

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

PRECISION DRILLING CORP
Form 6-K
October 28, 2004

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

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO SECTION 13A-16 OR 15D-16 OF THE
SECURITIES EXCHANGE ACT OF 1934

For October 28, 2004

Commission File Number: 001-14534

PRECISION DRILLING CORPORATION
(Exact name of registrant as specified in its charter)

4200, 150 - 6TH AVENUE S.W.
CALGARY, ALBERTA
CANADA T2P 3Y7
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☐ Form 40-F ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1). ☐

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

registrant in connection with Rule 12g3-2(b): 82- N/A

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, thereunto duly authorized.

PRECISION DRILLING CORPORATION

Per: /s/ Jan M. Campbell

Jan M. Campbell
Corporate Secretary

Date: October 28, 2004

Calgary, Alberta, Canada - October 28, 2004

PRECISION DRILLING CORPORATION ANNOUNCES RESULTS FOR THE THIRD QUARTER

Precision Drilling Corporation ("Precision" or the "Corporation") today announces its results for the third quarter of 2004. Diluted earnings per share from continuing operations were \$0.68 for the quarter ended September 30, 2004 compared to \$0.66 in 2003. Revenue and operating earnings both increased by 26% with the acquisition of Reeves Oilfield Services Limited ("Reeves") and the land drilling operations of GlobalSantaFe Corporation contributing significantly to the increase. This improvement was achieved despite a 13% reduction in Canadian drilling activity, which was hampered by the much reported wet weather conditions in western Canada. Although activity levels were lower than the third quarter of 2003, anticipated strong demand for services going into the winter drilling season has provided support for pricing improvements across most of our service lines in Canada.

The increased value of the Canadian dollar relative to the US Dollar had a significant negative impact in the third quarter of 2004, reducing before tax earnings by \$6.8 million. Most of the Corporation's international operations are carried on in US dollars and as a result the 6% strengthening of the Canadian dollar versus the US dollar had a two fold impact. First, the Canadian dollar equivalent of our net US dollar denominated monetary asset position declined, leading to a foreign exchange loss being recorded, and second, the Canadian dollar equivalent of US dollar denominated operating cash flow was reduced.

Stock-based compensation expense amounted to \$4.9 million (\$0.08 per share) in the quarter compared to \$1.9 million (\$0.04 per share) in the third quarter of 2003.

In September, the Corporation launched a branding campaign focused on its Technology Services segment. This important milestone in the Corporation's technology services development will see all the businesses that currently make

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

up the Technology Services segment combined under one brand, "Precision Energy Services". The segment will have three product lines: Wireline Services, Drilling & Evaluation Services and Production Services.

CONTRACT DRILLING

Contract Drilling revenue increased by 26% in the third quarter compared to the same period in 2003 as a result of the acquisition of 31 internationally based rigs in May 2004 and pricing increases in the Canadian market. These positive factors were mitigated somewhat by lower activity levels in Canada as a result of wet weather conditions hindering the movement and operation of drilling rigs. Western Canada received 23% more rainfall in the third quarter of 2004 than in the third quarter of 2003 contributing to a 13% reduction in well completions.

Operating earnings as a percentage of revenue declined to 25% from 27% in 2003. Improved margins in the Canadian market were more than offset by lower margins realized internationally. Reduced spending by PEMEX, the Mexican National Oil Company, reduced our activity and profitability in that country. In addition, expenses were incurred in connection with the integration of the GlobalSantaFe land drilling business. Foreign exchange fluctuations also contributed to the reduced profitability of the Contract Drilling segment.

The Canadian drilling rig fleet achieved 9,479 operating days for a utilization rate of 46% in the quarter compared to 10,848 operating days and a 52% utilization rate in 2003. The service rig operation was less affected by the wet conditions in western Canada and saw a slight increase in operating hours from 110,447 in 2003 to 112,637 in 2004.

ENERGY SERVICES

Compared to the same period in 2003, revenues in the Energy Services segment increased 31% in the third quarter of 2004. This growth was primarily achieved in international operations. Revenue from Canadian operations remained relatively flat year over year where the impact of adverse weather conditions was offset by the addition of Reeves. The same is true for operating earnings where overall results increased \$9.0 million, despite the inclusion of a foreign exchange loss of \$3.4 million. The addition of Reeves contributed significantly to the profitability of the Energy Services segment in the quarter. The biggest geographical improvements came from operations in the United States, Latin America and Asia Pacific.

Wireline Services generated the largest increase in results from 2003 levels, with improvements coming from both the core business as well as from the addition of Reeves. Continued capital spending in 2004, to round out LWD and RST service offerings, resulted in increased depreciation charges and a slight decline in operating earnings for Drilling & Evaluation Services. Business levels for this product-line have not yet reached a sustainable threshold where the global fleet is enjoying continuous utilization of assets. The outlook for the balance of the year appears promising as we are experiencing an increase in jobs being awarded for our drilling and evaluation services. The Production Services division experienced mixed performances with some regions achieving excellent results, while others, such as Canada, struggled in adverse business environments. With renewal of a key North Sea contract and the start-up of other international projects before year end we are anticipating a stronger finish to 2004.

