

SUPERIOR ENERGY SERVICES INC

Form 10-Q

November 08, 2007

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2007

or

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

For the Transition Period From _____ to _____

Commission File No. 0-20310

SUPERIOR ENERGY SERVICES, INC.

(Exact name of registrant as specified in its charter)

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

75-2379388
**(I.R.S. Employer
Identification No.)**

1105 Peters Road
Harvey, Louisiana
(Address of principal executive offices)

70058
(Zip Code)

Registrant's telephone number, including area code: (504) 362-4321

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, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated

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

The number of shares of the registrant's common stock outstanding on November 1, 2007 was 80,497,579.

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for
the Quarterly Period Ended September 30, 2007

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	36
<u>PART II OTHER INFORMATION</u>	
<u>Item 6. Exhibits</u>	37
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 906</u>	
<u>Certification Pursuant to Section 906</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets
September 30, 2007 and December 31, 2006
(in thousands, except share data)

	9/30/07 (Unaudited)	12/31/06 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,809	\$ 38,970
Accounts receivable, net	346,081	303,800
Income taxes receivable		2,630
Current portion of notes receivable	15,616	14,824
Prepaid expense and other	58,348	59,563
Total current assets	483,854	419,787
Property, plant and equipment, net	1,032,764	804,228
Goodwill, net	475,068	444,687
Notes receivable	16,364	16,137
Equity-method investments	61,282	64,603
Intangible and other long-term assets, net	131,754	125,036
Total assets	\$ 2,201,086	\$ 1,874,478
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 72,817	\$ 65,451
Accrued expenses	178,659	141,684
Income taxes payable	4,410	
Current portion of decommissioning liabilities	34,884	35,150
Current maturities of long-term debt	810	810
Total current liabilities	291,580	243,095
Deferred income taxes	147,784	112,011
Decommissioning liabilities	88,791	87,046
Long-term debt, net	711,440	711,505
Other long-term liabilities	14,202	10,133

Stockholders' equity:

Preferred stock of \$.01 par value. Authorized, 5,000,000 shares; none issued

Common stock of \$.001 par value. Authorized, 125,000,000 shares; issued and outstanding, 81,490,025 shares at September 30, 2007, and 80,617,337 shares at

December 31, 2006	81	81
Additional paid in capital	433,165	411,374
Accumulated other comprehensive income, net	15,942	10,288
Retained earnings	498,101	288,945

Total stockholders' equity	947,289	710,688
----------------------------	---------	---------

Total liabilities and stockholders' equity	\$ 2,201,086	\$ 1,874,478
--	--------------	--------------

See accompanying notes to consolidated financial statements.

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2007 and 2006

(in thousands, except per share data)

(unaudited)

	Three Months		Nine Months	
	2007	2006	2007	2006
Oilfield service and rental revenues	\$ 347,228	\$ 252,309	\$ 1,021,712	\$ 687,441
Oil and gas revenues	51,696	38,208	136,889	87,304
 Total revenues	 398,924	 290,517	 1,158,601	 774,745
 Cost of oilfield services and rentals	 159,683	 109,525	 465,085	 304,066
Cost of oil and gas sales	18,954	19,562	55,845	52,469
 Total cost of services, rentals and sales	 178,637	 129,087	 520,930	 356,535
 Depreciation, depletion, amortization and accretion	 49,881	 28,831	 133,967	 77,473
General and administrative expenses	57,150	44,385	161,833	122,124
Gain on sale of business	7,483		7,483	
 Income from operations	 120,739	 88,214	 349,354	 218,613
 Other income (expense):				
Interest expense, net	(8,197)	(5,989)	(24,938)	(16,389)
Interest income	795	1,255	2,303	3,477
Loss on early extinguishment of debt				(12,596)
Earnings (losses) from equity-method investments, net	1,395	2,704	(2,447)	3,852
 Income before income taxes	 114,732	 86,184	 324,272	 196,957
 Income taxes	 39,682	 31,026	 115,116	 70,904
 Net income	 \$ 75,050	 \$ 55,158	 \$ 209,156	 \$ 126,053
 Basic earnings per share	 \$ 0.92	 \$ 0.69	 \$ 2.58	 \$ 1.58

Edgar Filing: SUPERIOR ENERGY SERVICES INC - Form 10-Q

Diluted earnings per share	\$ 0.91	\$ 0.68	\$ 2.53	\$ 1.55
Weighted average common shares used in computing earnings per share:				
Basic	81,470	79,824	81,053	79,754
Incremental common shares from stock options	1,265	1,480	1,410	1,442
Incremental common shares from restricted stock units	58	36	58	36
Diluted	82,793	81,340	82,521	81,232

See accompanying notes to consolidated financial statements.

4

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2007 and 2006

(in thousands)

(unaudited)

	2007	2006
Cash flows from operating activities:		
Net income	\$ 209,156	\$ 126,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	133,967	77,473
Deferred income taxes	32,459	(1,085)
Stock-based and performance share unit compensation expense	8,995	3,746
(Earnings) losses from equity-method investments, net	2,447	(3,852)
Write-off of debt acquisition costs		2,817
Amortization of debt acquisition costs and note discount	2,669	857
Gain on sale of business	(7,483)	
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables	(35,028)	(75,399)
Other, net	6,779	(3,125)
Accounts payable	(861)	7,325
Accrued expenses	28,496	32,348
Decommissioning liabilities	(2,303)	(2,255)
Income taxes	5,817	64,142
 Net cash provided by operating activities	 385,110	 229,045
Cash flows from investing activities:		
Payments for capital expenditures	(325,868)	(165,064)
Acquisitions of businesses, net of cash acquired	(79,624)	(9,822)
Cash proceeds from sale of business, net of cash sold	18,100	18,343
Acquisitions of oil and gas properties		(46,631)
Cash contributed to equity-method investment		(57,781)
Other	8,981	(2,542)
 Net cash used in investing activities	 (378,411)	 (263,497)
Cash flows from financing activities:		
Proceeds from long-term debt		295,467
Principal payments on long-term debt	(405)	(200,405)
Payment of debt acquisition costs	(83)	(6,516)
Proceeds from issuance of stock through employee benefit plans	324	
Proceeds from exercise of stock options	8,422	2,631
Tax benefit from exercise of stock options	9,135	

Net cash provided by financing activities	17,393	91,177
Effect of exchange rate changes on cash	747	700
Net increase in cash	24,839	57,425
Cash and cash equivalents at beginning of period	38,970	54,457
Cash and cash equivalents at end of period	\$ 63,809	\$ 111,882

See accompanying notes to consolidated financial statements.

5

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2007 and 2006

(1) **Basis of Presentation**

Certain information and footnote disclosures normally in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures which are made are adequate to make the information presented not misleading. These financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto included in Superior Energy Services, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 and Management's Discussion and Analysis of Financial Condition and Results of Operations.

The financial information of Superior Energy Services, Inc. and subsidiaries (the Company) for the nine months ended September 30, 2007 and 2006 has not been audited. However, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the periods presented have been included therein. The results of operations for the first nine months of the year are not necessarily indicative of the results of operations that might be expected for the entire year. Certain previously reported amounts have been reclassified to conform to the 2007 presentation.

(2) **Stock-Based and Long-Term Compensation**

The Company maintains various stock incentive plans that provide long-term incentives to the Company's key employees, including officers and directors, consultants and advisers (Eligible Participants). Under the incentive plans, the Company may grant incentive stock options, non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-based awards or any combination thereof to Eligible Participants.

Stock Options

The Company has issued non-qualified stock options under its stock incentive plans. The options generally vest in equal installments over three years and expire in ten years. Non-vested options are generally forfeited upon termination of employment. The Company's compensation expense related to stock options for the nine months ended September 30, 2007 and 2006 was approximately \$1.1 million and \$0.6 million, respectively, which is reflected in general and administrative expenses.

Restricted Stock

The Company has issued shares of restricted stock under its stock incentive plans. Shares of restricted stock generally vest in equal annual installments over three years. Non-vested shares are generally forfeited upon the termination of employment. Holders of the shares of restricted stock are entitled to all rights of a stockholder of the Company with respect to the restricted stock, including the right to vote the shares and receive all dividends and other distributions declared thereon. The Company's compensation expense related to shares of restricted stock outstanding for the nine months ended September 30, 2007 and 2006 was approximately \$1.9 million and \$0.7 million, respectively, which is reflected in general and administrative expenses.

Restricted Stock Units

The Company has issued restricted stock units (RSUs) under its stock incentive plans. Annually, each non-employee director is issued a number of RSUs having an aggregate value in a dollar amount determined by the Company's Board of Directors. An RSU represents the right to receive from the Company, within 30 days of the date the director ceases to serve on the Board, one share of the Company's common stock. The Company's expense related to RSUs for each nine month period ended September 30, 2007 and 2006 was approximately \$0.7 million, which is reflected in general and administrative expenses.

Table of Contents**Performance Share Units**

The Company has issued performance share units (PSUs) to its employees as part of the Company's long-term incentive program. There is a three-year performance period associated with each PSU grant date. The two performance measures applicable to all participants are the Company's return on invested capital and total stockholder return relative to those of the Company's pre-defined peer group. The PSUs provide for settlement in cash or up to 50% in equivalent value in the Company's common stock, if the participant has met specified continued service requirements. The Company's compensation expense related to all outstanding PSUs for the nine months ended September 30, 2007 and 2006 was approximately \$5.2 million and \$1.7 million, respectively, which is reflected in general and administrative expenses. The Company has recorded a liability of approximately \$9.7 million and \$4.5 million at September 30, 2007 and December 31, 2006, respectively, for all outstanding PSUs, which is reflected in accrued expenses.

Employee Stock Purchase Plan

In August 2007, the Company implemented the Superior Energy Services, Inc. 2007 Employee Stock Purchase Plan (ESPP) under which 1,000,000 shares of common stock were reserved for issuance. Each eligible employee may direct up to 20% of their salary to a maximum of \$8,500 per year toward the purchase of the Company's common stock at a 15% discount. Through September 30, 2007, approximately 10,200 shares have been issued pursuant to this plan. The Company received \$0.3 million related to shares issued under the ESPP in both the three and nine month periods ended September 30, 2007. The Company recorded compensation expense of approximately \$60,000 for both the three and nine month periods ended September 30, 2007 related to the ESPP.

