administrative expenses                   | 26,241        | 103,474                           | 12,251                                     |  | 141,966             |
| Depreciation and amortization                                     | 1,106         | 118,220                           | 10,657                                     |  | 129,983             |
| Income from continuing<br>operations before interest and<br>taxes | (27,347)      | 262,015                           | 16,990                                     |  | 251,658             |
| Interest expense  | 46,716        | 10,312                            | 459  | (11,410)                                   | 46,077              |
| Interest income   | (11,539)      | (1,836)                           | (102)                                      | 11,410                                     | (2,067)             |
| Equity in earnings of<br>consolidated affiliates                  | (162,182)     | (13,094)                          |  | 175,276                                    |                     |
| Income from continuing<br>operations before Taxes                 | 99,658        | 266,633                           | 16,633                                     | (175,276)                                  | 207,648             |
| Taxes   | (29,444)      | 99,592                            | 3,539                                      |  | 73,687              |
| Income (loss) from continuing<br>operations                       | \$ 129,102    | \$ 167,041                        | \$ 13,094                                  | \$ (175,276)                               | \$ 133,961          |
| Income (loss) from discontinued<br>operations (net of tax)        |               | 4,859                             |  |  | 4,859               |
| Net income (loss)   | \$ 129,102    | \$ 162,182                        | \$ 13,094                                  | \$ (175,276)                               | \$ 129,102          |

**Condensed Consolidated Statement of Operations**  
**Nine Months Ended September 30, 2007**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations/<br/>Reclassifications</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|--|--|---------------------|
| Revenue:  |               |                                   |  |  |                     |
| Service   | \$            | \$ 989,672                        | \$ 89,055                                  | (3,480)                                    | \$ 1,075,247        |
| Product   |               | 1,987                             | 29,207                                     |  | 31,194              |
|   |               | 991,659                           | 118,262                                    | (3,480)                                    | 1,106,441           |
| Service expenses  |               | 555,282                           | 67,437                                     | (3,480)                                    | 619,239             |
| Product expenses  |               | 1,983                             | 19,760                                     |  | 21,743              |
| Selling, general and administrative expenses                      | 20,064        | 104,257                           | 9,318                                      |  | 133,639             |
| Depreciation and amortization                                     | 787           | 86,454                            | 7,273                                      |  | 94,514              |
| Income from continuing operations before interest and taxes       | (20,851)      | 243,683                           | 14,474                                     |  | 237,306             |
| Interest expense  | 47,810        | 18,425                            | 916  | (19,816)                                   | 47,335              |
| Interest income   | (19,940)      | (629)                             | (259)                                      | 19,816                                     | (1,012)             |
| Equity in earnings of consolidated affiliates                     | (157,064)     | (8,829)                           |  | 165,893                                    |                     |
| Income from continuing operations before Taxes                    | 108,343       | 234,716                           | 13,817                                     | (165,893)                                  | 190,983             |
| Taxes   | (24,398)      | 87,281                            | 5,215                                      |  | 68,098              |
| Income (loss) from continuing operations before minority interest | 132,741       | 147,435                           | 8,602                                      | (165,893)                                  | 122,885             |
| Minority interest   |               |                                   | (227)                                      |  | (227)               |
| Income from continuing operations                                 | 132,741       | 147,435                           | 8,829                                      | (165,893)                                  | 123,112             |
| Income (loss) from discontinued operations (net of tax)           |               | 9,629                             |  |  | 9,629               |
| Net income (loss)   | \$ 132,741    | \$ 157,064                        | \$ 8,829                                   | \$ (165,893)                               | \$ 132,741          |

**Condensed Consolidated Statement of Cash Flows**  
**Nine Months Ended September 30, 2008**

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations/<br/>Reclassifications</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|--|--|---------------------|
| Cash provided by:   |               |                                   |  |  |                     |
| Net income  | \$ 129,102    | \$ 162,182                        | \$ 13,094                                  | \$ (175,276)                               | \$ 129,102          |
| Items not affecting cash:                                     |               |                                   |  |  |                     |
| Equity in earnings of consolidated affiliates                 | (162,182)     | (13,094)                          |  | 175,276                                    |                     |
| Depreciation and amortization                                 | 1,106         | 120,214                           | 10,657                                     |  | 131,977             |
| Other   | 596           | 38,918                            | 469  |  | 39,983              |
| Changes in operating assets and liabilities, net of effect of | 63,138        | (88,511)                          | (13,460)                                   | 3,649                                      | (35,184)            |

Edgar Filing: Complete Production Services, Inc. - Form 10-Q

acquisitions

|  |           |           |          |          |           |
|--|-----------|-----------|----------|----------|-----------|
| Net cash provided by operating activities            | 31,760    | 219,709   | 10,760   | 3,649    | 265,878   |
| Investing activities:                                |           |           |          |          |           |
| Business acquisitions, net of cash acquired          |           | (71,823)  |          |          | (71,823)  |
| Additions to property, plant and equipment           | (1,231)   | (177,869) | (14,129) |          | (193,229) |
| Inter-company receipts                               | 28,001    |           |          | (28,001) |           |
| Proceeds from sale of discontinued Operations        |           | 50,150    |          |          | 50,150    |
| Other  |           | 6,645     | 311      |          | 6,956     |
| Net cash provided by (used for) investing Activities | 26,770    | (192,897) | (13,818) | (28,001) | (207,946) |
| Financing activities:                                |           |           |          |          |           |
| Issuances of long-term debt                          | 197,714   | 44        | 10,597   |          | 208,355   |
| Repayments of long-term debt                         | (269,623) | (880)     | (9,557)  |          | (280,060) |
| Repayments of notes payable                          | (12,642)  |           |          |          | (12,642)  |
| Inter-company borrowings (repayments)                |           | (30,367)  | 2,366    | 28,001   |           |
|  |           | 21        |          |          |           |

---

|   | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations/<br/>Reclassifications</b> | <b>Consolidated</b> |
|---|---------------|-----------------------------------|--|--|---------------------|
| Proceeds from issuances of common stock             | 11,901        |                                   |  |  | 11,901              |
| Other   | 9,109         |                                   |  |  | 9,109               |
| Net cash provided by (used in) financing Activities | (63,541)      | (31,203)                          | 3,406                                      | 28,001                                     | (63,337)            |
| Effect of exchange rate changes on cash             |               |                                   | 324  |  | 324                 |
| Change in cash and cash equivalents                 | (5,011)       | (4,391)                           | 672  | 3,649                                      | (5,081)             |
| Cash and cash equivalents, beginning of period      | 8,217         | 5,549                             | 6,605                                      | (6,747)                                    | 13,624              |
| Cash and cash equivalents, end of period            | \$ 3,206      | \$ 1,158                          | \$ 7,277                                   | \$ (3,098)                                 | \$ 8,543            |

**Condensed Consolidated Statement of Cash Flows  
For the Nine Months Ended September 30, 2007**

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-guarantor<br/>Subsidiaries</b> | <b>Eliminations/<br/>Reclassifications</b> | <b>Consolidated</b> |
|--|---------------|-----------------------------------|---------------------------------------|--|---------------------|
|  |               |                                   | (in thousands)                        |  |                     |
| Cash provided by:  |               |                                   |                                       |  |                     |
| Net income   | \$ 132,741    | \$ 157,064                        | \$ 8,829                              | \$ (165,893)                               | \$ 132,741          |
| Items not affecting cash:  |               |                                   |                                       |  |                     |
| Equity in earnings of consolidated affiliates                              | (157,064)     | (8,829)                           |                                       | 165,893                                    |                     |
| Depreciation and amortization  | 787           | 89,798                            | 7,273                                 |  | 97,858              |
| Other  | 10,919        | 4,663                             | 867                                   |  | 16,449              |
| Changes in operating assets and liabilities, net of effect of acquisitions | 47,483        | (35,748)                          | (16,392)                              | (2,243)                                    | (6,900)             |
| Net cash provided by operating activities                                  | 34,866        | 206,948                           | 577                                   | (2,243)                                    | 240,148             |
| Investing activities:  |               |                                   |                                       |  |                     |
| Business acquisitions  |               | (40,616)                          |                                       |  | (40,616)            |
| Additions to property, plant and equipment                                 | (1,787)       | (264,944)                         | (8,028)                               |  | (274,759)           |
| Inter-company advances   | (100,296)     | (11,525)                          |                                       | 111,821                                    |                     |
| Other  |               | 4,399                             | 536                                   |  | 4,935               |
|  | (102,083)     | (312,686)                         | (7,492)                               | 111,821                                    | (310,440)           |



