

SUPERIOR ENERGY SERVICES INC

Form 10-Q

May 03, 2013

[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 March 31, 2013

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. 001-34037

SUPERIOR ENERGY SERVICES, INC.

(Exact name of registrant as specified in its charter)

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

Delaware (State or other jurisdiction of incorporation or organization)	75-2379388 (I.R.S. Employer Identification No.)
11000 Equity Drive, Suite 300	
Houston, TX (Address of principal executive offices)	77041 (Zip Code)
Registrant's telephone number, including area code: (281) 999-0047	

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (do not check if smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 April 26, 2013 was 159,563,314.

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for
the Quarterly Period Ended March 31, 2013

TABLE OF CONTENTS

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	18
Item 4. <u>Controls and Procedures</u>	19
PART II. <u>OTHER INFORMATION</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
Item 6. <u>Exhibits</u>	20

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

Consolidated Balance Sheets

March 31, 2013 and December 31, 2012

(in thousands, except share data)

	3/31/2013 (Unaudited)	12/31/2012 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 77,075	\$ 91,199
Accounts receivable, net of allowance for doubtful accounts of \$29,801 and \$28,715 as of March 31, 2013 and December 31, 2012, respectively	1,030,674	1,027,218
Deferred income taxes	27,317	34,120
Prepaid expenses	93,936	93,190
Inventory and other current assets	244,090	214,630
Total current assets	1,473,092	1,460,357
Property, plant and equipment, net of accumulated depreciation and depletion of \$1,461,736 and \$1,342,631 as of March 31, 2013 and December 31, 2012, respectively	3,220,215	3,255,220
Goodwill	2,547,497	2,532,065
Notes receivable	45,558	44,838
Intangible and other long-term assets, net of accumulated amortization of \$62,112 and \$53,148 as of March 31, 2013 and December 31, 2012, respectively	503,022	510,406
Total assets	\$ 7,789,384	\$ 7,802,886
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 238,739	\$ 252,363
Accrued expenses	331,520	346,490
Income taxes payable	39,371	153,212
Current maturities of long-term debt	20,000	20,000
Total current liabilities	629,630	772,065
Deferred income taxes	759,908	745,144
Decommissioning liabilities	94,565	93,053
Long-term debt, net	1,844,584	1,814,500
Other long-term liabilities	169,523	147,045
Stockholders equity:		
Preferred stock of \$0.01 par value. Authorized, 5,000,000 shares; none issued		
Common stock of \$0.001 par value.		
Authorized - 250,000,000, Issued - 159,301,044, Outstanding - 159,523,242 as of March 31, 2013		
Authorized - 250,000,000, Issued - 157,501,635, Outstanding - 157,933,224 as of December 31, 2012	159	158
Additional paid in capital	2,859,572	2,850,855
Accumulated other comprehensive loss, net	(31,667)	(19,317)

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

Retained earnings	1,463,110	1,399,383
Total stockholders' equity	4,291,174	4,231,079
Total liabilities and stockholders' equity	\$ 7,789,384	\$ 7,802,886

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Income

Three Months Ended March 31, 2013 and 2012

(in thousands, except per share data)

(Unaudited)

	2013	2012
Revenues	\$ 1,135,479	\$ 966,837
Costs and expenses:		
Cost of services (exclusive of items shown separately below)	707,487	546,767
Depreciation, depletion, amortization and accretion	149,634	102,596
General and administrative expenses	150,164	176,021
Income from operations	128,194	141,453
Other income (expense):		
Interest expense, net	(27,540)	(30,494)
Other income	500	401
Income from continuing operations before income taxes	101,154	111,360
Income taxes	37,427	41,203
Net income from continuing operations	63,727	70,157
Loss from discontinued operations, net of income tax		(16,237)
Net income	\$ 63,727	\$ 53,920
Earnings (loss) per share information:		
Basic		
Continuing operations	\$ 0.40	\$ 0.56
Discontinued operations		(0.13)
Basic earnings per share	\$ 0.40	\$ 0.43
Diluted		
Continuing operations	\$ 0.40	\$ 0.55
Discontinued operations		(0.13)
Diluted earnings per share	\$ 0.40	\$ 0.42
Weighted average common shares used in computing earnings per share:		
Basic	158,946	125,542
Incremental common shares from stock based compensation	1,487	1,802
Diluted	160,433	127,344

Consolidated Statements of Comprehensive Income

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

Three Months Ended March 31, 2013 and 2012

(in thousands)

(Unaudited)

	2013	2012
Net income	\$ 63,727	\$ 53,920
Unrealized net loss on investment securities, net of tax	(988)	
Change in cumulative translation adjustment, net of tax	(11,362)	5,905
Comprehensive income	\$ 51,377	\$ 59,825

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2013 and 2012

(in thousands)

(Unaudited)

	2013	2012
Cash flows from operating activities:		
Net income	\$ 63,727	\$ 53,920
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	149,634	103,841
Deferred income taxes	19,724	(10,979)
Excess tax benefit from stock-based compensation	(264)	(843)
Stock based and performance share unit compensation expense	7,979	10,591
Retirement and deferred compensation plan expense	(98)	621
Amortization of debt acquisition costs and note discount	2,394	2,210
Loss on sale of businesses		6,649
Other reconciling items, net	(223)	6,402
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	17,343	(64,163)
Inventory and other current assets	(26,431)	(15,868)
Accounts payable	3,327	28,436
Accrued expenses	(11,504)	(56,346)
Decommissioning liabilities	(87)	(2,661)
Income taxes	(115,007)	38,809
Other, net	26,207	(6,562)
Net cash provided by operating activities	136,721	94,057
Cash flows from investing activities:		
Payments for capital expenditures	(157,715)	(273,245)
Change in restricted cash held for acquisition of business		785,280
Acquisitions of businesses, net of cash acquired	(23,797)	(1,038,241)
Cash proceeds from sale of businesses		185,912
Other	305	3,305
Net cash used in investing activities	(181,207)	(336,989)
Cash flows from financing activities:		
Proceeds from revolving line of credit	196,350	381,197
Payments on revolving line of credit	(161,350)	(456,197)
Proceeds from issuance of long-term debt		400,000
Principal payments on long-term debt	(5,000)	(12,546)
Payment of debt acquisition costs		(25,011)
Proceeds from exercise of stock options	5,100	12,256
Excess tax benefit from stock-based compensation	264	843
Proceeds from issuance of stock through employee benefit plans	1,133	819
Other	(3,562)	(3,610)
Net cash provided by financing activities	32,935	297,751
Effect of exchange rate changes on cash	(2,573)	665

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

Net increase (decrease) in cash and cash equivalents	(14,124)	55,484
Cash and cash equivalents at beginning of period	91,199	80,274
Cash and cash equivalents at end of period	\$ 77,075	\$ 135,758

See accompanying notes to consolidated financial statements.

