Complete Production Services, Inc.
Form 10-Q
November 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2011

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number: 1-32858

Complete Production Services, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Number of shares of the common stock, par value $0.01 per share, of the registrant outstanding as of November 3, 2011:79,283,178.

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Complete Production Services, Inc.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

COMPLETE PRODUCTION SERVICES, INC.

Consolidated Balance Sheets

September 30, 2011 (unaudited) and December 31, 2010

	2011	2010
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 208,281	$ 119,135
Accounts receivable, net	435,595	341,984
Inventory, net	36,286	28,389
Prepaid expenses	33,378	18,357
Income tax receivable	22,724	23,462
Current deferred tax assets	15,462	2,499
Other current assets		1,384
Current assets of discontinued operations		16,700
Total current assets	751,726	551,910
Property, plant and equipment, net	1,073,825	950,932
Intangible assets, net of accumulated amortization of $25,180 and $21,293, respectively	9,802	9,209
Deferred financing costs, net of accumulated amortization of $11,242 and $9,316, respectively	10,246	9,694
Goodwill	252,137	247,675
Restricted cash	17,000	17,000
Other long-term assets	6,226	5,259
Long-term assets of discontinued operations		8,897
Total assets	$ 2,120,962	$ 1,800,576
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 104,262	$ 74,502
Accrued liabilities	51,878	42,047
Accrued payroll and payroll burdens	36,113	26,568
Accrued interest	15,668	2,446
Income taxes payable	2,200	
Current liabilities of discontinued operations		2,841
Total current liabilities	210,121	148,404
Long-term debt	650,000	650,000
Deferred income taxes	275,784	190,389
Other long-term liabilities	4,512	5,916
Long-term liabilities of discontinued operations		33
Total liabilities	1,140,417	994,742
Commitments and contingencies		
Stockholders equity:		
	780	764

Common stock, $0.01 par value per share, 200,000,000 shares authorized, 78,012,457 (2010 76,443,926) issued		
Preferred stock, $0.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	688,709	657,993
Retained earnings	278,790	126,165
Treasury stock, 372,341 (2010 167,643) shares at cost	(7,408)	(1,765)
Accumulated other comprehensive income	19,674	22,677
Total stockholders equity	980,545	805,834
Total liabilities and stockholders equity	$ 2,120,962	$ 1,800,576

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.

Consolidated Statements of Operations

Quarters and Nine Months Ended September 30, 2011 and 2010 (unaudited)

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands, except per share data)			
Revenues	$ 590,289	$ 410,270	$ 1,623,707	$ 1,064,489
Service expenses	379,192	257,776	1,042,269	690,023
Selling, general and administrative expenses	53,830	41,448	152,453	125,128
Depreciation and amortization	48,695	44,563	146,832	134,798
Income from continuing operations before interest and taxes	108,572	66,483	282,153	114,540
Interest expense	12,917	14,151	40,709	43,653
Interest income	(180)	(73)	(407)	(249)
Income from continuing operations before taxes	95,835	52,405	241,851	71,136
Taxes	36,513	20,814	91,420	28,609
Income from continuing operations	59,322	31,591	150,431	42,527
Income (loss) from discontinued operations (net of tax expense of $707, $242, $1,149 and $638, respectively)	(136)	1,439	2,194	3,412
Net income	$ 59,186	$ 33,030	$ 152,625	$ 45,939
Earnings (loss) per share information:				
Continuing operations	$ 0.76	$ 0.41	$ 1.94	$ 0.56
Discontinued operations	(0.00)	0.02	0.03	0.04
Basic earnings per share	$ 0.76	$ 0.43	$ 1.97	$ 0.60
Continuing operations	$ 0.75	$ 0.41	$ 1.90	$ 0.55
Discontinued operations	(0.01)	0.01	0.03	0.04
Diluted earnings per share	$ 0.74	$ 0.42	$ 1.93	$ 0.59
Weighted average shares:				
Basic	78,004	76,130	77,578	75,957
Diluted	79,445	77,792	79,080	77,395

Consolidated Statements of Comprehensive Income

Quarters and Nine Months Ended September 30, 2011 and 2010

(unaudited)

	Quarter Ended September 30,	Nine Months Ended September 30,

	2011	2010	2011	2010
		(In thousands)		
Net income	$ 59,186	$ 33,030	$ 152,625	$ 45,939
Change in cumulative translation adjustment	(4,647)	1,309	(3,003)	1,368
Comprehensive income	$ 54,539	$ 34,339	$ 149,622	$ 47,307

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.

Consolidated Statement of Stockholders Equity

Nine Months Ended September 30, 2011 (unaudited)

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
			(In thousands, except share data)				
Balance at December 31, 2010	76,443,926	$ 764	$ 657,993	$ 126,165	$ (1,765)	$ 22,677	$ 805,834
Net income				152,625			152,625
Cumulative translation adjustment						(3,003)	(3,003)
Issuance of common stock:							
Exercise of stock options	929,852	9	15,943				15,952
Expense related to employee stock options			1,734				1,734
Excess tax benefit from share-based compensation			4,990				4,990
Purchase of treasury shares	(204,698)	(2)	2		(5,643)		(5,643)
Vested restricted stock	843,377	9	(9)				
Amortization of non-vested restricted stock			8,056				8,056
Balance at September 30, 2011	78,012,457	$ 780	$ 688,709	$ 278,790	$ (7,408)	$ 19,674	$ 980,545

See accompanying notes to consolidated financial statements.

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COMPLETE PRODUCTION SERVICES, INC.

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2011 and 2010 (unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands)	
Cash provided by:		
Operating activities:		
Net income	$ 152,625	$ 45,939
Items not affecting cash:		
Depreciation and amortization	147,308	135,596
Deferred income taxes	72,441	7,575
Excess tax benefit from share-based compensation	(4,990)	(612)
Non-cash compensation expense	9,790	8,571
Gain on non-monetary asset exchange		(458)
Provision for bad debt expense	844	(158)
Provision for write-off of note receivable		1,926
(Gain) loss on retirement of assets	1,667	(94)
Loss on discontinued operations	136	
Other	1,756	2,288
Changes in operating assets and liabilities:		
Accounts receivable	(90,532)	(110,494)
Inventory	(8,509)	5,606
Prepaid expense and other current assets	(13,108)	(2,935)
Accounts payable	20,625	17,480
Income taxes	5,833	50,410
Accrued liabilities and other	30,817	10,130
Net cash provided by operating activities	326,703	170,770
Investing activities:		
Additions to property, plant and equipment	(259,925)	(89,855)
Acquisitions	(15,576)	(21,332)
Proceeds from the sale of disposal group	19,300	
Proceeds from disposal of capital assets	6,333	4,436
Other	169	
Net cash used in investing activities	(249,699)	(106,751)
Financing activities:		
Repayments of long-term debt		(141)
Repayment of notes payable		(1,069)
Proceeds from issuances of common stock	15,952	3,106
Purchase of treasury shares	(5,643)	(1,418)
Deferred financing fees	(2,477)	
Excess tax benefit from share-based compensation	4,990	612
Net cash provided by financing activities	12,822	1,090
Effect of exchange rate changes on cash	(680)	126
Change in cash and cash equivalents	89,146	65,235

