SUPERIOR ENERGY SERVICES INC
Form 10-Q
November 08, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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)

Delaware	**75-2379388**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11000 Equity Drive, Suite 300	
Houston, TX	**77041**
(Address of principal executive offices)	**(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 x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer	¨ (do not check if smaller reporting company)	Smaller reporting company	¨

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

The number of shares of the registrant s common stock outstanding on November 2, 2012 was 157,696,044.

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for

the Quarterly Period Ended September 30, 2012

TABLE OF CONTENTS

		Page
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	3
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	34
Item 4.	Controls and Procedures	35
PART II.	**OTHER INFORMATION**	
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 6.	Exhibits	36

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2012 and December 31, 2011

(in thousands, except share data)

	9/30/2012 (Unaudited)	12/31/2011 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 79,086	$ 80,274
Accounts receivable, net of allowance for doubtful accounts of $23,456 and $17,484 at September 30, 2012 and December 31, 2011, respectively	1,129,714	540,602
Deferred income taxes	31,306	
Prepaid expenses	102,206	34,037
Inventory and other current assets	180,197	228,309
Available-for-sale securities	20,321	
Total current assets	1,542,830	883,222
Property, plant and equipment, net of accumulated depreciation and depletion of $1,220,148 and $970,137 at September 30, 2012 and December 31, 2011, respectively	3,163,273	1,507,368
Goodwill	2,528,312	581,379
Notes receivable	44,129	73,568
Equity-method investments		72,472
Intangible and other long-term assets, net of accumulated amortization of $43,994 and $20,123 at September 30, 2012 and December 31, 2011, respectively	511,074	930,136
Total assets	$ 7,789,618	$ 4,048,145
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 268,812	$ 178,645
Accrued expenses	360,647	197,574
Income taxes payable	148,857	717
Current maturities of long-term debt	20,000	810
Deferred income taxes		831
Current portion of decommissioning liabilities		14,956
Total current liabilities	798,316	393,533
Deferred income taxes	727,034	297,458
Decommissioning liabilities	91,012	108,220
Long-term debt, net	1,909,416	1,685,087
Other long-term liabilities	114,771	110,248
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 157,190,721, Outstanding 157,702,507 at September 30, 2012		

Authorized 125,000,000, Issued and Outstanding, 80,425,443 at December 31, 2011	157	80
Additional paid in capital	2,846,236	447,007
Accumulated other comprehensive loss, net	(20,432)	(26,936)
Retained earnings	1,323,108	1,033,448
Total stockholders equity	4,149,069	1,453,599
Total liabilities and stockholders equity	$ 7,789,618	$ 4,048,145

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, 2012 and 2011

(in thousands, except per share data) (unaudited)

	Three Months		Nine Months	
	2012	2011 *	2012	2011 *
Revenues	$ 1,179,665	$ 537,042	$ 3,389,821	$ 1,401,932
Costs and expenses:				
Cost of services (exclusive of items shown separately below)	708,608	285,124	1,966,659	752,813
Depreciation, depletion, amortization and accretion	128,160	61,807	366,272	177,651
General and administrative expenses	163,458	93,813	496,998	272,243
Income from operations	179,439	96,298	559,892	199,225
Other income (expense):				
Interest expense, net	(28,118)	(18,894)	(88,101)	(47,309)
Loss on early extinguishment of debt	(2,294)		(2,294)	
Earnings (losses) from equity-method investments, net		8,198	(287)	13,724
Gain on sale of equity-method investments			17,880	
Income from continuing operations before income taxes	149,027	85,602	487,090	165,640
Income taxes	55,140	30,803	180,223	59,589
Net income from continuing operations	93,887	54,799	306,867	106,051
Income (loss) from discontinued operations, net of income tax		4,781	(17,207)	17,141
Net income	$ 93,887	$ 59,580	$ 289,660	$ 123,192
Earnings (loss) per share information:				
Continuing operations	$ 0.60	$ 0.69	$ 2.09	$ 1.33
Discontinued operations		0.06	(0.11)	0.22
Basic earnings per share	$ 0.60	$ 0.75	$ 1.98	$ 1.55
Continuing operations	$ 0.59	$ 0.67	$ 2.07	$ 1.31
Discontinued operations		0.06	(0.12)	0.21
Diluted earnings per share	$ 0.59	$ 0.73	$ 1.95	$ 1.52
Weighted average common shares used in computing earnings per share:				
Basic	157,153	79,836	146,611	79,537
Incremental common shares from stock based compensation	1,423	1,418	1,758	1,588
Diluted	158,576	81,254	148,369	81,125

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2012 and 2011

(in thousands) (unaudited)

	Three Months		Nine Months	
	2012	2011 *	2012	2011 *
Net income	$ 93,887	$ 59,580	$ 289,660	$ 123,192
Unrealized net gain (loss) on investment securities, net of tax (expense) benefit of ($1,291) and $377 for the three and nine months ended September 30, 2012, respectively	2,198		(642)	
Change in cumulative translation adjustment	7,216	(6,027)	7,146	2,539
Comprehensive income	$ 103,301	$ 53,553	$ 296,164	$ 125,731

See accompanying notes to consolidated financial statements.