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Three Months Ended March 31, 2013

(1) Basis of Presentation

Certain information and footnote disclosures normally in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures that are made are adequate to make the information presented not misleading. These financial statements and notes 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, 2012, and Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

The financial information of Superior Energy Services, Inc. and subsidiaries (the Company) for the three months ended March 31, 2013 and 2012 has not been audited. However, in the opinion of management, all adjustments necessary to present fairly the results of operations for the periods presented have been included therein. The results of operations for the first three 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 2013 presentation.

(2) Acquisitions

Complete Production Services, Inc.

On February 7, 2012, the Company acquired Complete Production Services, Inc. (Complete) in a cash and stock merger transaction valued at approximately \$2,914.8 million. Complete focused on providing specialized completion and production services and products that help oil and gas companies develop hydrocarbon reserves, reduce costs and enhance production. Complete's operations were located throughout the U.S. and Mexico. The acquisition of Complete substantially expanded the size and scope of the Company's services. Complete's legacy businesses are currently reported in the Onshore Completion and Workover Services and Production Services segments.

Pursuant to the merger agreement, Complete stockholders received 0.945 of a share of the Company's common stock and \$7.00 cash for each share of Complete's common stock outstanding at the time of the acquisition. In total, the Company paid approximately \$553.3 million in cash and issued approximately 74.7 million shares valued at approximately \$2,308.2 million (based on the closing price of the Company's common stock on the acquisition date of \$30.90). Additionally, the Company paid \$676.0 million, inclusive of a \$26.0 million prepayment premium, to redeem \$650 million of Complete's 8.0% senior notes. The Company also assumed all outstanding stock options and shares of non-vested and unissued restricted stock held by Complete's employees and directors at the time of acquisition.

Acquisition related expenses totaled approximately \$33.3 million, of which approximately \$28.7 million was recorded in the three months ended March 31, 2012. The remainder was recorded in the three months ended December 31, 2011. These acquisition related costs include expenses directly related to acquiring Complete and have been recorded in general and administrative expenses in the consolidated statements of income.

Other Acquisitions

In March 2013, the Company acquired 100% of the equity interest in a company that provides cementing services to oil and gas companies in Colombia. This acquisition provides the Company with a platform for continued expansion in the South American market area. The Company paid approximately \$20.4 million at closing and will pay an additional \$3.7 million over the next two years, subject to the settlement of certain liabilities. Goodwill of approximately \$16.4 million was recognized as a result of this acquisition and was calculated as the excess of the consideration paid over the net assets recognized and represents estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. None of the goodwill related to this acquisition will be deductible for tax purposes. All of the goodwill was assigned to the Production Services segment.

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

In August 2012, the Company acquired 100% of the equity interest in a company that provides mechanical wireline, electric line and well testing services to the oil and gas exploration and production industry in Argentina. The Company paid approximately \$31.1 million in cash related to this acquisition. As of March 31, 2013, the Company had a current liability of approximately \$6.5 million for contingent consideration based upon certain performance metrics. As these performance metrics exceeded expectations, this liability was paid and settled in April 2013.

Table of Contents**(3) Dispositions**

On February 15, 2012, the Company sold one of its derrick barges and received proceeds of approximately \$44.5 million, inclusive of selling costs. The Company recorded a pre-tax loss of approximately \$3.1 million, inclusive of approximately \$9.7 million of goodwill, during the three months ended March 31, 2012 in connection with this sale. This business was previously reported in the Company's former Subsea and Well Enhancement segment. The operations and loss on the sale of this disposal group have been reported within loss from discontinued operations in the condensed consolidated statement of income.

On March 30, 2012, the Company sold 18 liftboats and related assets comprising its former Marine segment. The Company received cash proceeds of approximately \$138.6 million, inclusive of working capital and selling costs. In connection with the sale, the Company repaid approximately \$12.5 million in U.S. Government guaranteed long-term financing. Additionally, the Company paid approximately \$4.0 million of make-whole premiums and wrote off approximately \$0.7 million of unamortized loan costs as a result of this repayment. The Company's total pre-tax loss on the disposal of this segment was approximately \$56.1 million, which includes a \$46.1 million write off of long-lived assets and goodwill recorded in the fourth quarter of 2011 in order to approximate the segment's indicated fair value, and an additional loss of \$10.0 million recorded in the first quarter of 2012, comprised of an approximate \$3.6 million loss on sale of assets and approximately \$6.4 million of additional costs related to the disposition.

The following table summarizes the components of loss from discontinued operations, net of tax for the three months ended March 31, 2012 (in thousands):

Revenues	\$ 16,235
Loss from discontinued operations, net of tax benefit of \$1,227	(5,508)
Loss on disposition, net of tax benefit of \$2,391	(10,729)
Loss from discontinued operations, net of tax	\$ (16,237)

(4) Stock-Based Compensation and Retirement Plans

The Company maintains various stock incentive plans that provide long-term incentives to the Company's key employees, including officers, directors, consultants and advisors (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. The Company's total compensation expense related to these plans was approximately \$9.0 million and \$13.1 million for the three months ended March 31, 2013 and 2012, respectively, which is reflected in general and administrative expenses.

Table of Contents

(5) Inventory and Other Current Assets

Inventory and other current assets includes approximately \$143.1 million and \$136.5 million of inventory at March 31, 2013 and December 31, 2012, respectively. The Company's inventory balance at March 31, 2013 consisted of approximately \$63.7 million of finished goods, \$7.1 million of work-in-process, \$12.3 million of raw materials and \$60.0 million of supplies and consumables. The Company's inventory balance at December 31, 2012 consisted of approximately \$63.7 million of finished goods, \$6.0 million of work-in-process, \$5.0 million of raw materials and \$61.8 million of supplies and consumables. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out or weighted-average cost methods for finished goods and work-in-process. Supplies and consumables consist principally of products used in our services provided to customers.

On April 17, 2012, SandRidge Energy Inc. (NYSE: SD) (SandRidge) completed its acquisition of Dynamic Offshore Resources, LLC (Dynamic Offshore), at which time the Company received approximately \$34.1 million in cash and approximately \$51.6 million in shares of SandRidge stock (approximately 7.0 million shares valued at \$7.33 per share) in consideration for its 10% interest in Dynamic Offshore. In accordance with authoritative guidance related to equity securities, the Company is accounting for the shares received through this transaction as available-for-sale securities. The changes in fair values, net of applicable taxes, on available-for-sale securities are recorded as unrealized holding gains (losses) on securities as a component of accumulated other comprehensive loss in shareholders' equity.