(3) Earnings per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in the same manner as basic earnings per share except that the denominator is increased to include the number of additional common shares that could have been outstanding assuming the exercise of stock options that would have a dilutive effect on earnings per share using the treasury stock method and the conversion of restricted stock units into common stock using the treasury stock method.

In connection with the Company's outstanding senior exchangeable notes, there could be a dilutive effect on earnings per share if the price of the Company's stock exceeds the initial exchange price of \$45.58 per share for a specified period of time. In the event the Company's common stock exceeds the initial exchange price of \$45.58 per share, for the first \$1.00 the price exceeds \$45.58, the dilutive effect would be as much as 188,400 shares. The impact on the calculation of earnings per share would depend on when during the quarter the \$45.58 per share price is reached (see note 8).

Subsequent Events

In October 2007, the Company purchased 1,000,000 shares of its common stock for an aggregate amount of \$33.8 million under a stock repurchase program authorized by the Company's Board of Directors. In September 2007, the Company's Board of Directors authorized a \$350 million share repurchase program of the Company's common stock. The stock repurchase program will expire on December 31, 2009. Under the program, the Company can purchase shares through open market transactions at prices deemed appropriate by management.

(4) Acquisitions and Dispositions

In August 2007, the Company sold the assets of a non-core rental tool business for approximately \$16.3 million in cash and \$2.0 million in a note receivable bearing interest equal to prime rate per annum due in August 2010. As a result of the sale of these assets, the Company recorded a pre-tax gain on sale of business of approximately \$7.5 million. In conjunction with the sale of this business, an additional \$3.4 million will be receivable by the Company if specific conditions are met as determined through August 2011.

Table of Contents

In April 2007, the Company acquired Advanced Oilwell Services, Inc. (AOS) for approximately \$24.2 million in cash consideration. Additional consideration, if any, will be based upon the average earnings before interest, income taxes, depreciation and amortization expense of the business over a three-year period, and will not exceed \$7.4 million. AOS is a provider of cementing and pressure pumping services primarily operating in the East Texas region. The acquisition has been accounted for as a purchase, and the results of operations have been included from the acquisition date. The pro forma effect of the operations of the acquisition was not material to the Condensed Consolidated Statements of Operations of the Company for the current period presented.

In January 2007, the Company acquired Duffy & McGovern Accommodation Services Limited (Duffy & McGovern) for approximately \$47.5 million in cash consideration. Duffy & McGovern is a provider of offshore accommodation rentals operating in most deep water oil and gas territories with major operations in Europe, Africa, the Americas and South East Asia. The Company acquired Duffy & McGovern to further expand its rental tools segment internationally. The acquisition has been accounted for as a purchase, and the results of operations have been included from the acquisition date. The pro forma effect of the operations of the acquisition was not material to the Condensed Consolidated Statements of Operations of the Company for the current period presented.

In December 2006, the Company acquired Warrior Energy Services Corporation (Warrior) for a total purchase price of approximately \$374.1 million. The total consideration was comprised of cash payments of approximately \$237.8 million (including acquisition costs and repayment of Warrior's debt) and equity consideration of approximately \$136.3 million. Warrior is an oil and gas services company that provides various well intervention services including wireline, electric line, logging, perforating, mechanical services, pipe recovery, fishing and rental, plug and abandonment and hydraulic workover services. Warrior has over 30 operating bases in 10 states with operations concentrated in the major onshore and offshore oil and gas producing areas of the United States. The acquisition has been accounted for as a purchase, and the results of operations of Warrior have been included from the acquisition date. The allocation of the purchase price and the valuation of assets and liabilities will be subject to refinement as the Company gathers additional information with respect to income taxes, outstanding litigation and other items.

In July 2006, Beryl Oil and Gas L.P. (BOG), formerly known as Coldren Resources LP, completed the acquisition from Noble Energy, Inc. (Noble) of substantially all of Noble's offshore Gulf of Mexico shallow water oil and gas properties. SPN Resources, LLC (SPN Resources), a wholly-owned subsidiary of the Company, acquired a 40% interest in BOG for an initial cash investment of approximately \$57.8 million. The Company's investment in BOG is accounted for under the equity-method of accounting.

In April 2006, SPN Resources acquired additional oil and gas properties through the acquisition of five offshore Gulf of Mexico leases. Under the terms of the transaction, the Company acquired the properties and assumed the related decommissioning liabilities. The Company paid cash in the amount of \$46.6 million and recorded decommissioning liabilities of approximately \$3.7 million and oil and gas producing assets of approximately \$50.3 million.

The Company made other business acquisitions, which were not material on an individual or cumulative basis, requiring cash consideration of \$11.5 million in the nine months ended September 30, 2007 and \$9.8 million in the year ended December 31, 2006. The Company also sold the assets of its field management division in the second quarter of 2007 for approximately \$1.8 million in cash. In conjunction with the sale of this division, an additional \$0.5 million will be receivable by the Company if specific conditions are met as determined through 2008. The Company also sold its environmental subsidiary in the first quarter of 2006 for approximately \$18.7 million in cash. Several of the Company's prior business acquisitions require future payments if specific conditions are met. As of September 30, 2007, the maximum additional contingent consideration payable was approximately \$8.8 million and will be determined and payable through 2010. In the nine months ended September 30, 2007, the Company capitalized and paid additional consideration of approximately \$0.6 million as a result of prior acquisitions.

Subsequent Event

In October 2007, the Company acquired a rental tool business located in Louisiana for approximately \$17.0 million in cash consideration. Additional consideration, if any, will be based upon the annual revenue levels generated

Table of Contents

from the acquired assets over a five-year period, and will not exceed \$7.0 million. The acquisition will be accounted for as a purchase.

In October 2007, the Company acquired a business located in the Netherlands that provides hydraulic workover, snubbing and well control services to the international oil and gas industry with the majority of its activity in Europe for approximately \$10.7 million in cash consideration. Additional consideration, if any, will be based upon the average earnings before interest, income taxes, depreciation and amortization expense of the business over a three-year period, and will not exceed \$10.7 million based on current exchange rates. The acquisition will be accounted for as a purchase.

In November 2007, the Company acquired the assets of a rental tool inspection company located in Colombia for approximately \$1.8 million in cash consideration. Additional consideration, if any, will be based upon the average earnings before interest, income taxes, depreciation and amortization expense of the business over a three-year period, and will not exceed \$0.6 million. The acquisition will be accounted for as a purchase.

(5) Segment Information*Business Segments*

The Company has four reportable segments: well intervention, rental tools, marine, and oil and gas. The well intervention segment provides production related services used to enhance, extend and maintain oil and gas production, which include mechanical wireline, hydraulic workover and snubbing, well control, coiled tubing, electric line, pumping and stimulation and well bore evaluation services; well plug and abandonment services, and other oilfield services used to support drilling and production operations. The rental tools segment rents and sells stabilizers, drill pipe, tubulars and specialized equipment for use with onshore and offshore oil and gas well drilling, completion, production and workover activities. It also provides onsite accommodations and bolting services. The marine segment operates liftboats for production service activities, as well as oil and gas production facility maintenance, construction operations and platform removals. The oil and gas segment acquires mature oil and gas properties and produces and sells any remaining oil and gas reserves. Oil and gas eliminations represent products and services provided to the oil and gas segment by the Company's three other segments. Certain previously reported amounts have been reclassified to conform to the presentation in the current period.

Summarized financial information concerning the Company's segments for the three and nine months ended September 30, 2007 and 2006 is shown in the following tables (in thousands):

Three Months Ended September 30, 2007

	Well	Rental		Oil & Gas	Oil & Gas	Consolidated
	Intervention	Tools	Marine	Gas	Eliminations & Unallocated	Total
Revenues	\$ 202,807	\$ 118,918	\$ 26,323	\$ 51,696	\$ (820)	\$ 398,924
Cost of services, rentals and sales	111,777	35,142	13,586	18,952	(820)	178,637
Depreciation, depletion, amortization and accretion	12,979	18,115	1,986	16,801		49,881
General and administrative expenses	30,440	21,698	2,603	2,409		57,150
Gain on sale of business		7,483				7,483
Income from operations	47,611	51,446	8,148	13,534		120,739
Interest expense, net					(8,197)	(8,197)
Interest income				311	484	795
Earnings from equity-method				1,395		1,395

investments, net

Income (loss) before income taxes	\$ 47,611	\$ 51,446	\$ 8,148	\$ 15,240	\$ (7,713)	\$ 114,732
--------------------------------------	-----------	-----------	----------	-----------	------------	------------

9

Table of Contents**Three Months Ended September 30, 2006**

	Well	Rental			Oil & Gas Eliminations & Unallocated	Consolidated Total
	Intervention	Tools	Marine	Oil & Gas		
Revenues	\$ 122,205	\$98,262	\$36,013	\$38,208	\$ (4,171)	\$290,517
Cost of services, rentals and sales	68,438	30,786	14,472	19,562	(4,171)	129,087
Depreciation, depletion, amortization and accretion	4,511	13,600	2,142	8,578		28,831
General and administrative expenses	20,428	18,776	3,231	1,950		44,385
Income from operations	28,828	35,100	16,168	8,118		88,214
Interest expense, net					(5,989)	(5,989)
Interest income				286	969	1,255
Earnings from equity-method investments, net				2,704		2,704
Income (loss) before income taxes	\$ 28,828	\$35,100	\$16,168	\$11,108	\$ (5,020)	\$ 86,184