* As adjusted for discontinued operations

4

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2012 and 2011

(in thousands)

(unaudited)

	2012	2011
Cash flows from operating activities:		
Net income	$ 289,660	$ 123,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	367,518	187,552
Deferred income taxes	(14,745)	38,900
Excess tax benefit from stock-based compensation	(1,537)	(10,262)
Gain on sale of equity-method investment	(17,880)	
Stock based and performance share unit compensation expense	27,845	10,273
Retirement and deferred compensation plan expense	1,455	1,994
(Earnings) losses from equity-method investments, net of cash received	3,340	(12,187)
Amortization of debt acquisition costs and note discount	7,439	19,333
(Gain) loss sale of businesses	6,649	(8,558)
Writeoff of debt acquisition costs and note discount	3,460	
Other reconciling items, net	1,582	(4,659)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(144,316)	(28,599)
Inventory and other current assets	85,119	11,415
Accounts payable	(757)	3,064
Accrued expenses	(29,835)	27,207
Decommissioning liabilities	(4,624)	
Income taxes	141,916	777
Other, net	(25,701)	2,683
Net cash provided by operating activities	696,588	362,125
Cash flows from investing activities:		
Payments for capital expenditures	(918,193)	(329,229)
Purchases of short-term investments, net		(223,491)
Sale of available-for-sale securities	31,150	
Change in restricted cash held for acquisition of business	785,280	
Acquisitions of businesses, net of cash acquired	(1,072,532)	(748)
Cash proceeds from sale of businesses	183,094	22,349
Cash proceeds from sale of equity-method investment	34,087	
Other	28,438	(720)
Net cash used in investing activities	(928,676)	(531,839)
Cash flows from financing activities:		
Net payments on revolving line of credit	15,000	(175,000)
Proceeds from issuance of long-term debt	400,000	500,000
Principal payments on long-term debt	(172,546)	(405)
Payment of debt acquisition costs	(25,266)	(9,558)
Proceeds from exercise of stock options	13,915	10,211
Excess tax benefit from stock-based compensation	1,537	10,262

Proceeds from issuance of stock through employee benefit plans	2,193	1,702
Other	(5,843)	(8,453)
Net cash provided by financing activities	228,990	328,759
Effect of exchange rate changes on cash	1,910	409
Net increase (decrease) in cash and cash equivalents	(1,188)	159,454
Cash and cash equivalents at beginning of period	80,274	50,727
Cash and cash equivalents at end of period	$ 79,086	$ 210,181

See accompanying notes to consolidated financial statements.

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2012

(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, 2011, except the portions updated by the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 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 and nine months ended September 30, 2012 and 2011 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 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 2012 presentation.

(2) Acquisitions

Complete Production Services

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 focuses 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 are located throughout the U.S. and Mexico. The acquisition of Complete substantially expanded the size and scope of services of the Company. Management believes that this acquisition positions the combined company to be better equipped to compete with the larger oilfield service companies and to expand internationally. All of Complete s operations have been reported in the subsea and well enhancement segment.

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.

Complete s stock options and shares of restricted stock outstanding at closing were converted into the Company s options and restricted stock using a conversion ratio of 1.1999. The estimated fair value associated with the Company s options issued in exchange for Complete s options was approximately $58.1 million based on a Black-Scholes valuation model. $56.6 million of this value was attributable to service rendered prior to the date of acquisition, of which $52.7 million was recorded as part of the consideration transferred and $3.9 million was recorded as an expense. The remaining $1.5 million will be expensed over the remaining service term of the replacement stock option awards. In addition, $0.6 million of replacement restricted stock awards was attributable to service rendered prior to the date of acquisition and recorded as part of the consideration transferred. An additional $18.2 million will be expensed over the remaining service term of the replacement restricted stock awards.

Table of Contents

The transaction has been accounted for using the acquisition method of accounting which requires that, among other things, assets acquired and liabilities assumed be recorded at their fair values as of the acquisition date. The Company has not finalized the determination of the fair values of the assets acquired and liabilities assumed and, therefore, the fair values set forth are subject to adjustment as the valuations are completed. Under U.S. GAAP, companies have up to one year following an acquisition to finalize acquisition accounting. The following table summarizes the consideration paid and the provisional fair value of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Assets:	
Current assets	$ 751,706
Property, plant and equipment	1,223,448
Goodwill	1,922,277
Intangible and other long-term assets	370,377
Liabilities:	
Current liabilities	236,986
Deferred income taxes	435,904
Other long-term liabilities	4,125
Net assets acquired	$ 3,590,793

Included in current assets acquired is approximately $214.6 million of cash, and accounts receivable, including unbilled receivables, with a fair value of approximately $443.7 million. The gross amount due from customers is approximately $449.0 million, of which approximately $5.3 million is deemed to be doubtful.

Property, Plant and Equipment

A step-up adjustment of approximately $45.8 million was recorded to present property, plant and equipment acquired at its estimated fair value. The preliminary weighted average useful life used to calculate depreciation of the step-up related to property, plant and equipment is approximately 5 years.

Goodwill

Goodwill of approximately $1,922.3 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. It includes access to new product and service offerings, an experienced management team and workforce, and other benefits that the Company believes will result from the combination of the operations, and any other intangible assets that do not qualify for separate recognition. None of the goodwill related to this acquisition will be deductible for tax purposes. All of the goodwill has been assigned to the subsea and well enhancement segment.

Intangible Assets

The Company identified intangible assets related to trade names and customer relationships. The following table summarizes the fair value estimates recorded for the identifiable intangible assets (in thousands) and their estimated useful lives:

	Estimated Fair Value	Estimated Useful Life
Customer relationships	$ 315,000	17 years
Trade names	35,000	10 years
Total identifiable intangible assets	$ 350,000	

Deferred Income Taxes

The Company provided deferred income taxes and other tax liabilities as part of the acquisition accounting related to the estimated fair value of acquired intangible assets and property, plant and equipment, as well as for uncertain tax positions taken in prior year tax returns. An adjustment of approximately $132.0 million was recorded to present the deferred tax assets and liabilities and other tax liabilities at fair value. The Company is still assessing the factors that impact deferred tax assets and liabilities related to this acquisition. These assets and liabilities will be revised when the assessment is finalized.

Table of Contents

Acquisition Related Expenses

Acquisition related expenses totaled approximately $33.5 million, of which approximately $29.0 million was recorded in the nine months ended September 30, 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.

