

SUPERIOR ENERGY SERVICES INC

Form 10-Q

November 06, 2009

**Table of Contents**

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

**(Mark One)**

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

**For the quarterly period ended September 30, 2009**

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

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

601 Poydras, Suite 2400  
New Orleans, Louisiana  
**(Address of principal executive offices)**

70130  
**(Zip Code)**

**Registrant's telephone number, including area code: (504) 587-7374**

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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
**(Do not check if a 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

The number of shares of the registrant's common stock outstanding on October 30, 2009 was 78,229,193.

**SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES**

Quarterly Report on Form 10-Q for  
the Quarterly Period Ended September 30, 2009

**TABLE OF CONTENTS**

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	28
<u>Item 4. Controls and Procedures</u>	29
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 6. Exhibits</u>	30
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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

Condensed Consolidated Balance Sheets  
September 30, 2009 and December 31, 2008  
(in thousands, except share data)

	(Unaudited) 9/30/2009	12/31/2008 *
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 34,282	\$ 44,853
Accounts receivable, net	354,902	360,357
Income taxes receivable	8,506	
Prepaid expenses	27,511	18,041
Other current assets	379,106	223,598
Total current assets	804,307	646,849
Property, plant and equipment, net	1,208,819	1,114,941
Goodwill	481,021	477,860
Equity-method investments	55,678	122,308
Intangible and other long-term assets, net	37,139	128,187
Total assets	\$ 2,586,964	\$ 2,490,145
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 69,847	\$ 87,207
Accrued expenses	143,756	152,536
Income taxes payable		20,861
Deferred income taxes	66,478	36,830
Current maturities of long-term debt	810	810
Total current liabilities	280,891	298,244
Deferred income taxes	241,899	246,824
Long-term debt, net	724,560	654,199
Other long-term liabilities	48,967	36,605
Stockholders equity:		

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

Preferred stock of \$.01 par value. Authorized, 5,000,000 shares; none issued  
 Common stock of \$.001 par value. Authorized, 125,000,000 shares; issued and  
 outstanding,

78,222,002 shares at September 30, 2009, and 78,028,072 shares at  
 December 31, 2008

Additional paid in capital	78	78
Accumulated other comprehensive loss, net	385,446	375,436
Retained earnings	(18,584)	(32,641)
	923,707	911,400

Total stockholders' equity	1,290,647	1,254,273
----------------------------	-----------	-----------

Total liabilities and stockholders' equity	\$ 2,586,964	\$ 2,490,145
--	--------------	--------------

See accompanying notes to consolidated financial statements.

\* As adjusted for  
 ASC 470-20  
 (See note 2).

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

## Condensed Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2009 and 2008

(in thousands, except per share data)

(unaudited)

	Three Months		Nine Months	
	2009	2008 *	2009	2008 *
Oilfield service and rental revenues	\$ 386,455	\$ 490,282	\$ 1,184,725	\$ 1,334,256
Oil and gas revenues				55,072
Total revenues	386,455	490,282	1,184,725	1,389,328
Cost of oilfield services and rentals	215,674	236,610	635,407	649,839
Cost of oil and gas sales				12,986
Total cost of services, rentals and sales (exclusive of items shown separately below)	215,674	236,610	635,407	662,825
Depreciation, depletion, amortization and accretion	52,720	44,842	153,566	128,675
General and administrative expenses	63,425	68,379	188,694	204,411
Reduction in value of intangible assets			92,683	
Gain on sale of businesses				40,946
Income from operations	54,636	140,451	114,375	434,363
Other income (expense):				
Interest expense, net	(12,320)	(11,659)	(37,328)	(34,865)
Earnings (losses) from equity-method investments, net	(4,161)	23,167	(21,331)	19,359
Reduction in value of equity-method investment			(36,486)	
Income before income taxes	38,155	151,959	19,230	418,857
Income taxes	13,736	54,665	6,923	150,667
Net income	\$ 24,419	\$ 97,294	\$ 12,307	\$ 268,190
Basic earnings per share	\$ 0.31	\$ 1.21	\$ 0.16	\$ 3.32

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

Diluted earnings per share	\$ 0.31	\$ 1.19	\$ 0.16	\$ 3.27
Weighted average common shares used in computing earnings per share:				
Basic	78,188	80,538	78,126	80,691
Incremental common shares from stock-based compensation	624	1,307	558	1,350
Diluted	78,812	81,845	78,684	82,041

See accompanying notes to consolidated financial statements.

\* As adjusted for  
ASC 470-20  
(See note 2).

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

Condensed Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2009 and 2008

(in thousands)

(unaudited)

	2009	2008 *
Cash flows from operating activities:		
Net income	\$ 12,307	\$ 268,190
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	153,566	128,675
Deferred income taxes	26,429	36,612
Reduction in value of intangible assets	92,683	
Reduction in value of equity-method investment	36,486	
Non-cash interest expense related to 1.5% senior exchangeable notes	13,175	12,549
Tax benefit from exercise of stock options	(127)	(5,411)
Stock-based and performance share unit compensation expense, net	6,339	9,466
Retirement and deferred compensation plans expense, net	1,154	2,150
(Earnings) losses from equity-method investments, net of cash received	24,737	(2,121)
Amortization of debt acquisition costs and note discount	2,862	2,414
Gain on sale of businesses		(40,946)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables	7,620	(96,741)
Other current assets	(155,715)	(72,346)
Accounts payable	(18,295)	10,391
Accrued expenses	(8,617)	1,633
Decommissioning liabilities		(6,160)
Income taxes	(29,670)	43,273
Other, net	12,012	17,064
 Net cash provided by operating activities	 176,946	 308,692
 Cash flows from investing activities:		
Payments for capital expenditures	(241,623)	(324,318)
Acquisitions of businesses, net of cash acquired		(4,487)
Cash proceeds from sale of businesses, net of cash sold		155,312
Other	(3,721)	(3,482)
 Net cash used in investing activities	 (245,344)	 (176,975)
 Cash flows from financing activities:		
Net borrowings from revolving credit facility	57,200	
Principal payments on long-term debt	(405)	(405)
Payment of debt acquisition costs	(2,308)	
Proceeds from exercise of stock options	306	4,274



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

Tax benefit from exercise of stock options	127	5,411
Proceeds from issuance of stock through employee benefit plans	1,615	1,191
Purchase and retirement of stock		(64,203)
Net cash provided by (used in) financing activities	56,535	(53,732)
Effect of exchange rate changes on cash	1,292	(1,465)
Net increase (decrease) in cash and cash equivalents	(10,571)	76,520
Cash and cash equivalents at beginning of period	44,853	51,649
Cash and cash equivalents at end of period	\$ 34,282	\$ 128,169

See accompanying notes to consolidated financial statements.

\* As adjusted for  
ASC 470-20  
(See note 2).