Nine Months Ended September 30, 2007

	Well	Rental			Oil & Gas Eliminations & Unallocated	Consolidated Total
	Intervention	Tools	Marine	Oil & Gas		
Revenues	\$570,280	\$358,834	\$97,351	\$136,889	\$ (4,753)	\$1,158,601
Cost of services, rentals and sales	316,733	109,676	43,432	55,842	(4,753)	520,930
Depreciation, depletion, amortization and accretion	34,592	49,971	6,379	43,025		133,967
General and administrative expenses	83,168	63,508	7,719	7,438		161,833
Gain on sale of business		7,483				7,483
Income from operations	135,787	143,162	39,821	30,584		349,354
Interest expense, net					(24,938)	(24,938)
Interest income				924	1,379	2,303
				(2,447)		(2,447)

Losses from
equity-method
investments, net

Income (loss) before
income taxes

\$135,787	\$143,162	\$39,821	\$ 29,061	\$(23,559)	\$ 324,272
-----------	-----------	----------	-----------	------------	------------

10

Table of Contents**Nine Months Ended September 30, 2006**

	Well	Rental			Oil & Gas Eliminations & Unallocated	Consolidated Total
	Intervention	Tools	Marine	Oil & Gas		
Revenues	\$ 335,953	\$ 262,629	\$ 100,171	\$ 87,304	\$ (11,312)	\$ 774,745
Cost of services, rentals and sales	191,793	83,307	40,278	52,469	(11,312)	356,535
Depreciation, depletion, amortization and accretion	13,375	37,795	6,427	19,876		77,473
General and administrative expenses	56,566	50,525	8,816	6,217		122,124
Income from operations	74,219	91,002	44,650	8,742		218,613
Interest expense, net					(16,389)	(16,389)
Interest income				888	2,589	3,477
Loss on early extinguishment of debt					(12,596)	(12,596)
Earnings from equity-method investments, net				3,852		3,852
Income (loss) before income taxes	\$ 74,219	\$ 91,002	\$ 44,650	\$ 13,482	\$ (26,396)	\$ 196,957

Identifiable Assets

	Well	Rental				Consolidated Total
	Intervention	Tools	Marine	Oil & Gas	Unallocated	
September 30, 2007	\$ 975,044	\$ 656,883	\$ 196,398	\$ 345,587	\$ 27,174	\$ 2,201,086
December 31, 2006	\$ 840,130	\$ 501,156	\$ 187,597	\$ 318,297	\$ 27,298	\$ 1,874,478

Geographic Segments

The Company attributes revenue to countries based on the location where services are performed or the destination of the sale of products. Long-lived assets consist primarily of property, plant and equipment and are attributed to the United States or other countries based on the physical location of the asset at the end of a period. The Company's information by geographic area is as follows (amounts in thousands):

Revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
United States	\$ 320,506	\$ 248,822	\$ 934,174	\$ 663,354
Other Countries	78,418	41,695	224,427	111,391

Total	\$ 398,924	\$ 290,517	\$ 1,158,601	\$ 774,745
-------	------------	------------	--------------	------------

Long-Lived Assets:

		September 30, 2007	December 31, 2006
United States		\$ 871,062	\$ 715,899
Other Countries		161,702	88,329
Total		\$ 1,032,764	\$ 804,228

Table of Contents**(6) Construction Contract**

In July 2006, the Company contracted to construct a derrick barge that will be sold to a third party for approximately \$53.7 million. The contract to construct the derrick barge to the customer's specifications is recorded on the percentage-of-completion method utilizing engineering estimates and construction progress. This methodology requires the Company to make estimates regarding the progress against the project schedule and estimated completion date, both of which impact the amount of revenue and gross margin the Company recognizes in each reporting period. Contract costs primarily include sub-contract and program management costs. Provisions for unanticipated losses, if any, will be recorded in full when such losses become evident. Included in accrued expenses at September 30, 2007 and December 31, 2006 is approximately \$19.5 million and \$12.3 million, respectively, of billings in excess of costs and estimated earnings related to this contract.

(7) Equity-Method Investments

Investments in entities that are not controlled by the Company, but where the Company has the ability to exercise influence over the operations are accounted for using the equity-method. The Company's share of the income or losses of these entities is reflected as earnings or losses from equity-method investments on its Condensed Consolidated Statements of Operations.

In May 2006, SPN Resources acquired a 40% interest in BOG. The Company's total cash contribution for its equity-method investment in BOG was approximately \$57.8 million. The Company has not made additional contributions since its initial investment. The Company's equity-method investment balance in BOG is approximately \$60.3 million at September 30, 2007 and \$63.6 million at December 31, 2006. The Company recorded a loss from its equity-method investment in BOG of approximately \$2.5 million for the nine months ended September 30, 2007. During the nine month period ended September 30, 2006, the Company recorded approximately \$3.8 million of earnings from its equity-method investment in BOG mainly due to the mark-to-market accounting on its oil and gas derivatives.

The Company provides operating and administrative support services to BOG and receives reimbursement for general and administrative and direct expenses incurred on behalf of BOG. The Company also, where possible and at competitive rates, provides its products and services to assist BOG in producing and developing its oil and gas properties. As such, the Company has a receivable from BOG of approximately \$2.6 million at September 30, 2007 and \$3.0 million at December 31, 2006. The Company offset its general and administrative expenses by approximately \$3.5 million for the reimbursements due from BOG for the nine months ended September 30, 2007. The Company also recorded revenue of approximately \$7.6 million from BOG for the nine months ended September 30, 2007. The Company reduces its revenue and its investment in BOG for its 40% ownership when products and services are provided to and capitalized by BOG. The Company records these amounts in revenue as BOG records the related depreciation and depletion expenses. The Company recorded a net reduction to revenue and its investment in BOG of approximately \$0.9 million for the nine months ended September 30, 2007. All amounts related to the three and nine month periods ended September 30, 2006 were not material.

Summarized balance sheet and statement of operations information for BOG is presented below (amounts in thousands):

Table of Contents**Balance Sheet**

	September 30, 2007	December 31, 2006
Current assets	\$ 140,046	\$ 176,860
Property, plant and equipment, net	487,994	522,941
Other assets	8,761	23,135
Total assets	\$ 636,801	\$ 722,936
Current liabilities	\$ 28,781	\$ 27,922
Decommissioning and other long-term liabilities	95,285	89,610
Long-term debt	361,086	432,697
Total liabilities	485,152	550,229
Accumulated other comprehensive income, net	(1,060)	13,861
Partners capital	152,709	158,846
Total capital	151,649	172,707
Total liabilities and partners capital	\$ 636,801	\$ 722,936

Income Statement

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenues	\$ 56,005	\$ 61,458	\$ 165,150	\$ 61,458
Lease operating expenses	(13,056)	(17,615)	(41,220)	(17,615)
Depreciation, depletion, amortization and accretion	(26,981)	(35,874)	(84,744)	(35,874)
General and administrative expenses	(4,395)	(2,695)	(11,132)	(2,837)
Interest expense	(9,961)	(9,915)	(31,958)	(9,915)
Interest income	949	688	3,190	688
Gain (loss) on derivatives	922	10,706	(5,423)	13,679
Net income (loss)	\$ 3,483	\$ 6,753	\$ (6,137)	\$ 9,584

Also included in equity-method investments at September 30, 2007 and 2006 is approximately \$1 million investment for a 50% ownership in a company that owns an airplane. Earnings from the equity-method investment in this

company were not material for the nine months ended September 30, 2007 or 2006. The Company recorded approximately \$156,000 and \$175,000 in expense to lease the airplane (exclusive of operating costs) from this company for the nine months ended September 30, 2007 and 2006, respectively.

(8) Debt

The Company has a \$250 million bank revolving credit facility. Any amounts outstanding under the revolving credit facility are due on June 14, 2011. At September 30, 2007, the Company had no amounts outstanding under the revolving credit facility, but it had approximately \$85.0 million of letters of credit outstanding, which reduce the Company's borrowing availability under this credit facility. Amounts borrowed under the credit facility bear interest at a LIBOR rate plus margins that depend on the Company's leverage ratio. Indebtedness under the credit facility is secured by substantially all of the Company's assets, including the pledge of the stock of the Company's principal subsidiaries. The credit facility contains customary events of default and requires that the Company satisfy various financial covenants. It also limits the Company's ability to pay dividends or make other distributions, make acquisitions, make changes to the Company's capital structure, create liens, incur additional

Table of Contents

indebtedness or assume additional decommissioning liabilities. At September 30, 2007, the Company was in compliance with all such covenants.

The Company has \$16.2 million outstanding at September 30, 2007, in U. S. Government guaranteed long-term financing under Title XI of the Merchant Marine Act of 1936, which is administered by the Maritime Administration (MARAD), for two 245-foot class liftboats. The debt bears interest at 6.45% per annum and is payable in equal semi-annual installments of \$405,000, on every June 3rd and December 3rd through the maturity date of June 3, 2027. The Company's obligations are secured by mortgages on the two liftboats. In accordance with this agreement, the Company is required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. At September 30, 2007, the Company was in compliance with all such covenants.

The Company has \$300 million of 6 7/8% unsecured senior notes due 2014. The indenture governing the senior notes requires semi-annual interest payments on every June 1st and December 1st through the maturity date of June 1, 2014. The indenture contains certain covenants that, among other things, limit the Company from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions. At September 30, 2007, the Company was in compliance with all such covenants. The Company also has \$400 million of 1.50% unsecured senior exchangeable notes due 2026. The exchangeable notes bear interest at a rate of 1.50% per annum and decrease to 1.25% per annum on December 15, 2011. Interest on the exchangeable notes is payable semi-annually on December 15th and June 15th of each year, beginning June 15, 2007. The exchangeable notes do not contain any restrictive financial covenants.

Under certain circumstances, holders may exchange the notes for shares of the Company's common stock. The initial exchange rate is 21.9414 shares of common stock per \$1,000 principal amount of notes. This is equal to an initial exchange price of \$45.58 per share. The notes may be exchanged under the following circumstances:

during any fiscal quarter (and only during such fiscal quarter) commencing after March 31, 2007, if the last reported sale price of the Company's common stock is greater than or equal to 135% of the applicable exchange price of the notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

prior to December 15, 2011, during the five business-day period after any ten consecutive trading-day period (the measurement period) in which the trading price of \$1,000 principal amount of notes for each trading day in the measurement period was less than 95% of the product of the last reported sale price of the Company's common stock and the exchange rate on such trading day;

if the notes have been called for redemption;

upon the occurrence of specified corporate transactions; or

at any time beginning on September 15, 2026, and ending at the close of business on the second business day immediately preceding the maturity date of December 15, 2026.