The fair value of the remaining 1.5 million shares of SandRidge stock at March 31, 2013 was approximately \$7.7 million. During the three months ended March 31, 2013, the Company recorded an unrealized loss related to the fair value of these securities of \$1.6 million, of which \$1.0 million was reported within accumulated other comprehensive loss, net of tax expense of \$0.6 million. The Company evaluates whether unrealized losses on investments in securities are other-than-temporary, and if it is believed the unrealized losses are other-than-temporary, an impairment charge is recorded. There were no other-than-temporary impairment losses recognized during the three months ended March 31, 2013.

Table of Contents

(6) **Debt**

The Company has a \$1.0 billion bank credit facility, comprised of a \$600 million revolving credit facility and a \$400 million term loan. The principal balance of the term loan is payable in installments of \$5.0 million on the last day of each fiscal quarter, which began on June 30, 2012. Any amounts outstanding on the revolving credit facility and the term loan are due on February 7, 2017.

At March 31, 2013, the Company had \$35.0 million outstanding under the revolving portion of our credit facility. The Company also had approximately \$57.2 million of letters of credit outstanding, which reduce the Company's borrowing availability under this portion of the credit facility. Amounts borrowed under the credit facility bear interest at LIBOR 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 domestic 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 or incur additional indebtedness. At March 31, 2013, the Company was in compliance with all such covenants.

In August 2012, the Company redeemed \$150 million, or 50%, of the principal amount of its \$300 million 6⁷/₈% unsecured senior notes due 2014 at 100% of face value. The indenture governing the remaining \$150 million 6⁷/₈% senior notes outstanding requires semi-annual interest payments on June 1st and December 1st of each year 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 March 31, 2013, the Company was in compliance with all such covenants.

The Company has outstanding \$500 million of 6³/₈% unsecured senior notes due 2019. The indenture governing the 6³/₈% senior notes requires semi-annual interest payments on May 1st and November 1st of each year through the maturity date of May 1, 2019. 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 March 31, 2013, the Company was in compliance with all such covenants.

The Company also has outstanding \$800 million of 7¹/₈% unsecured senior notes due 2021. The indenture governing the 7¹/₈% senior notes requires semi-annual interest payments on June 15th and December 15th of each year through the maturity date of December 15, 2021. 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 March 31, 2013, the Company was in compliance with all such covenants.

(7) **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. The weighted average number of common shares outstanding excludes the shares of non-vested restricted stock that were assumed by the Company as a result of the Complete acquisition. 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, conversion of restricted stock units and the vesting of outstanding restricted stock issued in the acquisition of Complete.

Stock options for approximately 1,900,000 shares and 850,000 shares for the three months ended March 31, 2013 and 2012, respectively, were excluded in the computation of diluted earnings per share for these periods as the effect would have been anti-dilutive.

(8) **Decommissioning Liabilities**

The Company records estimated future decommissioning liabilities in accordance with the authoritative guidance related to asset retirement obligations (decommissioning liabilities), which requires entities to record the fair value of a liability for an asset retirement obligation 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 associated with the Bullwinkle platform and its related assets consist of costs related to the plugging of wells, the removal of the related facilities and equipment, and site restoration. 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

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

intercompany revenues and related costs of services are eliminated in the condensed consolidated financial statements. The recorded decommissioning liability associated with a specific property is fully extinguished when the

Table of Contents

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 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 three month periods ended March 31, 2013 and 2012 (in thousands):

	2013	2012
Decommissioning liabilities, December 31, 2012 and 2011, respectively	\$ 93,053	\$ 123,176
Liabilities acquired and incurred	360	3,573
Liabilities settled	(87)	(2,661)
Accretion	1,239	1,741
Total decommissioning liabilities, March 31, 2013 and 2012, respectively	94,565	125,829
Less: current portion of decommissioning liabilities as of March 31, 2013 and 2012, respectively		15,678
Long-term decommissioning liabilities, March 31, 2013 and 2012, respectively	\$ 94,565	\$ 110,151

(9) Notes Receivable

Notes receivable consist of a commitment from the seller of oil and gas properties towards the abandonment of the acquired property. Pursuant to an agreement with the seller, the Company will invoice the seller an agreed upon amount at the completion of certain decommissioning activities. The gross amount of this obligation totaled \$115.0 million and is recorded at present value using an effective interest rate of 6.58%. The related discount is amortized to interest income based on the expected timing of the platform's removal. The Company recorded interest income related to notes receivable of \$0.7 million and \$1.2 million for the three months ended March 31, 2013 and 2012, respectively.

(10) Segment Information**Business Segments**

During the fourth quarter of 2012, the Company revised the internal reporting structure that is used by the chief operating decision maker in determining how to allocate the Company's resources and, as a result, divided the Subsea and Well Enhancement segment into three segments that better reflect the Company's product and service offerings throughout the life cycle of a well: Onshore Completion and Workover Services, Production Services, and Subsea and Technical Solutions. The Drilling Products and Services segment remains unchanged. Accordingly, all prior period segment disclosures have been recast to reflect this change in reporting structure.

The Drilling Products and Services segment rents and sells bottom hole assemblies, premium 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 on-site accommodations and bolting and machining services. The Onshore Completion and Workover Services segment provides pressure pumping services used to complete and stimulate production in new oil and gas wells, fluid handling services and well servicing rigs that provide a variety of well completion, workover and maintenance services. The Production Services segment provides intervention services such as coiled tubing, cased hole and mechanical wireline, hydraulic workover and snubbing, production testing and optimization, and remedial pumping services. It also provides specialized pressure control tools used to manage and control pressure throughout the life of a well. The Subsea and Technical Solutions segment provides services typically requiring specialized engineering, manufacturing or project planning, including integrated subsea services and engineering services, well control services, well containment systems, stimulation and sand control services and well plug and abandonment services. It also includes production handling arrangements and the production and sale of oil and gas.