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

Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2009 and 2008

**(1) Basis of Presentation**

Certain information and footnote disclosures normally in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures which are made are adequate to make the information presented not misleading. These financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto included in Superior Energy Services, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 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, 2009 and 2008 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 2009 presentation.

**(2) Adoption of Recent Accounting Pronouncement and Debt**

Effective January 1, 2009, the Company has retrospectively adopted Accounting Standards Codification 470-20 (ASC 470-20), Debt with Conversion and Other Options (formerly Financial Accounting Standards Board's Staff Position No. APB 14-1). ASC 470-20 requires the proceeds from the issuance of our 1.50% senior exchangeable notes (described below) to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the exchangeable debt is expected to be outstanding as additional non-cash interest expense. The Company used an effective interest rate of 6.89% and will amortize this initial debt discount through December 12, 2011. The carrying amount of the equity component was \$55.1 million. The principal amount of the liability component, its unamortized discount and its net carrying value as of December 31, 2008 and September 30, 2009 were as follows (in thousands):

	As of	Principal Amount	Unamortized Discount	Net Carrying Value
	December 31, 2008	\$400,000	\$56,631	\$343,369
	September 30, 2009	\$400,000	\$43,456	\$356,544

The provisions of ASC 470-20 are effective for fiscal years beginning after December 15, 2008 and require retrospective application. The Company's comparative balance sheet as of December 31, 2008 has been adjusted as follows (in thousands):

	As Originally Reported	Effect of Change	As Adjusted
Intangible assets and other long-term assets, net	\$129,675	\$ (1,488)	\$128,187
Deferred income taxes	\$226,421	\$ 20,403	\$246,824
Long-term debt, net	\$710,830	\$(56,631)	\$654,199
Additional paid in capital	\$320,309	\$ 55,127	\$375,436
Retained earnings	\$931,787	\$(20,387)	\$911,400

**Table of Contents**

The condensed consolidated statements of operations were retrospectively modified from the previously reported amounts as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Additional pre-tax non-cash interest expense, net	\$ (4,066)	\$ (12,200)
Additional deferred tax benefit	1,504	4,514
Retrospective change in net income	\$ (2,562)	\$ (7,686)
Change to basic earnings per share	\$ (0.03)	\$ (0.10)
Change to diluted earnings per share	\$ (0.03)	\$ (0.09)

The non-cash increase to interest expense, exclusive of amounts to be capitalized, will be approximately \$17.8 million, \$19.2 million and \$19.7 million for the years ended December 31, 2009, 2010 and 2011, respectively. In May 2009, the Company amended its revolving credit facility to increase its borrowing capacity to \$325 million from \$250 million. Any amounts outstanding under the revolving credit facility are due on June 14, 2011. Costs associated with amending the revolving credit facility were approximately \$2.3 million. These costs were capitalized and are being amortized over the remaining term of the credit facility. At September 30, 2009, the Company had \$57.2 million outstanding under the revolving credit facility. The Company also had approximately \$12.1 million of letters of credit outstanding, which reduce the Company's borrowing availability under this credit facility. Amounts borrowed under the credit facility bear interest at a LIBOR rate plus margins that depend on the Company's leverage ratio. Indebtedness under the credit facility is secured by substantially all of the Company's assets, including the pledge of the stock of the Company's principal subsidiaries. The credit facility contains customary events of default and requires that the Company satisfy various financial covenants. It also limits the Company's ability to pay dividends or make other distributions, make acquisitions, make changes to the Company's capital structure, create liens or incur additional indebtedness. At September 30, 2009, the Company was in compliance with all such covenants. At September 30, 2009, the Company had outstanding \$14.6 million in U.S. Government guaranteed long-term financing under Title XI of the Merchant Marine Act of 1936, which is administered by the Maritime Administration, for two 245-foot class liftboats. The debt bears interest at 6.45% per annum and is payable in equal semi-annual installments of \$405,000 on June 3<sup>rd</sup> and December 3<sup>rd</sup> of each year through the maturity date of June 3, 2027. The Company's obligations are secured by mortgages on the two liftboats. In accordance with the agreement, the Company is required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. At September 30, 2009, the Company was in compliance with all such covenants.

The Company also has outstanding \$300 million of 6 7/8% unsecured senior notes due 2014. The indenture governing the senior notes requires semi-annual interest payments on June 1<sup>st</sup> and December 1<sup>st</sup> 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, 2009, the Company was in compliance with all such covenants.

The Company has outstanding \$400 million of 1.50% unsecured senior exchangeable notes due 2026. Effective January 1, 2009, the Company retrospectively adopted ASC 470-20 as it pertains to these exchangeable notes. The exchangeable notes bear interest at a rate of 1.50% per annum and decrease to 1.25% per annum on December 15, 2011. Interest on the exchangeable notes is payable semi-annually on December 15<sup>th</sup> and June 15<sup>th</sup> of each year through the maturity date of December 15, 2026. The exchangeable notes do not contain any restrictive financial covenants.

## **Table of Contents**

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

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

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

if the notes have been called for redemption;

upon the occurrence of specified corporate transactions; or

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

In connection with the exchangeable note transaction, the Company simultaneously entered into agreements with affiliates of the initial purchasers to purchase call options and sell warrants on its common stock. The Company may exercise the call options it purchased at any time to acquire approximately 8.8 million shares of its common stock at a strike price of \$45.58 per share. The owners of the warrants may exercise the warrants to purchase from the Company approximately 8.8 million shares of the Company's common stock at a price of \$59.42 per share, subject to certain anti-dilution and other customary adjustments. The warrants may be settled in cash, in common stock or in a combination of cash and common stock, at the Company's option. Lehman Brothers OTC Derivatives, Inc. (LBOTC) is the counterparty to 50% of the Company's call option and warrant transactions. In October 2008, LBOTC filed for bankruptcy protection, which is an event of default under the contracts relating to the call option and warrant transactions. The Company has not terminated these contracts and continues to carefully monitor the developments affecting LBOTC. Although the Company may not retain the benefit of the call option due to LBOTC's bankruptcy, the Company does not expect that there will be a material impact, if any, on the financial statements or results of operations. The call option and warrant transactions described above do not affect the terms of the outstanding exchangeable notes.

