

KEY ENERGY SERVICES INC  
Form 8-K  
August 06, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 8-K  
CURRENT REPORT**

**Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934  
Date of Report (Date of earliest event reported): August 5, 2010 (August 5, 2010)**

**KEY ENERGY SERVICES, INC.**  
(Exact name of registrant as specified in its charter)

**Maryland**

**001-08038**

**04-2648081**

(State or other jurisdiction  
of incorporation)

(Commission File Number)

(IRS Employer Identification No.)

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

**77010**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **713/651-4300**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition**

On July 28, 2010, Key Energy Services, Inc., a Maryland corporation (the Company ) announced in a press release (the Release ) its results for the quarter ended June 30, 2010. A copy of the Release is attached as Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission (the Commission ) on July 29, 2010 and is incorporated by reference.

As stated in the Release, the reported results, financial statements and tables included in the Release did not reflect the presentation of the Company s pressure pumping and wireline businesses as assets held for sale or discontinued operations. However, in light of the previously-announced agreement to sell these businesses, the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, filed with the Commission on August 5, 2010 (the Form 10-Q ) presents the pressure pumping and wireline businesses as assets held for sale on the Company s consolidated balance sheet and as discontinued operations on the Company s consolidated statement of operations. Set forth below in this Current Report on Form 8-K are the financial statements that were included in the Release, revised to reflect the presentation of the Company s pressure pumping and wireline businesses as assets held for sale and as discontinued operations, consistent with the presentation in the Form 10-Q.

The information contained in this Item 2.02 (including the Release incorporated by reference) shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act ), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

**Condensed Consolidated Statements of Operations, (in thousands, except per share amounts):**

	<b>Three Months Ended June</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>30,</b>	<b>2010</b>	<b>2009</b>
	<b>(unaudited)</b>		<b>(unaudited)</b>	
REVENUES	\$ 267,785	\$ 219,061	\$ 519,744	\$ 502,710
<b>COSTS AND EXPENSES:</b>				
Direct operating expenses	196,171	155,118	385,373	340,647
Depreciation and amortization expense	32,478	37,181	65,802	76,005
General and administrative expense	44,866	44,039	83,893	90,465
Interest expense, net of amounts capitalized	10,729	10,173	20,988	20,103
Other, net	467	(2,061)	(776)	(2,222)
Total costs and expenses, net	284,711	244,450	555,280	524,998
Loss from continuing operations before tax	(16,926)	(25,389)	(35,536)	(22,288)
Income tax benefit	5,888	9,365	13,596	8,477
Loss from continuing operations	(11,038)	(16,024)	(21,940)	(13,811)
Discontinued operations, net of tax (expense) benefit of \$(4,312), \$1,293, \$(5,529) and \$1,956, respectively	8,182	(2,449)	10,077	(3,758)
Net loss	(2,856)	(18,473)	(11,863)	(17,569)
Loss attributable to noncontrolling interest	620		2,047	
<b>LOSS ATTRIBUTABLE TO KEY</b>	<b>\$ (2,236)</b>	<b>\$ (18,473)</b>	<b>\$ (9,816)</b>	<b>\$ (17,569)</b>
<b><i>Loss per share from continuing operations attributable to Key:</i></b>				
Basic	\$ (0.08)	\$ (0.13)	\$ (0.16)	\$ (0.12)
Diluted	\$ (0.08)	\$ (0.13)	\$ (0.16)	\$ (0.12)
<b><i>Earnings (loss) per share from discontinued operations:</i></b>				
Basic	\$ 0.06	\$ (0.02)	\$ 0.08	\$ (0.03)
Diluted	\$ 0.06	\$ (0.02)	\$ 0.08	\$ (0.03)
<b><i>Loss per share attributable to Key:</i></b>				
Basic	\$ (0.02)	\$ (0.15)	\$ (0.08)	\$ (0.15)
Diluted	\$ (0.02)	\$ (0.15)	\$ (0.08)	\$ (0.15)

***Loss from continuing operations attributable to Key:***

Loss from continuing operations	\$ (11,038)	\$ (16,024)	\$ (21,940)	\$ (13,811)
Loss attributable to noncontrolling interest	620		2,047	

Loss from continuing operations attributable to Key	\$ (10,418)	\$ (16,024)	\$ (19,893)	\$ (13,811)
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***Weighted average shares outstanding:***

Basic	125,412	120,963	125,183	120,815
Diluted	125,412	120,963	125,183	120,815

**Condensed Consolidated Balance Sheets (in thousands):**

	<b>June 30, 2010</b> <b>(unaudited)</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,040	\$ 37,394
Other current assets	364,275	342,764
Current assets held for sale	7,631	3,974
Total current assets	418,946	384,132
Property and equipment, net	781,977	794,269
Goodwill	349,107	346,102
Other assets, net	64,542	69,568
Noncurrent assets held for sale	67,264	70,339
<b>TOTAL ASSETS</b>	<b>\$ 1,681,836</b>	<b>\$ 1,664,410</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 50,488	\$ 46,086
Other current liabilities	175,157	143,683
Total current liabilities	225,645	189,769
Long-term debt, less current portion	517,464	523,949
Other non-current liabilities	200,502	207,552
Equity	738,225	743,140
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,681,836</b>	<b>\$ 1,664,410</b>