Net cash used for investing activities

Financing activities:

|  |           |          |          |            |           |
|--|-----------|----------|----------|------------|-----------|
| Issuances of long-term debt                    | 237,448   |          | 9,859    |            | 247,307   |
| Repayments of long-term debt                   | (162,437) | (361)    | (14,735) |            | (177,533) |
| Issuances (repayments) of notes payable        | (17,078)  |          |          |            | (17,078)  |
| Inter-company borrowings (repayments)          |           | 100,278  | 11,543   | (111,821)  |           |
| Proceeds from issuances of common stock        | 3,412     |          |          |            | 3,412     |
| Other  | 5,590     |          |          |            | 5,590     |
| Net cash provided by financing activities      | 66,935    | 99,917   | 6,667    | (111,821)  | 61,698    |
| Effect of exchange rate changes on cash        |           |          | (3,934)  |            | (3,934)   |
| Change in cash and cash equivalents            | (282)     | (5,821)  | (4,182)  | (2,243)    | (12,528)  |
| Cash and cash equivalents, beginning of period | 6,517     | 9,533    | 7,312    | (3,488)    | 19,874    |
| Cash and cash equivalents, end of period       | \$ 6,235  | \$ 3,712 | \$ 3,130 | \$ (5,731) | \$ 7,346  |

#### 14. Recent accounting pronouncements and authoritative literature:

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This pronouncement permits entities to use the fair value method to measure certain financial assets and liabilities by electing an irrevocable option to use the fair value method at specified election dates. After election of the option, subsequent changes in fair value would result in the recognition of unrealized gains or losses as period costs during the period the change occurred. SFAS No. 159 became effective on January 1, 2008. We have not elected to adopt the fair value option prescribed by SFAS No. 159 for assets and liabilities held as of September 30, 2008, but we will consider the provisions of SFAS No. 159 and may elect to apply the fair value option for assets or liabilities associated with future transactions.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidating Financial Statements an Amendment of ARB No. 51*. This pronouncement establishes accounting and reporting standards for non-controlling interests, commonly referred to as minority interests. Specifically,

this statement requires that the non-controlling interest be presented as a component of equity on the balance sheet, and that net income be presented prior to adjustment for the non-controlling interests' portion of earnings with the portion of net income attributable to the parent company and the non-controlling interest both presented on the face of the statement of operations. In addition, this pronouncement provides a single method of accounting for changes in the parent's ownership interest in the non-controlling entity, and requires the parent to recognize a gain or loss in net income when a subsidiary with a non-controlling interest is deconsolidated. Additional disclosure items are required related to the non-controlling interest. This pronouncement becomes effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The statement should be applied prospectively as of the beginning of the fiscal year that the statement is adopted. However, the disclosure requirements must be applied retrospectively for all periods presented. We are currently evaluating the impact that SFAS No. 160 may have on our financial position, results of operations and cash flows.

In December 2007, the FASB revised SFAS No. 141, *Business Combinations* which will replace that pronouncement in its entirety. While the revised statement will retain the fundamental requirements of SFAS No. 141, it will also require that all assets and liabilities and non-controlling interests of an acquired business be measured at their fair value, with limited exceptions, including the recognition of acquisition-related costs and anticipated restructuring costs separate from the acquired net assets. In addition, the statement provides guidance for recognizing pre-acquisition contingencies and states that an acquirer must recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at acquisition-date fair values, but must recognize all other contractual contingencies as of the acquisition date, measured at their acquisition-date fair values only if it is more likely than not that these contingencies meet the definition of an asset or liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. Furthermore, this statement provides guidance for measuring goodwill and recording a bargain purchase, defined as a business combination in which total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any non-controlling interest in the acquiree, and it requires that the acquirer recognize that excess in earnings as a gain attributable to the acquirer. This statement becomes effective at the beginning of the first annual reporting period beginning on or after December 15, 2008, and must be applied prospectively. We are currently evaluating the impact that this statement may have on our financial position, results of operations and cash flows.

In June 2008, the FASB issued a FASB Staff Position ( FSP ) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, which states that unvested share-based awards which have non-forfeitable rights to participate in dividend distributions should be considered participating securities in order to calculate earnings per share in accordance with the *Two-Class Method* described in SFAS No. 128, *Earnings per Share*. This guidance becomes effective for fiscal years beginning after December 15, 2008, with retrospective application to prior periods. Early adoption is not permitted. We are currently evaluating the impact that this guidance may have on our financial position, results of operations and cash flows.

In September 2008, the FASB issued an FSP No. FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*, which clarifies the definition of a discontinued operation as either: (1) a component of an entity which has been disposed of or classified as held for sale which meets the criteria of an operating segment as defined under SFAS No. 131, or (2) as a business, as such term is defined in SFAS No. 141R which becomes effective on January 1, 2009, which meets the criteria to be classified as held for sale on acquisition. This proposed guidance further modifies certain disclosure requirements. We are currently evaluating the effect this proposed guidance may have on our financial position, results of operations and cash flows.

#### **15. Subsequent Events:**

On October 3, 2008, we acquired all of the membership interests of TSWs Well Services, LLC, a limited liability corporation which held substantially all of the well servicing and heavy haul assets of TSWs, Inc., a company based in Magnolia, Arkansas, which provides well servicing and heavy haul services to customers in northern Louisiana, east Texas and southern Arkansas. As consideration, we paid \$57,000 in cash, and prepaid an additional \$1,000 related to an employee retention bonus pool. The purchase price allocation associated with this acquisition has not been completed, but we expect to record goodwill related to this acquisition of approximately \$27,500 in October 2008, which will be allocated



entirely to the completion and production services business segment. We believe this acquisition expands our geographic reach into the Haynesville Shale area.

On October 4, 2008, we acquired substantially all of the assets of Appalachian Well Services, Inc. and its wholly-owned subsidiary, each of which is based in Shelocta, Pennsylvania. This business provides pressure pumping, e-line and coiled tubing services in the Appalachian region, with a service area which extends through portions of Pennsylvania, West Virginia, Ohio and New York. As consideration for the purchase, we paid \$49,257 in cash and issued 588,292 unregistered shares of our common stock, valued at \$15.04 per share. We expect to invest an additional \$6,500 to complete a frac fleet at this location, and have an option to purchase other real property for approximately \$600. In addition, we have entered into an agreement under which we may be required to pay up to an additional \$5,000 in cash consideration during the earn-out period which extends through 2010, based upon the results of operations of various service lines acquired. The purchase price allocation associated with this acquisition has not yet been finalized, but we expect to record goodwill of approximately \$29,000 in October 2008, which will be allocated entirely to the completion and production services business segment. We believe this acquisition creates a platform for future growth for our pressure pumping and other completion and production service lines in the Marcellus Shale.

On October 8, 2008, our former senior vice president and chief financial officer announced his retirement from Complete effective October 15, 2008. In connection with the retirement, we entered into an agreement with this former officer to pay a lump sum payment of \$1,043, plus a 2008 bonus payment and certain other payroll benefits. In addition, we accelerated vesting as of October 15, 2008 of 63,899 outstanding unvested stock options and 45,754 outstanding unvested shares of restricted stock held by the former officer, and extended the exercise period for 63,900 outstanding stock options from January 15, 2009 to October 15, 2009. We expect to make the payment under this agreement on or about April 16, 2009. Pursuant to this agreement, we will record a charge related to stock-based compensation during October 2008 related to the vesting of unrestricted stock and the modification of the stock options noted. We will also accrue the amount of the lump sum payment and the 2008 bonus as a current liability as of October 31, 2008. Although we have not finalized the calculation of the charge to earnings associated with the retirement of this former officer, we expect the charge to be between \$2,000 and \$2,500.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes as of September 30, 2008 and for the quarters and nine months ended September 30, 2008 and 2007, included elsewhere herein. This discussion contains forward-looking statements based on our current expectations, assumptions, estimates and projections about us and the oil and gas industry. These forward-looking statements involve risks and uncertainties that may be outside of our control and could cause actual results to differ materially from those in the forward-looking statements. For examples of those risks and uncertainties, see the cautionary statement contained in Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2007. Factors that could cause or contribute to such differences include, but are not limited to: market prices for oil and gas, the level of oil and gas drilling, economic and competitive conditions, capital expenditures, availability of credit financing, regulatory changes and other uncertainties. In light of these risks, uncertainties and assumptions, the forward-looking events discussed below may not occur. Unless otherwise required by law, we undertake no obligation to update publicly any forward-looking statements, even if new information becomes available or other events occur in the future.