### **(3) Reduction in Value of Intangible Assets**

In accordance with Accounting Standards Codification 360-10 (ASC 360-10), Property, Plant and Equipment (formerly Statement of Financial Accounting Standards No. 144), long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such assets to estimated undiscounted future cash flows expected to be generated by the assets. Cash flow estimates are based upon, among other things, historical results adjusted to reflect the best estimate of future market rates, utilization levels, and operating performance. Estimates of cash flows may differ from actual cash flows due to, among other things, changes in economic conditions or changes in an asset's operating performance. The Company's assets are grouped by subsidiary or division for the impairment testing, except for liftboats, which are grouped together by leg length. These groupings represent the lowest level of identifiable cash flows. If the assets' future estimated cash flows are less than the carrying amount of those items, impairment losses are recorded in the amount by which the carrying amount of such assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs to sell. The net carrying value of assets not fully recoverable is reduced to fair value. The estimate of fair value

represents the Company's best estimate based on industry trends and reference to market transactions and is subject to variability. The oil and gas industry is cyclical and these estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows, can have a significant impact on the carrying values of these assets and, in periods of prolonged down cycles, may result in impairment charges. During the second quarter of 2009, due to continued decline in demand for services in the domestic land markets, the Company identified impairments of certain amortizable intangible assets of approximately \$92.7 million. During the third quarter of 2009, there were no events or changes in circumstances that would indicate the carrying amount of long-lived assets may not be recoverable.

**Table of Contents**

In accordance with Accounting Standards Codification 350-10, Intangibles—Goodwill and Other (formerly Statement of Financial Accounting Standards No. 142), goodwill and other intangible assets with indefinite lives will not be amortized, but instead tested annually as of December 31 or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. During the second quarter of 2009, the Company performed this test on an interim basis as certain events indicated the fair value of the asset may have decreased below its carrying value. In order to estimate the fair value of the reporting units (which is consistent with the reported business segments), the Company used a weighting of the discounted cash flow method and the public company guideline method of determining fair value of each reporting unit. The Company weighted the discounted cash flow method 80% and the public guideline method 20%, due to differences between the Company's reporting units and the peer companies' size, profitability and diversity of operations. In order to validate the reasonableness of the estimated fair values obtained for the reporting units, a reconciliation of fair value to market capitalization was performed for each unit on a stand alone basis. A control premium, derived from market transaction data, was used in this reconciliation to ensure that fair values were reasonably stated in conjunction with the Company's capitalization. These fair value estimates were then compared to the carrying value of the reporting units. As the fair value of the reporting unit exceeded the carrying amount, no impairment loss was recognized during the second quarter of 2009. A significant amount of judgment was involved in performing these evaluations since the results are based on estimated future events. During the third quarter of 2009, there were no events or circumstances indicating that the fair value of assets had decreased below their carrying value, and thus testing was not conducted.

**(4) Acquisitions and Dispositions**

On March 14, 2008, the Company completed the sale of 75% of its interest in SPN Resources, LLC (SPN Resources). As part of this transaction, SPN Resources contributed an undivided 25% of its working interest in each of its oil and gas properties to a newly formed subsidiary and then sold all of its equity interest in the subsidiary. SPN Resources then effectively sold 66 2/3% of its outstanding membership interests. These two transactions generated cash proceeds of approximately \$167.2 million and resulted in a pre-tax gain of approximately \$37.1 million during the nine months ended September 30, 2008. SPN Resources' operations constituted substantially all of the Company's oil and gas segment. Subsequent to March 14, 2008, the Company accounts for its remaining 33 1/3% interest in SPN Resources using the equity-method. The results of SPN Resources' operations through March 14, 2008 were consolidated. Additionally, the Company retained preferential rights on certain service work, entered into a turnkey contract to perform well abandonment and decommissioning work and guaranteed SPN Resources' performance of its decommissioning liabilities (see notes 5 and 12).

The Company made business acquisitions, which were not material on an individual or cumulative basis, for cash consideration of \$7.0 million in the year ended December 31, 2008.

In connection with the 2007 sale of a non-core rental tool business, the Company received cash of approximately \$6.0 million, which resulted in an additional pre-tax gain on the sale of the business of approximately \$3.3 million in the nine months ended September 30, 2008.

The Company also sold the assets of its field management division in 2007. In conjunction with the sale of this division, the Company received cash of \$0.5 million during the nine months ended September 30, 2008, which resulted in an additional pre-tax gain on the sale of the business.

On January 1, 2009, the Company adopted Accounting Standards Codification 805-10 (ASC 805-10), Business Combinations (formerly Statement of Financial Accounting Standards No. 141(R)). ASC 805-10 requires an acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction and any noncontrolling interest in the acquiree at the acquisition date fair value. Additionally, contingent consideration and contractual contingencies shall be measured at acquisition date fair value. ASC 805-10 applies prospectively to business combinations after January 1, 2009. Several of the Company's prior business acquisitions require future payments if specific conditions are met. As of September 30, 2009, the maximum additional contingent consideration payable was approximately \$27.9 million and will be determined and payable through 2012. Since these acquisitions occurred before the adoption of ASC 805-10, these amounts are not classified as liabilities and are not reflected in the Company's financial statements until the amounts are fixed and determinable.





**Table of Contents****(5) Long-Term Contracts**

In December 2007, the Company's wholly-owned subsidiary, Wild Well Control, Inc. (Wild Well), entered into contractual arrangements pursuant to which it is decommissioning seven downed oil and gas platforms and related well facilities located offshore in the Gulf of Mexico for a fixed sum of \$750 million, which is payable in installments upon the completion of specified portions of work. The contract contains certain covenants primarily related to Wild Well's performance of the work. The work is currently expected to be completed in the first half of 2010. The revenue related to the contract for decommissioning these downed platforms and well facilities is recorded on the percentage-of-completion method utilizing costs incurred as a percentage of total estimated costs. Included in other current assets is approximately \$320.6 million at September 30, 2009 and \$164.4 million at December 31, 2008 of costs and estimated earnings in excess of billings related to this contract.

In connection with the sale of 75% of its interest in SPN Resources, the Company retained preferential rights on certain service work and entered into a turnkey contract to perform well abandonment and decommissioning work associated with oil and gas properties owned and operated by SPN Resources. This contract covers only routine end of life well abandonment, pipeline and platform decommissioning for properties owned and operated by SPN Resources at the date of closing and has a remaining fixed price of approximately \$142.4 million as of September 30, 2009. The turnkey contract consists of numerous, separate billable jobs estimated to be performed through 2022. Each job is short-term in duration and is individually recorded on the percentage-of-completion method utilizing costs incurred as a percentage of total estimated costs.

