

KEY ENERGY SERVICES INC  
Form 10-Q  
August 08, 2008

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**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 June 30, 2008**

or

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

**Commission file number: 1-8038**

**KEY ENERGY SERVICES, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**04-2648081**  
(I.R.S. Employer  
Identification No.)

**1301 McKinney Street, Suite 1800, Houston, Texas 77010**

(Address of principal executive offices) (Zip Code)

**(713) 651-4300**

(Registrant's telephone number, including area code)

**None**

(Former name, former address and former fiscal year, if changed since last report)

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated  
filer

Accelerated filer

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

Smaller reporting  
company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 31, 2008, the number of outstanding shares of common stock of the registrant was 124,445,608.

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**KEY ENERGY SERVICES, INC.  
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FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**

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**FORWARD-LOOKING STATEMENTS**

In addition to statements of historical fact, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature or that relate to future events and conditions are, or may be deemed to be, forward-looking statements. These "forward-looking statements" are based on our current expectations, estimates and projections about Key Energy Services, Inc. its subsidiaries ("the Company"), our industry and management's beliefs and assumptions concerning future events and financial trends affecting our financial condition and results of operations. In some cases, you can identify these statements by terminology such as "may," "will," "predicts," "projects," "potential" or "continue" or the negative of such terms and other comparable terminology. These statements are only predictions and are subject to substantial risks and uncertainties. Actual performance or results may differ materially and adversely.

We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this report except as required by law. All of our written and oral forward-looking statements are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

**Key Energy Services, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share amounts)

	June 30, 2008 (unaudited)	December 31, 2007
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 45,459	\$ 58,503
Short-term investments	8	276
Accounts receivable, net of allowance for doubtful accounts of \$12,615 and \$13,501 at June 30, 2008 and December 31, 2007, respectively	395,079	343,408
Inventories	28,478	22,849
Prepaid expenses	9,906	12,997
Deferred tax assets	28,645	27,676
Income taxes receivable	947	15,796
Other current assets	6,117	6,360
<b>Total current assets</b>	<b>514,639</b>	<b>487,865</b>
Property and equipment, gross	1,695,243	1,595,225
Accumulated depreciation	(748,338)	(684,017)
Property and equipment, net	946,905	911,208
Goodwill	395,213	378,550
Other intangible assets, net	48,531	45,894
Deferred financing costs, net	11,436	12,117
Notes and accounts receivable related parties	187	173
Investment in IROC Energy Services Corp.	11,765	11,217
Other assets	9,085	12,053
<b>TOTAL ASSETS</b>	<b>\$ 1,937,761</b>	<b>\$ 1,859,077</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 19,952	\$ 35,159
Accrued liabilities	224,897	183,364
Accrued interest	5,319	3,895
Current portion of capital lease obligations	9,334	10,701
Current notes payable related parties, net of discount	1,749	1,678
<b>Total current liabilities</b>	<b>261,251</b>	<b>234,797</b>
Capital lease obligations, less current portion	13,840	16,114
Notes payable related parties, less current portion	20,500	20,500
Long-term debt	525,000	475,000
Workers' compensation, vehicular, health and other insurance claims	44,067	43,818
Deferred tax liabilities	160,786	160,068
Other non-current accrued liabilities	20,640	19,531
Minority interest		251
Commitments and contingencies		
<b>Stockholders' equity:</b>		
Common stock, \$0.10 par value; 200,000,000 shares authorized, 125,205,458 and 131,142,905 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	12,521	13,114

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Additional paid-in capital	627,192	704,644
Accumulated other comprehensive loss	(35,753)	(37,981)
Retained earnings	287,717	209,221
<b>Total stockholders' equity</b>	<b>891,677</b>	<b>888,998</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,937,761</b>	<b>\$ 1,859,077</b>

See the accompanying notes which are an integral part of these condensed consolidated unaudited financial statements

Key Energy Services, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>REVENUES:</b>				
Well servicing	\$ 379,959	\$ 308,825	\$ 728,837	\$ 619,985
Pressure pumping	91,952	77,289	173,804	151,366
Fishing and rental	30,092	24,397	55,761	48,079