The words believe, may, estimate, continue, anticipate, intend, plan, expect and similar expressions identify forward-looking statements. All statements other than statements of current or historical fact contained in this Quarterly Report on Form 10-Q are forward-looking statements.

References to Complete, the Company, we, our and similar phrases used throughout this Quarterly Report on Form 10-Q relate collectively to Complete Production Services, Inc. and its consolidated affiliates.

### **Overview**

We are a leading provider of specialized services and products focused on helping oil and gas companies develop hydrocarbon reserves, reduce operating 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 the many needs of our customers at the wellsite, from drilling and completion through production and eventual abandonment. We manage our operations from regional field service facilities located throughout the U.S. Rocky Mountain region, Texas, Oklahoma, Louisiana, Arkansas, Kansas, North Dakota, Pennsylvania, western Canada, Mexico and Southeast Asia.

We operate in three business 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.

*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.

*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 throughout our service area. Our drilling rigs primarily operate in and around the Barnett Shale region of north Texas.

**Product Sales.** We provide oilfield service equipment and refurbishment of used equipment through our Southeast Asia business, and we provide repair work and fabrication services for our customers at a business located in Gainesville, Texas.

Substantially all service and rental revenue we earn is based upon a charge for a period of time (an hour, a day, a week) for the actual period of time the service or rental is provided to our customer. Product sales are recorded when the actual sale occurs and title or ownership passes to the customer.

**General**

The primary factor influencing demand for our services and products is the level of drilling, completion and maintenance activity of our customers, which in turn, depends on current and anticipated future oil and gas prices, production depletion rates and the resultant levels of cash flows generated and allocated by our customers to their drilling, completion and maintenance budgets. As a result, demand for our services and products is cyclical, substantially depends on activity levels in the North American oil and gas industry and is highly sensitive to current and expected oil and natural gas prices.

We believe there is a correlation between the number of active drilling rigs and the level of spending for exploration and development of new and existing hydrocarbon reserves by our customers in the oil and gas industry. These spending levels are a primary driver of our business, and we believe that our customers tend to invest more in these activities when oil and gas prices are at higher levels or are increasing. The following tables summarize average North American drilling and well service rig activity, as measured by Baker Hughes Incorporated ( BHI ) and the Weatherford/AESC Service Rig Count for Active Rigs, respectively.

**AVERAGE RIG COUNTS**

|                              | <b>Quarter<br/>Ended<br/>9/30/08</b> | <b>Quarter<br/>Ended<br/>9/30/07</b> | <b>Nine<br/>Months<br/>Ended<br/>9/30/08</b> | <b>Nine<br/>Months<br/>Ended<br/>9/30/07</b> |
|------------------------------|--------------------------------------|--------------------------------------|--|--|
| <b>BHI Rotary Rig Count:</b> |                                      |                                      |  |  |
| U.S. Land                    | 1,910                                | 1,717                                | 1,806  | 1,683  |
| U.S. Offshore                | 69                                   | 72                                   | 64   | 77   |
| Total U.S                    | 1,979                                | 1,789                                | 1,870  | 1,760  |
| Canada                       | 433                                  | 347                                  | 372  | 338  |
| Total North America          | 2,412                                | 2,136                                | 2,242  | 2,098  |

Source: BHI  
([www.BakerHughes.com](http://www.BakerHughes.com).)

|  | <b>Quarter<br/>Ended<br/>9/30/08</b> | <b>Quarter<br/>Ended<br/>9/30/07</b> | <b>Nine<br/>Months<br/>Ended<br/>9/30/08</b> | <b>Nine<br/>Months<br/>Ended<br/>9/30/07</b> |
|--|--------------------------------------|--------------------------------------|--|--|
| <b>Weatherford/AESC Service Rig Count (Active Rigs):</b> |                                      |                                      |  |  |
| United States  | 2,597                                | 2,395                                | 2,531  | 2,382  |
| Canada   | 738                                  | 533                                  | 695  | 593  |

|                     |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| Total North America | 3,335 | 2,928 | 3,226 | 2,975 |
|---------------------|-------|-------|-------|-------|

Source:  
Weatherford/AESC  
Service Rig Count  
for Active Rigs.

## Outlook

Our growth strategy includes a focus on internal growth in the basins in which we currently operate and we seek to maximize our equipment utilization, add additional like-kind equipment and expand service and product offerings. In addition, we identify new basins in which to replicate this approach. We also augment our internal growth through strategic acquisitions.

Strategic acquisitions are an integral part of our growth strategy. We consider acquisitions that will add to our service offerings in a current operating area or that will expand our geographical footprint into a targeted basin. We invested \$9.5 million to acquire a fishing, rental and foam unit services business in February 2008, and \$62.4 million, net of cash acquired, to acquire a pressure pumping business in north Texas in April 2008. In October 2008, we invested \$58.0 million to acquire a well service and heavy haul business based in Arkansas, and an additional \$49.3 million in cash to acquire a pressure pumping and e-line business in Pennsylvania, as well as issuing shares of our common stock as additional consideration (see Acquisitions ).

During the nine months ended September 30, 2008 and 2007, we invested \$193.2 million and \$274.8 million, respectively, in equipment additions and other capital expenditures. We originally planned to spend approximately \$150.0 million on capital expenditures for 2008 compared to actual capital expenditures in 2007 of \$372.6 million. This decrease in planned capital expenditures for 2008 was due to concerns of potential equipment over-capacity in the oil and gas industry in the markets in which we serve. During recent months, we increased our projected capital expenditures budget to \$250.0 million for fiscal 2008 particularly to expand into basins which we believe to have future growth potential, including the Haynesville Shale of Louisiana, the Bakken Shale area of North Dakota and the Marcellus Shale in the Appalachian region. During the third quarter of 2008, the U.S. financial markets were impacted by the collapse of several large banks and financial institutions which continues to restrict the availability of funds for loans amongst banks and for commercial investment. Although we currently have positive cash flow and sufficient available borrowing capacity under our existing long-term credit facilities, we cannot estimate the impact that this downturn in the U.S. financial markets will have on activity levels or our customers, our operations and our future need and ability to continue to make investments in capital expenditures and acquisitions. Our capital expenditures for the twelve months ended September 30, 2008 were \$291.0 million, the majority of which was spent for growth capital, and we expect to invest approximately \$150.0 million in capital expenditures during fiscal 2009. We further expect to continue to benefit from equipment placed into service during the past twelve months, assuming that utilization of our equipment remains at current levels or higher. However, our future results remain subject to the risks described in our Annual Report on Form 10-K for the year ended December 31, 2007.

Our customers are directly impacted by the volatility of commodity prices in the oil and gas industry, which affects their spending levels, and directly impacts the use of oilfield service providers. As we have evaluated our business environment, we believe the following trends have emerged: (1) our customers have begun to curtail investment in capital projects as a response to the U.S. financial markets decline, a decrease in available credit financing and lower commodity prices; (2) our competitors have placed additional equipment into service in the markets in which we operate; (3) we have experienced pricing pressure in certain geographic areas for certain business lines due to competitive market forces; (4) oilfield activity has been steady and rig counts trends were favorable throughout the first three quarters of 2008, but have begun to fall in recent weeks; (5) labor costs have risen and inflationary forces may continue to increase our operating costs; and (6) our customers are investing in unconventional resource plays, which may require service companies to provide newer, more complex equipment and to possess more technical expertise to assist the customer to explore and develop these resource plays.