**(6) Equity-Method Investments**

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

On March 14, 2008, the Company sold 75% of its original interest in SPN Resources (see note 4). The Company's equity-method investment balance in SPN Resources was approximately \$55.0 million at September 30, 2009 and \$65.2 million at December 31, 2008. The Company recorded losses from its equity-method investment in SPN Resources of approximately \$7.3 million for the nine months ended September 30, 2009. From the date of sale through September 30, 2008, the Company recorded earnings from its equity-method investment in SPN Resources of approximately \$16.5 million. Additionally, the Company received \$3.3 million and \$17.0 million of cash distributions from its equity-method investment in SPN Resources for the nine months ended September 30, 2009 and 2008, respectively. The Company, where possible and at competitive rates, provides its products and services to assist SPN Resources in producing and developing its oil and gas properties. The Company had a receivable from this equity-method investment of approximately \$2.4 million at both September 30, 2009 and December 31, 2008. The Company also recorded revenue from this equity-method investment of approximately \$10.9 million for the nine months ended September 30, 2009 and \$12.0 million from the date of sale through September 30, 2008. The Company also reduces its revenue and its investment in SPN Resources for its respective ownership interest when products and services are provided to and capitalized by SPN Resources. As these capitalized costs are depleted by SPN Resources, the Company then increases its revenue and investment in SPN Resources. As such, the Company recorded a net increase in revenue and its investment in SPN Resources of approximately \$0.5 million for the nine months ended September 30, 2009. The Company recorded a net decrease in revenue and its investment in SPN Resources of approximately \$0.5 million from the date of sale through September 30, 2008.

As of September 30, 2009, the Company owned a 40% interest in Beryl Oil and Gas L.P. (BOG). The Company's total cash contribution for this equity-method investment in BOG was approximately \$57.8 million. As a result of continued negative BOG operating results, lack of viable interested buyers and unsuccessful attempts to renegotiate the terms and conditions of its loan agreements with lenders on terms that preserve the Company's investment, the Company wrote off the remaining carrying value of its investment in BOG, \$36.5 million, in the second quarter of 2009 and suspended recording its share of BOG's operating results under equity-method accounting. The Company's equity-method investment balance in BOG was approximately \$56.4 million at December 31, 2008. During the six months ended June 30, 2009, the Company recorded \$14.0 million of losses, wrote off \$6.1 million of other

comprehensive loss (through its equity account) related to hedging activities and recorded a \$0.2 million increase to its investment in BOG for services provided by the Company that were capitalized by BOG. The

**Table of Contents**

Company had a receivable from this equity-method investment of approximately \$2.0 million at September 30, 2009 and \$1.0 million at December 31, 2008. The Company also recorded revenue of approximately \$6.1 million and \$0.7 million from BOG for the nine months ended September 30, 2009 and 2008, respectively.

Also included in equity-method investments at September 30, 2009 and December 31, 2008 is an approximate \$0.7 million investment for a 50% ownership in a company that owns an airplane. The Company recorded approximately \$0.2 million in expense to lease the airplane (exclusive of operating costs) from this company for the nine months ended September 30, 2009 and 2008. Earnings for this equity-method investment are not material. Summarized financial information for significant investments that are accounted for using the equity-method of accounting is as follows (in thousands):

	Nine Months Ended September 30,	
	2009	2008
Revenues	\$ 119,611	\$ 163,203
Cost of sales	54,244	52,935
Gross profit	\$ 65,367	\$ 110,268
Income (loss) from continuing operations	\$ (33,209)	\$ 33,747
Net loss	\$ (65,321)	\$ 8,358

*Subsequent Event*

In October 2009, Dynamic Beryl Holdings, LLC (Dynamic Beryl) acquired BOG in connection with a restructuring of BOG in which the previously existing debt obligations of BOG were partially extinguished and otherwise renegotiated. Simultaneous with that acquisition, the Company acquired a 23% membership interest in Dynamic Beryl for approximately \$8.1 million. The Company's 23% membership interest in Dynamic Beryl and its proportionate share of operating results will be accounted for using the equity-method.

**(7) Fair Value Measurements**

In January 2008, the Company adopted Accounting Standards Codification 820-10 (ASC 820-10), Fair Value Measurements and Disclosures (formerly Statement of Financial Accounting Standards No. 157), for its financial assets and liabilities. The adoption of ASC 820-10 did not have a material impact on its fair value measurements. ASC 820-10 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.

**Table of Contents**

The following table provides a summary of the financial assets and liabilities measured at fair value on a recurring basis at September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	\$ 12,171	\$ 4,517	\$ 7,654	
Non-qualified deferred compensation liabilities	\$ 15,235		\$ 15,235	
	December 31, 2008	Level 1	Level 2	Level 3
Non-qualified deferred compensation assets	\$ 7,212		\$ 7,212	
Non-qualified deferred compensation liabilities	\$ 8,254		\$ 8,254	

The Company's non-qualified deferred compensation plan allows officers and highly compensated employees to defer receipt of a portion of their compensation and contribute such amounts to one or more hypothetical investment funds (see note 8). The Company entered into a separate trust agreement, subject to general creditors, to segregate the assets of the plan and reports the accounts of the trust 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 represents Levels 1 and 2, respectively in the ASC 820-10 fair value hierarchy. The realized and unrealized holding gains and losses related to non-qualified deferred compensation assets are recorded in interest expense, net. The realized and unrealized holding gains and losses related to non-qualified deferred compensation liabilities are recorded in general and administrative expenses.

Effective January 1, 2009, the Company adopted ASC 820-10 for its non-financial assets and non-financial liabilities that are remeasured at fair value on a non-recurring basis. In accordance with ASC 360-10, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. During the second quarter of 2009, due to continued decline in demand for services in the domestic land markets, the Company identified impairments of certain amortizable intangible assets of approximately \$92.7 million (see note 3). Additionally, during the same quarter, the Company recorded a \$36.5 million reduction in the value of its equity-method investment in BOG. In April 2009, BOG defaulted under its loan agreements due primarily to the impact of pipeline curtailments from Hurricanes Gustav and Ike in 2008 and the decline of natural gas and oil prices. As a result of continued negative BOG operating results, lack of viable interested buyers and unsuccessful attempts to renegotiate the terms and conditions of its loan agreements with lenders on terms that would preserve the Company's investment, the Company wrote off the remaining carrying value of its investment in BOG (see note 6).

The following table reflects the fair value measurements used in testing the impairment of intangible assets and equity-method investments during the nine months ended September 30, 2009 (in thousands):

	September 30, 2009	Fair Value Measurements Using			Total Losses
		Level 1	Level 2	Level 3	
Intangible and other long-term assets, net	\$ -0-			\$ -0-	\$(92,683)

Equity-method investments	\$ -0-	\$-0-	\$(36,486)
---------------------------	--------	-------	------------

If, among other factors, (1) the adverse impacts of economic or competitive factors are worse than anticipated, (2) the fair value of the reporting units decline, or (3) the Company's market capitalization falls below its equity value, the Company could conclude in future periods that additional impairment losses are required in order to reduce the carrying value of its goodwill and/or long-lived assets. Depending on the severity of the changes in the key factors underlying the valuation of the Company's reporting units, such losses could be significant.

**Table of Contents**

The fair value of the Company's financial instruments of cash equivalents, accounts receivable, equity-method investments and current maturities of long-term debt approximates their carrying amounts. The fair value of the Company's long-term debt was approximately \$717.3 million and \$515.5 million at September 30, 2009 and December 31, 2008, 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.