Cash and cash equivalents, beginning of period	119,135	71,770
Cash and cash equivalents, end of period	$ 208,281	$ 137,005
Supplemental cash flow information:		
Cash paid for interest, net of interest capitalized	$ 25,825	$ 28,489
Cash paid (refund received) for income taxes	$ 10,616	$ (29,033)
Significant non-cash investing activities:		
Non-cash capital expenditures	$ 28,665	$

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, Pennsylvania, western Canada and Mexico. We also had operations in 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 21, 2006, our common stock began trading on the New York Stock Exchange under the symbol CPX .

(b) Basis of presentation:

The unaudited interim consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the financial position of Complete as of September 30, 2011 and the statements of operations and the statements of comprehensive income for the quarters and nine-month periods ended September 30, 2011 and 2010, as well as the statement of stockholders equity for the nine months ended September 30, 2011 and the statements of cash flows for the nine months ended September 30, 2011 and 2010. Certain information and disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on February 18, 2011. 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.

(c) Discontinued operations:

On July 6, 2011, we sold our Southeast Asian products business, through which we provided oilfield equipment sales, rentals and refurbishment services, to MTQ Corporation Limited (MTQ), a Singapore firm which provides engineering services to oilfield and industrial equipment users and manufacturers. Proceeds from the sale of this business totaled $21,913, of which $2,613 represented cash on hand at July 6, 2011 which was transferred to us in October 2011 pursuant to the final settlement. We recorded a loss on the sale of this business of $136 as of September 30, 2011. See Note 10, Discontinued operations.

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2. Business acquisition:

On May 11, 2011, we completed the purchase of the hydraulic snubbing and production testing assets of a business with operations in the Marcellus, Eagle Ford and Barnett Shales. We paid a total of $15,576 in cash for these assets, which included goodwill of $4,433. The entire purchase price was allocated to the completion and production services business segment. We believe this acquisition will supplement our hydraulic snubbing and production testing service offerings in Pennsylvania and Texas. The following table summarizes our preliminary purchase price allocation for this acquisition as of September 30, 2011:

Net assets acquired:	
Other current assets	$ 725
Property, plant and equipment	5,868
Current liabilities	(10)
Intangible assets	4,560
Goodwill	4,433
Net assets acquired	$ 15,576
Consideration:	
Cash, net of cash and cash equivalents acquired	$ 15,576

The purchase price of this acquired business 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. We determine the fair value of assets acquired, including identifiable intangible assets, and evaluate property, plant and equipment acquired based upon, at minimum, the replacement cost of the assets, by applying valuation techniques and by obtaining other supporting documentation from third-party consultants.

This acquisition was not deemed to be significant to our overall results for the nine months ended September 30, 2011, therefore no pro forma disclosure of the impact of this acquisition has been provided.

3. Accounts receivable:

	September 30, 2011	December 31, 2010
Trade accounts receivable	$ 332,169	$ 249,998
Related party receivables	38,285	51,046
Unbilled revenue	65,257	42,747
Other receivables	3,749	2,353
	439,460	346,144
Allowance for doubtful accounts	3,865	4,160
	$ 435,595	$ 341,984

Of the related party receivables at September 30, 2011 and December 31, 2010, $37,722 and $50,048, respectively, related to amounts due from a company for which one of our directors has an ownership interest and serves as chief executive officer and chairman of the board.

4. Inventory:

	September 30, 2011	December 31, 2010
Finished goods	$ 15,565	$ 13,497
Manufacturing parts, materials and other	20,167	16,063
Work in process	1,663	1,282
	37,395	30,842
Inventory reserves	1,109	2,453
	$ 36,286	$ 28,389

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5. Property, plant and equipment:

	Cost	Accumulated Depreciation	Net Book Value
September 30, 2011			
Land	$ 11,357	$	$ 11,357
Buildings	36,310	5,385	30,925
Field equipment	1,575,633	748,501	827,132
Vehicles	126,227	67,577	58,650
Office furniture and computers	21,995	13,603	8,392
Leasehold improvements	22,749	7,609	15,140
Construction in progress	122,229		122,229
	$ 1,916,500	$ 842,675	$ 1,073,825

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2010			
Land	$ 8,475	$	$ 8,475
Buildings	32,083	4,456	27,627
Field equipment	1,437,343	639,282	798,061
Vehicles	128,098	57,930	70,168
Office furniture and computers	17,938	11,712	6,226
Leasehold improvements	22,503	6,007	16,496
Construction in progress	23,879		23,879
	$ 1,670,319	$ 719,387	$ 950,932

Construction in progress at September 30, 2011 and December 31, 2010 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. Significant assets included in construction in progress at September 30, 2011 included a Marcellus Frac fleet, two drilling rigs and coiled tubing assets. For the quarter and nine months ended September 30, 2011, we recorded capitalized interest of $922 and $1,978, 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.

In August 2011, we sold a water evaporation facility located in Wyoming. The net book value of this asset totaled $1,174. Proceeds received from the sale totaled $620, resulting in a loss of $554 on the transaction.

In conjunction with our impairment testing of long-term assets at December 31, 2010, we noted approximately $5,814 of salvage value assigned to various coiled tubing and wireline assets at one of our operating divisions. Although we evaluated these assets and the assets of the overall reporting unit for recoverability and noted no significant impairment based on an undiscounted cash flow projection, we believe that the salvage value assigned to these assets was no longer appropriate. These assets were acquired several years ago, and we believe the estimate for salvage value used at that time was appropriate. However, increasingly, our business is focusing on larger-diameter coiled tubing units and more technologically-advanced equipment. As such, effective January 1, 2011, we changed our estimate of salvage value to zero and are depreciating these assets over their remaining useful lives, which we determined to be an average of 1.3 years. This change in estimate has been applied prospectively and is expected to increase our depreciation expense over the next five years as follows: 2011 $4,867; 2012 $789; 2013 $134 and 2014 $24.