In spite of utilization growing pains within our drilling and evaluation business we have been encouraged by the performance of our new RST and LWD tools. Several key customer trials were successfully completed around the world in the third quarter, with both reliability and performance demonstrating top

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

tier industry standards. With respect to Wireline, we have been very encouraged by the addition of Reeves to our existing business. We believe Reeves' unique technology, as well as its cost effective service solutions, will provide exciting opportunities for our formation evaluation business in mature basins.

RENTAL AND PRODUCTION

The Rental and Production segment saw a 9% increase in revenue, with the majority of the increase coming from the industrial plant maintenance business. The Canadian rental business experienced a slight decrease in rental days, however the impact on revenue was more than offset by pricing increases. Operating margins remained relatively consistent year over year in both businesses.

Certain statements contained in this press release, including statements which are related to drivers for improved earnings, customer requests for services and drilling activity and the outlook for the balance of the year for our Energy Services segment, statements which may contain words such as "anticipate", "could", "should", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performance or achievements of Precision to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such factors include fluctuations in the market for oil and gas and related products and services; competition; political and economic conditions in countries in which Precision does business; the demand for services provided by Precision; changes in laws and regulations, including environmental, to which Precision is subject and other factors, which are described in further detail in Precision's filings with the U.S. Securities and Exchange Commission.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

CDN \$000'S, EXCEPT PER SHARE AMOUNTS (UNAUDITED)	THREE MONTHS ENDED SEPTEMBER 30,			N
	2004	2003		
Revenue	\$ 570,047	\$ 450,942	\$	1,6
Expenses:				
Operating	370,784	299,156		1,0
General and administrative	48,408	38,166		1
Depreciation and amortization	53,888	41,789		1
Research and engineering	13,097	13,208		
Foreign exchange	6,796	(2,335)		
	492,973	389,984		1,3
Operating earnings	77,074	60,958		2
Interest	13,087	8,540		
Gain on disposal of investments	(2,532)	(1,862)		

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

Earnings from continuing operations before income taxes and non-controlling interest	66,519	54,280	2
Income taxes:			
Current	20,659	4,316	
Future	3,770	13,509	
	24,429	17,825	
Earnings from continuing operations before non-controlling interest	42,090	36,455	1
Non-controlling interest	1,056	--	
Earnings from continuing operations	41,034	36,455	1
Discontinued operations, net of tax	1,673	(690)	
Net earnings	42,707	35,765	1
Retained earnings, beginning of period	910,793	705,556	7
Retained earnings, end of period	\$ 953,500	\$ 741,321	\$ 9
Earnings per share from continuing operations:			
Basic	\$ 0.69	\$ 0.67	\$
Diluted	\$ 0.68	\$ 0.66	\$
Earnings per share:			
Basic	\$ 0.72	\$ 0.66	\$
Diluted	\$ 0.71	\$ 0.65	\$
Common shares outstanding (000's)	60,673	54,639	
Weighted average shares outstanding (000's)	59,154	54,514	
Diluted shares outstanding (000's)	59,908	55,334	

CONSOLIDATED BALANCE SHEETS

CDN \$000'S SEPTEMBER 30,
2004

(UNAUDITED)

ASSETS

Current assets:

Cash	\$ 79,422
Accounts receivable	636,155
Inventory	111,425
Assets of discontinued operations	--

827,002

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

Property, plant and equipment, net of accumulated depreciation	1,932,174
Intangibles, net of accumulated amortization	160,058
Goodwill	767,415
Other assets	10,096
Assets of discontinued operations	--
	\$ 3,696,745

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Bank indebtedness	\$ --
Accounts payable and accrued liabilities	327,101
Income taxes payable	25,890
Current portion of long-term debt	--
Liabilities of discontinued operations	--
	352,991
Long-term debt	732,154
Future income taxes	359,903
Future income taxes of discontinued operations	--
Non-controlling interest	9,545
Shareholders' equity:	
Share capital	1,265,258
Contributed surplus	21,445
Cumulative translation adjustment	1,949
Retained earnings	953,500
	2,242,152
	\$ 3,696,745

Common shares outstanding (000's)	60,673
Common share purchase options outstanding (000's)	3,433

CONSOLIDATED STATEMENTS OF CASH FLOW

CDN \$000'S (UNAUDITED)	THREE MONTHS ENDED SEPTEMBER 30,		
	2004	2003	2002
Cash provided by (used in):			
Continuing operations:			
Earnings from continuing operations	\$ 41,034	\$ 36,455	\$ 1,000
Items not affecting cash:			
Stock-based compensation	4,934	1,946	1,000
Depreciation and amortization	53,888	41,789	1,000
Gain on disposal of investments	(2,532)	(1,862)	1,000
Future income taxes	3,770	13,509	1,000
Non-controlling interest	1,056	--	1,000
Amortization of deferred financing costs	465	321	1,000