**(8) Stock-Based and Deferred Compensation**

The Company maintains various stock incentive plans that provide long-term incentives to the Company's key employees, including officers and directors, consultants and 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, 2009 and 2008 was approximately \$1.8 million and \$2.0 million, respectively, which is reflected in general and administrative expenses.

**Restricted Stock**

The Company has issued shares of restricted stock under its stock incentive plans. Shares of restricted stock generally vest in equal annual installments over three years. Non-vested shares are generally forfeited upon the termination of employment. Holders of 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 shares of outstanding restricted stock for the nine months ended September 30, 2009 and 2008 was approximately \$4.4 million and \$3.7 million, respectively, which is reflected in general and administrative expenses.

**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, 2009 and 2008 was approximately \$0.5 million and \$0.6 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. The PSUs provide for settlement in cash or up to 50% in equivalent value in the Company's common stock, if the participant has met specified continued service requirements. The Company's compensation expense related to all outstanding PSUs for the nine months ended September 30, 2009 and 2008 was approximately \$4.1 million and \$5.9 million, respectively, which is reflected in general and administrative expenses. The Company has recorded a current liability of approximately \$4.7 million and \$5.6 million at September 30, 2009 and December 31, 2008, respectively, for outstanding PSUs, which is reflected in accrued expenses. Additionally, the Company has recorded a long-term liability of approximately \$6.3 million and \$6.9 million at September 30, 2009 and December 31, 2008, respectively, for outstanding PSUs, which is reflected in other long-term liabilities. During the nine month period ended September 30, 2009, the Company paid approximately \$4.7 million in cash and issued approximately 71,400 shares of its common stock to its employees to settle PSUs for the three year performance period ended December 31, 2008. During the nine month period ended September 30, 2008, the Company paid approximately \$2.9 million in cash and issued approximately

**Table of Contents**

74,400 shares of its common stock to its employees to settle PSUs for the three year performance period ended December 31, 2007.

**Employee Stock Purchase Plan**

The Company has employee stock purchase plans under which an aggregate of 1,250,000 shares of common stock were reserved for issuance. Under these stock purchase plans, eligible employees can purchase shares of the Company's common stock at a discount. The Company received \$1.6 million and \$1.2 million related to shares issued under these plans for the nine month periods ended September 30, 2009 and 2008, respectively. For the nine months ended September 30, 2009 and 2008, the Company recorded compensation expense of approximately \$0.3 million and \$0.2 million, respectively, which is reflected in general and administrative expenses. Additionally, the Company issued approximately 115,300 and 32,600 shares for the nine month period ended September 30, 2009 and 2008, respectively, related to these stock purchase plans.

**Deferred Compensation Plan**

The Company has a non-qualified deferred compensation plan which allows certain highly compensated employees the option 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 performance share unit compensation to the 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 7).

(9) **Earnings per Share**

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in the same manner as basic earnings per share, except that the denominator is increased to include the number of additional common shares that could have been outstanding assuming the exercise of stock options that would have a dilutive effect on earnings per share using the treasury stock method and the conversion of restricted stock units into common stock. In connection with the Company's outstanding 1.50% senior exchangeable notes, there could be a dilutive effect on earnings per share if the average price of the Company's stock exceeds the initial exchange price of \$45.58 per share for the reporting period. In the event the Company's common stock exceeds the initial exchange price of \$45.58 per share, for the first \$1.00 the price exceeds \$45.58, the dilutive effect can be as much as 188,400 shares.

(10) **Stockholders' Equity**

On January 1, 2009, the Company retrospectively adopted ASC 470-20, which requires the proceeds from the issuance of exchangeable debt instruments to be allocated between a liability component (issued at a discount) and an equity component. As a result of the retrospective adoption of ASC 470-20, the stockholders' equity previously stated as of December 31, 2008 increased by approximately \$34.7 million (see note 2).

In September 2007, the Company's Board of Directors authorized a \$350 million share repurchase program that expires on December 31, 2009. Under this program, the Company can purchase shares through open market transactions at prices deemed appropriate by management. The Company did not purchase any shares of its common stock during the nine months ended September 30, 2009 pursuant to its share repurchase program. During the nine months ended September 30, 2008, the Company purchased 1,770,000 shares of its common stock for an aggregate amount of \$64.2 million under this program.

**Table of Contents****(11) Segment Information***Business Segments*

The Company currently has three reportable segments: well intervention, rental tools and marine. The well intervention segment provides production-related services used to enhance, extend and maintain oil and gas production, which include mechanical wireline, hydraulic workover and snubbing, well control, coiled tubing, electric line, pumping and stimulation, well bore evaluation services, well plug and abandonment services, and other oilfield services used to support drilling and production operations. The rental tools segment rents and sells stabilizers, drill pipe, tubulars and specialized equipment for use with onshore and offshore oil and gas well drilling, completion, production and workover activities. It also provides on-site accommodations and bolting and machining services. The marine segment operates liftboats for production service activities, as well as oil and gas production facility maintenance, construction operations and platform removals. During the nine months ended September 30, 2008, the Company sold 75% of its interest in SPN Resources (see note 4). SPN Resources' operations constituted substantially all the oil and gas segment. Oil and gas eliminations represent products and services provided to the oil and gas segment by the Company's three other segments. Certain previously reported amounts have been reclassified to conform to the presentation in the current period.

Summarized financial information concerning the Company's segments for the three and nine months ended September 30, 2009 and 2008 is shown in the following tables (in thousands):

**Three Months Ended September 30, 2009**

	Well Intervention	Rental Tools	Marine	Unallocated	Consolidated Total
Revenues	\$254,335	\$100,832	\$31,288	\$	\$386,455
Cost of services, rentals and sales (exclusive of items shown separately below)	160,237	36,211	19,226		215,674
Depreciation and amortization	22,602	26,789	3,329		52,720
General and administrative expenses	39,933	19,892	3,600		63,425
Income from operations	31,563	17,940	5,133		54,636
Interest expense, net				(12,320)	(12,320)
Loss from equity-method investments, net				(4,161)	(4,161)
Income (loss) before income taxes	\$ 31,563	\$ 17,940	\$ 5,133	\$(16,481)	\$ 38,155

**Three Months Ended September 30, 2008**

	Well Intervention	Rental Tools	Marine	Unallocated	Consolidated Total
Revenues	\$319,798	\$136,600	\$33,884	\$	\$490,282
Cost of services, rentals and sales (exclusive of items shown separately below)	168,903	46,422	21,285		236,610
Depreciation and amortization	18,424	23,533	2,885		44,842
	42,122	23,017	3,240		68,379



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

General and administrative expenses					
Income from operations	90,349	43,628	6,474		140,451
Interest expense, net				(11,659)	(11,659)
Earnings from equity-method investments, net				23,167	23,167
Income before income taxes	\$ 90,349	\$ 43,628	\$ 6,474	\$ 11,508	\$ 151,959