Table of Contents

Summarized financial information for the Company's segments for the three months ended March 31, 2013 and 2012 is shown in the following tables (in thousands):

Three Months Ended March 31, 2013

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Subsea and Technical Solutions	Unallocated	Consolidated Total
Revenues	\$ 193,979	\$ 425,983	\$ 367,397	\$ 148,120	\$	\$ 1,135,479
Cost of services (exclusive of items shown separately below)	64,645	281,739	253,055	108,048		707,487
Depreciation, depletion, amortization and accretion	41,344	53,822	41,877	12,591		149,634
General and administrative expenses	31,393	40,714	44,118	33,939		150,164
Income (loss) from operations	56,597	49,708	28,347	(6,458)		128,194
Interest expense, net				720	(28,260)	(27,540)
Other income					500	500
Income (loss) from continuing operations before income taxes	\$ 56,597	\$ 49,708	\$ 28,347	\$ (5,738)	\$ (27,760)	\$ 101,154

Three Months Ended March 31, 2012

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Subsea and Technical Solutions	Unallocated	Consolidated Total
Revenues	\$ 189,357	\$ 279,676	\$ 354,041	\$ 143,763	\$	\$ 966,837
Cost of services (exclusive of items shown separately below)	62,566	185,662	198,015	100,524		546,767
Depreciation, depletion, amortization and accretion	36,160	24,476	27,721	14,239		102,596
General and administrative expenses	33,402	57,147	54,543	30,929		176,021
Income (loss) from operations	57,229	12,391	73,762	(1,929)		141,453
Interest expense, net				1,181	(31,675)	(30,494)
Other income					401	401
Income (loss) from continuing operations before income taxes	\$ 57,229	\$ 12,391	\$ 73,762	\$ (748)	\$ (31,274)	\$ 111,360

Identifiable Assets

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Subsea and Technical Solutions	Unallocated	Consolidated Total
March 31, 2013	\$ 1,095,641	\$ 3,097,610	\$ 2,280,607	\$ 1,315,526	\$	\$ 7,789,384
December 31, 2012	\$ 1,086,804	\$ 3,223,984	\$ 2,185,779	\$ 1,295,134	\$ 11,185	\$ 7,802,886

Table of ContentsGeographic Segments

The Company attributes revenue to various countries based on the location where services are performed or the destination of the drilling products or equipment sold or leased. Long-lived assets consist primarily of property, plant and equipment and are attributed to various countries based on the physical location of the asset at the end of a period. The Company's revenue by geographic area for the three months ended March 31, 2013 and 2012, and long-lived assets by geographic area at March 31, 2013 and December 31, 2012 is as follows (in thousands):

	Revenues		Long-Lived Assets	
	2013	2012	2013	2012
United States	\$ 940,829	\$ 795,771	\$ 2,663,916	\$ 2,684,932
Other Countries	194,650	171,066	556,299	570,288
Total	\$ 1,135,479	\$ 966,837	\$ 3,220,215	\$ 3,255,220

(11) Guarantee

In accordance with authoritative guidance related to guarantees, the Company has assigned an estimated value of \$2.6 million at March 31, 2013 and December 31, 2012 related to decommissioning activities in connection with oil and gas properties acquired by SPN Resources, LLC (SPN Resources) prior to its sale to Dynamic Offshore in March 2008. The guarantee is reflected in other long-term liabilities. The Company believes that the likelihood of being required to perform these guarantees is remote. In the unlikely event of default on any remaining decommissioning liabilities, the total maximum potential obligation under these guarantees is estimated to be approximately \$122.3 million, net of the contractual right to receive payments from third parties, which is approximately \$24.6 million, as of March 31, 2013. The total maximum potential obligation will decrease over time as the underlying obligations are fulfilled.

(12) Fair Value Measurements

The Company follows the authoritative guidance for fair value measurements relating to financial and nonfinancial assets and liabilities, including presentation of required disclosures herein. This guidance establishes a fair value framework requiring the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets and liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or model-derived valuations or other inputs that can be corroborated by observable market data.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The following tables provide a summary of the financial assets and liabilities measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Inventory and other current assets				

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

Available-for-sale securities	\$	7,655	\$	7,655
Intangible and other long-term assets, net				
Non-qualified deferred compensation assets	\$	11,734	\$	825
Interest rate swap	\$	1,415	\$	1,415
Accrued Expenses				
Contingent consideration	\$	9,048		\$ 9,048
Other long-term liabilities				
Non-qualified deferred compensation liabilities	\$	15,119	\$	15,119

Table of Contents

	December 31, 2012	Level 1	Level 2	Level 3
Inventory and other current assets				
Available-for-sale securities	\$ 9,224	\$ 9,224		
Intangible and other long-term assets, net				
Non-qualified deferred compensation assets	\$ 11,343	\$ 825	\$ 10,518	
Interest rate swap	\$ 1,286		\$ 1,286	
Accounts payable				
Non-qualified deferred compensation liabilities	\$ 125		\$ 125	
Accrued expenses				
Contingent consideration	\$ 9,890			\$ 9,890
Other long-term liabilities				
Non-qualified deferred compensation liabilities	\$ 13,515		\$ 13,515	

Available-for-sale securities is comprised of approximately 1.5 million shares of SandRidge common stock that the Company received as partial consideration for its 10% interest in Dynamic Offshore (see note 5). The securities are reported at fair value based on the stock's closing price as reported on the New York Stock Exchange.

The Company's non-qualified deferred compensation plans allow officers, certain highly compensated employees and non-employee directors to defer receipt of a portion of their compensation and contribute such amounts to one or more hypothetical investment funds. The Company entered into separate trust agreements, subject to general creditors, to segregate assets of each plan and reports the accounts of the trusts in its condensed consolidated financial statements. These investments are reported at fair value based on unadjusted quoted prices in active markets for identifiable assets and observable inputs for similar assets and liabilities, which represent Levels 1 and 2, respectively, in the fair value hierarchy.

In April 2012, the Company entered into an interest rate swap agreement related to its fixed rate debt maturing in 2021 for a notional amount of \$100 million, whereby the Company is entitled to receive semi-annual interest payments at a fixed rate of 7 ¹/₈% per annum and is obligated to make semi-annual interest payments at a floating rate, which is adjusted every 90 days, based on LIBOR plus a fixed margin. The swap agreement, scheduled to terminate on December 15, 2021, is designated as a fair value hedge of a portion of the Company's 7 ¹/₈% senior notes, as the derivative has been tested to be highly effective in offsetting changes in the fair value of the underlying note. As this derivative is classified as a fair value hedge, the changes in the fair value of the derivative are offset against the changes in the fair value of the underlying note in interest expense, net (see note 13). The Company previously had an interest rate swap agreement for a notional amount of \$150 million related to its 6 ⁷/₈% senior notes that was designated as a fair value hedge. In February 2012, the Company sold this interest rate swap to the counterparty for approximately \$1.2 million.

As of March 31, 2013, the Company's maximum additional consideration payable as a result of prior acquisitions was approximately \$10.0 million. The Company has recorded a current liability of approximately \$9.0 million, which represents the Company's estimate of the fair value of the maximum contingent consideration payable. The fair value of the contingent consideration was determined using a probability-weighted discounted cash flow approach at the acquisition and reporting date. The approach is based on significant inputs that are not observable in the market, which are referred to as Level 3 inputs. The fair value is based on the acquired companies reaching specific performance metrics.