6. Notes payable:

We entered into a note arrangement to finance certain of our annual insurance premiums for the policy term from May 1, 2009 to April 2010. Our accounting policy has been to record a prepaid asset associated with certain of these policies which is amortized over the term and which takes into account actual premium payments and deposits made to date, to record an accrued liability for premiums which are contractually committed for the policy term and to make monthly premium payments in accordance with our premium commitments and monthly note payments for amounts financed. For the nine months ended September 30, 2010, we paid $1,069 under this note payable arrangement. Effective May 1, 2011 and 2010, we renewed our annual insurance premiums for the respective twelve-month terms, but chose to prepay our premiums for certain insurance coverages rather than finance such premiums as in prior renewals.

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7. Long-term debt:

The following table summarizes long-term debt as of September 30, 2011 and December 31, 2010:

	2011	2010
Revolving credit facility (a)	$	$
8.0% senior notes (b)	650,000	650,000
	$ 650,000	$ 650,000

(a) Prior to June 13, 2011, we maintained a senior secured facility (the Amended Credit Agreement) with Wells Fargo Bank, National Association, as U.S. Administrative Agent, HSBC Bank Canada, as Canadian Administrative Agent, and certain other financial institutions which was structured as an asset-based facility subject to borrowing base restrictions. In connection with the facility, Wells Fargo Capital Finance, LLC (formerly known as Wells Fargo Foothill, LLC) served as U.S. Administrative Agent and also served as U.S. Issuing Lender and U.S. Swingline Lender. The Amended Credit Agreement provided for a U.S. revolving credit facility of up to $225,000 that was to mature in December 2011 and a Canadian revolving credit facility of up to $15,000 (with Integrated Production Services Ltd., one of our wholly-owned subsidiaries, as the borrower thereof (Canadian Borrower)) that was to mature in December 2011. The Amended Credit Agreement included a provision for a commitment increase , as defined therein, which permitted us to effect up to two separate increases in the aggregate commitments under the Amended Credit Agreement by designating one or more existing lenders or other banks or financial institutions, subject to the bank s sole discretion as to participation, to provide additional aggregate financing up to $75,000, with each committed increase equal to at least $25,000 in the U.S., or $5,000 in Canada, and in accordance with other provisions as stipulated in the Amended Credit Agreement. Certain portions of the credit facilities were available to be borrowed in U.S. dollars, Canadian dollars and other currencies approved by the lenders.

Subject to certain limitations set forth in the Amended Credit Agreement, we had the ability to elect how interest under the Amended Credit Agreement would be computed. Interest under the Amended Credit Agreement could be determined by reference to (1) the London Inter-bank Offered Rate, or LIBOR, plus an applicable margin between 3.75% and 4.25% per annum (with the applicable margin depending upon our Excess Availability Amount, as defined in the Amended Credit Agreement) or (2) the Base Rate (which means the higher of the Prime Rate, Federal Funds Rate plus 0.50%, 3 month LIBOR plus 1.00% and 3.50%), plus the applicable margin, as described above. If an event of default existed or continued under the Amended Credit Agreement, advances would bear interest as described above with an applicable margin rate of 4.25% plus 2.00%. Interest was payable monthly.

We incurred unused commitment fees under the Amended Credit Agreement ranging from 0.50% to 1.00% based on the average daily balance of amounts outstanding.

Letters of credit outstanding under the Amended Credit Agreement incurred fees equal to the applicable margin, as described above. If an event of default existed or continued, such fee would have been equal to the applicable margin plus 2.00%.

Under the Amended Credit Agreement, the only financial covenant to which we were subject was a Fixed Charge Coverage Ratio covenant, which must have exceeded 1.10 to 1.00. This covenant became effective only if our Excess Availability Amount, as defined under the Amended Credit Agreement, plus certain qualified cash and cash equivalents is less than $50,000.

For a further description of the terms of our Amended Credit Agreement, including the provisions to calculate our U.S. and Canadian borrowing base, financial covenants requirements and events of default, see our Annual Report on Form 10-K for the year ended December 31, 2010.

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New Credit Agreement, effective June 13, 2011:

On June 13, 2011, we entered into a Third Amended and Restated Credit Agreement among us, a subsidiary of the Company that is designated as a borrower under the Canadian facility, if any (the Canadian Borrower), the lenders party thereto, Wells Fargo Bank, National Association, as the U.S. administrative agent, U.S. issuing lender and U.S. swingline lender, and the other persons from time to time party thereto (the New Credit Agreement), which amends and restates the Amended Credit Agreement. Defined terms not otherwise described herein shall have the meanings given to them in the New Credit Agreement.

The New Credit Agreement modifies the Amended Credit Agreement by, among other things:

- changing the structure of the credit facility from an asset-based facility to a cash flow facility;
- substituting Wells Fargo Bank, National Association, for Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), as U.S. administrative agent, and appointing Wells Fargo Bank, National Association, as U.S. issuing lender and U.S. swingline lender; and
- increasing our U.S. revolving credit facility from $225,000 to $300,000 and terminating the existing Canadian revolving credit facility (subject to our option to convert and reallocate any portion of the U.S. revolving credit facility then held by HSBC Bank USA, N.A., into a Canadian revolving credit facility upon satisfaction of certain conditions, including obtaining the consent of HSBC Bank USA, N.A., to such conversion and reallocation)

Subject to certain limitations set forth in the New Credit Agreement, we have the option to determine how interest is computed by reference to either (i) the London Inter-bank Offered Rate, or LIBOR, plus an applicable margin between 2.25% and 3.00% based on the Total Debt Leverage Ratio (as defined in the New Credit Agreement), or (ii) the Base Rate (which means the higher of the Prime Rate, Federal Funds Rate plus 0.50%, or the daily one-month LIBOR plus 1.00%), plus an applicable margin between 1.25% and 2.00% based on the Total Debt Leverage Ratio (as defined in the New Credit Agreement). Advances under the Canadian revolving credit facility, if any, will bear interest as described in the New Credit Agreement. If an event of default exists or continues under the New Credit Agreement, advances may bear interest at the rates described above, plus 2.00%. Interest is payable in arrears on a quarterly basis.