Other Acquisitions

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. This acquisition provides the Company with a platform for the continued expansion in the South American market area. The Company paid $25.5 million at closing with an additional $5.6 million payable based upon the finalized shareholders equity as of the closing date. The Company has also recorded a current liability of approximately $4.5 million for contingent consideration based upon certain performance metrics. Additionally, the Company deposited $8.0 million in an escrow account on behalf of the sellers for the settlement of certain liabilities. Goodwill of approximately $22.6 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 has been assigned to the subsea and well enhancement segment.

Current Earnings and Pro Forma Impact of Acquisitions

The revenue and earnings related to Complete and certain other acquisitions included in the Company s condensed consolidated statement of operations for the three and nine months ended September 30, 2012, and the revenue and earnings of the Company on a consolidated basis as if these acquisitions had occurred on January 1, 2011, are as follows. The earnings related to Complete and certain other acquisitions included in the Company s condensed consolidated statement of operations for the nine months ended September 30, 2012 do not include interest expense or other corporate costs. The pro forma results include (i) the amortization associated with the acquired intangible assets, (ii) additional depreciation expense related to adjustments to property, plant and equipment, (iii) additional interest expense associated with debt used to fund a portion of the acquisitions, (iv) a reduction to interest expense associated with repayment of the acquirees debt, and (v) operating results of certain acquisitions of Complete prior to February 7, 2012, including costs directly related to these acquisitions. For the nine months ended September 30, 2012, these pro forma results exclude approximately $79.0 million of non-recurring expenses, of which $48.4 million was recorded by Complete prior to February 7, 2012. These nonrecurring expenses include banking, legal, consulting and accounting fees, and change of control and other acquisition related expenses. The pro forma results do not include any potential synergies, cost savings or other expected benefits of the acquisition. Accordingly, the pro forma results should not be considered indicative of the results that would have occurred if the acquisition and related borrowings had been consummated as of January 1, 2011, nor are they indicative of future results. The following amounts are presented in thousands, except per share amounts:

	Revenue	Net income from continuing operations	Basic earnings per share	Diluted earnings per share
Actual results of acquisitions from date of acquisitions through September 30, 2012	$ 1,644,736	$ 195,924	$ 1.34	$ 1.32
Supplemental pro forma for the Company:				
Three months ended September 30, 2012	$ 1,186,161	$ 95,184	$ 0.61	$ 0.60
Nine months ended September 30, 2012	$ 3,678,070	$ 350,297	$ 2.24	$ 2.21
Three months ended September 30, 2011	$ 1,114,552	$ 111,083	$ 0.72	$ 0.71
Nine months ended September 30, 2011	$ 3,003,020	$ 249,724	$ 1.62	$ 1.60

The Company has no off-balance sheet financing arrangements other than potential additional consideration that may be payable as a result of the future operating performance of certain acquired businesses. At September 30, 2012, the maximum additional consideration payable was approximately $14.0 million, of which $3.0 million is attributable to an acquisition that occurred before the Company adopted the revised authoritative guidance for business combinations. Therefore, this $3.0 million is not classified as a liability and is not reflected in the Company s condensed consolidated financial statements until this amount is fixed and determinable. When this amount is determined, it will be capitalized as part of the purchase price of the related acquisition.

8

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 nine months ended September 30, 2012 in connection with this sale. This business was previously reported in the subsea and well enhancement segment. The operations and loss on the sale of this disposal group have been reported within income (loss) from discontinued operations in the condensed consolidated statement of operations for all periods presented.

On March 30, 2012, the Company sold 18 liftboats and related assets comprising its 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 (see note 9). 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 that was 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. During the nine months ended September 30, 2011, the Company sold seven liftboats from the marine segment for approximately $22.3 million, net of sales commissions, and recorded a pre-tax gain of approximately $8.6 million. The operations and loss on the sale of this disposal group have been reported within income (loss) from discontinued operations in the condensed consolidated statement of operations for all periods presented.

The following table summarizes the components of income (loss) from discontinued operations, net of tax for the three months ended September 30, 2011 and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months	Nine Months	
	2011	2012	2011
Revenues	$ 28,300	$ 16,231	$ 88,198
Income (loss) from discontinued operations before income tax	7,492	(8,249)	18,291
Income tax expense (benefit)	2,711	(1,771)	6,605
Gain (loss) on disposition, net of tax (benefit) expense of ($2,391) for the nine months ended September 30, 2012, and $3,103 for the nine months ended September 30, 2011, respectively		(10,729)	5,455
Income (loss) from discontinued operations, net of tax	$ 4,781	$ (17,207)	$ 17,141

The following table presents the assets and liabilities of these disposal groups at December 31, 2011 (in thousands):

Accounts receivable, net	$ 16,342
Prepaid expenses	1,900
Inventory and other current assets	2,371
Current assets of discontinued operations	$ 20,613
Property, plant and equipment, net	170,222
Goodwill	9,740
Intangible and other long-term assets, net	3,875
Long-term assets of discontinued operations	$ 183,837
Accounts payable	$ 1,231
Accrued expenses	13,421

Current maturities of long-term debt		810
Current liabilities of discontinued operations	$	15,462
Long-term debt	$	11,736

Table of Contents

(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.

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, 2012 and 2011 was approximately $3.8 million and $2.5 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. With the exception of the non-vested shares of restricted stock issued as a result of the Complete acquisition, holders of 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 any dividends or other distributions. The Company s compensation expense related to restricted stock for the nine months ended September 30, 2012 and 2011 was approximately $13.1 million and $4.3 million, respectively, which is reflected in general and administrative expenses and cost of services.

Restricted Stock Units

The Company has issued restricted stock units (RSUs) to its non-employee directors under its stock incentive plans. Annually, each non-employee director is issued a number of RSUs having an aggregate dollar value 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 the nine months ended September 30, 2012 and 2011 was approximately $1.9 million and $0.9 million, respectively, which is reflected in general and administrative expenses.