In connection with the exchangeable note transaction, the Company simultaneously entered into agreements with affiliates of the initial purchasers to purchase call options and sell warrants on its common stock. The Company may exercise the call options it purchased at any time to acquire approximately 8.8 million shares of its common stock at a strike price of \$45.58 per share. The owners of the warrants may exercise the warrants to purchase from the Company approximately 8.8 million shares of the Company's common stock at a price of \$59.42 per share, subject to certain anti-dilution and other customary adjustments. The warrants may be settled in cash, in shares or in a combination of cash and shares, at the Company's option.

(9) Hedging Activities

The Company entered into hedging transactions in 2004 that expired on August 31, 2006 to secure a range of commodity prices for a portion of its future oil production and to reduce its exposure to oil price fluctuations. The Company does not enter into derivative transactions for trading purposes. The Company used financially-settled

Table of Contents

crude oil swaps and zero-cost collars that provided floor and ceiling prices with varying upside price participation. The Company's swaps and zero-cost collars were designated and accounted for as cash flow hedges. For the nine months ended September 30, 2006, hedging settlement payments reduced oil revenues by approximately \$13.8 million, and no gains or losses were recorded due to hedge ineffectiveness.

(10) Decommissioning Liabilities

The Company records estimated future decommissioning liabilities related to its oil and gas producing properties pursuant to the provisions of Statement of Financial Accounting Standards No. 143 (FAS No. 143), Accounting for Asset Retirement Obligations. FAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation (decommissioning liabilities) in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Subsequent to initial measurement, the decommissioning liability is required to be accreted each period to present value. The Company's decommissioning liabilities consist of costs related to the plugging of wells, the removal of the related facilities and equipment, and site restoration. The Company estimates the cost that would be incurred if it contracted an unaffiliated third party to plug and abandon wells, abandon the pipelines, decommission and remove the platforms and pipelines and restore the sites of its oil and gas properties, and uses that estimate to record its proportionate share of the decommissioning liability. In estimating the decommissioning liability, the Company performs detailed estimating procedures, analysis and engineering studies. Whenever practical, the Company utilizes its own equipment and labor services to perform well abandonment and decommissioning work. When the Company performs these services, all recorded intercompany revenues and related costs of services are eliminated in the consolidated financial statements. The recorded decommissioning liability associated with a specific property is fully extinguished when the property is abandoned. The recorded liability is first reduced by all cash expenses incurred to abandon and decommission the property. If the recorded liability exceeds (or is less than) the Company's total costs, then the difference is reported as income (or loss) within revenue during the period in which the work is performed. The Company reviews the adequacy of its decommissioning liabilities whenever indicators suggest that the estimated cash flows needed to satisfy the liability have changed materially. The timing and amounts of these expenditures are estimates, and changes to these estimates may result in additional (or decreased) liabilities recorded, which in turn would increase (or decrease) the carrying values of the related oil and gas properties. The Company reviews its estimates for the timing of these expenditures on a quarterly basis. The following table summarizes the activity for the Company's decommissioning liabilities for the nine months ended September 30, 2007 and 2006 (amounts in thousands):

	Nine Months Ended September 30,	
	2007	2006
Total decommissioning liabilities at December 31, 2006 and 2005, respectively	\$ 122,196	\$ 121,909
Liabilities acquired and incurred	300	3,554
Liabilities settled	(2,303)	(2,255)
Accretion	3,073	3,609
Revision in estimated liabilities	409	(4,924)
Total decommissioning liabilities at September 30, 2007 and 2006, respectively	123,675	121,893
Current portion of decommissioning liabilities at September 30, 2007 and 2006, respectively	34,884	25,067
Long-term portion of decommissioning liabilities at September 30, 2007 and 2006, respectively	\$ 88,791	\$ 96,826

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109. FIN 48 requires that the Company recognize in its financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

Table of Contents

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation, the Company recognized no material adjustment to the liability for unrecognized income tax benefits that existed as of December 31, 2006. At the date of adoption, the Company had approximately \$6.2 million of unrecognized tax benefits in other long-term liabilities, all of which would impact the Company's effective tax rate if recognized. It is the Company's policy to recognize interest and applicable penalties related to uncertain tax positions in income tax expense. As of the date of adoption, the Company had accrued approximately \$1.1 million of interest and applicable penalties related to uncertain tax positions.

The Company files income tax returns in the U.S. federal and various state and foreign jurisdictions. The number of years that are open under the statute of limitations and subject to audit varies depending on the tax jurisdiction. The Company remains subject to U.S. federal tax examinations for years after 2002.

As of September 30, 2007, there have been no material changes to the liability for uncertain tax positions.

(14) **Commitments and Contingencies**

From time to time, the Company is involved in litigation and other disputes arising out of operations in the normal course of business. In management's opinion, the Company is not involved in any litigation or disputes, the outcome of which would have a material effect on the financial position, results of operations or liquidity of the Company.

(15) **Financial Information Related to Guarantor Subsidiaries**

SESI, L.L.C. (Issuer), a wholly-owned subsidiary of Superior Energy Services, Inc. (Parent), has issued and outstanding \$300 million of 6 7/8% senior notes due 2014 and \$400 million of 1.5% senior exchangeable notes due 2026. The Parent, along with substantially all of its domestic subsidiaries, fully and unconditionally guaranteed the senior notes and the senior exchangeable notes and such guarantees are joint and several. All of the guarantor subsidiaries are wholly-owned subsidiaries of the Issuer. Domestic income taxes are paid by the Parent through a consolidated tax return and are accounted for by the Parent. The following tables present the Condensed Consolidating Balance Sheets as of September 30, 2007 and December 31, 2006 and the Condensed Consolidating Statements of Operations and Cash Flows for the three and nine months ended September 30, 2007 and 2006.

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Balance Sheets

September 30, 2007

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$ 18,348	\$ 19,801	\$ 25,660	\$	\$ 63,809
Accounts receivable, net		3,193	310,274	49,082	(16,468)	346,081
Income taxes receivable	1,794				(1,794)	
Current portion of notes receivable			15,616			15,616
Prepaid expenses and other	21	6,896	45,816	5,615		58,348
Total current assets	1,815	28,437	391,507	80,357	(18,262)	483,854
Property, plant and equipment, net		1,412	905,063	126,289		1,032,764
Goodwill, net			430,507	44,561		475,068
Notes receivable		2,000	14,364			16,364
Equity-method investments	124,271	545,605	60,298		(668,892)	61,282
Intangible and other long-term assets, net		24,778	106,058	918		131,754
Total assets	\$ 126,086	\$ 602,232	\$ 1,907,797	\$ 252,125	\$ (687,154)	\$ 2,201,086
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	\$	\$ 1,272	\$ 61,200	\$ 26,813	\$ (16,468)	\$ 72,817
Accrued expenses	490	37,778	130,051	10,340		178,659
Income taxes payable				6,204	(1,794)	4,410
Current portion of decommissioning liabilities			34,884			34,884
Current maturities of long-term debt				810		810
Total current liabilities	490	39,050	226,135	44,167	(18,262)	291,580

Edgar Filing: SUPERIOR ENERGY SERVICES INC - Form 10-Q

Deferred income taxes	139,518			8,266		147,784
Decommissioning liabilities			88,791			88,791
Long-term debt, net		696,059		15,381		711,440
Intercompany payables/(receivables)	(178,569)	1,428	643,012	47,025	(512,896)	
Other long-term liabilities	6,197	7,643		362		14,202
Stockholders' equity:						
Preferred stock of \$.01 par value						
Common stock of \$.001 par value	81			101	(101)	81
Additional paid in capital	433,165	127,173		28,722	(155,895)	433,165
Accumulated other comprehensive income, net				15,942		15,942
Retained earnings (accumulated deficit)	(274,796)	(269,121)	949,859	92,159		498,101
Total stockholders' equity	158,450	(141,948)	949,859	136,924	(155,996)	947,289
Total liabilities and stockholders' equity	\$ 126,086	\$ 602,232	\$ 1,907,797	\$ 252,125	\$ (687,154)	\$ 2,201,086

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Balance Sheets

December 31, 2006

(in thousands)

(audited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$ 1,608	\$ 14,775	\$ 22,587	\$	\$ 38,970
Accounts receivable, net		3,764	275,477	39,390	(14,831)	303,800
Income taxes receivable	7,242				(4,612)	2,630
Current portion of notes receivable			14,824			14,824
Prepaid expenses and other		16,582	40,456	2,525		59,563
Total current assets	7,242	21,954	345,532	64,502	(19,443)	419,787
Property, plant and equipment, net		2,622	738,446	63,160		804,228
Goodwill, net			417,979	26,708		444,687
Notes receivable			16,137			16,137
Equity-method investments	124,271	510,163	63,627		(633,458)	64,603
Intangible and other long-term assets, net		23,823	101,097	116		125,036
Total assets	\$ 131,513	\$ 558,562	\$ 1,682,818	\$ 154,486	\$ (652,901)	\$ 1,874,478
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	\$	\$ 1,045	\$ 58,528	\$ 20,709	\$ (14,831)	\$ 65,451
Accrued expenses	505	27,671	104,866	8,642		141,684
Income taxes payable				4,612	(4,612)	
Current portion of decommissioning liabilities			35,150			35,150
Current maturities of long-term debt				810		810
Total current liabilities	505	28,716	198,544	34,773	(19,443)	243,095