We, and many of our competitors, have invested in new equipment over the past several years, some of which requires long lead times to manufacture. As more of this equipment is placed into service or moved to emerging basins due to lower utilization in more established basins, there could be excess capacity in the industry and, in particular, in the markets we serve, which we believe may negatively impact our utilization rates and pricing for certain service offerings. In addition, as new equipment enters the market, we must compete for employees to crew the equipment, which puts inflationary pressure on labor costs. Our equipment fleet is relatively new, as we made significant investments in new equipment over the past three





years and expect to continue to invest in new equipment and maintenance of existing assets. We continue to monitor our equipment utilization and poll our customers to assess demand levels. As more equipment enters the marketplace, we believe our customers will increasingly rely upon service providers with local knowledge and expertise, which we believe we have and which constitutes a fundamental aspect of our strategic acquisition growth strategy.

We continue to believe that the overall long-term outlook for our business remains favorable from an activity perspective, particularly in the basins in which we operate and in the basins in which we intend to make additional investments, including the Haynesville Shale area of Louisiana, the Bakken Shale area of North Dakota and the Marcellus Shale in the Appalachian region. Although we expect a short-term downturn in the oil and gas industry due to the decline in the U.S. economy, weakness of the U.S. financial markets, and lower oil and gas commodity prices, we believe that the fundamentals in the markets which we serve are good. We believe that pricing for our products and services will be less favorable for some product lines and in some geographic regions in the short-term. We believe we are well positioned to pursue our growth strategy because of our position in the markets we serve and our overall capital structure.

### **Acquisitions**

During the period from January 1, 2008 through October 4, 2008, we acquired substantially all the assets of four oilfield service companies for \$179.2 million in cash, net of cash acquired, and we issued 588,292 unregistered shares of our common stock. These acquisitions are subject to final working capital adjustments.

On February 29, 2008, we acquired substantially all the assets of KR Fishing & Rental, Inc., for \$9.5 million in cash, resulting in goodwill of \$6.4 million. KR Fishing & Rental, Inc. is a provider of fishing, rental and foam unit services in the Piceance Basin and the Raton Basin, and is based in Rangely, Colorado. We believe this acquisition complements our completion and production services business in the Rocky Mountain region.

On April 15, 2008, we acquired all the outstanding common stock of Frac Source Services, Inc., a provider of pressure pumping services to customers in the Barnett Shale of north Texas, for \$62.4 million in cash, net of cash acquired, which includes a working capital adjustment of \$1.6 million, and recorded goodwill of \$15.4 million. Upon closing this transaction, we entered into a contract with one of our major customers to provide pressure pumping services in the Barnett Shale utilizing three frac fleets under a contract with a term that extends up to three years from the date each fleet is placed into service. We spent an additional \$20.0 million in 2008 on capital equipment related to these contracted frac fleets. Thus, our total investment in this operation was approximately \$82.4 million. The initial purchase price allocation associated with this acquisition has not yet been finalized. We believe this acquisition expands our pressure pumping business in north Texas and that the related contract provides a stable revenue stream from which to expand our pressure pumping business outside of this region.

On October 3, 2008, we acquired all of the membership interests of TSWS Well Services, LLC, a limited liability corporation which held substantially all of the well servicing and heavy haul assets of TSWS, Inc., a company based in Magnolia, Arkansas, which provides well servicing and heavy haul services to customers in northern Louisiana, east Texas and southern Arkansas. As consideration, we paid \$57.0 million in cash, and prepaid an additional \$1.0 million related to an employee retention bonus pool. The purchase price allocation associated with this acquisition has not been completed, but we expect to record goodwill related to this acquisition of approximately \$27.5 million in October 2008. We believe this acquisition extends our geographic reach into the Haynesville Shale area.

On October 4, 2008, we acquired substantially all of the assets of Appalachian Well Services, Inc. and its wholly-owned subsidiary, each of which is based in Shelocta, Pennsylvania. This business provides pressure pumping, e-line and coiled tubing services in the Appalachian region, and includes a service area which extends through portions of Pennsylvania, West Virginia, Ohio and New York. As consideration for the purchase, we paid \$49.3 million in cash and issued 588,292 unregistered shares of our common stock, valued at \$15.04 per share. We expect to invest an additional \$6.5 million to complete a frac fleet at this location, and have an option to purchase other real property for approximately \$0.6 million. In addition, we have entered into an agreement under which we may be required to pay up to an additional \$5.0 million in cash consideration during the earn-out period which extends through 2010, based upon the results of operations of various service lines acquired. The purchase price allocation associated with this acquisition has not yet been finalized, but we expect to record goodwill of approximately \$29.0 million in October 2008. We believe this acquisition creates a platform for future growth for our pressure pumping and other completion and production service lines in the Marcellus Basin.

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 have been 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.

In May 2008, our Board of Directors authorized and committed to a plan to sell certain operations in the Barnett Shale region of north Texas, consisting primarily of our supply store business, as well as certain non-strategic drilling logistics assets and other completion and production services assets. On May 19, 2008, we sold these operations to Select Energy Services, L.L.C., a company owned by a former officer of one of our subsidiaries, for which we received proceeds of \$50.2 million in cash and assets with a fair market value of \$8.0 million. The carrying value of the net assets sold was approximately \$51.4 million, excluding \$11.1 million of allocated goodwill associated with the combination that formed Complete Production Services, Inc. in September 2005. We recorded a loss on the sale of this disposal group totaling approximately \$6.9 million, which included \$2.6 million related to income taxes. In accordance with the sales agreement, we agreed to sublet office space to Select Energy Services, L.L.C. and to provide certain administrative services for an initial term of one year, at an agreed-upon rate.

#### **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. Estimates and assumptions are reviewed periodically, and actual results may differ from those estimates under different assumptions or conditions. We must use our judgment related to uncertainties in order to make these estimates and assumptions.

For a description of our critical accounting policies and estimates as well as certain sensitivity disclosures related to those estimates, see our Annual Report on Form 10-K for the year ended December 31, 2007. Our critical accounting policies and estimates have not changed materially during the nine months ended September 30, 2008.

**Results of Operations (Continuing Operations)**

|                                    | <b>Quarter<br/>Ended<br/>9/30/08</b> | <b>Quarter<br/>Ended<br/>9/30/07</b> | <b>Change<br/>2008/<br/>2007</b> | <b>Percent<br/>Change<br/>2008/<br/>2007</b> |
|------------------------------------|--------------------------------------|--------------------------------------|----------------------------------|--|
| <b>(unaudited, in thousands)</b>   |                                      |                                      |                                  |  |
| <b>Revenue:</b>                    |                                      |                                      |                                  |  |
| Completion and production services | \$ 417,788                           | \$ 312,020                           | \$ 105,768                       | 34%  |
| Drilling services                  | 62,208                               | 52,880                               | 9,328                            | 18%  |
| Product sales                      | 13,237                               | 8,505                                | 4,732                            | 56%  |
| Total                              | \$ 493,233                           | \$ 373,405                           | \$ 119,828                       | 32%  |
| <b>EBITDA:</b>                     |                                      |                                      |                                  |  |
| Completion and production services | \$ 133,229                           | \$ 95,493                            | \$ 37,736                        | 40%  |
| Drilling services                  | 17,005                               | 14,211                               | 2,794                            | 20%  |
| Product sales                      | 3,387                                | 2,235                                | 1,152                            | 52%  |
| Corporate                          | (9,885)                              | (5,580)                              | (4,305)                          | 77%  |
| Total                              | \$ 143,736                           | \$ 106,359                           | \$ 37,377                        | 35%  |

|                                    | <b>Nine<br/>Months<br/>Ended<br/>9/30/08</b> | <b>Nine<br/>Months<br/>Ended<br/>9/30/07</b> | <b>Change<br/>2008/<br/>2007</b> | <b>Percent<br/>Change<br/>2008/<br/>2007</b> |
|------------------------------------|--|--|----------------------------------|--|
| <b>(unaudited, in thousands)</b>   |  |  |                                  |  |
| <b>Revenue:</b>                    |  |  |                                  |  |
| Completion and production services | \$ 1,138,096                                 | \$ 917,146                                   | \$ 220,950                       | 24%  |
| Drilling services                  | 172,711                                      | 158,101                                      | 14,610                           | 9%   |
| Product sales                      | 40,689                                       | 31,194                                       | 9,495                            | 30%  |
| Total                              | \$ 1,351,496                                 | \$ 1,106,441                                 | \$ 245,055                       | 22%  |
| <b>EBITDA:</b>                     |  |  |                                  |  |
| Completion and production services | \$ 352,940                                   | \$ 297,619                                   | \$ 55,321                        | 19%  |
| Drilling services                  | 44,733                                       | 47,050                                       | (2,317)                          | (5%)   |
| Product sales                      | 10,209                                       | 7,215  | 2,994                            | 41%  |
| Corporate                          | (26,241)                                     | (20,064)                                     | (6,177)                          | 31%  |
| Total                              | \$ 381,641                                   | \$ 331,820                                   | \$ 49,821                        | 15%  |

Corporate includes amounts related to

corporate personnel costs, other general expenses and stock-based compensation charges.