In accordance with authoritative guidance, non-financial assets and non-financial liabilities are remeasured at fair value on a non-recurring basis. In determining estimated fair value of acquired goodwill, we use various sources and types of information, including, but not limited to, quoted market prices, replacement cost estimates, accepted valuation techniques such as discounted cash flows, and existing carrying value of acquired assets. As necessary, we utilize third-party appraisal firms to assist us in determining fair value of inventory, identifiable intangible assets, and any other significant assets or liabilities. During the measurement period and as necessary, we adjust the preliminary purchase price allocation if we obtain more information regarding asset valuations and liabilities assumed. During the three months ended March 31, 2013, the Company revised its fair value estimate of contingent consideration payable due to changes in certain performance metrics. The adjustment was recorded in general and administrative expense in the consolidated statement of income.

The fair value of the Company's cash equivalents, accounts receivable and current maturities of long-term debt approximates their carrying amounts. The fair value of the Company's long-term debt was approximately \$1,994.6 million and \$1,960.0 million at March 31, 2013 and December 31, 2012, respectively. The fair value of these debt instruments is determined by reference to the market value of the instrument as quoted in an over-the-counter market.

Table of Contents**(13) Derivative Financial Instruments**

From time to time, the Company may employ interest rate swaps in an attempt to achieve a more balanced debt portfolio. The Company does not use derivative financial instruments for trading or speculative purposes.

In April 2012, the Company entered into an interest rate swap for a notional amount of \$100 million related to its 7¹/₈% senior notes maturing in December 2021. This transaction is designated as a fair value hedge since the swap hedges against the change in fair value of fixed rate debt resulting from changes in interest rates. The Company recorded a derivative asset of \$1.4 million and \$1.3 million within intangible and other long term assets in the consolidated balance sheet at March 31, 2013 and December 31, 2012, respectively. The change in fair value of the interest rate swap is included in the adjustments to reconcile net income to net cash provided by operating activities in the consolidated statement of cash flows.

The Company previously had an interest rate swap agreement for a notional amount of \$150 million related to its 6⁷/₈% senior notes maturing in June 2014 that was designated as a fair value hedge. In February 2012, the Company sold this interest rate swap to the counterparty for approximately \$1.2 million.

The location and effect of the derivative instrument on the condensed consolidated statement of operations for the three months ended March 31, 2013, presented on a pre-tax basis, is as follows (in thousands):

Interest rate swap	Interest expense, net	\$ 1,063
Hedged item - debt	Interest expense, net	(1,191)
		\$ (128)

For the three months ended March 31, 2013, approximately \$0.1 million of interest income was related to the ineffectiveness associated with these fair value hedges. Hedge ineffectiveness represents the difference between the changes in fair value of the derivative instruments and the changes in fair value of the fixed rate debt attributable to changes in the benchmark interest rate.

(14) Income Taxes

The Company follows authoritative guidance surrounding accounting for uncertainty in income taxes. It is the Company's policy to recognize interest and applicable penalties, if any, related to uncertain tax positions in income tax expense. The Company had approximately \$26.4 million of unrecorded tax benefits at March 31, 2013 and December 31, 2012, all of which would impact the Company's effective tax rate if recognized.

In addition to its U.S. federal tax return, the Company files income tax returns in 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 2008.

(15) Commitments and Contingencies

The Company's wholly owned subsidiary, Hallin Marine, is the lessee of a dynamically positioned subsea vessel under a capital lease expiring in 2019 with a two year renewal option. Hallin Marine owns a 5% equity interest in the entity that owns this leased asset. The lessor's debt is non-recourse to the Company. The amount of the asset and liability under this capital lease is recorded at the present value of the lease payments. The vessel's gross asset value under the capital lease was approximately \$37.6 million at inception and accumulated depreciation through March 31, 2013 and December 31, 2012 was approximately \$13.2 million and \$12.2 million, respectively. As of March 31, 2013 and December 31, 2012, the Company had approximately \$24.6 million and \$25.6 million, respectively, included in other long-term liabilities, and approximately \$4.0 million and \$3.9 million, respectively, included in accounts payable related to the obligations under this capital lease. The future minimum lease payments under this capital lease are approximately \$2.9 million, \$4.2 million, \$4.6 million, \$5.0 million, \$5.4 million and \$5.9 million for the nine months ending December 31, 2013 and the years ending December 31, 2014, 2015, 2016, 2017 and 2018, respectively, exclusive of interest at an annual rate of 8.5%. For the three months ended March 31, 2013 and 2012, the Company recorded interest expense of approximately \$0.6 million and \$0.7 million, respectively, in connection with this capital lease.

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

Due to the nature of the Company's business, the Company is involved, from time to time, in routine litigation or subject to disputes or claims regarding its business activities. Legal costs related to these matters are expensed as incurred. In management's opinion, none of the pending litigation, disputes or claims is expected to have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Table of Contents

(16) **Related Party Disclosures**

The Company believes transactions with these related parties have terms and conditions no less favorable than transactions with unaffiliated parties. Subsequent to the acquisition of Complete, the Company purchases services, products and equipment from companies affiliated with an officer of one of its subsidiaries. For the three months ended March 31, 2013 and 2012, these purchases totaled approximately \$45.4 million and \$71.4 million, respectively. For the three months ended March 31, 2013, approximately \$16.0 million was purchased from ORTEQ Energy Services, a heavy equipment construction company which also manufactures pressure pumping equipment, approximately \$0.1 million was purchased from Ortowski Construction, primarily related to the manufacture of pressure pumping units, approximately \$4.0 million was purchased from Resource Transport, LLC, approximately \$19.8 million was purchased from Texas Specialty Sands, LLC primarily for the purchase of sand used for pressure pumping activities, approximately \$5.3 million was purchased from ProFuel, LLC, and approximately \$0.2 million was related to facilities leased from Timber Creek Real Estate Partners. From the date of acquisition of Complete through March 31, 2012, approximately \$39.6 million was purchased from ORTEQ Energy Services, approximately \$0.1 million was purchased from Ortowski Construction, approximately \$1.9 million was purchased from Resource Transport, LLC, approximately \$25.3 million was purchased from Texas Specialty Sands, LLC, and approximately \$4.5 million was purchased from ProFuel, LLC. As of March 31, 2013, the Company's trade accounts payable includes amounts due to these companies totaling approximately \$12.1 million, of which approximately \$3.3 million was due ORTEQ Energy Services, approximately \$1.2 million was due Resource Transport, LLC, approximately \$6.0 million was due Texas Specialty Sands, LLC, and approximately \$1.6 million was due ProFuel, LLC. No amounts were due Ortowski Construction and Timber Creek Real Estate Partners. As of December 31, 2012, the Company's trade accounts payable includes amounts due to these companies totaling approximately \$23.2 million, of which approximately \$13.4 million was due ORTEQ Energy Services, approximately \$1.3 million was due Resource Transport, LLC, approximately \$6.9 million was due Texas Specialty Sands, LLC, and approximately \$1.6 million was due ProFuel, LLC. No amounts were due Ortowski Construction and Timber Creek Real Estate Partners.