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

Unrealized foreign exchange (gain) loss on long-term monetary items	480	(394)	
Funds provided by continuing operations	103,095	91,764	3
Changes in non-cash working capital balances	(60,639)	(83,491)	(
	42,456	8,273	3
Funds provided by (used in) discontinued operations	1,898	1,450	
Changes in non-cash working capital balances of discontinued operations	(5,260)	(849)	
	(3,362)	601	
Investments:			
Business acquisitions	(1,160)	--	(6
Purchase of property, plant and equipment	(83,629)	(69,049)	(1
Purchase of intangibles	(314)	--	
Proceeds on sale of property, plant and equipment	13,371	5,500	
Proceeds on disposal of investments	5,829	2,960	
Proceeds on disposal of discontinued operations	8,553	--	2
Investments	1,340	144	(1
	(56,010)	(60,445)	(7
Financing:			
Increase in long-term debt	--	35,980	5
Repayment of long-term debt	(161,994)	(4,486)	(1
Deferred financing costs of long-term debt	(627)	--	
Issuance of common shares on exercise of options	13,584	6,115	
Issuance of common shares	276,455	--	2
Change in bank indebtedness	(71,795)	21,275	(1
	55,623	58,884	5
Increase in cash	38,707	7,313	
Cash, beginning of period	40,715	10,957	
Cash, end of period	\$ 79,422	\$ 18,270	\$

SEGMENT INFORMATION

CDN \$000's (unaudited) Three months ended September 30,	Contract Drilling	Energy Services	Rental and Production	Con and
2004				
Revenue	\$ 287,721	\$ 229,246	\$ 53,080	\$
Operating earnings (loss)	71,469	9,245	9,507	(

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

Research and engineering	--	13,097	--
Depreciation and amortization	24,474	24,334	3,626
Total assets	1,863,678	1,557,996	177,993
Goodwill	383,041	355,672	28,702
Capital expenditures	34,551	43,464	2,126

2003

Revenue	\$ 227,490	\$ 174,593	\$ 48,859	\$
Operating earnings (loss)	62,011	275	9,175	(
Research and engineering	--	13,208	--	
Depreciation and amortization	19,961	17,558	3,072	
Total assets	1,342,054	1,260,539	174,117	
Goodwill	257,531	241,340	28,572	
Capital expenditures	32,798	27,609	2,269	

CDN \$000's (unaudited)	Contract	Energy	Rental and	Cor
Nine months ended September 30,	Drilling	Services	Production	and

2004

Revenue	\$ 857,711	\$ 627,890	\$ 160,128	\$
Operating earnings (loss)	261,396	21,886	28,861	(
Research and engineering	--	37,279	--	
Depreciation and amortization	63,565	67,528	10,199	
Total assets	1,863,678	1,557,996	177,993	
Goodwill	383,041	355,672	28,702	
Capital expenditures*	74,086	92,901	11,611	

2003

Revenue	\$ 701,884	\$ 512,305	\$ 162,312	\$
Operating earnings (loss)	185,834	173	31,636	(
Research and engineering	--	30,834	--	
Depreciation and amortization	58,234	54,307	9,364	
Total assets	1,342,054	1,260,539	174,117	
Goodwill	257,531	241,340	28,572	
Capital expenditures*	62,794	148,817	9,463	

*EXCLUDES BUSINESS ACQUISITIONS

CANADIAN DRILLING OPERATING STATISTICS

NINE MONTHS ENDED SEPTEMBER 30
2004

	Precision	Industry*	Market Share %	Precision	In
Number of drilling rigs	226	686	32.9	224	
Number of operating days (spud to release)	29,526	92,896	31.8	31,094	
Wells drilled	5,644	15,981	35.3	6,128	
Average days per well	5.2	5.8		5.1	
Metres drilled (000's)	5,905	16,901	34.9	6,265	

Edgar Filing: PRECISION DRILLING CORP - Form 6-K

Average metres/day	200	182	201
Average metres/well	1,046	1,058	1,022
Rig utilization rate (%)	47.8	49.8	50.6

* Excludes non-CAODC rigs.

A conference call to review the third quarter 2004 results has been scheduled for 12:00 noon MST on Thursday, October 28, 2004. The conference call dial-in number is 1-800-814-4857.

A live webcast will be accessible at www.precisiondrilling.com by selecting Investor Relations.

Precision Drilling Corporation (TSX: PD and PD.U; NYSE: PDS) is a global oilfield services company providing a broad range of drilling, production and evaluation services with focus on fulfilling customer needs through fit-for-purpose technologies for the maturing oilfields of the 21st century. With corporate offices in Calgary, Alberta, Canada and corporate subsidiary offices in Houston, Texas, and research facilities in the U.S. and Europe, Precision employs more than 10,000 people conducting operations in more than 30 countries. Precision is committed to providing efficient and safe services to create value for our customers, our shareholders and our employees.

FOR FURTHER INFORMATION, PLEASE CONTACT DALE E. TREMBLAY, SENIOR VICE PRESIDENT FINANCE AND CHIEF FINANCIAL OFFICER, TELEPHONE: (403) 716-4500, FAX: (403) 264-0251; WEBSITE: WWW.PRECISIONDRILLING.COM.