**Table of Contents**Nine Months Ended September 30, 2009

	Well Intervention	Rental Tools	Marine	Unallocated	Consolidated Total
Revenues	\$773,513	\$329,309	\$81,903	\$	\$1,184,725
Cost of services, rentals and sales (exclusive of items shown separately below)	473,240	111,549	50,618		635,407
Depreciation and amortization	66,267	78,436	8,863		153,566
General and administrative expenses	113,154	65,952	9,588		188,694
Reduction in value of intangible assets	92,683				92,683
Income from operations	28,169	73,372	12,834		114,375
Interest expense, net				(37,328)	(37,328)
Loss from equity-method investments, net				(21,331)	(21,331)
Reduction in value of equity-method investments				(36,486)	(36,486)
Income (loss) before income taxes	\$ 28,169	\$ 73,372	\$ 12,834	\$(95,145)	\$ 19,230

Nine Months Ended September 30, 2008

	Well Intervention	Rental Tools	Marine	Oil & Gas	Oil & Gas Eliminations & Unallocated	Consolidated Total
Revenues	\$850,804	\$401,700	\$82,964	\$55,072	\$ (1,212)	\$1,389,328
Cost of services, rentals and sales (exclusive of items shown separately below)	462,783	131,857	56,411	12,986	(1,212)	662,825
Depreciation, depletion, amortization and accretion	51,981	66,558	7,337	2,799		128,675
General and administrative expenses	117,211	69,701	8,719	8,780		204,411
Gain on sale of businesses	500	3,332		37,114		40,946
Income from operations	219,329	136,916	10,497	67,621		434,363
Interest expense, net					(34,865)	(34,865)

Earnings from equity-method investments, net				19,359		19,359
--	--	--	--	--------	--	--------

Income (loss) before income taxes	\$219,329	\$136,916	\$10,497	\$86,980	\$(34,865)	\$ 418,857
-----------------------------------	-----------	-----------	----------	----------	------------	------------

Identifiable Assets

	Well Intervention	Rental Tools	Marine	Unallocated	Consolidated Total
September 30, 2009	\$ 1,457,151	\$ 773,871	\$ 291,257	\$ 64,685	\$ 2,586,964
December 31, 2008	\$ 1,343,710	\$ 762,848	\$ 239,572	\$ 144,015	\$ 2,490,145

**Table of Contents***Geographic Segments*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues:				
United States	\$ 294,316	\$ 411,373	\$ 948,851	\$ 1,153,141
Other Countries	92,139	78,909	235,874	236,187
Total	\$ 386,455	\$ 490,282	\$ 1,184,725	\$ 1,389,328

	September 30, 2009		December 31, 2008	
	Long-Lived Assets:			
United States	\$ 971,188	\$ 938,453		
Other Countries	237,631	176,488		
Total	\$ 1,208,819	\$ 1,114,941		

(12) Guarantee

As part of SPN Resources' acquisition of its oil and gas properties, the Company guaranteed SPN Resources' performance of its decommissioning liabilities. In accordance with Accounting Standards Codification 460-10,

Guarantees (formerly Statement of Financial Accounting Standards Interpretation No. 45), the Company has assigned an estimated value of \$2.9 million related to decommissioning performance guarantees, which 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 that SPN Resources defaults on the decommissioning liabilities existing at the closing date, the total maximum potential obligation under these guarantees is estimated to be approximately \$115.5 million, net of the contractual right to receive payments from third parties, which is approximately \$26.9 million, as of September 30, 2009. The total maximum potential obligation will decrease over time as the underlying obligations are fulfilled by SPN Resources.

**Table of Contents****(13) Other Comprehensive Loss**

The following tables reconcile the change in accumulated other comprehensive loss for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended September 30,	
	2009	2008
Accumulated other comprehensive loss, June 30, 2009 and 2008, respectively	\$ (14,246)	\$ (7,775)
Other comprehensive income (loss):		
Other comprehensive income (loss), net of tax		
Hedging activities:		
Unrealized gain on equity-method investments hedging activities, net of tax of \$11,127 in 2008		18,947
Foreign currency translation adjustment	(4,338)	(16,693)
Total other comprehensive income (loss)	(4,338)	2,254
Accumulated other comprehensive loss, September 30, 2009 and 2008, respectively	\$ (18,584)	\$ (5,521)
	Nine Months Ended September 30,	
	2009	2008
Accumulated other comprehensive income (loss), December 31, 2008 and 2007, respectively	\$ (32,641)	\$ 9,078
Other comprehensive income (loss):		
Other comprehensive income (loss), net of tax		
Hedging activities:		
Unrealized gain (loss) on equity-method investments hedging activities, net of tax of (\$2,279) in 2009 and \$332 in 2008	(3,881)	564
Foreign currency translation adjustment	17,938	(15,163)
Total other comprehensive income (loss)	14,057	(14,599)
Accumulated other comprehensive loss, September 30, 2009 and 2008, respectively	\$ (18,584)	\$ (5,521)

**(14) Income Taxes**

The Company has adopted the provisions of Accounting Standards Codification 740-10, Income Taxes (formerly Statement of Financial Accounting Standards Interpretation No. 48). 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 \$9.7 million of unrecorded tax benefits at September 30, 2009 and December 31, 2008, all of which would impact the Company's effective tax rate if recognized. The unrecorded tax benefits are not considered material to the Company's financial position.

In addition to its Federal tax return, the Company files income tax returns in various state and foreign jurisdictions. The number of years that are open under applicable statutes 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 2004.

**Table of Contents**

(15) Commitments and Contingencies

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

(16) Subsequent Events

In October 2009, the Company acquired a 23% membership interest in Dynamic Beryl for \$8.1 million. Dynamic Beryl's acquisition of BOG was part of a restructuring of BOG in which the previously existing debt obligations of BOG were partially extinguished and otherwise renegotiated. The Company's 23% membership in Dynamic Beryl and its proportionate share of operating results will be accounted for using the equity-method.

In May 2009, the Financial Accounting Standards Board issued Accounting Standards Codification 855-10 (ASC 855-10), Subsequent Events (formerly Statement of Financial Accounting Standards No. 165), which establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. In accordance with ASC 855-10, the Company has evaluated subsequent events through November 3, 2009.

(17) New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued Accounting Standards Update No. 2009-01 (ASC Topic 105), Generally Accepted Accounting Principles (formerly Statement of Financial Accounting Standards No. 168), which establishes the FASB Accounting Standards Codification (the Codification or ASC) as the official single source of authoritative U.S. generally accepted accounting principles (GAAP). All existing accounting standards are superseded. All other accounting guidance not included in the Codification is considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections within the Codification. Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. The Codification is not intended to change GAAP, but it changes the way GAAP is organized and presented. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and the principal impact on the Company's financial statements is limited to disclosures as all current and future references to authoritative accounting literature will be referenced in accordance with the Codification.