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. 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. If the participant has met specified continued service requirements, the PSUs will settle in cash or a combination of cash and up to 50% of equivalent value in the Company s common stock, at the discretion of the compensation committee. The Company s compensation expense related to all outstanding PSUs for the nine months ended September 30, 2012 and 2011 was approximately $8.6 million and $2.3 million, respectively, which is reflected in general and administrative expenses. The Company has recorded both current and long-term liabilities for this liability-based compensation award. During the nine month period ended September 30, 2012, the Company issued approximately 43,300 shares of its common stock and paid approximately $2.7 million in cash to its employees to settle PSUs for the three year performance period ended December 31, 2011. During the nine month period ended September 30, 2011, the Company issued approximately 67,300 shares of its common stock and paid approximately $2.8 million in cash to its employees to settle PSUs for the three year performance period ended December 31, 2010.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan under which an aggregate of 1,000,000 shares of common stock were reserved for issuance. Under this stock purchase plan, eligible employees can purchase shares of the Company s common stock at a discount. The Company received approximately $2.2 million and $1.7 million related to shares issued under this plan for the nine months ended September 30, 2012 and 2011, respectively. For the nine month periods ended September 30, 2012 and 2011, the Company recorded compensation expense of approximately $0.4 million and $0.3 million, respectively, which is reflected in general and administrative expenses. Additionally, the Company issued approximately 109,000 shares and 57,000 shares in the nine months ended September 30, 2012 and 2011, respectively, related to this stock purchase plan.

Deferred Compensation Plans

The Company has a non-qualified deferred compensation plan which allows certain highly compensated employees to defer up to 75% of their base salary, up to 100% of their bonus, and up to 100% of the cash portion of their PSU compensation to the plan. The Company also has a non-qualified deferred compensation plan for its non-employee directors which allows each director to defer up to 100% of their cash compensation paid by the Company to the plan. Additionally, participating directors may defer up to 100% of the shares of common stock they are entitled to receive in connection with the payout of RSUs. Under each plan, payments are made to participants based on their annual enrollment elections and plan balance. Participants earn a return on their deferred compensation that is based on hypothetical investments in certain mutual funds. Changes in market value of these hypothetical participant investments are reflected as an adjustment to the deferred compensation liability of the Company with an offset to compensation expense (see note 15).

Supplemental Executive Retirement Plan

The Company has a supplemental executive retirement plan (SERP). The SERP provides retirement benefits to the Company s executive officers and certain other designated key employees. The SERP is an unfunded, non-qualified defined contribution retirement plan, and all contributions under the plan are unfunded credits to a notional account maintained for each participant. Under the SERP, the Company will generally make annual contributions to a retirement account based on age and years of service. The Company may also make discretionary contributions to a participant s account. The Company recorded compensation expense of approximately $2.1 million and $1.4 million in general and administrative expenses for the nine months ended September 30, 2012 and 2011, respectively.

(5) Inventory and Other Current Assets

Inventory and other current assets includes approximately $132.1 million and $83.1 million of inventory at September 30, 2012 and December 31, 2011, respectively. The Company s inventory balance at September 30, 2012 consisted of approximately $51.0 million of finished goods, $5.3 million of work-in-process, $4.7 million of raw materials and $71.1 million of supplies and consumables. The Company s inventory balance at December 31, 2011 consisted of approximately $39.0 million of finished goods, $2.3 million of work-in-process, $5.4 million of raw materials and $36.4 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.

Additionally, inventory and other current assets include approximately $10.7 million and $133.4 million of costs incurred and estimated earnings in excess of billings on uncompleted contracts at September 30, 2012 and December 31, 2011, respectively. The Company follows the percentage-of-completion method of accounting for applicable contracts.

(6) Available-for-Sale Securities

On April 17, 2012, SandRidge Energy Inc. (NYSE: SD) (SandRidge) completed its acquisition of 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. During the three months ended September 30, 2012, the Company sold approximately 4.1 million shares for approximately $31.1 million, resulting in a realized gain of approximately $0.9 million. In connection with these sales, the Company reversed approximately $3.1 million of previously recorded unrealized losses, of which approximately $2.0 million was reclassified out of accumulated other comprehensive loss.

The fair value of the remaining 2.9 million shares at September 30, 2012 was approximately $20.3 million. During the three months ended September 30, 2012, the Company recorded an unrealized gain related to the fair value of these securities of $3.5 million, of which $2.2 million was reported within accumulated other comprehensive loss, net of tax expense of $1.3 million. During the nine months ended September 30, 2012, the Company recorded an unrealized loss on these securities of approximately $1.0 million, of which approximately $0.6 million was reported within accumulated other comprehensive loss, net of tax benefit of approximately $0.4 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 nine months ended September 30, 2012.

11

(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 (losses) from equity-method investments on its condensed consolidated statements of operations.

Prior to March 2011, the Company had separate equity-method investments in SPN Resources, LLC (SPN Resources) and DBH, LLC (DBH). In March 2011, the Company contributed all of its equity interests in SPN Resources and DBH to Dynamic Offshore, the majority owner of both SPN Resources and DBH, in exchange for a 10% interest in Dynamic Offshore. In April 2012, SandRidge acquired Dynamic Offshore (see note 6). The Company recorded a gain in the second quarter of 2012 of approximately $17.9 million as a result of this transaction.

The Company s equity interest in Dynamic Offshore was accounted for as an equity-method investment with a balance of approximately $70.6 million at December 31, 2011. The Company recorded losses from its equity-method investment in Dynamic Offshore of approximately $0.3 million and income of approximately $12.4 million for the nine and seven months ended September 30, 2012 and 2011, respectively.