Edgar Filing: SUPERIOR ENERGY SERVICES INC - Form 10-Q

Deferred income taxes	108,649			3,362		112,011
Decommissioning liabilities			87,046			87,046
Long-term debt, net		695,719		15,786		711,505
Intercompany payables/(receivables)	(224,208)	(79,487)	782,022	23,507	(501,834)	
Other long-term liabilities	6,197	3,936				10,133
Stockholders' equity:						
Preferred stock of \$.01 par value						
Common stock of \$.001 par value	81			101	(101)	81
Additional paid in capital	411,374	127,173		4,350	(131,523)	411,374
Accumulated other comprehensive income, net				10,288		10,288
Retained earnings (accumulated deficit)	(171,085)	(217,495)	615,206	62,319		288,945
Total stockholders' equity	240,370	(90,322)	615,206	77,058	(131,624)	710,688
Total liabilities and stockholders' equity	\$ 131,513	\$ 558,562	\$ 1,682,818	\$ 154,486	\$ (652,901)	\$ 1,874,478

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Statements of Operations

Three Months Ended September 30, 2007

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 313,030	\$ 43,471	\$ (9,273)	\$ 347,228
Oil and gas revenues			51,696			51,696
Total revenues			364,726	43,471	(9,273)	398,924
Cost of oilfield services and rentals			147,536	21,420	(9,273)	159,683
Cost of oil and gas sales			18,954			18,954
Total cost of services, rentals and sales			166,490	21,420	(9,273)	178,637
Depreciation, depletion, amortization and accretion		100	45,550	4,231		49,881
General and administrative expenses	115	13,746	38,259	5,030		57,150
Gain on sale of business		7,483				7,483
Income (loss) from operations	(115)	(6,363)	114,427	12,790		120,739
Other income (expense):						
Interest expense, net		(8,494)	558	(261)		(8,197)
Interest income		162	397	236		795
Earnings from equity-method investments, net		2	1,393			1,395
Income (loss) before income taxes	(115)	(14,693)	116,775	12,765		114,732

Edgar Filing: SUPERIOR ENERGY SERVICES INC - Form 10-Q

Income taxes	36,029			3,653		39,682
Net income (loss)	\$(36,144)	\$(14,693)	\$ 116,775	\$ 9,112	\$	\$ 75,050

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Statements of Operations

Three Months Ended September 30, 2006

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 224,102	\$ 35,186	\$ (6,979)	\$ 252,309
Oil and gas revenues			38,208			38,208
Total revenues			262,310	35,186	(6,979)	290,517
Cost of oilfield services and rentals			99,044	17,460	(6,979)	109,525
Cost of oil and gas sales			19,562			19,562
Total cost of services, rentals and sales			118,606	17,460	(6,979)	129,087
Depreciation, depletion, amortization and accretion			26,031	2,800		28,831
General and administrative expenses	118	13,312	27,408	3,547		44,385
Income (loss) from operations	(118)	(13,312)	90,265	11,379		88,214
Other income (expense):						
Interest expense, net		(5,537)	(178)	(274)		(5,989)
Interest income		768	409	78		1,255
Earnings from equity-method investments, net			2,701	3		2,704
Income (loss) before income taxes	(118)	(18,081)	93,197	11,186		86,184
Income taxes	28,240			2,786		31,026

Net income (loss)	\$ (28,358)	\$ (18,081)	\$ 93,197	\$ 8,400	\$	\$ 55,158
-------------------	-------------	-------------	-----------	----------	----	-----------

21

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Statements of Operations

Nine Months Ended September 30, 2007

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 916,437	\$ 132,141	\$ (26,866)	\$ 1,021,712
Oil and gas revenues			136,889			136,889
Total revenues			1,053,326	132,141	(26,866)	1,158,601
Cost of oilfield services and rentals			428,767	63,184	(26,866)	465,085
Cost of oil and gas sales			55,845			55,845
Total cost of services, rentals and sales			484,612	63,184	(26,866)	520,930
Depreciation, depletion, amortization and accretion		391	121,943	11,633		133,967
General and administrative expenses	711	34,959	111,022	15,141		161,833
Gain on sale of business		7,483				7,483
Income (loss) from operations	(711)	(27,867)	335,749	42,183		349,354
Other income (expense):						
Interest expense, net		(24,238)	99	(799)		(24,938)
Interest income		471	1,260	572		2,303
Earnings (losses) from equity-method investments, net		8	(2,455)			(2,447)
Income (loss) before income taxes	(711)	(51,626)	334,653	41,956		324,272

Edgar Filing: SUPERIOR ENERGY SERVICES INC - Form 10-Q

Income taxes	103,000			12,116		115,116
Net income (loss)	\$ (103,711)	\$ (51,626)	\$ 334,653	\$ 29,840	\$	\$ 209,156

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Statements of Operations

Nine Months Ended September 30, 2006

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 620,252	\$ 85,075	\$ (17,886)	\$ 687,441
Oil and gas revenues			87,304			87,304
Total revenues			707,556	85,075	(17,886)	774,745
Cost of oilfield services and rentals			277,117	44,835	(17,886)	304,066
Cost of oil and gas sales			52,469			52,469
Total cost of services, rentals and sales			329,586	44,835	(17,886)	356,535
Depreciation, depletion, amortization and accretion			70,511	6,962		77,473
General and administrative expenses	380	30,556	81,479	9,709		122,124
Income (loss) from operations	(380)	(30,556)	225,980	23,569		218,613
Other income (expense):						
Interest expense, net		(15,204)	(344)	(841)		(16,389)
Interest income		2,025	1,246	206		3,477
Loss on early extinguishment of debt		(12,596)				(12,596)
Earnings from equity-method investments, net			3,834	18		3,852
Income (loss) before income taxes	(380)	(56,331)	230,716	22,952		196,957

Edgar Filing: SUPERIOR ENERGY SERVICES INC - Form 10-Q

Income taxes	64,959			5,945		70,904
Net income (loss)	\$(65,339)	\$(56,331)	\$ 230,716	\$ 17,007	\$	\$ 126,053

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2007

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ (103,711)	\$ (51,626)	\$ 334,653	\$ 29,840	\$ 209,156
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, depletion, amortization and accretion		391	121,943	11,633	133,967
Deferred income taxes	31,997			462	32,459
Stock-based and performance share unit compensation expense		8,995			8,995
(Earnings) losses from equity-method investments, net		(8)	2,455		2,447
Amortization of debt acquisition costs and note discount		2,669			2,669
Gain on sale of business		(7,483)			(7,483)
Changes in operating assets and liabilities, net of acquisitions and dispositions:					
Receivables		(416)	(30,377)	(4,235)	(35,028)
Other, net	(21)	2,886	5,701	(1,787)	6,779
Accounts payable		226	(3,241)	2,154	(861)
Accrued expenses	(15)	4,858	23,116	537	28,496
Decommissioning liabilities			(2,303)		(2,303)
Income taxes	4,455			1,362	5,817
Net cash provided by (used in) operating activities	(67,295)	(39,508)	451,947	39,966	385,110
Cash flows from investing activities:					
Payments for capital expenditures			(292,982)	(32,886)	(325,868)
Acquisitions of businesses, net of cash acquired		(78,735)		(889)	(79,624)
Cash proceeds from sale of business		18,100			18,100
Other		8,981			8,981
Intercompany receivables/payables	49,414	107,985	(153,939)	(3,460)	
Net cash provided by (used in) investing activities	49,414	56,331	(446,921)	(37,235)	(378,411)

Cash flows from financing activities:					
Principal payments on long-term debt			(405)	(405)	
Payment of debt acquisition costs	(83)			(83)	
Proceeds from issuance of stock through employee benefit plans	324			324	
Proceeds from exercise of stock options	8,422			8,422	
Tax benefit from exercise of stock options	9,135			9,135	
Net cash provided by (used in) financing activities	17,881	(83)	(405)	17,393	
Effect of exchange rate changes on cash			747	747	
Net increase in cash	16,740	5,026	3,073	24,839	
Cash and cash equivalents at beginning of period	1,608	14,775	22,587	38,970	
Cash and cash equivalents at end of period	\$	\$ 18,348	\$ 19,801	\$ 25,660	\$ 63,809

Table of Contents**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2006

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ (65,339)	\$ (56,331)	\$ 230,716	\$ 17,007	\$ 126,053
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, depletion, amortization and accretion			70,511	6,962	77,473
Deferred income taxes	(1,734)			649	(1,085)
Stock-based compensation expense		3,746			3,746
Earnings from equity-method investments, net			(3,834)	(18)	(3,852)
Write-off of debt acquisition costs		2,817			2,817
Amortization of debt acquisition costs		857			857
Changes in operating assets and liabilities, net of acquisitions and dispositions:					
Receivables		1,103	(65,317)	(11,185)	(75,399)
Other, net	(18)	(2,692)	(962)	547	(3,125)
Accounts payable		(480)	8,161	(356)	7,325
Accrued expenses	169	7,326	22,605	2,248	32,348
Decommissioning liabilities			(2,255)		(2,255)
Income taxes	63,738			404	64,142
Net cash provided by (used in) operating activities	(3,184)	(43,654)	259,625	16,258	229,045
Cash flows from investing activities:					
Payments for capital expenditures			(154,038)	(11,026)	(165,064)
Acquisitions of businesses, net of cash acquired		(9,822)			(9,822)
Cash proceeds from sale of business, net of cash sold		18,343			18,343
Acquisitions of oil and gas properties			(46,631)		(46,631)
Cash contributed to equity method investment			(57,781)		(57,781)
Other		(2,542)			(2,542)
Intercompany receivables/payables	553	5,806	(1,207)	(5,152)	
Net cash provided by (used in) investing activities	553	11,785	(259,657)	(16,178)	(263,497)

Cash flows from financing activities:				
Proceeds from long-term debt		295,467		295,467
Principal payments on long-term debt		(200,000)	(405)	(200,405)
Debt acquisition costs		(6,516)		(6,516)
Proceeds from exercise of stock options	2,631			2,631
Net cash provided by (used in) financing activities	2,631	88,951	(405)	91,177
Effect of exchange rate changes on cash			700	700
Net increase (decrease) in cash		57,082	(32)	375
Cash and cash equivalents at beginning of period		21,414	19,421	13,622
Cash and cash equivalents at end of period	\$	\$ 78,496	\$ 19,389	\$ 13,997
			\$	\$ 111,882

Table of Contents

(16) Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 157 (FAS No. 157), Fair Value Measurements. FAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. FAS No. 157 indicates, among other things, a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of FAS No. 157 on its financial statements.