In May 2012, the Company's President and Chief Executive Officer was appointed as an independent director of the board of Linn Energy, LLC (Linn), an independent oil and natural gas development company with focus areas in the mid-continent, including the Permian Basin, the Hugoton Basin, the Powder River Basin, the Williston Basin, Michigan, and California. The Company recorded revenues from Linn of approximately \$6.8 million for the three months ended March 31, 2013. The Company had trade receivables from Linn of approximately \$3.5 million and \$3.3 million as of March 31, 2013 and December 31, 2012, respectively.

(17) **Subsequent Events**

In accordance with authoritative guidance, the Company has evaluated and disclosed all material subsequent events that occurred after the balance sheet date but before financial statements were issued.

(18) **Recently Issued Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board issued ASU 2013-02, Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). ASU 2013-02 is an update to existing guidance on the presentation of comprehensive income. This update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income (AOCI) by component. For significant items reclassified out of AOCI to net income in their entirety during the reporting period, companies must report the effect on the line items in the statement where net income is presented. For significant items not reclassified to net income in their entirety during the period, companies must provide cross references in the notes to other disclosures that already provide information about those amounts. The Company adopted this update effective January 1, 2013, and it did not have a material impact on the condensed consolidated financial statements.

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

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 market and industry 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: risks inherent in acquiring businesses, including the ability to successfully integrate Complete's operations into our legacy operations and the costs incurred in doing so; the effect of regulatory programs and environmental matters on our performance, including the risk that future changes in the regulation of hydraulic fracturing could reduce or eliminate demand for our pressure pumping services; risks associated with business growth outpacing the capabilities of our infrastructure and workforce; risks associated with the uncertainty of macroeconomic and business conditions worldwide; the cyclical nature and volatility of the oil and gas industry, including the level of offshore exploration, production and development activity and the volatility of oil and gas prices; changes in competitive factors affecting our operations; political, economic and other risks and uncertainties associated with international operations; the lingering impact on exploration and production activities in the U.S. coastal waters following the Deepwater Horizon incident; the impact that unfavorable or unusual weather conditions could have on our operations; the potential shortage of skilled workers; our dependence on certain customers; the risks inherent in long-term fixed-price contracts; and, operating hazards, including the significant possibility of accidents resulting in personal injury or death, property damage or environmental damage. These risks and other uncertainties related to our business are described in detail in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012. 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. Investors are cautioned that many of the assumptions on which our forward-looking statements are based are likely to change after our forward-looking statements are made, including for example the market prices of oil and natural gas and regulations affecting oil and gas operations, which we cannot control or anticipate. Further, we may make changes to our business plans that could or will affect our results. We undertake no obligation to update any of our forward-looking statements and we do not intend to update our forward-looking statements more frequently than quarterly, notwithstanding any changes in our assumptions, changes in our business plans, our actual experience, or other changes. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Executive Summary

On February 7, 2012, we closed our acquisition of Complete Production Services, Inc. (Complete). Our results for the three months ended March 31, 2012 include only a partial quarter of contribution from the legacy Complete businesses. Given the substantial nature of this acquisition and its impact on our financial performance, comparisons between the three months ended March 31, 2013 and 2012 for our Onshore Completion and Workover Services and Production Services segments may not be meaningful.

For the three months ended March 31, 2013, revenue was \$1,135.5 million, net income was \$63.7 million and diluted earnings per share was \$0.40.

First quarter 2013 revenue for the Drilling Products and Services segment was \$194.0 million, as compared with \$192.7 million in the fourth quarter of 2012, a 1% sequential increase. U.S. land revenue decreased sequentially to \$73.9 million due to a decrease in demand for accommodations and premium drill pipe, partially offset by an increase in rentals of bottom hole assemblies. International revenue increased sequentially to approximately \$50.1 million primarily due to rentals of accommodation units. Gulf of Mexico revenue increased 2% sequentially to approximately \$70.0 million as the deepwater market remained strong.

Revenue for the three months ended March 31, 2013 in our Onshore Completion and Workover Services segment was \$426.0 million, a 2% sequential increase. Virtually all of this segment's revenue is derived from the U.S. land market area. Our pressure pumping and well services businesses experienced increases in revenue, which were partially offset by decreased fluid management revenue due to weather related declines in utilization.

First quarter 2013 revenue in our Production Services segment decreased 1% sequentially to \$367.4 million. U.S. land revenue decreased 3% to \$216.7 million primarily due to declines in hydraulic workover and snubbing and remedial pumping revenue. Revenue in the Gulf of Mexico market area decreased 5% to \$53.9 million as seasonal factors lead to declines in coiled tubing and wireline activity. Revenue from international market areas increased 7% to \$96.8 million primarily due to increased production testing activity in Argentina, remedial pumping in Brazil and cementing activity from our recent acquisition in Colombia.

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

First quarter 2013 revenue in our Subsea and Technical Solutions segment decreased to \$148.1 million, which represents a 25% sequential decline. This segment was greatly impacted by seasonality, both in the Gulf of Mexico and in the Asia Pacific market areas. U.S. land revenue increased 8% to \$16.2 million. Gulf of Mexico revenue declined 4% to \$84.1 million due to seasonal factors

Table of Contents

that resulted in lower utilization in our well control and platform decommissioning services. Revenue from international market areas decreased 50% to \$47.8 million primarily due to decreases in subsea construction work in the Asia Pacific market area, and to well control projects that did not repeat.

Comparison of the Results of Operations for the Three Months Ended March 31, 2013 and 2012

For the three months ended March 31, 2013, our revenues were \$1,135.5 million, resulting in net income of \$63.7 million, or \$0.40 diluted earnings per share. For the three months ended March 31, 2012, revenues were \$996.8 million and net income from continuing operations was \$70.2 million, or \$0.55 diluted earnings per share from continuing operations. Revenues and costs of service for the three months ended March 31, 2012 include only a partial quarter of contribution from the businesses acquired from Complete in February 2012. The businesses acquired from Complete are reported within the Onshore Completion and Workover Services and Production Services segments.

The following table compares our operating results for the three months ended March 31, 2013 and 2012 (in thousands, except percentages). Cost of services excludes depreciation, depletion, amortization and accretion.