EBITDA consists of net income (loss) from continuing operations before net interest expense, taxes, depreciation and amortization, minority interest and impairment loss. EBITDA is a non-GAAP measure of performance. We use EBITDA as the primary internal management measure for evaluating performance and allocating additional resources. The following table reconciles EBITDA for the quarters and nine months ended September 30, 2008 and 2007 to the most comparable U.S. GAAP measure, operating income (loss).

**Reconciliation of EBITDA to Most Comparable U.S. GAAP Measure Operating Income (Loss)**

|   | <b>Completion<br/>and<br/>Production<br/>Services</b> | <b>Drilling<br/>Services</b> | <b>Product<br/>Sales</b> | <b>Corporate</b> | <b>Total</b> |
|---|---|------------------------------|--------------------------|------------------|--------------|
|   | (unaudited, in thousands)                             |                              |                          |                  |              |
| <b>Quarter Ended September 30, 2008</b> |   |                              |                          |                  |              |
| EBITDA, as defined                      | \$ 133,229  | \$ 17,005                    | \$ 3,387                 | \$ (9,885)       | \$ 143,736   |
| Depreciation and amortization           | \$ 41,169   | \$ 5,223                     | \$ 657                   | \$ 646           | \$ 47,695    |
| Operating income (loss)                 | \$ 92,060   | \$ 11,782                    | \$ 2,730                 | \$ (10,531)      | \$ 96,041    |

|   | <b>Completion<br/>and<br/>Production<br/>Services</b> | <b>Drilling<br/>Services</b> | <b>Product<br/>Sales</b> | <b>Corporate</b> | <b>Total</b> |
|---|---|------------------------------|--------------------------|------------------|--------------|
|   | <b>(unaudited, in thousands)</b>                      |                              |                          |                  |              |
| <b>Quarter Ended September 30, 2007</b>     |   |                              |                          |                  |              |
| EBITDA, as defined                          | \$ 95,493   | \$ 14,211                    | \$ 2,235                 | \$ (5,580)       | \$ 106,359   |
| Depreciation and amortization               | \$ 29,475   | \$ 3,933                     | \$ 577                   | \$ 200           | \$ 34,185    |
| Operating income (loss)                     | \$ 66,018   | \$ 10,278                    | \$ 1,658                 | \$ (5,780)       | \$ 72,174    |
| <b>Nine Months Ended September 30, 2008</b> |   |                              |                          |                  |              |
| EBITDA, as defined                          | \$ 352,940  | \$ 44,733                    | \$ 10,209                | \$ (26,241)      | \$ 381,641   |
| Depreciation and amortization               | \$ 111,897  | \$ 14,527                    | \$ 1,762                 | \$ 1,797         | \$ 129,983   |
| Operating income (loss)                     | \$ 241,043  | \$ 30,206                    | \$ 8,447                 | \$ (28,038)      | \$ 251,658   |
| <b>Nine Months Ended September 30, 2007</b> |   |                              |                          |                  |              |
| EBITDA, as defined                          | \$ 297,619  | \$ 47,050                    | \$ 7,215                 | \$ (20,064)      | \$ 331,820   |
| Depreciation and amortization               | \$ 81,307   | \$ 10,460                    | \$ 1,535                 | \$ 1,212         | \$ 94,514    |
| Operating income (loss)                     | \$ 216,312  | \$ 36,590                    | \$ 5,680                 | \$ (21,276)      | \$ 237,306   |

Below is a detailed discussion of our operating results by segment for these periods.

**Quarter and Nine Months Ended September 30, 2008 Compared to the Quarter and Nine Months Ended September 30, 2007 (Unaudited)**

*Revenue*

Revenue from continuing operations for the quarter ended September 30, 2008 increased by \$119.8 million, or 32%, to \$493.2 million from \$373.4 million for the same period in 2007. Revenue from continuing operations for the nine months ended September 30, 2008 increased \$245.1 million, or 22%, to \$1,351.5 million from \$1,106.4 million for the same period in 2007. The changes by segment were as follows:

*Completion and Production Services.* Segment revenue increased \$105.8 million, or 34% for the quarter, and \$221.0 million, or 24% for the nine months, primarily due to revenues earned as a result of additional capital investment in our pressure pumping, coiled tubing, well servicing, rental and fluid-handling businesses in 2007 and during the nine months ended September 30, 2008. We experienced favorable results for our pressure pumping, fluid handling, well service and U.S. and Mexican coiled tubing businesses, when comparing the first nine months of 2008 to the same period in 2007. Results for our pressure pumping business increased due to an expansion of services into the Bakken Shale area of North Dakota and the successful integration of a business acquired in April 2008, pursuant to which we negotiated a long-term service contract with a major customer. During 2007 and early 2008, we completed a series of small acquisitions which provided incremental revenues for 2008 compared to 2007 due to the timing of those acquisitions.

*Drilling Services.* Segment revenue increased \$9.3 million, or 18% for the quarter, and \$14.6 million, or 9% for the nine months, primarily due to additional capital invested in our contract drilling business in 2007 and into 2008, better utilization of our equipment in the third quarter of 2008, somewhat offset by lower pricing and lower utilization in early 2008 compared to the same period in 2007. The lower utilization resulted from less rig moving activity during early 2008 and an increase in equipment placed into service by our competitors in the markets we serve. Pricing and utilization have improved since the first quarter of 2008 for our contract drilling and rig logistics businesses.

*Product Sales.* Segment revenue increased \$4.7 million, or 56% for the quarter, and \$9.5 million, or 30% for the nine months, due primarily to the sales mix and the timing of product sales and equipment refurbishment for our Southeast Asian business, which tends to be project-specific. We also had a larger volume of third-party sales at our repair and fabrication shop in north Texas during 2008 compared to the same period in 2007.

*Service and Product Expenses*

Service and product expenses include labor costs associated with the execution and support of our services, materials used in the performance of those services and other costs directly related to the support and maintenance of equipment. These expenses increased \$74.2 million, or 33%, to \$299.1 million for the quarter ended September 30, 2008 from \$224.8 million for the quarter ended September 30, 2007. For the nine months ended September 30, 2008, service and product expenses increased \$186.9 million, or 29%, to \$827.9 million from \$641.0 million for the same period in 2007. The following table summarizes service and product expenses as a percentage of revenues for the quarters and nine months ended September 30, 2008 and 2007:

**Service and Product Expenses as a Percentage of Revenue**

| Segment:                           | Quarter Ended |         |        | Nine Months Ended |         |        |
|------------------------------------|---------------|---------|--------|-------------------|---------|--------|
|                                    | 9/30/08       | 9/30/07 | Change | 9/30/08           | 9/30/07 | Change |
| Completion and production services | 60%           | 60%     |        | 60%               | 57%     | (3)%   |
| Drilling services                  | 65%           | 63%     | (2)%   | 67%               | 60%     | (7)%   |
| Product sales                      | 67%           | 64%     | (3)%   | 67%               | 70%     | 3%     |
| Total                              | 61%           | 60%     | (1)%   | 61%               | 58%     | (3)%   |

Service and product expenses as a percentage of revenue increased for the quarter and nine months ended September 30, 2008 compared to the same period in 2007. Margins by business segment were impacted by acquisitions, pricing, utilization and costs.