**Consolidated Cash Flow Data (in thousands):**

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(unaudited)</b>	
Net cash provided by operating activities	\$ 64,695	\$ 157,299
Net cash used in investing activities	(47,685)	(63,392)
Net cash used in financing activities	(9,064)	(106,069)
Effect of changes in exchange rates on cash	1,700	(890)

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Increase (decrease) in cash and cash equivalents	9,646	(13,052)
Cash and cash equivalents, beginning of period	37,394	92,691
Cash and cash equivalents, end of period	\$ 47,040	\$ 79,639

**Results of Operations by Reportable Segment (in thousands, except for percentages, unaudited):**

	Well Servicing	Production Services	Functional Support
<i>For the three months ended June 30, 2010:</i>			
Revenues from external customers	\$ 232,746	\$ 35,039	\$
Operating income (loss)	16,523	6,338	(28,591)
Operating income as a percentage of revenue	7.1%	18.1%	n/a
<i>For the three months ended March 31, 2010:</i>			
Revenues from external customers	\$ 223,991	\$ 27,968	\$
Operating income (loss)	15,011	(504)	(24,101)
Operating income (loss) as a percentage of revenue	6.7%	(2)%	n/a
<i>For the three months ended June 30, 2009:</i>			
Revenues from external customers	\$ 197,945	\$ 21,116	\$
Operating income (loss)	15,522	(5,166)	(27,633)
Operating income (loss) as a percentage of revenue	7.8%	(24.5)%	n/a
<i>For the six months ended June 30, 2010:</i>			
Revenues from external customers	\$ 456,737	\$ 63,007	\$
Operating income (loss)	31,534	5,834	(52,692)
Operating income as a percentage of revenue	6.9%	9.3%	n/a
<i>For the six months ended June 30, 2009:</i>			
Revenues from external customers	\$ 454,206	\$ 48,504	\$
Operating income (loss)	56,537	(7,156)	(53,788)
Operating income (loss) as a percentage of revenue	12.4%	(14.8)%	n/a

**U.S. and International Revenue (in thousands, unaudited):**

	<b>Three Months Ended</b>		
	<b>June 30, 2010</b>	<b>March 31, 2010</b>	<b>June 30, 2009</b>
U.S.	\$ 224,221	\$ 196,308	\$ 174,877
International	43,564	55,651	44,184
Total revenue from external customers	\$ 267,785	\$ 251,959	\$ 219,061

	<b>Six Months Ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
U.S.	\$ 420,529	\$ 411,280
International	99,215	91,430
Total revenue from external customers	\$ 519,744	\$ 502,710

**The following table sets forth the sequential percentage revenue changes and incremental operating income margins from the first quarter 2010 to the second quarter 2010 (unaudited):**

	<b>Sequential Quarter % Revenue Change</b>	<b>Sequential Quarter Incremental Operating Income Margins</b>
Well Servicing Segment	4%	17%
<i>Operations within Well Servicing Segment:</i>		
U.S. Rig Services	11%	74%
Fluid Management Services	18%	79%
Mexico	(42)%	(82)%
Argentina	8%	(232)%
Russia	0%	n/a
Production Services Segment	25%	97%
<i>Operations within Production Services Segment:</i>		
Coiled Tubing Services	35%	92%
Fishing and Rental Services	15%	116%
Other (1)	60%	110%

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California



pressure  
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operations and  
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technology  
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**Reconciliations to Adjusted EBITDA (in thousands, except for percentages):**

	<b>Three Months Ended June 30, 2010</b>		<b>Three Months Ended March 31, 2010</b>		<b>Three Months Ended June 30, 2009</b>	
		<b>% of Revenue</b>		<b>% of Revenue</b>		<b>% of Revenue</b>
Loss attributable to Key	\$ (2,236)	(0.7)%	(7,580)	(2.5)%	(18,473)	(7.7)%
Income tax benefit	(1,576)	(0.5)%	(6,491)	(2.1)%	(10,658)	(4.4)%
Interest expense, net of amounts capitalized	10,623	3.1%	10,247	3.4%	10,181	4.2%
Interest income	(21)	0.0%	(15)	(0.0)%	(169)	(1.0)%
Depreciation and amortization	35,857	10.6%	36,703	12.2%	43,191	17.9%
Adjusted EBITDA	\$ 42,647	12.6%	\$ 32,864	10.9%	\$ 24,072	10.0%

**SIGNATURE**

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

KEY ENERGY SERVICES, INC.

Date: August 5, 2010

By: /s/ T.M. Whichard III  
T.M. Whichard III  
Senior Vice President and Chief Financial  
Officer