In June 2009, the Financial Accounting Standards Board issued its Accounting Standards Codification 810-10 (ASC 810-10), Amendments to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (formerly Statement of Financial Accounting Standards No. 167), for determining whether an entity is a variable interest entity (VIE) and requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. ASC 810-10 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. ASC 810-10 is effective for annual reporting periods beginning after November 15, 2009. The Company is currently evaluating the impact the adoption of ASC 810-10 will have on its results of operations and financial position.

**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 associated with the uncertainty of macroeconomic and business conditions worldwide, as well as the global credit markets; 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 the Company's operations; political, economic and other risks and uncertainties associated with international operations; the seasonality of the offshore industry in the Gulf of Mexico; the potential shortage of skilled workers; the Company's dependence on certain customers; the risks inherent in long-term fixed-price contracts; operating hazards, including the significant possibility of accidents resulting in personal injury, property damage or environmental damage; risks inherent in acquiring businesses; and the effect of the Company's performance of regulatory programs and environmental matters. These risks and other uncertainties related to our business are described in detail in our Annual Report on Form 10-K for the year ended December 31, 2008. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any of our forward-looking statements for any reason.

**Executive Summary**

During the third quarter of 2009, revenue was \$386.5 million, income from operations was \$54.6 million, net income was \$24.4 million and net income per share was \$0.31. The results include \$6.2 million in non-cash losses from our equity-method investments, which include unrealized losses from hedging contracts of \$1.5 million and other non-cash charges of \$4.7 million.

The factors driving our improved performance relative to the second quarter of 2009 were (1) a 46% increase in international revenue attributable to the well intervention segment as a result of well control projects in Africa and more demand for cased hole wireline and hydraulic workover and snubbing services in Europe; (2) a 17% increase in international revenue attributable to the rental tool segment due to sales of accommodation units in the Middle East and increased rentals of drill pipe in Latin America, and (3) a 3% increase in our Gulf of Mexico revenue due to a 15% increase in marine revenue and 4% increase in well intervention revenue offset by an 8% decrease for rental tools as a result of increased demand for our services and liftboats during the traditional work season in the shallow water Gulf of Mexico market.

As compared with the second quarter of 2009, our international revenue increased 30% to approximately \$92.1 million, our Gulf of Mexico revenue increased 3% to approximately \$222.9 million and our domestic land revenue decreased 4% to approximately \$71.4 million.

Well intervention segment revenue was \$254.3 million, a 10% increase from the second quarter of 2009, and income from operations was \$31.6 million. Our international revenue in this segment increased 46% due to the aforementioned increases in well control activity in Africa and demand for cased hole wireline and hydraulic workover and snubbing services in Europe. Gulf of Mexico and domestic land revenue increased approximately 4%. In the Gulf of Mexico, revenue was higher as a result of increased demand for many of our production-related services, as well as our plug and abandonment services. The primary factor for the higher revenue in the domestic land markets was increased demand for hydraulic workover and snubbing services.

In our rental tools segment, revenue was \$100.8 million, a 2% decrease as compared with the second quarter of 2009, and income from operations was \$17.9 million, an 11% decrease from the second quarter of 2009. A 17% increase in



international revenue partially offset an 8% decrease in Gulf of Mexico revenue and a 14% decrease in  
20

---

**Table of Contents**

domestic land revenue. Most of the Gulf of Mexico revenue decrease is from reduced demand for drill pipe, specialty tubulars, stabilization equipment and accommodations. We view much of the decline as temporary because it came from the deepwater markets, where several projects were in transition. In the domestic land markets, rentals of accommodations increased while rentals of stabilization equipment and drill pipe were lower. Our income from operations as a percentage of revenue decreased to 18% from 20% due mainly to business mix, with a larger percentage of our revenue coming from the lower-margin accommodations business as compared with the prior quarter.

In our marine segment, revenue was \$31.3 million and income from operations was \$5.1 million. These represent increases of 14% in revenue and 4% in income from operations as compared with the second quarter of 2009. The increase is primarily attributable to seasonal increases in activity as utilization increased to 62% from 53% in the second quarter of 2009. In addition, we had a full quarter contribution from both of our 265-foot class liftboats. Dayrates decreased for most of our liftboats.

We anticipate activity in both the domestic land and Gulf of Mexico markets will decrease during the winter months as seasonal factors, including weather, holiday downtime and the desire of our customers to curtail spending during this period, will reduce activity levels in these markets across the majority of our product and service lines during the fourth quarter of 2009 and into the first quarter of 2010.

**Comparison of the Results of Operations for the Three Months Ended September 30, 2009 and 2008**

For the three months ended September 30, 2009, our revenues were \$386.5 million, resulting in a net income of \$24.4 million, or \$0.31 income per share. Included in the results for the three months ended September 30, 2009 were \$6.2 million of non-cash losses from equity-method investments that include \$1.5 million of our share of unrealized losses associated with mark-to-market changes in the value of outstanding hedging contracts put in place by SPN Resources and \$4.7 million of other non-cash charges related to SPN Resources. For the three months ended September 30, 2008, revenues were \$490.3 million and net income was \$97.3 million, or \$1.19 diluted earnings per share. Included in the results for the three months ended September 30, 2008 were \$23.2 million of earnings from equity-method investments, which included \$19.2 million of pre-tax gains associated with our share of mark-to-market changes in the value of derivative contracts put in place by SPN Resources. Revenues for the three months ended September 30, 2009 were lower in the well intervention segment due to a decrease in work related to a large-scale decommissioning project as well as a decrease in domestic land revenue. Revenue also decreased in the rental tools segment primarily due to decreased rentals of accommodations and stabilization equipment in our domestic land markets. During the three months ended September 30, 2009, revenue in our marine segment decreased due to lower utilization.

The following table compares our operating results for the three months ended September 30, 2009 and 2008 (in thousands). Cost of services, rentals and sales excludes depreciation and amortization for each of our business segments.

	Revenue			Cost of Services, Rentals and Sales				
	2009	2008	Change	2009	%	2008	%	Change
Well Intervention	\$ 254,335	\$ 319,798	\$ (65,463)	\$ 160,237	63%	\$ 168,903	53%	\$ (8,666)
Rental Tools	100,832	136,600	(35,768)	36,211	36%	46,422	34%	(10,211)
Marine	31,288	33,884	(2,596)	19,226	61%	21,285	63%	(2,059)
Total	\$ 386,455	\$ 490,282	\$ (103,827)	\$ 215,674	56%	\$ 236,610	48%	\$ (20,936)

**Table of Contents**

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

**Well Intervention Segment**

Revenue from our well intervention segment was \$254.3 million for the three months ended September 30, 2009, as compared to \$319.8 million for the same period in 2008. Cost of services percentage increased to 63% of segment revenue for the three months ended September 30, 2009 from 53% for the same period in 2008. Our decrease in revenue and profitability is primarily attributable to a decrease in revenue from the domestic land markets related to coiled tubing and cased hole wireline, snubbing and well control services. Additionally, we performed less work associated with the large-scale decommissioning project in the Gulf of Mexico. Our largest geographic revenue decrease in this segment came from our domestic land markets, which decreased 44% to approximately \$49.2 million for the quarter ended September 30, 2009 over the same period in 2008.