In February 2007, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 159 (FAS No. 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company has evaluated the adoption of FAS No. 159 and does not expect it have a material impact on its results of operations or financial condition.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward-Looking Statements**

The following management's discussion and analysis of financial condition and results of operations contains forward-looking statements which involve risks and uncertainties. All statements other than statements of historical fact included in this section regarding our financial position and liquidity, strategic alternatives, future capital needs, business strategies and other plans and objectives of our management for future operations and activities, are forward-looking statements. These statements are based on certain assumptions and analyses made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate under the circumstances. Such forward-looking statements are subject to uncertainties that could cause our actual results to differ materially from such statements. Such uncertainties include but are not limited to the volatility and cyclicity of the oil and gas industry, including oil and gas prices and the level of offshore exploration, production and development activity; changes in competitive factors affecting our operations; risks associated with the acquisition of mature oil and gas properties, including estimates of recoverable reserves, future oil and gas prices and potential environmental and plugging and abandonment liabilities; the risk associated with our non-United States operations, which expose us to additional political, economic and other uncertainties; risks of adverse weather conditions in the Gulf of Mexico; risks of our growth strategy, including the risks of rapid growth and the risks inherent in acquiring businesses and mature oil and gas properties; our dependence on key personnel; our ability to employ and retain skilled workers; our dependence on significant customers; operating hazards, including the significant possibility of accidents resulting in personal injury, property damage or environmental damage; the volatility and risk associated with oil and gas prices; the effect on our performance of regulatory programs and environmental matters and risks associated with international expansion, including political and economic uncertainties. These and other uncertainties related to our business are described in detail in our Annual Report on Form 10-K for the year ended December 31, 2006. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any of our forward-looking statements for any reason.

Executive Summary

During the third quarter of 2007, we had revenues of \$398.9 million, income from operations of \$120.7 million and diluted earnings per share of \$0.91. The results included a pre-tax gain of \$7.5 million for the sale of a non-core rental tools business. As a result of the sale, our effective tax rate changed from 36% to 35.5%. The third quarter results reflect the cumulative tax rate adjustment.

The primary driver of the quarter was a decrease in Gulf of Mexico activity due to numerous tropical weather systems that postponed many projects. The biggest impact to our results was in the marine segment, where revenue and income from operations were significantly lower. Due to the results of our diversification strategy, we were able to overcome this decreased marine activity with increased well intervention revenue and income from operations as a result of higher domestic land activity, and an increase in oil and gas segment revenue and operating income due to higher production and realized commodity prices.

For the second consecutive quarter in our history, revenues from geographic market areas outside the Gulf of Mexico accounted for at least 50% of total quarterly revenue. In the third quarter of 2007, revenue from non-Gulf of Mexico market areas was approximately \$215 million, or 54% of total revenue, as compared to approximately \$199 million, or 50% of total revenue in the second quarter of 2007 and approximately \$112 million, or 39% of total revenue in the third quarter of 2006.

The well intervention segment recorded revenue of \$202.8 million and income from operations of \$47.6 million, a 6% increase and 13% increase, respectively, over the second quarter of 2007. Growth in domestic land revenue offset lower Gulf of Mexico activity. We experienced activity increases for coiled tubing, fishing and well control services in domestic land market areas. Higher gross profit and operating margins were due to improved margins in electric line, fishing, and well control services. Well control activity typically carries high margins due to the nature and complexity of well and pressure control situations.

Table of Contents

In our rental tools segment, revenue was \$118.9 million, a 4% decrease as compared to the second quarter of 2007, and income from operations was \$51.4 million, a 10% increase over the second quarter of 2007. The sequential decline in revenue was due in part to the previously mentioned sale of a non-core rental tools business. Excluding the revenue from the business we sold, rental tools revenue was essentially unchanged from the prior quarter. The composition of the revenue changed as increased rentals of drill pipe, stabilizers and specialty tubulars in our domestic land and international market areas was offset by fewer rentals of drill pipe to our customers in the Gulf of Mexico due to project delays. Our gross and operating profit margins increased as a result of an increase in the sale of certain tools during the period.

In our marine segment, revenue was \$26.3 million and income from operations was \$8.1 million in the third quarter. These results were down significantly from the second quarter of 2007 primarily due to lower utilization as a result of downtime related to poor weather in the Gulf of Mexico. Utilization was 62% as compared to 77% in the prior quarter. During the third quarter, our liftboats incurred 198 idle days due to weather, as compared to 13 idle days due to weather in the second quarter of 2007. Because most of the costs in this business are fixed, profits decrease at a high rate when revenue declines.

Revenues and income from operations for our oil and gas segment were \$51.7 million and \$13.5 million, respectively, in the third quarter of 2007. This represents a 7% increase in revenue and 14% increase in income from operations as compared to the second quarter of 2007. Our revenue and margins increased as a result of higher production and higher realized commodity prices. Oil and gas production was approximately 899,000 barrels of oil equivalent (boe), or 9,800 boe per day as compared to second quarter 2007 oil and gas production of approximately 875,000 boe, or 9,600 boe per day. Realized commodity prices for our oil and gas production was approximately 5% higher than the second quarter of 2007. Depreciation, depletion, amortization and accretion increased 11% due primarily to our increased production levels.

Comparison of the Results of Operations for the Three Months Ended September 30, 2007 and 2006

For the three months ended September 30, 2007, our revenues were \$398.9 million, resulting in net income of \$75.1 million, or \$0.91 diluted earnings per share. The results included a pre-tax gain of \$7.5 million from the sale of a non-core rental tools business. For the three months ended September 30, 2006, revenues were \$290.5 million and net income was \$55.2 million, or \$0.68 diluted earnings per share. Revenue and gross margin were higher in the well intervention and rental tools segments as a result of increased production-related projects and drilling activity worldwide, recent acquisitions and continued expansion of our rental tool business. Both revenue and gross margin decreased significantly in our marine segment due to lower utilization as a result of poor weather conditions in the Gulf of Mexico. Revenues and gross margin in our oil and gas segment were higher due to higher production and increased commodity prices.

The following table compares our operating results for the three months ended September 30, 2007 and 2006. Gross margin is calculated by subtracting cost of services from revenue for each of our four business segments. Oil and gas eliminations represent products and services provided to the oil and gas segment by our three other segments.

	Revenue			Gross Margin				
	2007	2006	Change	2007	%	2006	%	Change
Well Intervention	\$ 202,807	\$ 122,205	\$ 80,602	\$ 91,030	45%	\$ 53,767	44%	\$ 37,263
Rental Tools	118,918	98,262	20,656	83,776	70%	67,476	69%	16,300
Marine	26,323	36,013	(9,690)	12,737	48%	21,541	60%	(8,804)
Oil and Gas	51,696	38,208	13,488	32,744	63%	18,646	49%	14,098
Less: Oil and Gas Elim	(820)	(4,171)	3,351					
Total	\$ 398,924	\$ 290,517	\$ 108,407	\$ 220,287	55%	\$ 161,430	56%	\$ 58,857

Table of Contents

The following provides a discussion of our results on a segment basis.

Well Intervention Segment

Revenue for our well intervention segment was \$202.8 million for the three months ended September 30, 2007, as compared to \$122.2 million for the same period in 2006. The gross margin percentage increased slightly to 45% for the three months ended September 30, 2007 from 44% for the same period in 2006. We experienced higher revenue for most of our production-related services, especially our well control and hydraulic workover services as production-related activity improved significantly. The largest contribution came from the December 2006 acquisition of Warrior, which increased domestic land revenue in coiled tubing, electric line and snubbing services. Revenue increased for our hydraulic workover and snubbing services as international activity increased. Gross margin increased in line with revenue.

Rental Tools Segment

Revenue for our rental tools segment for the three months ended September 30, 2007 was \$118.9 million, a 21% increase over the same period in 2006. The gross margin percentage increased slightly to 70% for the three months ended September 30, 2007 from 69% for the same period of 2006. During the three months ended September 30, 2007, we sold the assets of a non-core rental business. We experienced significant increases in revenue from our stabilizers, on-site accommodations, drill pipe and accessories, and drill collars. The increases are a result of recent acquisitions, expansion of rental products through capital expenditures, and increased activity worldwide. Our international revenue for the rental tools segment has increased 58% to approximately \$42.2 million for the quarter ended September 30, 2007 over the same period of 2006. Our largest improvements were in the North Sea, South America and Africa market areas.

Marine Segment

Our marine segment revenue for the three months ended September 30, 2007 decreased 27% over the same period in 2006 to \$26.3 million. Likewise, gross margin percentage decreased by 41% for the three months ended September 30, 2007 from the same period in 2006 due to lower utilization as a result of downtime related to poor weather conditions. Due to the high fixed costs associated with this segment, gross margin decreases at an accelerated rate when revenue declines. The fleet's average utilization decreased to approximately 62% for the third quarter of 2007 from 78% in the same period in 2006. The fleet's average dayrate decreased 6% to approximately \$16,500 in the third quarter of 2007 from \$17,500 in the third quarter of 2006.

Oil and Gas Segment

Oil and gas revenues were \$51.7 million in the three months ended September 30, 2007, as compared to \$38.2 million in the same period of 2006. In the third quarter of 2007, production was approximately 899,000 boe, as compared to approximately 739,000 boe in the third quarter of 2006. The gross margin percentage increased significantly to 63% for the three months ended September 30, 2007 from 49% for the same period of 2006 due to higher production coupled with an increase in commodity prices.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion increased to \$49.9 million in the three months ended September 30, 2007 from \$28.8 million in the same period in 2006. The increase results from the depreciation associated with our 2007 and 2006 capital expenditures as well as our acquisition of Warrior. The increase also results from additional depletion related to significantly higher oil and gas production in the third quarter of 2007 as compared to the third quarter of 2006.