The Company, where possible and at competitive rates, provides its products and services to assist Dynamic Offshore in producing and developing its oil and gas properties. The Company had a receivable from Dynamic Offshore of approximately $9.8 million at December 31, 2011. The Company also recorded revenue from Dynamic Offshore of approximately $15.5 million and $31.4 million for the nine and seven months ended September 30, 2012 and 2011, respectively. Additionally, the Company had a receivable from Dynamic Offshore of approximately $14.0 million as of December 31, 2011 related to its share of oil and natural gas commodity sales and production handling arrangement fees.

The Company recorded earnings from its equity-method investment in SPN Resources of approximately $0.2 million and recorded earnings from its equity-method investment in DBH of approximately $0.9 million for the two months ended February 28, 2011. The Company also recorded revenue from SPN Resources of approximately $0.3 million and from DBH of approximately $0.9 million for the two months ended February 28, 2011.

(8) Long-Term Contracts

In 2010, the Company s wholly owned subsidiary, Wild Well Control, Inc. (Wild Well), acquired 100% ownership of Shell Offshore, Inc. s Gulf of Mexico Bullwinkle platform and its related assets, and assumed the related decommissioning obligations. In accordance with the asset purchase agreement with Shell Offshore, Inc., Wild Well obtained a $50.0 million performance bond and funded $50.0 million into an escrow account. Included in intangible and other long-term assets, net is escrowed cash of $50.4 million and $50.2 million at September 30, 2012 and December 31, 2011, respectively.

In December 2007, Wild Well entered into contractual arrangements pursuant to which it decommissioned seven downed oil and gas platforms and related well facilities located in the Gulf of Mexico for a fixed sum of $750 million. The contract contained certain covenants primarily related to Wild Well s performance of the work. As of September 30, 2012, the work on this project was complete, and all amounts to be collected are included in accounts receivable in the consolidated balance sheet. At December 31, 2011, there were approximately $129.7 million of costs and estimated earnings in excess of billings related to this contract included in other current assets.

(9) Debt

On February 7, 2012, in connection with the Complete acquisition, the Company amended its bank credit facility to increase the revolving borrowing capacity to $600.0 million from $400.0 million, and to include a $400.0 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. Costs associated with the bank credit facility totaled approximately $24.7 million. These costs have been capitalized and will be amortized over the term of the credit facility.

At September 30, 2012, the Company had approximately $90.0 million outstanding under the revolving credit facility. The Company also had approximately $49.3 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 September 30, 2012, the Company was in compliance with all such covenants.

Table of Contents

In August 2012, the Company redeemed $150 million, or 50%, of the principal amount of its $300 million 6 7/8% unsecured senior notes due 2014 at 100% of face value. This redemption resulted in a loss on early extinguishment of debt of approximately $2.3 million related to the writeoff of debt acquisition costs and note discount. The indenture governing the remaining $150 million 6 7/8% 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 September 30, 2012, the Company was in compliance with all such covenants.

The Company has outstanding $500 million of 6 3/8% unsecured senior notes due 2019. The indenture governing the 6 3/8% 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 September 30, 2012, the Company was in compliance with all such covenants.

The Company also has outstanding $800 million of 7 1/8% unsecured senior notes due 2021. The indenture governing the 7 1/8% 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 September 30, 2012, the Company was in compliance with all such covenants.

In connection with the sale of the marine segment in March 2012, the Company repaid $12.5 million of U.S. Government guaranteed long-term financing (see note 3). The Company also 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. These expenses have been reported in discontinued operations, net of income tax in the condensed consolidated statement of operations.

(10) 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 2,600,000 shares and 470,000 shares for the three months ended September 30, 2012 and 2011, respectively, and approximately 1,800,000 shares and 190,000 shares for the nine months ended September 30, 2012 and 2011, respectively, were excluded in the computation of diluted earnings per share for the three and nine months ended September 30, 2012 and 2011, as the effect would have been anti-dilutive.

(11) 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 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 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. As a result of continuing development activities, the Company revised its estimates during the second quarter of 2012 relating to the timing of decommissioning work on its Bullwinkle assets, including a 10 year postponement of the platform decommissioning. This change in estimate resulted in a significant reduction in the present value of decommissioning liabilities.

Table of Contents

In connection with the acquisition of Complete in February 2012, the Company assumed approximately $3.6 million of estimated decommissioning liabilities associated with costs to plug and abandon disposal wells at the end of the service lives of the assets.

The following table summarizes the activity for the Company s decommissioning liabilities for the nine month periods ended September 30, 2012 and 2011 (in thousands):

	Nine Months Ended September 30,	
	2012	2011
Decommissioning liabilities, December 31, 2011 and 2010, respectively	$ 123,176	$ 117,716
Liabilities acquired and incurred	3,573	
Liabilities settled	(4,624)	
Accretion	3,260	5,038
Revision in estimated liabilities	(34,373)	(292)
Total decommissioning liabilities, September 30, 2012 and 2011, respectively	91,012	122,462
Less: current portion of decommissioning liabilities at September 30, 2012 and 2011, respectively		17,090
Long-term decommissioning liabilities, September 30, 2012 and 2011, respectively	$ 91,012	$ 105,372

(12) 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. During the second quarter of 2012, the Company revised its timing estimate for the Bullwinkle platform removal, resulting in a significant reduction of the present value of the notes receivable (see note 11). The Company recorded interest income related to notes receivable of $2.1 million and $3.4 million for nine months ended September 30, 2012 and 2011, respectively.