Additionally, the New Credit Agreement, among other things:

- permits us to effect up to two separate increases in the aggregate commitments under the credit facility, of at least $50,000 per commitment increase, and of up to $150,000 in the aggregate;
- requires us to comply with a Total Debt Leverage Ratio covenant, which prohibits us from permitting the Total Debt Leverage Ratio (as defined in the New Credit Agreement), at the end of each fiscal quarter, to be greater than 4.00 to 1.00;
- requires us to comply with a Senior Debt Leverage Ratio covenant, which prohibits us from permitting the Senior Debt Leverage Ratio (as defined in the New Credit Agreement), at the end of each fiscal quarter, to be greater than 2.50 to 1.00 and

requires us to comply with a Consolidated Interest Coverage Ratio covenant, which prohibits us from permitting the ratio of, as of the last day of each fiscal quarter, (i) the consolidated EBITDA of Complete and its consolidated Restricted Subsidiaries (as defined in the New Credit Agreement), calculated for the four fiscal quarters then ended, to (ii) the consolidated interest expense of Complete and its consolidated Restricted Subsidiaries for the four fiscal quarters then ended, to be less than 2.75 to 1.00.

We were in compliance with these debt covenant requirements as of September 30, 2011.

The term of the credit facilities provided for under the New Credit Agreement will continue until the earlier of (i) June 13, 2016 or (ii) the earlier termination in whole of the U.S. lending commitments (or Canadian lending commitments, if any) as further described in the New Credit Agreement. Events of default under the New Credit Agreement remain substantially the same as under the Amended Credit Agreement.

The obligations under the U.S. portion of the New Credit Agreement are secured by first priority security interests on substantially all of the assets (other than certain excluded assets) of Complete and any Domestic Restricted Subsidiary (as defined in the New Credit Agreement), whether now owned or hereafter acquired including, without limitation: (i) all equity interests issued by any domestic subsidiary, (ii) 100% of equity interests issued by first tier foreign subsidiaries but, in any event, no more than 66% of the outstanding voting securities issued by any first tier foreign subsidiary, and (iii) the Existing Mortgaged Properties (as defined in the New Credit Agreement). Additionally, all of the obligations under the U.S. portion of the New Credit Agreement will be guaranteed by Complete and each existing and subsequently acquired or formed Domestic Restricted Subsidiary. The obligations under the Canadian portion of the New Credit Agreement, if any, will be secured by substantially all of the assets (other than certain excluded assets) of Complete and any Restricted Subsidiary (other than our Mexican subsidiary), as further described in the New Credit Agreement. Additionally, all of the obligations under the Canadian portion of the New Credit Agreement, if any, will be guaranteed by Complete as well as certain of our subsidiaries. Subject to certain limitations, we will have the right to designate certain newly acquired and existing subsidiaries as unrestricted subsidiaries under the New Credit Agreement, and the assets of such unrestricted subsidiaries will not serve as security for either the U.S. portion or the Canadian portion, if any, of the New Credit Agreement.

There were no borrowings outstanding under the New Credit Agreement as of September 30, 2011. There were letters of credit outstanding under the U.S. revolving portion of the facility totaling $22,278, which reduced the available borrowing capacity as of September 30, 2011. We incurred fees related to our letters of credit as of September 30, 2011 at 1.50% per annum. For the nine months ended September 30, 2011, fees related to our letters of credit were calculated using a 360-day provision, at 3.75% per annum prior to the amendment on June 13, 2011, and ranged from 1.50% per annum to 1.66% thereafter resulting in a weighted average interest rate of 2.14 % per annum for the nine-month period ended September 30, 2011. Our available borrowing capacity under the revolving credit facility at September 30, 2011 was $277,722.

We will incur unused commitment fees under the New Credit Agreement ranging from 0.375% to 0.50% based on the average daily balance of amounts outstanding. The unused commitment fees were calculated at 0.375% as of September 30, 2011. For the nine months ended September 30, 2011, the weighted average interest rate associated with unused commitments was 0.57% per annum.

We recorded deferred financing fees associated with the New Credit Agreement totaling $2,477. These fees will be amortized to expense, along with the remaining balance of deferred financing fees associated with the prior amendments to this facility, over the term of the facility which matures in June 2016.

(b) On December 6, 2006, we issued 8.0% senior notes with a face value of $650,000 through a private placement of debt. These notes mature in 10 years, on December 15, 2016, and require semi-annual interest payments, paid in arrears and calculated based on an annual rate of 8.0%, on June 15 and December 15, of each year, which commenced on June 15, 2007. There was no discount or premium associated with the issuance of these notes. The senior notes are guaranteed 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) limit our ability to purchase or redeem stock or subordinated debt; (6) limit our ability to enter into transactions with affiliates; (7) limit our ability to merge with or into other companies or transfer all or substantially all of 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. 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 SEC 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. Effective April 1, 2009, we entered into a second supplement to this indenture whereby additional domestic subsidiaries became guarantors under the indenture.

8. Stockholders equity:

(a) Stock-based Compensation Stock Options:

We maintain option plans under which we grant stock-based compensation to employees, officers and directors to purchase our common stock. The exercise price of each option is based on the fair value of the company s stock at the date of grant. 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 calculate stock compensation expense for our stock-based compensation awards by measuring 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. A further description can be found in our Annual Report on Form 10-K as of December 31, 2010.

On January 31, 2011, 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 428,960 shares of non-vested restricted stock at a grant price of $27.94. We expect to recognize compensation expense associated with this grant of non-vested restricted stock totaling $11,982 ratably over the three-year vesting period. We granted an additional 23,500 shares of non-vested restricted stock in May 2011 and expect to recognize compensation expense associated with these grants totaling $718 ratably over the three-year vesting period. In addition, we granted 231,300 stock options to purchase shares of our common stock at an exercise price of $27.94. 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. The fair value of the stock options granted during the nine months ended September 30, 2011 was determined by applying a Black-Scholes option pricing model based on the following assumptions:

Assumptions:	Nine Months Ended September 30, 2011
Risk-free rate	0.96% to 1.92%
Expected term (in years)	3.7 to 5.1
Volatility	54.1%
Calculated fair value per option	$11.32 to $13.53

We calculated the expected volatility of our common stock based on our historical volatility, adjusted for certain qualitative factors, over the expected term of the options. This volatility factor was used to calculate the fair market value of stock option grants made during the nine months ended September 30, 2011.

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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 $2,782 over the vesting period of these 2011 stock option grants. For the quarter and nine months ended September 30, 2011, we have recognized expense related to these stock option grants totaling $232 and $618, respectively, which represents a reduction of net income before taxes. The impact on net income for the quarter and nine months ended September 30, 2011 was a decrease of $144 and $384, respectively, with no impact on diluted earnings per share as reported. The unrecognized compensation costs related to the non-vested portion of these awards was $2,164 as of September 30, 2011 and will be recognized over the applicable remaining vesting periods.