Table of Contents**General and Administrative Expenses**

General and administrative expenses increased to \$57.2 million for the three months ended September 30, 2007 from \$44.4 million for the same period in 2006. This increase was primarily related to our acquisition of Warrior. Other contributing factors include increased bonus and compensation expenses due to our improved performance, and increased expenses related to our geographic expansion, other acquisitions and our growth. General and administrative expenses decreased to 14.3% of revenue for the three months ended September 30, 2007 from 15.3% for the same period in 2006.

Comparison of the Results of Operations for the Nine Months Ended September 30, 2007 and 2006

For the nine months ended September 30, 2007, our revenues were \$1,158.6 million, resulting in net income of \$209.2 million, or \$2.53 diluted earnings per share. The results included a pre-tax gain of \$7.5 million from the sale of a non-core rental tool business. For the nine months ended September 30, 2006, revenues were \$774.7 million and net income was \$126.1 million, or \$1.55 diluted earnings per share. The net income for the nine month period ended September 30, 2006 includes a loss on early extinguishment of debt of \$12.6 million. Revenue and gross margin were higher in the well intervention and rental tool segments as a result of increased production-related projects and drilling activity worldwide, recent acquisitions and continued expansion of our rental tool business. Revenue and gross margin decreased slightly in the marine segment primarily due to lower utilization related to poor weather conditions experienced in the third quarter of 2007. Revenues in our oil and gas segment were higher due to significantly higher production as a portion of 2006 production was impacted by shut-in production due to Hurricanes Katrina and Rita. The following table compares our operating results for the nine months ended September 30, 2007 and 2006. Gross margin is calculated by subtracting cost of services from revenue for each of our four business segments. Oil and gas eliminations represent products and services provided to the oil and gas segment by our three other segments.

	Revenue			Gross Margin				
	2007	2006	Change	2007	%	2006	%	Change
Well Intervention	\$ 570,280	\$ 335,953	\$ 234,327	\$ 253,547	44%	\$ 144,160	43%	\$ 109,387
Rental Tools	358,834	262,629	96,205	249,158	69%	179,322	68%	69,836
Marine	97,351	100,171	(2,820)	53,919	55%	59,893	60%	(5,974)
Oil and Gas	136,889	87,304	49,585	81,047	59%	34,835	40%	46,212
Less: Oil and Gas Elim	(4,753)	(11,312)	6,559					
Total	\$ 1,158,601	\$ 774,745	\$ 383,856	\$ 637,671	55%	\$ 418,210	54%	\$ 219,461

The following provides a discussion of our results on a segment basis.

Well Intervention Segment

Revenue for our well intervention segment was \$570.3 million for the nine months ended September 30, 2007, as compared to \$336.0 million for the same period in 2006. This segment's gross margin percentage slightly increased to 44% for the nine months ended September 30, 2007 from 43% for the same period of 2006. We experienced higher revenue for most of our production-related services, especially our well control, mechanical wireline, and hydraulic workover services as production-related activity improved significantly. The largest contribution came from the December 2006 acquisition of Warrior, which increased domestic land revenue in coiled tubing, electric line and snubbing services. Revenue increased for our hydraulic workover and snubbing services as international activity increased. Gross margin increased in line with revenue.

Rental Tools Segment

Revenue for our rental tools segment for the nine months ended September 30, 2007 was \$358.8 million, a 37% increase over the same period in 2006. The gross margin percentage increased slightly to 69% for the nine months ended September 30, 2007 from 68% for the same period of 2006. During the nine months ended September 30, 2007, we sold the assets of a non-core rental business. We experienced significant increases in revenue from our stabilizers,

on-site accommodations, drill pipe and accessories, and drill collars. The increases are a result of recent

Table of Contents

acquisitions, expansion of rental products through capital expenditures, and increased activity worldwide. Our international revenue for the rental tools segment has increased 90% to approximately \$119.0 million for the nine months ended September 30, 2007 over the same period of 2006. Our largest improvements were in the North Sea, South America and Africa market areas.

Marine Segment

Our marine segment revenue for the nine months ended September 30, 2007 decreased 2.8% over the same period in 2006 to \$97.4 million. Likewise, gross margin percentage for the nine months ended September 30, 2007 experienced a decrease of 10% from the same period in 2006 due to lower utilization. Due to the high fixed costs associated with this segment, gross margin decreases at an accelerated rate when revenue declines. The fleet's average utilization decreased to approximately 71% for the first nine months of 2007 from 82% in the same period in 2006 due to inspections and maintenance coupled with poor weather conditions in the Gulf of Mexico. We experienced higher pricing for our liftboats in the nine months ended September 30, 2007 than the same period of 2006 due to demand for liftboats in the Gulf of Mexico. The fleet's average dayrate increased over 12% to approximately \$17,700 in the first nine months of 2007 from \$15,800 in the same period of 2006.

Oil and Gas Segment

Oil and gas revenues were \$136.9 million in the nine months ended September 30, 2007, as compared to \$87.3 million in the same period of 2006. In the nine months ended September 30, 2007, production was approximately 2,480,000 boe, as compared to approximately 1,730,000 boe in the same period of 2006. A significant portion of our production was shut-in during the nine months ended September 30, 2006 due to ongoing repairs to third party pipelines and SPN Resources' facilities that sustained hurricane damage. The gross margin percentage increased significantly to 59% for the nine months ended September 30, 2007 from 40% for the same period of 2006 due to higher production coupled with an increase in commodity prices.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion increased to \$134.0 million in the nine months ended September 30, 2007 from \$77.5 million in the same period in 2006. The increase results from the depreciation associated with our 2007 and 2006 capital expenditures as well as our acquisition of Warrior. The increase also results from additional depletion related to significantly higher production in our oil and gas properties.

General and Administrative Expenses

General and administrative expenses increased to \$161.8 million for the nine months ended September 30, 2007 from \$122.1 million for the same period in 2006. This increase was primarily related to our acquisition of Warrior. Other contributing factors include increased bonus and compensation expenses due to our improved performance, and increased expenses related to our geographic expansion, other acquisitions and our growth. General and administrative expenses decreased to 14.0% of revenue for the nine months ended September 30, 2007 from 15.8% for the same period in 2006.

Liquidity and Capital Resources

In the nine months ended September 30, 2007, we generated net cash from operating activities of \$385.1 million as compared to \$229.0 million in the same period of 2006. Our primary liquidity needs are for working capital, capital expenditures, debt service and acquisitions. Our primary sources of liquidity are cash flows from operations and available borrowings under our revolving credit facility. We had cash and cash equivalents of \$63.8 million at September 30, 2007 compared to \$39.0 million at December 31, 2006.

We made \$325.9 million of capital expenditures during the nine months ended September 30, 2007, of which approximately \$128.4 million was used to expand and maintain our rental tool equipment inventory. We also made \$68.3 million of capital expenditures in our oil and gas segment and \$120.1 million of capital expenditures to expand and maintain the asset base of our well intervention and marine segments. In addition, we made \$9.1 million of capital expenditures on construction and improvements to our facilities.

Table of Contents

During the nine months ended September 30, 2007, we acquired Duffy & McGovern Accommodation Services Limited, a provider of offshore accommodation rentals operating in most deep water oil and gas territories with major operations in Europe, Africa, the Americas and South East Asia, for approximately \$47.5 million in cash consideration. During the same period, we also acquired Advanced Oilwell Services, Inc., a provider of cementing and pressure pumping services primarily operating in the East Texas region, for approximately \$24.2 million in cash consideration. Also during the nine months ended September 30, 2007, we sold the assets of a non-core rental tool business for approximately \$16.3 million in cash and \$2.0 million in a note receivable.

In July 2006, we contracted to construct a derrick barge that will be sold to a third party for approximately \$53.7 million. We expect to take delivery of the derrick barge and sell it to the third party during the first quarter of 2008. We receive monthly payments from the purchaser in accordance with the terms of the sales contract. In turn, we issue letters of credit to the purchaser in equal amounts to guarantee our performance of the contract. We have entered into fixed-price contracts to construct this derrick barge and its 880-ton offshore mast crane. Our payment obligation for the construction of the barge is secured by letters of credit that are posted upon performance milestones and are payable upon the barge's delivery and our acceptance. The contract for the crane requires periodic progress payments with final payment due upon completion of the contract. Revenue and costs associated with the sale contract are accounted for on the percentage-of-completion method utilizing engineering estimates and construction progress. This methodology requires us to make estimates regarding our progress against the project schedule and estimated completion date, both of which impact the amount of revenue and gross margin we recognize in each reporting period. Contract costs mainly include sub-contract and program management costs. Provisions for unanticipated losses, if any, will be recorded in full when such losses become evident.

Also in July 2006, we contracted to construct another derrick barge to support our decommissioning and construction operations. We expect to take delivery of this barge in the second quarter of 2008. We have entered into fixed-price contracts to construct this derrick barge and its 880-ton offshore mast crane. Our payment obligation for the construction of the barge is secured by letters of credit that are posted upon performance milestones and are payable upon the barge's delivery and our acceptance. The contract for the crane requires periodic progress payments with final payment due upon completion of the contract. We currently intend to utilize this construction barge to further our geographic expansion by operating this vessel in Southeast Asia.

In July 2007, we contracted to construct two 175 foot liftboats for approximately \$16.2 million with scheduled delivery dates in the first and second quarters of 2008. Our payment obligations are conditioned on customary performance milestones. We currently intend to operate these liftboats in the Gulf of Mexico.

We currently believe that we will spend approximately \$100 to \$110 million of capital expenditures, excluding acquisitions and targeted asset purchases, during the remaining three months of 2007. We believe that our current working capital, cash generated from our operations and availability under our revolving credit facility will provide sufficient funds for our identified capital projects.