(13) Segment Information

Business Segments

On March 30, 2012, the Company sold 18 liftboats and related assets that comprised its marine segment. Additionally, on February 15, 2012 the Company sold a derrick barge that was formerly reported within the subsea and well enhancement segment. The operating results from these businesses have been included in discontinued operations on the condensed consolidated statement of operations. The prior year segment presentation has been revised to reflect these changes. The Company s reportable segments are now as follows: (1) subsea and well enhancement and (2) drilling products and services. The subsea and well enhancement segment provides completion and production-related services used to enhance, extend and maintain oil and gas production, which include horizontal well fracturing, fluids management, well service rigs, integrated subsea services and engineering services, mechanical wireline, hydraulic workover and snubbing, well control, coiled tubing, electric line, pumping and stimulation and wellbore evaluation services; well plug and abandonment services; stimulation and sand control equipment and services; and other oilfield services used to support drilling and production operations. The subsea and well enhancement segment also includes production handling arrangements, as well as the production and sale of oil and gas. The drilling products and services 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 on-site accommodations and bolting and machining services.

Table of Contents

Certain previously reported segment information has been adjusted due to the disposal of the marine segment and the derrick barge from the subsea and well enhancement segment. Summarized financial information for the Company s segments for the three and nine months ended September 30, 2012 and 2011 is shown in the following tables (in thousands):

Three Months Ended September 30, 2012

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 984,783	$ 194,882	$	$ 1,179,665
Cost of services (exclusive of items shown separately below)	646,649	61,959		708,608
Depreciation, depletion, amortization and accretion	90,376	37,784		128,160
General and administrative expenses	131,078	32,380		163,458
Income from operations	116,680	62,759		179,439
Interest income (expense), net	697		(28,815)	(28,118)
Loss on early extinguishment of debt			(2,294)	(2,294)
Income (loss) from continuing operations before income taxes	$ 117,377	$ 62,759	$ (31,109)	$ 149,027

Three Months Ended September 30, 2011

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 373,586	$ 163,456	$	$ 537,042
Cost of services (exclusive of items shown separately below)	226,586	58,538		285,124
Depreciation, depletion, amortization and accretion	28,592	33,215		61,807
General and administrative expenses	64,950	28,863		93,813
Income from operations	53,458	42,840		96,298
Interest income (expense), net	1,248		(20,142)	(18,894)
Earnings from equity-method investments, net			8,198	8,198
Income (loss) from continuing operations before income taxes	$ 54,706	$ 42,840	$ (11,944)	$ 85,602

Nine Months Ended September 30, 2012

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 2,807,432	$ 582,389	$	$ 3,389,821
Cost of services (exclusive of items shown separately below)	1,775,649	191,010		1,966,659
Depreciation, depletion, amortization and accretion	255,072	111,200		366,272
General and administrative expenses	396,123	100,875		496,998
Income from operations	380,588	179,304		559,892
Interest income (expense), net	2,106		(90,207)	(88,101)
Loss on early extinguishment of debt			(2,294)	(2,294)

Losses from equity-method investments, net			(287)	(287)
Gain on sale of equity-method investment			17,880	17,880
Income (loss) from continuing operations before income taxes	$ 382,694	$ 179,304	$ (74,908)	$ 487,090

Table of Contents

Nine Months Ended September 30, 2011

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 961,039	$ 440,893	$	$ 1,401,932
Cost of services (exclusive of items shown separately below)	590,951	161,862		752,813
Depreciation, depletion, amortization and accretion	81,424	96,227		177,651
General and administrative expenses	183,040	89,203		272,243
Income from operations	105,624	93,601		199,225
Interest income (expense), net	3,483		(50,792)	(47,309)
Earnings from equity-method investments, net			13,724	13,724
Income (loss) from continuing operations before income taxes	$ 109,107	$ 93,601	$ (37,068)	$ 165,640

Identifiable Assets

	Subsea and Well Enhancement	Drilling Products and Services	Marine	Unallocated	Consolidated Total
September 30, 2012	$ 6,718,059	$ 1,051,235	$	$ 20,324	$ 7,789,618
December 31, 2011	$ 2,863,550	$ 947,679	$ 164,444	$ 72,472	$ 4,048,145

Geographic 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 information by geographic area is as follows (in thousands):

Revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
United States	$ 976,984	$ 397,718	$ 2,826,544	$ 1,035,759
Other Countries	202,681	139,324	563,277	366,173
Total	$ 1,179,665	$ 537,042	$ 3,389,821	$ 1,401,932

Long-Lived Assets:

	September 30, 2012	December 31, 2011
United States	$ 2,623,401	$ 1,060,483
Other Countries	539,872	446,885

Total, net	$ 3,163,273	$ 1,507,368

16

Table of Contents

(14) Guarantee

In accordance with authoritative guidance related to guarantees, the Company has assigned an estimated value of $2.6 million at September 30, 2012 and December 31, 2011, 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 $115.9 million, net of the contractual right to receive payments from third parties, which is approximately $24.6 million, as of September 30, 2012. The total maximum potential obligation will decrease over time as the underlying obligations are fulfilled.

(15) 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 September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Available-for-sale securities	$ 20,321	$ 20,321		
Intangible and other long-term assets				
Non-qualified deferred compensation assets	$ 11,265	$ 825	$ 10,440	
Interest rate swap	$ 1,039		$ 1,039	
Accounts payable				
Non-qualified deferred compensation liabilities	$ 2,425		$ 2,425	
Contingent consideration	$ 10,815			$ 10,815
Other long-term liabilities				
Non-qualified deferred compensation liabilities	$ 13,230		$ 13,230	

	December 31, 2011	Level 1	Level 2	Level 3
Intangible and other long-term assets				
Non-qualified deferred compensation assets	$ 10,597	$ 815	$ 9,782	
Interest rate swap	$ 1,904		$ 1,904	
Accounts payable				
Non-qualified deferred compensation liabilities	$ 2,790		$ 2,790	
Other long-term liabilities				
Non-qualified deferred compensation liabilities	$ 12,975		$ 12,975	

Available-for-sale securities is comprised of approximately 2.9 million shares of SandRidge common stock that the Company received as partial consideration for its 10% interest in Dynamic Offshore (see note 6). The securities are reported at fair value based on the stock s closing price as reported on the New York Stock Exchange.