For the quarters ended September 30, 2011 and 2010, we recognized compensation expense associated with all stock option awards totaling $578 and $488, respectively, resulting in a decrease in net income of $360 and $298, respectively. The impact of this compensation expense on earnings per share was a $0.01 reduction in diluted earnings per share for each of the quarters ended September 30, 2011 and 2010. For the nine months ended September 30, 2011 and 2010, we recognized compensation expense associated with all stock option awards totaling $1,734 and $1,831, respectively, resulting in a decrease in net income of $1,079 and $1,118, respectively. This resulted in a $0.02 reduction in earnings per share for each of the nine-month periods ended September 30, 2011 and 2010. Total unrecognized compensation expense associated with outstanding stock option awards at September 30, 2011 was $3,503 or $2,179, net of tax.

The following tables provide a roll forward of stock options from December 31, 2010 to September 30, 2011 and a summary of stock options outstanding by exercise price range at September 30, 2011:

	Options Outstanding	
	Number	Weighted Average Exercise Price
Balance at December 31, 2010	3,141,580	$ 12.68
Granted	231,300	$ 27.94
Exercised	(929,852)	$ 17.16
Cancelled		$
Balance at September 30, 2011	2,443,028	$ 12.42

	Options Outstanding			Options Exercisable		
Range of Exercise Price	Outstanding at September 30, 2011	Weighted Average Remaining Life (months)	Weighted Average Exercise Price	Exercisable at September 30, 2011	Weighted Average Remaining Life (months)	Weighted Average Exercise Price
$5.00	60,000	20	$ 5.00	60,000	20	$ 5.00
$6.41 $8.16	1,251,134	66	$ 6.55	953,657	60	$ 6.59
$11.66 - $12.53	483,964	96	$ 12.47	143,765	87	$ 12.32
$15.90	61,900	76	$ 15.90	61,900	64	$ 15.90
$17.67 $19.87	137,863	64	$ 19.73	137,863	64	$ 19.73
$23.27 $24.00	122,367	55	$ 23.97	122,367	55	$ 23.97
$26.26 $27.94	276,300	105	$ 27.68	45,000	68	$ 26.35
$29.88	40,000	80	$ 29.88	40,000	80	$ 29.88
$34.19	9,500	81	$ 34.19	9,500	81	$ 34.19
	2,443,028	75	$ 12.42	1,574,052	62	$ 11.25

The total intrinsic value of stock options exercised during the quarter and nine months ended September 30, 2011 was $865 and $15,952, respectively. The total intrinsic value of all in-the-money vested outstanding stock options at September 30, 2011 was $13,644. Assuming all stock options outstanding at September 30, 2011 were vested, the total intrinsic value of all in-the-money outstanding stock options would have been $19,513.

(b) Non-vested Restricted Stock:

We present the amortization of non-vested restricted stock as an increase in additional paid-in capital. At September 30, 2011, amounts not yet recognized related to non-vested restricted stock totaled $14,106, which represented the unamortized expense associated with awards of non-vested stock granted to

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employees, officers and directors under our compensation plans, including $12,531 related to grants during the nine months ended September 30, 2011. We recognized compensation expense associated with non-vested restricted stock totaling $2,869 and $2,428 for the quarters ended September 30, 2011 and 2010, respectively, and $8,056 and $6,740 for the nine months ended September 30, 2011 and 2010, respectively.

The following table summarizes the change in non-vested restricted stock from December 31, 2010 to September 30, 2011:

	Non-vested Restricted Stock	
	Number	Weighted Average Grant Price
Balance at December 31, 2010	1,672,854	$ 11.12
Granted	452,460	$ 28.08
Vested	(843,377)	$ 10.79
Forfeited	(11,216)	$ 21.49
Balance at September 30, 2011	1,270,721	$ 17.29

(c) Treasury Shares:

In accordance with the provisions of the 2008 Incentive Award Plan, as amended, holders of non-vested restricted stock were given the option to either remit to us the required withholding taxes associated with the vesting of restricted stock, or to authorize us to purchase shares equivalent to the cost of the withholding tax and to remit the withholding taxes on behalf of the holder. Pursuant to this provision, we purchased the following shares of our common stock during the nine months ended September 30, 2011:

Period	Shares Purchased	Average Price Paid per Share	Extended Amount
January 1 31, 2011	199,510	$ 27.45	$ 5,476
February 1 28, 2011			
March 1 31, 2011	1,374	$ 28.22	39
April 1 30, 2011	426	$ 29.72	13
May 1 31, 2011	1,065	$ 30.80	33
June 1 30, 2011	644	$ 30.90	20
July 1 31, 2011	1,326	$ 37.11	49
August 1 31, 2011	353	$ 37.33	13
September 1 - 30, 2011			
	204,698		$ 5,643

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 the Financial Accounting Standards Board (FASB) guidance on 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, 2011 and 2010:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(In thousands)			
Weighted average basic common shares outstanding	78,004	76,130	77,578	75,957
Effect of dilutive securities:				
Employee stock options	998	751	1,052	628
Non-vested restricted stock	443	911	450	810
Weighted average diluted common and potential common shares outstanding	79,445	77,792	79,080	77,395

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We excluded the impact of anti-dilutive potential common shares from the calculation of diluted weighted average shares for the quarter and nine months ended September 30, 2011 and 2010. If these potential common shares were included in the calculation, the impact would have been a decrease in diluted weighted average shares outstanding of 34,563 shares and 47,870 shares for the quarters ended September 30, 2011 and 2010, respectively, and 35,156 shares and 257,781 shares for the nine months ended September 30, 2011 and 2010, respectively.

10. Discontinued operations:

On July 6, 2011, we sold our Southeast Asian products business, through which we provided oilfield equipment sales, rentals and refurbishment services, to MTQ Corporation Limited (MTQ), a Singapore firm which provides engineering services to oilfield and industrial equipment users and manufacturers. Proceeds from the sale of this business totaled $21,913, of which $2,613 represented cash on hand at July 6, 2011 which was transferred to us in October 2011 pursuant to the final settlement. We recorded a loss on the sale of this business of $136 as of September 30, 2011.

Although this sale did not represent a material disposition of assets relative to our total assets as presented in the accompanying balance sheets, the Southeast Asia products business did represent a significant portion of the assets and operations which were attributable to our product sales business segment for the periods presented, and therefore, we accounted for it as discontinued operations. We revised our financial statements and reclassified the assets and liabilities of the Southeast Asia products business as discontinued operations as of the date of each balance sheet presented and removed the results of operations of the Southeast Asia products business 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.