*Completion and Production Services.* Service and product expenses as a percentage of revenue for this business segment were consistent when comparing the quarter ended September 30, 2008 to the same period in 2007, although the mix of services provided changed during the periods. Higher fluid handling volume, an increase in coiled tubing equipment placed in service and the expansion of our pressure pumping operations into the Bakken Shale area of North Dakota and acquisitions during 2008 contributed to a favorable service mix which offset a decline in margins for certain other business lines due primarily to lower utilization and some pricing considerations. For the nine months ended September 30, 2008 compared to the same period in 2007, our service and product expenses as a percentage of revenue increased due to some pricing pressure for many of our service lines throughout 2008, resulting in less favorable operating margins on a year-over-year basis. We have experienced higher labor and fuel costs throughout 2008 as well as higher sand and cement costs for our pressure pumping business. In addition, we incurred additional costs associated with the start-up of a pressure pumping and fracing business in the Bakken Shale area of North Dakota. Although pricing for the third quarter of 2008 was less favorable in some markets than in the prior year, we were able to obtain some pricing considerations and fuel surcharges which defrayed some operating costs relative to the second quarter of 2008. Our year-over-year results for this business segment were also impacted by the acquisitions of Frac Source and KR Fishing and Rental, Inc. during 2008.

*Drilling Services.* Service and product expenses as a percentage of revenue for this business segment increased during 2008 compared to 2007 due to: (1) lower pricing for our contract drilling and drilling logistics businesses on a year-over-year basis, (2) higher operating costs associated primarily with labor and fuel, (3) lower utilization of our equipment due primarily to more market competition. For the third quarter of 2008 compared to the second quarter of 2008, our margins improved for our drilling services business segment as demand for our contract drilling and drilling logistics business increased resulting in higher utilizations and improved margins.

*Product Sales.* Service and product expenses as a percentage of revenue for the products segments increased for the quarter ended September 30, 2008 compared to the same period in 2007 due to the mix of products sold for the relative periods, as the 2007 results included several higher margin projects associated with our Southeast Asian operations which were completed during the third quarter. The nature of operations



undertaken at our Southeast Asian facilities tend to be project specific and, thus, results can fluctuate between periods depending upon the projects in process during the period. For the nine months ended September 30, 2008 compared to the same period in 2007, service and product expenses as a percentage of revenue declined due to the

project mix in Southeast Asia, as well as higher third-party sales associated with our fabrication and repair business located in Gainesville, Texas.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses include salaries and other related expenses for our selling, administrative, finance, information technology and human resource functions. Selling, general and administrative expenses increased \$8.2 million, or 19%, for the quarter ended September 30, 2008 to \$50.4 million from \$42.2 million during the quarter ended September 30, 2007. For the nine months ended September 30, 2008, selling, general and administrative expense increased \$8.3 million, or 6%, to \$142.0 million from \$133.6 million for the nine months ended September 30, 2007. The increase in expense was due primarily due additional costs associated with business acquisitions, start-up costs associated with the expansion into the Bakken Shale area of North Dakota and higher costs associated with stock-based compensation. Partially offsetting this increase in expense was a decrease in bad debt expense for the respective periods, a decline in the loss on fixed asset disposals and a one-time charge of \$1.6 million associated with an insurance settlement in June 2007. As a percentage of revenues, selling, general and administrative expense was 11% and 12% for the nine months ended September 30, 2008 and 2007, respectively.

*Depreciation and Amortization*

Depreciation and amortization expense increased \$13.5 million, or 40%, to \$47.7 million for the quarter ended September 30, 2008 from \$34.2 million for the quarter ended September 30, 2007. For the nine months ended September 30, 2008, depreciation and amortization expense increased \$35.5 million to \$130.0 million from \$94.5 million for the nine months ended September 30, 2007. The increases in depreciation and amortization expense resulted from placing into service much of the equipment that was purchased during the twelve months ended September 30, 2008, which totaled approximately \$291.0 million. In addition, we recorded depreciation and amortization expense related to assets associated with businesses acquired in 2007 and two businesses acquired in 2008, some of which did not contribute a full-quarter of depreciation expense during the respective periods in 2007 due to the timing of the acquisitions. Amortization expense increased during the quarter and nine months ended September 30, 2008 compared to the same periods in 2007 as a result of the amortization of new intangible assets associated with business acquisitions in 2007 and 2008, especially the Frac Source acquisition in April 2008, which contributed \$6.8 million of intangible assets. As a percentage of revenue, depreciation and amortization expense increased to 10% from 9% for the nine months ended September 30, 2008 and 2007, respectively. We expect depreciation and amortization expense as a percentage of revenue to continue to remain higher than in recent years as we continue to place equipment into service.

*Interest Expense*

Interest expense decreased \$2.0 million, or 12%, to \$14.6 million for the quarter ended September 30, 2008 from \$16.7 million for the quarter ended September 30, 2007. For the nine months ended September 30, 2008 compared to the same period in 2007, interest expense decreased \$1.3 million, or 3%, to \$46.1 million from \$47.3 million. The decrease in interest expense was attributable to a decrease in the average amount of debt outstanding during the first nine months of 2008 and lower interest rates in 2008 compared to 2007. The weighted-average interest rate of borrowings outstanding at September 30, 2008 and 2007 was 7.5% and 7.7%, respectively.

*Taxes*

Tax expense is comprised of current income taxes and deferred income taxes. The current and deferred taxes added together provide an indication of an effective rate of income tax. Tax expense was 36.2% and 31.2% of pretax income for the quarters ended September 30, 2008 and 2007, respectively, and 35.5% and 35.7% for the nine months ended September 30, 2008 and 2007, respectively. The increase in the effective rate for the quarter reflects: (1) the impact of state and provincial taxes, (2) the incremental benefit of the domestic production activities deduction during the third quarter of 2007, and (3) tax rate differentials in the jurisdictions in which we operate and the mix of earnings for the respective periods in those jurisdictions.

*Discontinued Operations*

We recorded a loss of \$6.9 million associated with the sale of certain operating assets primarily in north Texas including our supply store business, certain drilling logistics assets and other completion and production services assets. Net income earned by this disposal group during the period January 1, 2008 through May 19, 2008 reduced the overall loss from discontinued operations during the nine months ended September 30, 2008 to \$4.9 million. The results for the quarter and nine months ended September 30, 2007 include a full quarter and nine months of activity related to this disposal group compared to less than five months of activity for 2008.

**Liquidity and Capital Resources**

Our primary liquidity needs are to fund capital expenditures, such as expanding our coiled tubing, wireline and production testing fleets, pressure pumping fleets and fluid handling equipment; increasing and replacing rental tools and well service rigs; and funding general working capital needs. In addition, we need capital to fund strategic business acquisitions. Our primary sources of funds have historically been cash flow from operations, proceeds from borrowings under bank credit facilities, a private placement of debt which was subsequently exchanged for publicly registered debt and the issuance of equity securities in our initial public offering on April 26, 2006. In addition, we received \$50.2 million from the sale of certain assets primarily associated with our supply store business based in the Barnett Shale of north Texas in May 2008.

We anticipate that we will rely on cash generated from operations, borrowings under our amended revolving credit facility, future debt offerings and/or future public equity offerings to satisfy our liquidity needs. We believe that funds from these sources should be sufficient to meet both our short-term working capital requirements and our long-term capital requirements. We believe that our operating cash flows and availability under our revolving credit facility will be sufficient to fund our operations for the next twelve months. Our ability to fund planned capital expenditures and to make acquisitions will depend upon our future operating performance, and more broadly, on the availability of equity and debt financing, which will be affected by prevailing economic conditions in our industry, and general financial, business and other factors, some of which are beyond our control.

The following table summarizes cash flows by type for the periods indicated (in thousands):

|                                   | <b>Nine Months Ended</b> |             |
|-----------------------------------|--------------------------|-------------|
|                                   | <b>September 30,</b>     |             |
|                                   | <b>2008</b>              | <b>2007</b> |
| Cash flows provided by (used in): |                          |             |
| Operating activities              | \$ 265,878               | \$ 240,148  |
| Investing activities              | (207,946)                | (310,440)   |
| Financing activities              | (63,337)                 | 61,698      |

Net cash provided by operating activities increased \$25.7 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. This increase in operating cash flows in 2008 reflects an increase in cash receipts due to an increase in oilfield activity which resulted in increased revenues, partially offset by the use of cash to pay higher operating costs due to inflationary factors, particularly payroll and fuel costs. In addition, our operating cash flows were impacted by the timing of business acquisitions throughout 2007 and during the nine months ended September 30, 2008.