	Revenue			Cost of Services				
	2013	2012	Change	2013	%	2012	%	Change
Drilling Products and Services	\$ 193,979	\$ 189,357	\$ 4,622	\$ 64,645	33%	\$ 62,566	33%	\$ 2,079
Onshore Completion and Workover Services	425,983	279,676	146,307	281,739	66%	185,662	66%	96,077
Production Services	367,397	354,041	13,356	253,055	69%	198,015	56%	55,040
Subsea and Technical Solutions	148,120	143,763	4,357	108,048	73%	100,524	70%	7,524
Total	\$ 1,135,479	\$ 966,837	\$ 168,642	\$ 707,487	62%	\$ 546,767	57%	\$ 160,720

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

Drilling Products and Services Segment

Revenue from our Drilling Products and Services segment for the three months ended March 31, 2013 was \$194.0 million, as compared to \$189.4 million for the same period in 2012. Cost of rentals and sales as a percentage of revenue remained constant at 33% of segment revenue for the three months ended March 31, 2013 as compared to the same period in 2012. Revenue derived from the U.S. land market area decreased approximately 19% for the three months ended March 31, 2013 over the same period in 2012 primarily due to decreased demand for premium drill pipe and accommodations. Revenue generated in our international market areas increased 5% during the quarter ended March 31, 2013 over the same period in 2012 primarily due to increases in rentals of premium drill pipe. Revenue from our Gulf of Mexico market area increased approximately 38% due to increases in most of our product lines within this segment, particularly premium drill pipe.

Onshore Completion and Workover Services Segment

Revenue from our Onshore Completion and Workover Services segment was \$426.0 million for the first quarter of 2013, as compared to \$279.7 million for the same period in 2012. Virtually all of this segment's revenue is derived from the U. S. land market area. The substantial year over year increase is primarily related to the fact that this segment is comprised of businesses acquired from Complete in February 2012. Cost of services as a percentage of revenue remained constant at 66% for the three months ended March 31, 2013 and 2012.

Production Services Segment

Revenue from our Production Services segment for the three months ended March 31, 2013 was \$367.4 million, as compared to \$354.0 million for the same period in 2012. Cost of services as a percentage of revenue increased to 69% from 56% in the first quarter of 2012. The slight increase in revenue and the increase in cost of services as a percentage of revenue despite having a full quarter of contributions from the businesses acquired from Complete is largely due to lower pricing and utilization in our coiled tubing business in the U.S. land market area. Revenue from the U.S. land market area decreased 15% as we experienced declines in coiled tubing, wireline and hydraulic workover and snubbing activity. Revenue derived from the Gulf of Mexico market area increased 59% due to increased demand for pressure control, hydraulic workover and snubbing and wireline services. Revenue from international market areas increased 49% primarily due to our acquisition of a well testing and wireline company in Argentina in late 2012 and to increased demand for coiled tubing services in Mexico.

Table of Contents**Subsea and Technical Solutions Segment**

Revenue from our Subsea and Technical Solutions segment for the three months ended March 31, 2013 was \$148.1 million, as compared to \$143.8 million for the same period in 2012. Cost of sales increased to 73% of segment revenue for the three month period ended March 31, 2013 from 70% in the same period in 2012. Revenue in our Gulf of Mexico market area increased 24% year over year primarily due to an increase in well control work and sand control and stimulation services. These increases were partially offset by decreases in oil and gas sales and end of life services. Revenue in our international market areas decreased 18% as a result of lower utilization of our subsea construction vessels in the Asia Pacific market area. Revenue in our U.S. land market area decreased 5% as a result of decreased demand for sand control and stimulation services.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion increased to \$149.6 million in the three months ended March 31, 2013 from \$102.6 million for the same period in 2012. Depreciation and amortization expense increased within our Drilling Products and Services segment by \$5.2 million, or 14%, from the same period in 2012 due to 2012 and 2013 capital expenditures. Depreciation and amortization expense in our Onshore Completion and Workover Services segment increased by \$29.3 million, or 120%, as the product offerings comprising this segment were acquired in the Complete acquisition. Depreciation and amortization expense within our Production Services segment increased by \$14.2 million, or 51%, partly because a portion of the product offerings comprising this segment were acquired in the Complete acquisition; the remainder of the increase is attributable to 2012 and 2013 capital expenditures. Depreciation, depletion, amortization and accretion expense related to our Subsea and Technical Solutions segment for the three months ended March 31, 2013 decreased by approximately \$1.7 million from the same period in 2012. Increases related to 2012 and 2013 capital expenditures were offset by decreased depreciation of our subsea intervention vessels as a result of lower utilization.

General and Administrative Expenses

General and administrative expenses were \$150.2 million for the three months ended March 31, 2013 compared to \$176.0 million for the same period in 2012. The three months ended March 31, 2012 included only a partial quarter's contribution from the legacy Complete businesses. However, there were approximately \$28.7 million of acquisition related expenses recorded during the same period. Excluding those two factors results in a year over year decrease in general and administrative expenses due in part to decreases in insurance expense, compensation related expenses, and gain (loss) on foreign currency translation.

Liquidity and Capital Resources

In the three months ended March 31, 2013, we generated net cash from operating activities of \$136.7 million, as compared to \$94.1 million in the same period of 2012. Our primary liquidity needs are for working capital and to fund capital expenditures, debt service and acquisitions. Our primary sources of liquidity are cash flows from operations and available borrowings under the revolving portion of our credit facility. We had cash and cash equivalents of \$77.1 million at March 31, 2013 compared to \$91.2 million at December 31, 2012. At March 31, 2013, approximately \$58.0 million of our cash balance was held outside the U.S. Cash balances held in foreign jurisdictions can be repatriated to the U.S.; however, they would be subject to federal income taxes, less applicable foreign tax credits. The Company has not provided U.S. income tax expense on earnings of its foreign subsidiaries, other than foreign subsidiaries acquired in the Complete acquisition, because it expects to reinvest the undistributed earnings indefinitely.

We spent \$157.7 million of cash on capital additions during the three months ended March 31, 2013, a portion of which related to 2012 capital additions. Approximately \$30.2 million, \$44.5 million and \$29.7 million was used to expand and maintain the asset bases of our Onshore Completion and Workover Services, Production Services and Subsea and Technical Solutions segments, respectively, and approximately \$53.3 million was used to expand and maintain our Drilling Products and Services equipment inventory.