We have a \$250 million bank revolving credit facility. Any amounts outstanding under the revolving credit facility are due on June 14, 2011. At September 30, 2007, we had no amounts outstanding under the bank credit facility, but we had approximately \$85.0 million of letters of credit outstanding, which reduce our borrowing capacity under this credit facility. Borrowings under the credit facility bear interest at a LIBOR rate plus margins that depend on our leverage ratio. As of November 5, 2007, we had nothing outstanding on this facility. Indebtedness under the credit facility is secured by substantially all of our assets, including the pledge of the stock of our principal subsidiaries. The credit facility contains customary events of default and requires that we satisfy various financial covenants. It also limits our ability to pay dividends or make other distributions, make acquisitions, create liens, incur additional indebtedness or assume additional decommissioning liabilities.

We have \$16.2 million outstanding at September 30, 2007 in U. S. Government guaranteed long-term financing under Title XI of the Merchant Marine Act of 1936, which is administered by the Maritime Administration (MARAD), for two 245-foot class liftboats. This debt bears an interest rate of 6.45% per annum and is payable in equal semi-annual installments of \$405,000 on every June 3rd and December 3rd through the maturity date of June 3, 2027. Our obligations are secured by mortgages on the two liftboats. This MARAD financing also requires that we

Table of Contents

comply with certain covenants and restrictions, including the maintenance of minimum net worth and debt-to-equity requirements.

We have \$300 million of 6 7/8% unsecured senior notes due 2014. The indenture governing the senior notes requires semi-annual interest payments, on every June 1st and December 1st through the maturity date of June 1, 2014. The indenture contains certain covenants that, among other things, limit us from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions.

We also have \$400 million of 1.50% senior exchangeable notes due 2026. The exchangeable notes bear interest at a rate of 1.50% per annum and decrease to 1.25% per annum on December 15, 2011. Interest on the exchangeable notes is payable semi-annually in arrears on December 15th and June 15th of each year, beginning June 15, 2007. The exchangeable notes do not contain any restrictive financial covenants.

Under certain circumstances, holders may exchange the notes for shares of our common stock. The initial exchange rate is 21.9414 shares of common stock per \$1,000 principal amount of notes. This is equal to an initial exchange price of \$45.58 per share. The exchange price represents a 35% premium over the closing share price at the date of issuance. The notes may be exchanged under the following circumstances:

during any fiscal quarter (and only during such fiscal quarter) commencing after March 31, 2007, if the last reported sale price of our common stock is greater than or equal to 135% of the applicable exchange price of the notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

prior to December 15, 2011, during the five business-day period after any ten consecutive trading-day period (the measurement period) in which the trading price of \$1,000 principal amount of notes for each trading day in the measurement period was less than 95% of the product of the last reported sale price of our common stock and the exchange rate on such trading day;

if the notes have been called for redemption;

upon the occurrence of specified corporate transactions; or at

any time beginning on September 15, 2026, and ending at the close of business on the second business day immediately preceding the maturity date of December 15, 2026.

In connection with the issuance of the exchangeable notes, we entered into agreements with affiliates of the initial purchasers to purchase call options and sell warrants on our common stock. We may exercise the call options we purchased at any time to acquire approximately 8.8 million shares of our common stock at a strike price of \$45.58 per share. The owners of the warrants may exercise the warrants to purchase from us approximately 8.8 million shares of our common stock at a price of \$59.42 per share, subject to certain anti-dilution and other customary adjustments. The warrants may be settled in cash, in shares or in a combination of cash and shares, at our option. These transactions may potentially reduce the dilution of our common stock from the exchange of the notes by increasing the effective exchange price to \$59.42 per share.

The following table summarizes our contractual cash obligations and commercial commitments at September 30, 2007 (amounts in thousands) for our long-term debt (including estimated interest payments), decommissioning liabilities, operating leases and contractual obligations. The decommissioning liability amounts do not give any effect to our contractual right to receive amounts from third parties, which is approximately \$32.0 million, when decommissioning operations are performed. The vessel construction liability amounts do not give any effect to our contractual right to receive payments from a third-party customer, which is approximately \$12.6 million. We do not have any other material obligations or commitments.

Table of Contents

Description	Remaining Three Months 2007	2008	2009	2010	2011	2012	Thereafter
Long-term debt, including estimated interest payments	\$ 14,240	\$ 28,440	\$ 28,388	\$ 28,336	\$ 27,783	\$ 27,231	\$ 818,347
Decommissioning liabilities	24,343	12,547	2,447	10,557	30,334	6,561	36,886
Operating leases	2,520	9,693	6,507	3,679	2,472	978	15,501
Vessel construction	35,382	37,973					
Total	\$ 76,485	\$ 88,653	\$ 37,342	\$ 42,572	\$ 60,589	\$ 34,770	\$ 870,734

We have no other off-balance sheet arrangements other than the potential additional consideration that may be receivable or payable as a result of the future operating performances of several acquisitions and dispositions and operating leases. At September 30, 2007, the maximum additional consideration payable for these acquisitions was approximately \$8.8 million. We do not have any other financing arrangements that are required under generally accepted accounting principles to be reflected in our financial statements.

In October 2007, we repurchased 1,000,000 shares of our common stock for an aggregate amount of \$33.8 million under a \$350 million stock repurchase program authorized by the Company's Board of Directors in September 2007. This stock repurchase program expires on December 31, 2009.

We intend to continue implementing our growth strategy of increasing our scope of services through both internal growth and strategic acquisitions. We expect to continue to make the capital expenditures required to implement our growth strategy in amounts consistent with the amount of cash generated from operating activities, the availability of additional financing and our credit facility. Depending on the size of any future acquisitions, we may require additional equity or debt financing in excess of our current working capital and amounts available under our revolving credit facility.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 157 (FAS No. 157), Fair Value Measurements. FAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. FAS No. 157 indicates, among other things, a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that FAS No. 157 will have on our results of operations and financial position.

In February 2007, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 159 (FAS No. 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We believe the adoption of FAS No. 159 will not have a material impact on our results of operations and financial position.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rates

Because we operate in a number of countries throughout the world, we conduct a portion of our business in currencies other than the U.S. dollar. The functional currency for our international operations, other than our operations in the United Kingdom, is the U.S. dollar, but a portion of the revenues from our foreign operations is paid in foreign currencies. The effects of foreign currency fluctuations are partly mitigated because local expenses of such foreign operations are also generally denominated in the same currency. We continually monitor the currency exchange risks associated with all contracts not denominated in the U.S. dollar. Any gains or losses associated with such fluctuations have not been material.

We do not hold derivatives for trading purposes or use derivatives with complex features. Assets and liabilities of our subsidiaries in the United Kingdom are translated at current exchange rates, while income and expense are translated at average rates for the period. Translation gains and losses are reported as the foreign currency translation component of accumulated other comprehensive income in stockholders' equity.

Interest Rate Risk

At September 30, 2007, none of our long-term debt outstanding had variable interest rates, and we had no interest rate risks at that time.

Equity Price Risk

We have \$400 million of 1.50% senior exchangeable notes due 2026. The notes are, subject to the occurrence of specified conditions, exchangeable for our common stock initially at an exchange price of \$45.58 per share, which would result in an aggregate of approximately 8.8 million shares of common stock being issued upon exchange. We may redeem for cash all or any part of the notes on or after December 15, 2011 for 100% of the principal amount redeemed. The holders may require us to repurchase for cash all or any portion of the notes on December 15, 2011, December 15, 2016 and December 15, 2021 for 100% of the principal amount of notes to be purchased plus any accrued and unpaid interest. The notes do not contain any restrictive financial covenants.

Each \$1,000 of principal amount of the notes is initially exchangeable into 21.9414 shares of our common stock, subject to adjustment upon the occurrence of specified events. Holders of the notes may exchange their notes prior to maturity only if: (1) the price of our common stock reaches \$45.58 during certain periods of time specified in the notes; (2) specified corporate transactions occur; (3) the notes have been called for redemption; or (4) the trading price of the notes falls below a certain threshold. In addition, in the event of a fundamental change in our corporate ownership or structure, the holders may require us to repurchase all or any portion of the notes for 100% of the principal amount.

We also have agreements with affiliates of the initial purchasers to purchase call options and sell warrants of our common stock. We may exercise the call options at any time to acquire approximately 8.8 million shares of our common stock at a strike price of \$45.58 per share. The owners of the warrants may exercise their warrants to purchase from us approximately 8.8 million shares of our common stock at a price of \$59.42 per share, subject to certain anti-dilution and other customary adjustments. The warrants may be settled in cash, in shares or in a combination of cash and shares, at our option.

For additional discussion of the notes, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in Part I, Item 2 above.

Commodity Price Risk

Our revenues, profitability and future rate of growth partially depends upon the market prices of oil and natural gas. Lower prices may also reduce the amount of oil and gas that can economically be produced.

Table of Contents

We use derivative commodity instruments to manage commodity price risks associated with future oil production. Our hedging contracts for a portion of our oil production expired on August 31, 2006, and there are no outstanding contracts as of September 30, 2007 or as of the date of this Form 10-Q.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, our chief financial officer and chief executive officer have concluded, based on their evaluation, that our disclosure controls and procedures (as defined in rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) are effective for ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There were no material changes to our system of internal controls over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect those internal controls subsequent to the date of the most recent evaluation by our chief financial officer and chief executive officer.

Table of Contents

PART II. OTHER INFORMATION

Item 6. Exhibits

(a) The following exhibits are filed with this Form 10-Q:

- 3.1 Certificate of Incorporation of the Company (incorporated herein by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996).
- 3.2 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
- 3.3 Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on November 15, 2004).
- 31.1 Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

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 thereunto duly authorized.

SUPERIOR ENERGY SERVICES, INC.

Date: November 8, 2007

By: /s/ Robert S. Taylor
Robert S. Taylor
Executive Vice President, Treasurer and
Chief Financial Officer
(Principal Financial and Accounting
Officer)

38

Table of Contents

Exhibit Index

- 3.1 Certificate of Incorporation of the Company (incorporated herein by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996).
- 3.4 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
- 3.5 Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on November 15, 2004).
- 31.1 Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.