Net cash used in investing activities declined by \$102.5 million for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, primarily due to the receipt of \$50.2 million as proceeds from the sale of a disposal group in May 2008, as well as a decrease in funds used to invest in capital expenditures of \$81.5 million. We decreased our overall capital expenditures budget for 2008 in response to potential overcapacity in the markets in which we serve. However, our board of directors approved an increase in this capital budget during the second quarter of 2008 due to favorable growth in emerging basins including the Haynesville, Bakken Shale and Marcellus. As a result of the overall U.S. financial market decline, a potential decrease in available credit financing for our customers

and lower commodity prices, we expect to expend less for capital expenditures in fiscal 2009. These declines in funds used for investing activities were partially offset by an increase of \$31.2 million in funds invested in business acquisitions during the nine months ended September 30, 2008 compared to the same period in 2007. We continue to expand our current business and enter new markets through acquisitions. We expect to continue to evaluate acquisition opportunities for the foreseeable future, while evaluating the overall market conditions including the availability of credit financing and sources of cash flow, and expect that any new businesses acquired will provide incremental cash flows.

Net cash used by financing activities was \$63.3 million for the nine months ended September 30, 2008 compared to net cash provided by financing activities of \$61.7 million for the nine months ended September 30, 2007. The primary use of funds for financing activities in 2008 was net repayments of borrowings under long-term revolving credit facilities of \$71.7 million, compared to net borrowings of \$70.0 million for the same period in 2007. In the prior year, we utilized borrowings under our debt facilities to fund a larger portion of our capital expenditures, acquisitions, federal income tax payments and interest on our long-term senior notes. For the nine months ended September 30, 2008 compared to the same period in 2007, we have used the funds generated from operating activities to retire a portion of our outstanding borrowings under our revolving credit facilities. Our long-term debt balances, including current maturities, were \$755.4 million and \$826.4 million as of September 30, 2008 and December 31, 2007, respectively.

We believe that our operating cash flows and borrowing capacity will be sufficient to fund our operations for the next twelve months. In addition to investing in capital expenditures, we expect to continue to evaluate acquisitions of complementary companies. We evaluate each acquisition based upon the circumstances and our financing capabilities at that time.

#### *Dividends*

We do not intend to pay dividends in the foreseeable future, but rather plan to reinvest any available funds in our business. Furthermore, our senior notes and revolving credit facilities, as amended on December 6, 2006, contain restrictive debt covenants which preclude us from paying future dividends on our common stock.

#### *Description of Our Indebtedness*

On December 6, 2006, we issued 8.0% senior notes with a face value of \$650.0 million through a private placement of debt. These notes have a maturity of 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.

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 substantially identical terms. These holders exchanged 100% of the notes for publicly traded notes on July 25, 2007.

On August 28, 2007, we entered into a supplement to the indenture governing the 8.0% senior notes, whereby additional domestic subsidiaries became guarantors under the indenture.

On December 6, 2006, we amended and restated our existing senior secured credit facility (the Credit Agreement) with Wells Fargo Bank, National Association, as U.S. Administrative Agent, and certain

other financial institutions. The Credit Agreement initially provided for a \$310.0 million U.S. revolving credit facility that will mature in 2011 and a \$40.0 million Canadian revolving credit facility (with Integrated Production Services, Ltd., one of our wholly-owned subsidiaries, as the borrower thereof) that will mature in 2011. In addition, certain portions of the credit facilities are available to be borrowed in U.S. Dollars, Canadian Dollars, Pounds Sterling, Euros and other currencies approved by the lenders.

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 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 September 30, 2008.

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.

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.

Effective October 19, 2007, we amended certain terms of our Credit Agreement including: (1) a provision to increase the borrowing capacity of the U.S. revolving portion of the facility from \$310.0 million to \$360.0 million; and (2) a provision to include a commitment increase clause, as defined in our Credit Agreement, which permits us to effect up to two separate increases in the aggregate commitments under the facility by designating a participating lender to increase its commitment, by mutual agreement, in increments of at least \$50.0 million with the aggregate of

such commitment increases not to exceed \$100.0 million and in accordance with other provisions as stipulated in the amendment. In addition, the

amendment specifies the terms for prepayment of outstanding advances and new borrowings and replaces Schedule II to the amended Credit Agreement which allocates the commitments amongst the member financial institutions.

Borrowings of \$88.1 million and \$13.0 million were outstanding under the U.S. and Canadian revolving credit facilities at September 30, 2008, respectively. The U.S. revolving credit facility bore interest at rates ranging from 4.16% to 5.25%, a weighted average interest rate of 4.26% at September 30, 2008, and the Canadian revolving credit facility bore interest at 5.00% at September 30, 2008. For the nine months ended September 30, 2008, the weighted average interest rate on borrowings under the amended Credit Agreement was approximately 4.35%. In addition, there were letters of credit outstanding which totaled \$37.7 million under the U.S. revolving portion of the facility that reduced the available borrowing capacity at September 30, 2008 to \$234.2 million under the U.S. revolving portion of the facility and \$27.0 million under the Canadian revolving portion of the facility. In addition, we incurred fees of 1.25% of the total amount outstanding under our letter of credit arrangements. During October 2008, we borrowed approximately \$106.0 million under our U.S. revolving credit facility to purchase two businesses. As of October 15, 2008, we had \$203.5 million outstanding under our Credit Agreement.

#### *Outstanding Debt and Commitments*

Our contractual commitments have not changed materially since December 31, 2007, except for additional borrowings under our U.S. revolving credit facility, primarily to fund capital expenditures.

We have entered into agreements to purchase certain equipment for use in our business. The manufacture of this equipment requires lead-time and we generally are committed to accept this equipment at the time of delivery, unless arrangements have been made to cancel delivery in accordance with the purchase agreement terms. We have spent \$193.2 million for equipment purchases and other capital expenditures during the nine months ended September 30, 2008, which does not include amounts paid in connection with acquisitions. We believe that our available borrowing capacity under our credit facilities and our operating cash flows should be sufficient to fund our firm purchase commitments.

We expect to continue to acquire complementary companies and evaluate potential acquisition targets. We may use cash from operations, proceeds from future debt or equity offerings and borrowings under our revolving credit facilities for this purpose.

#### **Recent Accounting Pronouncements and Authoritative Guidance**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This pronouncement permits entities to use the fair value method to measure certain financial assets and liabilities by electing an irrevocable option to use the fair value method at specified election dates. After election of the option, subsequent changes in fair value would result in the recognition of unrealized gains or losses as period costs during the period the change occurred. SFAS No. 159 became effective on January 1, 2008. We have not elected to adopt the fair value option prescribed by SFAS No. 159 for assets and liabilities held as of September 30, 2008, but we will consider the provisions of SFAS No. 159 and may elect to apply the fair value option for assets or liabilities associated with future transactions.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidating Financial Statements an Amendment of ARB No. 51*. This pronouncement establishes accounting and reporting standards for non-controlling interests, commonly referred to as minority interests. Specifically, this statement requires that the non-controlling interest be presented as a component of equity on the balance sheet, and that net income be presented prior to adjustment for the non-controlling interests portion of earnings with the portion of net income attributable to the parent company and the non-controlling interest both presented on the face of the statement of operations. In addition, this pronouncement provides a single method of accounting for changes in the parent's ownership interest in the non-controlling entity, and requires the parent to recognize a gain or loss in net income when a subsidiary with a non-controlling interest is deconsolidated. Additional disclosure items are required related to the non-controlling interest. This pronouncement becomes effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The statement should be applied prospectively as of the beginning of the fiscal year that the statement is adopted. However, the disclosure requirements must be applied retrospectively for all periods presented. We are currently evaluating the





impact that SFAS No. 160 may have on our financial position, results of operations and cash flows.