Additionally, because our Southeast Asian products business represented over 85% of the Product Sales segment revenue, we have restructured our reportable segments to better reflect our current operations. Our remaining product sales business has been combined with our Drilling Services segment. A reconciliation of the original presentation of our reportable segments for the quarter and nine months ended September 30, 2010 to the current reportable segments is presented below in Note 11, Segment information.

The following table summarizes the operating results for this disposal group for the quarters and nine-month periods ended September 30, 2011 and 2010:

	Pro Forma Results			
	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	$	$ 8,339	$ 13,766	$ 24,069
Income before taxes	$ 571	$ 1,681	$ 3,343	$ 4,050
Taxes	$ 707	$ 242	$ 1,149	$ 638
Net income (loss)	$ (136)	$ 1,439	$ 2,194	$ 3,412
Earnings per share information:				
Basic	$ (0.00)	$ 0.02	$ 0.03	$ 0.04
Diluted	$ (0.01)	$ 0.01	$ 0.03	$ 0.04

The following table presents the assets and liabilities of this disposal group as of July 6, 2011 and December 31, 2010.

	July 6, 2011	December 31, 2010
Current assets:		
Cash	$ 2,613	$ 7,546
Accounts receivable	$ 6,805	$ 3,664
Inventory, net	$ 5,264	$ 5,147
Prepaid expenses	$ 455	$ 343

Current assets of discontinued operations	$ 15,137	$ 16,700
Long-term assets:		
Property, plant and equipment, net	$ 4,963	$ 5,096

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Goodwill	$ 2,858	$ 2,858
Other long-term assets	$ 941	$ 943
Long-term assets of discontinued operations	$ 8,762	$ 8,897
Current liabilities		
Accounts payable	$ 2,774	$ 597
Accrued liabilities	$ 781	$ 2,244
Income taxes payable	$ 431	$
Current liabilities of discontinued operations	$ 3,986	$ 2,841
Long-term liabilities of discontinued operations:		
Deferred income taxes	$ 42	$ 33

We have included cash held by the disposal group as a component of current assets of discontinued operations for the accompanying balance sheet at December 31, 2010, rather than including this amount as cash and cash equivalents of the consolidated entity at December 31, 2010. For cash flow statement presentation, the sources and uses of cash for this disposal group are presented as operating, investing and financing cash flows, as applicable, combined with such cash flows for continuing operations, as permitted by US GAAP.

11. Segment information:

We report segment information based on how our management organizes the operating segments to make operational decisions and to assess financial performance. We evaluate performance and allocate resources based on net income (loss) from continuing operations before net interest expense, taxes, depreciation and amortization, non-controlling interest and impairment loss (Adjusted EBITDA). The calculation of Adjusted EBITDA should not be viewed as a substitute for calculations under U.S. GAAP, in particular net income. Adjusted EBITDA is included in this Quarterly Report on Form 10-Q because our management considers it an important supplemental measure of our performance and believes that it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry, some of which present EBITDA when reporting their results. We regularly evaluate our performance as compared to other companies in our industry that have different financing and capital structures and/or tax rates by using Adjusted EBITDA. In addition, we use Adjusted EBITDA in evaluating acquisition targets. Management also believes that Adjusted EBITDA is a useful tool for measuring our ability to meet our future debt service, capital expenditures and working capital requirements, and Adjusted EBITDA is commonly used by us and our investors to measure our ability to service indebtedness. Adjusted EBITDA is not a substitute for the U.S. GAAP measures of earnings or cash flow and is not necessarily a measure of our ability to fund our cash needs. It should be noted that companies calculate EBITDA (including Adjusted EBITDA) differently and, therefore, EBITDA has material limitations as a performance measure because it excludes interest expense, taxes, depreciation and amortization. Adjusted EBITDA calculated by us may not be comparable to the EBITDA (or Adjusted EBITDA) calculation of another company and also differs from the calculation of EBITDA under our credit facilities (see Note 7, Long-term debt, for a description of the calculation of EBITDA under our existing credit facility, as amended). See the table below for a reconciliation of Adjusted EBITDA to operating income (loss) by segment.

Prior to July 1, 2011, we had three reportable operating segments: completion and production services (C&PS), drilling services and product sales. During July 2011, as a result of the sale of our Southeast Asian business, we restructured our reportable segments to better reflect our current operations. Our Southeast Asian business is accounted for as discontinued operations and we have combined the remaining product sales business with our drilling services segment.

The accounting policies of our reporting segments are the same as those used to prepare our consolidated financial statements as of September 30, 2011. Inter-segment transactions are accounted for on a cost recovery basis.

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	C&PS	Drilling Services	Corporate	Total
Quarter Ended September 30, 2011				
Revenue from external customers	$ 535,625	$ 54,664	$	$ 590,289
Inter-segment revenues	$ 1	$ 7,474	$ (7,475)	$
Adjusted EBITDA, as defined	$ 154,249	$ 14,388	$ (11,370)	$ 157,267
Depreciation and amortization	$ 43,147	$ 4,972	$ 576	$ 48,695
Operating income (loss)	$ 111,102	$ 9,416	$ (11,946)	$ 108,572
Capital expenditures(1)	$ 109,960	$ 19,792	$ 88	$ 129,840
Quarter Ended September 30, 2010				
Revenue from external customers	$ 361,457	$ 48,813	$	$ 410,270
Inter-segment revenues	$ 33	$ 2,666	$ (2,699)	$
Adjusted EBITDA, as defined	$ 108,104	$ 12,685	$ (9,743)	$ 111,046
Depreciation and amortization	$ 39,078	$ 4,970	$ 515	$ 44,563
Operating income (loss)	$ 69,026	$ 7,715	$ (10,258)	$ 66,483
Capital expenditures	$ 46,479	$ 1,072	$ 410	$ 47,961
As of September 30, 2011				
Segment assets	$ 1,681,007	$ 199,623	$ 240,332	$ 2,120,962
Nine Months Ended September 30, 2011				
Revenue from external customers	$ 1,464,593	$ 159,114	$	$ 1,623,707
Inter-segment revenues	$ 31	$ 13,863	$ (13,894)	$
Adjusted EBITDA, as defined	$ 420,694	$ 40,561	$ (32,270)	$ 428,985
Depreciation and amortization	$ 129,988	$ 15,063	$ 1,781	$ 146,832
Operating income (loss)	$ 290,706	$ 25,498	$ (34,051)	$ 282,153
Capital expenditures(2)	$ 244,696	$ 23,322	$ 555	$ 268,573
Nine Months Ended September 30, 2010				
Revenue from external customers	$ 938,205	$ 126,284	$	$ 1,064,489
Inter-segment revenues	$ 225	$ 4,147	$ (4,372)	$
Adjusted EBITDA, as defined	$ 250,609	$ 26,622	$ (27,893)	$ 249,338
Depreciation and amortization	$ 118,641	$ 14,653	$ 1,504	$ 134,798
Operating income (loss)	$ 131,968	$ 11,969	$ (29,397)	$ 114,540
Capital expenditures	$ 80,194	$ 8,436	$ 1,225	$ 89,855
As of December 31, 2010				
Segment assets	$ 1,485,897	$ 183,220	$ 131,459	$ 1,800,576