We have a \$1.0 billion bank credit facility which is comprised of a revolving portion of \$600 million and a \$400 million term loan. The principal balance of the term loan is payable in installments of \$5.0 million on the last day of each fiscal quarter, which began on June 30, 2012. Any amounts outstanding on the bank revolving credit facility and the term loan are due on February 7, 2017. At March 31, 2013, we had \$35.0 million outstanding under the revolving portion of our credit facility with a weighted average interest rate of 4.25% per annum. The average amount outstanding under the revolving portion of our credit facility during first quarter was approximately \$45.9 million with a weighted average interest rate of 3.27% per annum. The maximum amount outstanding under the revolving portion of our credit facility during the first quarter was \$110.0 million, primarily related to a \$123.0 million income tax payment made during the quarter. As of April 26, 2013, we had \$40.0 million outstanding under the revolving portion of our credit facility, along with \$56.5 million of letters of credit outstanding, which reduce our borrowing capacity under this credit facility. Borrowings under the credit facility bear interest at LIBOR plus margins that depend on

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

our leverage ratio. Indebtedness under the credit facility is secured by substantially all of our assets, including the pledge of the stock of our principal domestic 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 or incur additional indebtedness. At March 31, 2013, we were in compliance with all such covenants.

Table of Contents

We have outstanding \$150 million of 6⁷/₈% unsecured senior notes due 2014. The indenture governing the senior notes requires semi-annual interest payments on June 1st and December 1st of each year 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. At March 31, 2013, we were in compliance with all such covenants. We anticipate redeeming these notes during the second quarter of 2013 using cash generated from operations and borrowings under the revolving portion of our credit facility.

We have outstanding \$500 million of 6³/₈% unsecured senior notes due 2019. The indenture governing the senior notes requires semi-annual interest payments on May 1st and November 1st of each year through the maturity date of May 1, 2019. 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. At March 31, 2013, we were in compliance with all such covenants.

We also have outstanding \$800 million of 7¹/₈% unsecured senior notes due 2021. The indenture governing the 7¹/₈% senior notes requires semi-annual interest payments on June 15th and December 15th of each year through the maturity date of December 15, 2021. 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. At March 31, 2013, we were in compliance with all such covenants.

Our current long-term issuer credit rating is BBB- by Standard and Poor's and Ba1 by Moody's. Moody's upgraded our corporate credit rating from Ba2 to Ba1 with a stable outlook on October 10, 2012.

We currently believe that we will spend approximately \$450 million to \$550 million on capital expenditures, excluding acquisitions, during the remaining nine months of 2013. We believe that our current working capital, cash generated from our operations and availability under the revolving portion of our credit facility will provide sufficient funds for our identified capital projects.

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 under 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 credit facility.

Off-Balance Sheet Financing Arrangements

We have no off-balance sheet financing arrangements other than a guarantee on the performance of certain decommissioning liabilities. We do not have any other financing arrangements that are not required under generally accepted accounting principles to be reflected in our financial statements.

In accordance with authoritative guidance related to guarantees, we have assigned an estimated value of \$2.6 million at March 31, 2013 and December 31, 2012, which is reflected in other long-term liabilities, related to decommissioning activities in connection with oil and gas properties acquired by SPN Resources prior to its sale to Dynamic Offshore. The Company believes that the likelihood of being required to perform these guarantees is remote. In the unlikely event of default on any remaining decommissioning liabilities, the total maximum potential obligation under these guarantees is estimated to be approximately \$122.3 million, net of the contractual right to receive payments from third parties, which is approximately \$24.6 million, as of March 31, 2013. The total maximum potential obligation will decrease over time as the underlying obligations are fulfilled.

Hedging Activities

In April 2012, we entered into an interest rate swap related to our 7¹/₈% senior notes maturing in December 2021 for a notional amount of \$100 million, whereby we are entitled to receive semi-annual interest payments at a fixed rate of 7¹/₈% per annum and are obligated to make semi-annual interest payments at a variable rate. The variable interest rate, which is adjusted every 90 days, is based on LIBOR plus a fixed margin and is scheduled to terminate on December 15, 2021.

Recently Issued Accounting Pronouncements

See Part I, Item 1, Financial Statements Note 18 Recently Issued Accounting Pronouncements.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risks associated with foreign currency fluctuations and changes in interest rates. A discussion of our market risk exposure in financial instruments follows.

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 certain operations in Canada, the United Kingdom and Europe, 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.

Assets and liabilities of certain subsidiaries in Canada, the United Kingdom and Europe are translated at end of period exchange rates, while income and expenses are translated at average rates for the period. Translation gains and losses are reported as the foreign currency translation component of accumulated other comprehensive loss in stockholders' equity.

We do not hold derivatives for trading purposes or use derivatives with complex features. When we believe prudent, we enter into forward foreign exchange contracts to hedge the impact of foreign currency fluctuations. The forward foreign exchange contracts we enter into generally have maturities ranging from one to eighteen months. We do not enter into forward foreign exchange contracts for trading purposes. As of March 31, 2013, we had no outstanding foreign currency forward contracts.

Interest Rate Risk

At March 31, 2013, our debt was comprised of the following (in thousands):

	Fixed Rate Debt	Variable Rate Debt
Credit facility term loan due 2017	\$	\$ 380,000
Revolving credit facility due 2017		35,000
6 ⁷ / ₈ % Senior notes due 2014	150,000	
6 ³ / ₈ % Senior notes due 2019	500,000	
7 ¹ / ₈ % Senior notes due 2021	700,000	100,000
Total Debt	\$ 1,350,000	\$ 515,000

Based on the amount of this debt outstanding at March 31, 2013, a 10% increase in the variable interest rate would increase our interest expense for the three months ended March 31, 2013 by approximately \$0.4 million, while a 10% decrease would decrease our interest expense by approximately \$0.4 million.

Commodity Price Risk

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

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

Table of Contents**Item 4. Controls and Procedures**

- a. Evaluation of disclosure controls and procedures. As of the end of the period covered by this quarterly report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) 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 accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.
- b. Changes in internal control. There has been no change in our internal control over financial reporting that occurred during the three months ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share
January 1 - 31, 2013	103,489	\$ 23.38
February 1 - 28, 2013	4,193	\$ 26.02
March 1 - 31, 2013	4,786	\$ 26.02
Total	112,468	\$ 23.59

- ⁽¹⁾ Through our stock incentive plans, 112,468 shares were delivered to us by our employees to satisfy their tax withholding requirements upon vesting of restricted stock.

Table of Contents

Item 6. Exhibits

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

- 2.1 Agreement and Plan of Merger Agreement and Plan of Merger, dated October 9, 2011, by and among Superior Energy Services, Inc., SPN Fairway Acquisition, Inc. and Complete Production Services, Inc. (incorporated herein by reference to the Company's Current Report on Form 8-K filed October 12, 2011).
- 3.1 Composite Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Form 10-K filed on February 28, 2012).
- 3.2 Amended and Restated Bylaws of the Company (as amended through March 7, 2012) (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on March 12, 2012).
- 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.
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

* Filed with this Form 10-Q

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: May 3, 2013

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