17

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 (see note 4). 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 7 1/8% unsecured 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 16). The Company previously had an interest rate swap agreement for a notional amount of $150 million related to its fixed rate debt 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.

Included in current liabilities is $10.8 million of contingent consideration related to the acquisitions of a hydraulic fracturing and cementing company in 2011 and the acquisition of a wireline and well testing company in 2012. 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.

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 $2,048.3 million and $1,749.8 million at September 30, 2012 and December 31, 2011, 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.

(16) 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 fixed rate debt 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 $1.0 million within intangible and other long term assets in the consolidated balance sheet at September 30, 2012. 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 had an interest rate swap agreement for a notional amount of $150 million related to its fixed rate debt maturing in June 2014. This transaction was designated as a fair value hedge since the swap hedged against the change in fair value of fixed rate debt resulting from changes in interest rates. The Company recorded a derivative asset of $1.9 million within intangible and other long-term assets in the consolidated balance sheet as of December 31, 2011. In February 2012, the Company sold this interest rate swap to the counterparty for $1.2 million.

Table of Contents

The location and effect of the derivative instrument on the condensed consolidated statement of operations for the three and nine months ended September 30, 2012 and 2011, presented on a pre-tax basis, is as follows (in thousands):

	Location of (gain) loss recognized	Amount of (gain) loss recognized Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Interest rate swap	Interest expense, net	$ (1,079)	$ 350
Hedged item debt	Interest expense, net	682	(788)
		$ (397)	$ (438)

	Location of (gain) loss recognized	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest rate swap	Interest expense, net	$ (4,235)	$ 230
Hedged item debt	Interest expense, net	3,196	(1,409)
		$ (1,039)	$ (1,179)

For the nine months ended September 30, 2012 and 2011, approximately $1.0 million and $1.2 million, respectively, 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.

(17) 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 $25.5 million and $21.7 million of unrecorded tax benefits at September 30, 2012 and December 31, 2011, respectively, 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.

(18) 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 September 30, 2012 and December 31, 2011 was approximately $11.2 million and $8.0 million, respectively. At September 30, 2012 and December 31, 2011, the Company had approximately $26.6 million and $29.5 million, respectively, included in other long-term liabilities, and approximately $3.5 million and $3.6 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 $0.9 million, $3.9 million, $4.2 million, $4.6 million, $5.0 million and $5.4 million for the three months ending December 31, 2012 and the years ending December 31, 2013, 2014, 2015, 2016 and 2017, respectively, exclusive of interest at an annual rate of 8.5%. For the nine months ended September 30, 2012 and 2011, the Company recorded interest expense of approximately $2.0 million and $2.2 million, respectively, in connection with this capital lease.

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

(19) Related Party Disclosures

The Company believes all transactions with 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 and nine months ended September 30, 2012, these purchases totaled approximately $54.8 million and $188.0 million, respectively. For the three months ended September 30, 2012, approximately $27.1 million was purchased from ORTEQ Energy Services, a heavy equipment construction company which also manufactures pressure pumping equipment, approximately $1.9 million was purchased from Ortowski Construction, primarily related to the manufacture of pressure pumping units, approximately $3.0 million was purchased from Resource Transport, approximately $18.0 million was purchased from Texas Specialty Sands, LLC primarily for the purchase of sand used for pressure pumping activities, approximately $3.7 million was purchased from ProFuel, LLC, and approximately $1.1 million was related to facilities leased from Timber Creek Real Estate Partners. For the nine months ended September 30, 2012, approximately $90.9 million was purchased from ORTEQ Energy Services, approximately $4.0 million was purchased from Ortowski Construction, approximately $8.0 million was purchased from Resource Transport, approximately $70.6 million was purchased from Texas Specialty Sands, LLC, approximately $13.4 million was purchased from ProFuel, LLC, and approximately $1.1 million was related to facilities leased from Timber Creek Real Estate Partners. As of September 30, 2012, the Company s trade accounts payable includes amounts due to these companies totaling approximately $16.8 million, of which approximately $6.1 million was due ORTEQ Energy Services, approximately $1.9 million was due Ortowski Construction, approximately $1.1 million was due Resource Transport, approximately $5.9 million was due Texas Specialty Sands, approximately $1.5 million was due ProFuel, LLC, and approximately $0.3 million was due 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, as well as California. The Company recorded revenues from Linn of approximately $6.0 million and approximately $14.7 million for the three and nine month periods ended September 30, 2012, respectively. The Company had trade receivables from Linn of approximately $3.5 million as of September 30, 2012.

(20) 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.

(21) Financial Information Related to Guarantor Subsidiaries

SESI, L.L.C. (Issuer), a 100% owned subsidiary of Superior Energy Services, Inc. (Parent), has $500 million of unsecured 6 3/8% senior notes due 2019 and $800 million of unsecured 7 1/8% senior notes due 2021. The Parent, along with certain of its 100% owned domestic subsidiaries, fully and unconditionally guaranteed the senior notes, and such guarantees are joint and several. Domestic income taxes are paid by the Parent through a consolidated tax return and are accounted for by the Parent. The Company has revised the comparative condensed consolidating financial information to reflect the Parent s and Issuer s investments in subsidiaries using the equity-method. The following tables present the condensed consolidating balance sheets as of September 30, 2012 and December 31, 2011, and the condensed consolidating statements of operations and cash flows for the three and nine months ended September 30, 2012 and 2011.