(1) For the quarter ended September 30, 2011, capital expenditures of $129,840 represents actual cash invested of $110,853, less amounts accrued but not paid at June 30, 2011 of $9,678, plus amounts accrued but not paid at September 30, 2011 of $28,665.

(2) For the nine months ended September 30, 2011, capital expenditures of $268,573 represents actual cash invested of $259,925, less amounts accrued but not paid at December 31, 2010 of $20,017, plus amounts accrued but not paid at September 30, 2011 of $28,665.

The following table reconciles the original presentation of the three operating segments to the current presentation for the quarter and nine months ended September 30, 2010 and the year ended December 31, 2010.

Quarter Ended September 30, 2010	Original Presentation	Discontinued Operations	Reclassification	Current Presentation

Drilling services:				
Revenue from external customers	$ 48,600	$	$ 213	$ 48,813
Adjusted EBITDA, as defined	$ 12,936	$	$ (251)	$ 12,685
Depreciation and amortization	4,673		297	4,970
Operating income	$ 8,263	$	$ (548)	$ 7,715
Capital expenditures	$ 1,036	$	$ 36	$ 1,072
Product Sales:				
Revenue from external customers	$ 8,552	$ (8,339)	$ (213)	$
Adjusted EBITDA, as defined	$ 1,689	$ (1,940)	$ 251	$
Depreciation and amortization	539	(242)	(297)	
Operating income	$ 1,150	$ (1,698)	$ 548	$
Capital expenditures	$ 116	$ (80)	$ (36)	$
Corporate:				
Capital expenditures	$ 330	$	$ 80	$ 410

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Nine Months Ended September 30, 2010				
Drilling services:				
Revenue from external customers	$ 124,149	$	$ 2,135	$ 126,284
Adjusted EBITDA, as defined	$ 27,018	$	$ (396)	$ 26,622
Depreciation and amortization	13,775		878	14,653
Operating income	$ 13,243	$	$ (1,274)	$ 11,969
Capital expenditures	$ 8,400	$	$ 36	$ 8,436
Product Sales:				
Revenue from external customers	$ 26,204	$ (24,069)	$ (2,135)	$
Adjusted EBITDA, as defined	$ 4,501	$ (4,897)	$ 396	$
Depreciation and amortization	1,676	(798)	(878)	
Operating income	$ 2,825	$ (4,099)	$ 1,274	$
Capital expenditures	$ 220	$ (184)	$ (36)	$
Corporate:				
Capital expenditures	$ 1,041	$	$ 184	$ 1,225
Reconciliation of segment assets as of December 31, 2010				
C&PS(1)	$ 1,488,755	$	$ (2,858)	$ 1,485,897
Drilling services	$ 170,944	$	$ 12,276	$ 183,220
Product sales	$ 35,015	$ (25,597)	$ (9,418)	$
Corporate	$ 105,862	$ 25,597	$	$ 131,459
Segment assets	$ 1,800,576	$	$	$ 1,800,576

(1) The $2,858 represents goodwill associated with Southeast Asia.

We do not allocate net interest expense or tax expense 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, 2011 and 2010:

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Segment operating income	$ 108,572	$ 66,483	$ 282,153	$ 114,540
Interest expense	12,917	14,151	40,709	43,653
Interest income	(180)	(73)	(407)	(249)
Income taxes	36,513	20,814	91,420	28,609
Net income from continuing operations	$ 59,322	$ 31,591	$ 150,431	$ 42,527

The following table summarizes the change in the carrying amount of goodwill by segment for the nine months ended September 30, 2011:

	C&PS	Drilling Services	Product Sales	Total
Balance at December 31, 2010	$ 244,138	$ 3,537	$ 2,858	$ 250,533
Less: goodwill associated with discontinued operations			(2,858)	(2,858)
Adjusted balance at December 31, 2010	244,138	3,537		247,675
Acquisition (a) and other	4,462			4,462
Balance at September 30, 2011	$ 248,600	$ 3,537	$	$ 252,137

(a) For a description of our business acquisition as of September 30, 2011, see Note 2, Business acquisition.

12. Financial instruments:

The financial instruments recognized in the balance sheet consist of cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities, long-term debt and senior notes. The fair value of all financial instruments approximates their carrying amounts due to their current maturities or market rates of interest, except the senior notes which were issued in December 2006 with a fixed 8% coupon rate. At September 30, 2011, the fair value of these notes was $650,000 based on the published closing price.

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A significant portion of our trade accounts receivable is from companies in the oil and gas industry, and as such, we are exposed to normal industry credit risks. We evaluate the credit-worthiness of our major new and existing customers based on their financial condition and generally do not require collateral. For the quarter and nine months ended September 30, 2011, we had two customers who provided approximately 18% and 8% of our total revenue.

13. 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 such 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, individually, or in the aggregate, 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 premiums related to a cost-sharing provision of our general liability insurance 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.

See Note 16, Subsequent events, for disclosure of two lawsuits that were filed against us after September 30, 2011.

14. Guarantor and Non-Guarantor Condensed Consolidating Financial Statements:

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, 2011 and December 31, 2010; (2) unaudited condensed consolidating statements of operations for the quarters and nine months ended September 30, 2011 and 2010 and (3) unaudited condensed consolidating statements of cash flows for the nine months ended September 30, 2011 and 2010.