In December 2007, the FASB revised SFAS No. 141, *Business Combinations* which will replace that pronouncement in its entirety. While the revised statement will retain the fundamental requirements of SFAS No. 141, it will also require that all assets and liabilities and non-controlling interests of an acquired business be measured at their fair value, with limited exceptions, including the recognition of acquisition-related costs and anticipated restructuring costs separate from the acquired net assets. In addition, the statement provides guidance for recognizing pre-acquisition contingencies and states that an acquirer must recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at acquisition-date fair values, but must recognize all other contractual contingencies as of the acquisition date, measured at their acquisition-date fair values only if it is more likely than not that these contingencies meet the definition of an asset or liability in FASB Concepts Statement No. 6, *Elements of Financial Statements*. Furthermore, this statement provides guidance for measuring goodwill and recording a bargain purchase, defined as a business combination in which total acquisition-date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any non-controlling interest in the acquiree, and it requires that the acquirer recognize that excess in earnings as a gain attributable to the acquirer. This statement becomes effective at the beginning of the first annual reporting period beginning on or after December 15, 2008, and must be applied prospectively. We are currently evaluating the impact that this statement may have on our financial position, results of operations and cash flows.

In June 2008, the FASB issued a FASB Staff Position ( FSP ) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, which states that unvested share-based awards which have non-forfeitable rights to participate in dividend distributions should be considered participating securities in order to calculate earnings per share in accordance with the *Two-Class Method* described in SFAS No. 128, *Earnings per Share*. This guidance becomes effective for fiscal years beginning after December 15, 2008, with retrospective application to prior periods. Early adoption is not permitted. We are currently evaluating the impact that this guidance may have on our financial position, results of operations and cash flows.

In September 2008, the FASB issued an FSP No. FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*, which clarifies the definition of a discontinued operation as either: (1) a component of an entity which has been disposed of or classified as held for sale which meets the criteria of an operating segment as defined under SFAS No. 131, or (2) as a business, as such term is defined in SFAS No. 141R which becomes effective on January 1, 2009, which meets the criteria to be classified as held for sale on acquisition. This proposed guidance further modifies certain disclosure requirements. We are currently evaluating the effect this proposed guidance may have on our financial position, results of operations and cash flows.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The demand, pricing and terms for oil and gas services provided by us are largely dependent upon the level of activity for the U.S. and Canadian oil and gas industry. Industry conditions are influenced by numerous factors over which we have no control, including, but not limited to: the supply of and demand for oil and gas; the level of prices, and expectations about future prices, of oil and gas; the cost of exploring for, developing, producing and delivering oil and gas; the expected rates of declining current production; the discovery rates of new oil and gas reserves; available pipeline and other transportation capacity; weather conditions; domestic and worldwide economic conditions; political instability in oil-producing countries; technical advances affecting energy consumption; the price and availability of alternative fuels; the ability of oil and gas producers to raise equity capital and debt financing; and merger and divestiture activity among oil and gas producers.

The level of activity in the U.S. and Canadian oil and gas exploration and production industry is volatile. No assurance can be given that our expectations of trends in oil and gas production activities will reflect actual future activity levels or that demand for our services will be consistent with the general activity level of the industry. Any prolonged substantial reduction in oil and gas prices would likely affect oil and gas exploration and development efforts and therefore affect demand for our services. A material decline in oil and gas prices or U.S. and Canadian activity levels could have a material adverse effect on our business, financial condition, results of operations and cash flows.



For the nine months ended September 30, 2008, approximately 5% of our revenues from continuing operations and 5% of our total assets were denominated in Canadian dollars, our functional currency in Canada. As a result, a material decrease in the value of the Canadian dollar relative to the U.S. dollar may negatively impact our revenues, cash flows and net income. Each one percentage point change in the value of the Canadian dollar would have impacted our revenues for the quarter and nine months ended September 30, 2008 by approximately \$0.2 million and \$0.7, million, respectively. We do not currently use hedges or forward contracts to offset this risk.

Our Mexican operation uses the U.S. dollar as its functional currency, and as a result, all transactions and translation gains and losses are recorded currently in the financial statements. The balance sheet amounts are translated into U.S. dollars at the exchange rate at the end of the month and the income statement amounts are translated at the average exchange rate for the month. We estimate that a hypothetical one percentage point change in the value of the Mexican peso relative to the U.S. dollar would have impacted our revenues for the quarter and nine months ended September 30, 2008 by approximately \$0.1 million and \$0.4 million, respectively. Currently, we conduct a portion of our business in Mexico in the local currency, the Mexican peso.

Approximately 13% of our debt at September 30, 2008 is structured under floating rate terms and, as such, our interest expense is sensitive to fluctuations in the prime rates in the U.S. and Canada. Based on the debt structure in place as of September 30, 2008, a 100 basis point increase in interest rates relative to our floating rate obligations would increase interest expense by approximately \$1.0 million per year and reduce operating cash flows by approximately \$0.7 million, net of tax.

#### **Item 4. Controls and Procedures.**

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such terms are defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2008 at the reasonable assurance level.

There have been no changes to our internal control procedures which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter ended September 30, 2008.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

In the normal course of our business, we are a party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters, including warranty and product liability claims and occasional claims by individuals alleging exposure to hazardous materials, on the job injuries and fatalities as a result of our products or operations. Many of the claims filed against us relate to motor vehicle accidents which can result in the loss of life or serious bodily injury. Some of these claims relate to matters occurring prior to our acquisition of businesses. In certain cases, we are entitled to indemnification from the sellers of the businesses.

Although we cannot know or predict with certainty the outcome of any claim or proceeding or the effect such outcomes may have on us, we believe that any liability resulting from the resolution of any of these matters to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on our financial position, results of operations or liquidity.

We have historically incurred additional insurance premium related to a cost-sharing provision of our general liability policy, and we cannot be certain that we will not incur additional costs until either existing claims become further developed or until the limitation periods expire for each respective policy year. Any

such additional premiums should not have a material adverse effect on our financial position, results of operations or liquidity.

**Item 1A. Risk Factors.**

Our business faces many risks. Any of the risks discussed below or elsewhere in this Form 10-Q or our other SEC filings, could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. For a detailed discussion of the risk factors that should be understood by any investor contemplating investment in our stock, please refer to the section entitled "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007 as supplemented by the risk factors set forth below. There has been no material change in the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2007 other than those set forth below. For further information, see Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007.

**Many of our customers' activity levels and spending for our products and services may be impacted by the current deterioration in the credit markets.**

Many of our customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. Recently, there has been a significant decline in the credit markets and the availability of credit. Additionally, many of our customers' equity values have substantially declined. The combination of a reduction of cash flow resulting from declines in commodity prices, a reduction in borrowing bases under reserve based credit facilities and the lack of availability of debt or equity financing may result in a significant reduction in our customers spending for our products and services. For example, a number of our customers have announced reduced capital expenditure budgets for the remainder of 2008 and 2009. This reduction in spending could have a material adverse effect on our operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On October 4, 2008, we acquired substantially all of the assets of Appalachian Well Services, Inc. and its wholly-owned subsidiary, each of which is based in Shelocta, Pennsylvania. This business provides pressure pumping, e-line and coiled tubing services in the Appalachian region, with a service area which extends through Pennsylvania, West Virginia, Ohio and New York. As consideration for the purchase, we paid \$49.3 million in cash and issued 588,292 unregistered shares of our common stock, valued at \$15.04 per share. The purchase price allocation associated with this acquisition has not yet been finalized.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**EXHIBIT INDEX**

**Exhibit**

| <b>No.</b> | <b>Exhibit Title</b>  |
|------------|---|
| 3.1        | Amended and Restated Articles of Incorporation (incorporated herein by reference to the Registration Statement on Form S-1/A filed on January 17, 2006 (File No. 333-128750))     |
| 3.2        | Amended and Restated Bylaws, dated February 21, 2008 (incorporated herein by reference to the Current Report on Form 8-K filed on February 27, 2008)                              |
| 10.1       | Retirement Agreement between the Company and J. Michael Mayer dated October 7, 2008 (incorporated herein by reference to the Current Report on Form 8-K filed on October 9, 2008) |
| 31.1*      | Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2*      | Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1*      | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                 |
| 32.2*      | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                 |

\* Filed herewith.

**SIGNATURE**

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

October 31, 2008

Date

COMPLETE PRODUCTION SERVICES,  
INC.

By: /s/ Jose A. Bayardo

Jose A. Bayardo  
Vice President and  
Chief Financial Officer