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Balance Sheets

September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$ 5,347	$ 20,707	$ 53,032	$	$ 79,086
Accounts receivable, net		703	957,210	232,004	(60,203)	1,129,714
Deferred Income Taxes	31,306					31,306
Income taxes receivable				1,802	(1,802)	
Prepaid expenses	85	8,905	47,710	45,506		102,206
Inventory and other current assets		1,675	153,994	24,528		180,197
Available-for-sale securities		20,321				20,321
Total current assets	31,391	36,951	1,179,621	356,872	(62,005)	1,542,830
Property, plant and equipment, net		6,603	2,526,831	629,839		3,163,273
Goodwill			2,119,477	408,835		2,528,312
Notes receivable			44,129			44,129
Investments in subsidiaries	2,108,911	4,776,411	577,825		(7,463,147)	
Intangible and other long-term assets, net		59,511	372,614	78,949		511,074
Total assets	$ 2,140,302	$ 4,879,476	$ 6,820,497	$ 1,474,495	$ (7,525,152)	$ 7,789,618
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	$	$ 5,487	$ 207,140	$ 111,032	$ (54,847)	$ 268,812
Accrued expenses	139	72,792	212,310	80,839	(5,433)	360,647
Income taxes payable	150,659				(1,802)	148,857
Current maturities of long-term debt		20,000				20,000
Total current liabilities	150,798	98,279	419,450	191,871	(62,082)	798,316
Deferred income taxes	709,077			17,957		727,034
Decommissioning liabilities			88,797	2,215		91,012
Long-term debt, net		1,909,416				1,909,416
Intercompany payables/(receivables)	(2,874,432)	730,801	2,706,197	(42,265)	(520,301)	
Other long-term liabilities	5,790	32,069	24,811	52,101		114,771
Stockholders equity:						
Preferred stock of $.01 par value						
Common stock of $.001 par value	157		782	4,212	(4,994)	157
Additional paid in capital	2,846,236	124,271	687,939	1,118,727	(1,930,937)	2,846,236
Accumulated other comprehensive income (loss), net	(20,432)	(20,432)	1,073	(19,790)	39,149	(20,432)
Retained earnings (accumulated deficit)	1,323,108	2,005,072	2,891,448	149,467	(5,045,987)	1,323,108

Total stockholders equity (deficit)	4,149,069	2,108,911	3,581,242	1,252,616	(6,942,769)	4,149,069
Total liabilities and stockholders equity	$ 2,140,302	$ 4,879,476	$ 6,820,497	$ 1,474,495	$ (7,525,152)	$ 7,789,618

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2011

(in thousands)

(audited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$ 29,057	$ 6,272	$ 44,945	$	$ 80,274
Accounts receivable, net		531	437,963	143,444	(41,336)	540,602
Income taxes receivable				698	(698)	
Prepaid expenses	34	3,893	9,796	20,314		34,037
Inventory and other current assets		1,796	214,381	12,132		228,309
Total current assets	34	35,277	668,412	221,533	(42,034)	883,222
Property, plant and equipment, net		2,758	1,096,036	408,574		1,507,368
Goodwill			437,614	143,765		581,379
Notes receivable			73,568			73,568
Investments in subsidiaries	1,650,049	2,833,659	20,062		(4,503,770)	
Equity-method investments		70,614		1,858		72,472
Intangible and other long-term assets, net		828,447	71,625	30,064		930,136
Total assets	1,650,083	3,770,755	2,367,317	805,794	(4,545,804)	4,048,145
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	$	$ 4,307	$ 128,996	$ 86,723	$ (41,381)	$ 178,645
Accrued expenses	164	54,000	105,512	38,503	(605)	197,574
Income taxes payable	1,415				(698)	717
Deferred income taxes	831					831
Current portion of decommissioning liabilities			14,956			14,956
Current maturities of long-term debt				810		810
Total current liabilities	2,410	58,307	249,464	126,036	(42,684)	393,533
Deferred income taxes	285,871			11,587		297,458
Decommissioning liabilities			108,220			108,220
Long-term debt, net		1,673,351		11,736		1,685,087
Intercompany payables/(receivables)	(96,989)	356,668	(253,053)	(7,276)	650	
Other long-term liabilities	5,192	32,380	26,704	45,972		110,248
Stockholders equity:						
Preferred stock of $.01 par value						
Common stock of $.001 par value	80			4,212	(4,212)	80
Additional paid in capital	447,007	124,271		517,209	(641,480)	447,007
Accumulated other comprehensive income (loss), net	(26,936)	(26,936)		(26,936)	53,872	(26,936)
Retained earnings (accumulated deficit)	1,033,448	1,552,714	2,235,982	123,254	(3,911,950)	1,033,448

Total stockholders equity (deficit)	1,453,599	1,650,049	2,235,982	617,739	(4,503,770)	1,453,599
Total liabilities and stockholders equity	$ 1,650,083	$ 3,770,755	$ 2,367,317	$ 805,794	$ (4,545,804)	$ 4,048,145

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Three Months Ended September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 1,003,373	$ 198,277	$ (21,985)	$ 1,179,665
Cost of services (exclusive of items shown separately below)			597,931	132,617	(21,940)	708,608
Depreciation, depletion, amortization and accretion		158	103,838	24,164		128,160
General and administrative expenses	83	31,229	102,073	30,118	(45)	163,458
Income (loss) from operations	(83)	(31,387)	199,531	11,378		179,439
Other income (expense):						
Interest expense, net		(28,592)	1,253	(779)		(28,118)
Loss on early extinguishment of debt		(2,294)				(2,294)
Earnings (losses) from consolidated subsidiaries	146,257	208,530	8,110		(362,897)	
Income (loss) from continuing operations before income taxes	146,174	146,257	208,894	10,599	(362,897)	149,027
Income taxes	52,288			2,852		55,140
Net income (loss) from continuing operations	93,886	146,257	208,894	7,747	(362,897)	93,887
Discontinued operations, net of income tax						