Condensed Consolidating Balance Sheet

September 30, 2011

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations/ Reclassifications	Consolidated
Current assets					
Cash and cash equivalents	$ 177,411	$ 2,777	$ 42,927	$ (14,834)	$ 208,281
Accounts receivable, net	238	390,433	44,924		435,595
Inventory, net		29,060	7,226		36,286
Prepaid expenses	7,885	21,573	3,920		33,378
Income tax receivable	22,723		1		22,724
Current deferred tax assets	15,462				15,462
Total current assets	223,719	443,843	98,998	(14,834)	751,726
Property, plant and equipment, net	4,166	1,024,307	45,352		1,073,825
Investment in consolidated subsidiaries	1,125,091	122,003		(1,247,094)	
Inter-company receivable	568,641		(80)	(568,561)	

Goodwill	15,531	236,606		252,137
Other long-term assets, net	31,569	10,886	819	43,274

Total assets	$ 1,968,717	$ 1,837,645	$ 145,089	$ (1,830,489)	$ 2,120,962
Current liabilities					
Accounts payable	$ 22,436	$ 88,404	$ 8,256	$ (14,834)	$ 104,262
Accrued liabilities	23,274	19,206	9,398		51,878
Accrued payroll and payroll burdens	3,193	30,809	2,111		36,113
Accrued interest	15,661		7		15,668
Income taxes payable			2,200		2,200
Total current liabilities	64,564	138,419	21,972	(14,834)	210,121
Long-term debt	650,000				650,000
Inter-company payable		566,882	1,679	(568,561)	
Deferred income taxes	272,557	3,803	(576)		275,784
Other long-term liabilities	1,051	3,450	11		4,512
Total liabilities	988,172	712,554	23,086	(583,395)	1,140,417
Stockholders equity					
Total stockholders equity	980,545	1,125,091	122,003	(1,247,094)	980,545
Total liabilities and stockholders equity	$ 1,968,717	$ 1,837,645	$ 145,089	$ (1,830,489)	$ 2,120,962

Condensed Consolidating Balance Sheet

December 31, 2010

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations/ Reclassifications	Consolidated
Current assets					
Cash and cash equivalents	$ 111,834	$ 569	$ 23,500	$ (16,768)	$ 119,135
Accounts receivable, net	696	313,936	27,352		341,984
Inventory, net		21,935	6,454		28,389
Prepaid expenses	6,388	10,980	989		18,357
Income tax receivable	10,164	13,298			23,462
Current deferred tax assets	2,499				2,499
Other current assets	882	502			1,384
Current assets of discontinued operations			16,700		16,700
Total current assets	132,463	361,220	74,995	(16,768)	551,910
Property, plant and equipment, net	4,730	898,013	48,189		950,932
Investment in consolidated subsidiaries	930,631	115,449		(1,046,080)	
Inter-company receivable	554,482		445	(554,927)	
Goodwill	15,531	232,144			247,675
Other long-term assets, net	29,966	10,161	1,035		41,162
Long-term assets of discontinued operations			8,897		8,897
Total assets	$ 1,667,803	$ 1,616,987	$ 133,561	$ (1,617,775)	$ 1,800,576
Current liabilities					
Accounts payable	$ 376	$ 82,952	$ 7,942	$ (16,768)	$ 74,502
Accrued liabilities	18,269	21,355	2,423		42,047
Accrued payroll and payroll burdens	4,353	19,325	2,890		26,568
Accrued interest	2,439	1	6		2,446
Income taxes payable	(1,043)		1,043		

Current liabilities of discontinued operations			2,841		2,841
Total current liabilities	24,394	123,633	17,145	(16,768)	148,404
Long-term debt	650,000				650,000
Inter-company payable		553,907	1,020	(554,927)	
Deferred income taxes	186,693	3,794	(98)		190,389
Other long-term liabilities	882	5,022	12		5,916
Long-term liabilities of discontinued operations			33		33
Total liabilities	861,969	686,356	18,112	(571,695)	994,742
Stockholders equity					
Total stockholders equity	805,834	930,631	115,449	(1,046,080)	805,834
Total liabilities and stockholders equity	$ 1,667,803	$ 1,616,987	$ 133,561	$ (1,617,775)	$ 1,800,576

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Condensed Consolidated Statement of Operations

Quarter Ended September 30, 2011

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations/ Reclassifications	Consolidated
Revenues	$	$ 545,547	$ 45,856	$ (1,114)	$ 590,289
Service expenses		345,915	34,391	(1,114)	379,192
Selling, general and administrative expenses	11,370	37,801	4,659		53,830
Depreciation and amortization	396	45,652	2,647		48,695
Income (loss) from continuing operations before interest and taxes	(11,766)	116,179	4,159		108,572
Interest expense	12,243	1,429	12	(767)	12,917
Interest income	(850)	(4)	(93)	767	(180)
Equity in earnings of consolidated affiliates	(72,036)	(4,429)		76,465	
Income (loss) from continuing operations before taxes	48,877	119,183	4,240	(76,465)	95,835
Taxes	(10,308)	44,816	2,005		36,513
Income (loss) from continuing operations	$ 59,185	$ 74,367	$ 2,235	$ (76,465)	$ 59,322
Loss from discontinued operations			(136)		(136)
Net income (loss)	$ 59,185	$ 74,367	$ 2,099	$ (76,465)	$ 59,186

Condensed Consolidated Statement of Operations

Quarter Ended September 30, 2010

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations/ Reclassifications	Consolidated
Revenues	$	$ 381,194	$ 30,808	$ (1,732)	$ 410,270
Service expenses		235,497	24,011	(1,732)	257,776
Selling, general and administrative expenses	9,743	29,492	2,213		41,448
Depreciation and amortization	345	41,570	2,648		44,563
Income (loss) from continuing operations before interest and taxes	(10,088)	74,635	1,936		66,483
Interest expense	14,478	1,188	17	(1,532)	14,151
Interest income	(1,580)	(1)	(24)	1,532	(73)
Equity in earnings of consolidated affiliates	(49,101)	(2,864)		51,965	
Income (loss) from continuing operations before taxes	26,115	76,312	1,943	(51,965)	52,405
Taxes	(6,915)	27,211	518		20,814
Income (loss) from continuing operations	$ 33,030	$ 49,101	$ 1,425	$ (51,965)	$ 31,591
Income from discontinued operations			1,439		1,439

Net income (loss)	$ 33,030	$ 49,101	$ 2,864	$ (51,965)	$ 33,030

Condensed Consolidated Statement of Operations

Nine Months Ended September 30, 2011

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations/ Reclassifications	Consolidated
Revenues	$	$ 1,508,919	$ 119,164	$ (4,376)	$ 1,623,707
Service expenses		955,931	90,714	(4,376)	1,042,269
Selling, general and administrative expenses	32,270	110,670	9,513		152,453
Depreciation and amortization	1,254	137,147	8,431		146,832
Income (loss) from continuing operations before interest and taxes	(33,524)	305,171	10,506		282,153
Interest expense					