**Rental Tools Segment**

Revenue from our rental tools segment for the three months ended September 30, 2009 was \$100.8 million, as compared to \$136.6 million for the same period in 2008. Cost of rentals and sales percentage slightly increased to 36% of segment revenue for the three months ended September 30, 2009 from 34% for the same period of 2008. The decrease in rental revenue is primarily related to a decrease in the rentals of our accommodation units and stabilization equipment, specifically in the domestic land market. Rental revenue in our domestic land market decreased 53% to approximately \$22.2 million for the quarter ended September 30, 2009 over the same period in 2008. Additionally, rental revenue generated from the Gulf of Mexico and our international markets decreased by 15% and 9%, respectively, for the quarter ended September 30, 2009 over the same period in 2008.

**Marine Segment**

Our marine segment revenue for the three months ended September 30, 2009 was \$31.3 million, an 8% decrease over the same period in 2008. Our cost of services percentage decreased to 61% of segment revenue for the three months ended September 30, 2009 from 63% for the same period in 2008 primarily due to decreased liftboat maintenance costs and direct expenses. The fleet's average utilization decreased to approximately 62% for the third quarter of 2009 from 81% in the same period in 2008. The utilization decrease was offset by an increase in the fleet's average dayrate, which increased 19% to approximately \$16,300 in the third quarter of 2009 from \$13,700 in the third quarter of 2008. The increase in average dayrate was primarily due to the addition of two 265-foot class vessels in the second quarter of 2009.

**Depreciation and Amortization**

Depreciation and amortization increased to \$52.7 million in the three months ended September 30, 2009 from \$44.8 million in the same period in 2008. Depreciation and amortization expense related to our well intervention and rental segments for the three months ended September 30, 2009 increased approximately \$7.4 million, or 18%, from the same period in 2008. The increase in depreciation and amortization expense for these segments is primarily attributable to our 2009 and 2008 capital expenditures. Depreciation expense related to the marine segment for the three months ended September 30, 2009 increased approximately \$0.4 million, or 15%, from the same period in 2008. The increase in depreciation expense for the marine segment is primarily attributable to the delivery of two new 265-foot class liftboats partially offset by the decrease in utilization, as liftboats are depreciated primarily on a units of production basis.

**General and Administrative Expenses**

General and administrative expenses decreased to \$63.4 million for the three months ended September 30, 2009 from \$68.4 million for the same period in 2008. The decrease is primarily related to our efforts to reduce expenses during this difficult market coupled with a decrease in insurance and bonus expense based on decreased revenue and profitability.

**Table of Contents****Comparison of the Results of Operations for the Nine Months Ended September 30, 2009 and 2008**

For the nine months ended September 30, 2009, our revenues were \$1,184.7 million, resulting in a net income of \$12.3 million, or \$0.16 income per share. Included in the results for the nine months ended September 30, 2009 were non-cash, pre-tax charges of \$92.7 million for the reduction in value of intangible assets and \$36.5 million for the reduction in value of our remaining equity-method investment in BOG. Also included in the results for the nine months ended September 30, 2009 were losses of \$14.0 million from our share of BOG, \$8.9 million of our share of unrealized losses associated with mark-to-market changes in the value of outstanding hedging contracts put in place by SPN Resources and \$4.7 million of other non-cash charges related to SPN Resources. For the nine months ended September 30, 2008, revenues were \$1,389.3 million and net income was \$268.2 million, or \$3.27 diluted earnings per share. Included in the results for the nine months ended September 30, 2008 were \$40.9 million of pre-tax gains associated with the sale of businesses. Revenue for the nine months ended September 30, 2009 was lower in the well intervention segment due to a decrease in domestic land revenue. Revenue also decreased in the rental tools segment primarily due to decreased rentals of accommodations and stabilization equipment in our domestic land markets. During the nine months ended September 30, 2009, revenue in our marine segment decreased primarily due to lower utilization. No activity was recorded in our oil and gas segment for the nine months ended September 30, 2009 as we sold 75% of our interest in SPN Resources on March 14, 2008.

The following table compares our operating results for the nine months ended September 30, 2009 and 2008 (in thousands). Cost of services, rentals and sales excludes depreciation, depletion, amortization and accretion for each of our business segments. Oil and gas eliminations represent products and services provided to the oil and gas segment by our other segments.

	Revenue			Cost of Services, Rentals and Sales				
	2009	2008	Change	2009	%	2008	%	Change
Well Intervention	\$ 773,513	\$ 850,804	\$ (77,291)	\$ 473,240	61%	\$ 462,783	54%	\$ 10,457
Rental Tools	329,309	401,700	(72,391)	111,549	34%	131,857	33%	(20,308)
Marine	81,903	82,964	(1,061)	50,618	62%	56,411	68%	(5,793)
Oil and Gas		55,072	(55,072)			12,986	24%	(12,986)
Less: Oil and Gas Elim.		(1,212)	1,212			(1,212)		1,212
Total	\$ 1,184,725	\$ 1,389,328	\$ (204,603)	\$ 635,407	54%	\$ 662,825	48%	\$ (27,418)

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

**Well Intervention Segment**

Revenue of our well intervention segment was \$773.5 million for the nine months ended September 30, 2009, as compared to \$850.8 million for the same period in 2008, representing a 9% decrease. Cost of services percentage increased to 61% of segment revenue for the nine months ended September 30, 2009 from 54% for the same period in 2008. Our decrease in revenue and profitability is primarily attributable to a decrease in revenue from the domestic land markets related to coiled tubing and cased hole wireline, snubbing and well control services. Accordingly, our largest geographic revenue decrease in this segment came from our domestic land markets, which decreased 38% to approximately \$162.7 million for the nine months ended September 30, 2009 over the same period of 2008. Partially offsetting this decrease was an increase in revenue generated in our Gulf of Mexico market. Revenue in the Gulf of Mexico increased approximately \$17.3 million, or 4%, for the nine months ended September 30, 2009 over the same period in 2008 primarily due to the increase in level of work associated with various well control projects and plug and abandonment work.

**Table of Contents****Rental Tools Segment**

Revenue of our rental tools segment for the nine months ended September 30, 2009 was \$329.3 million, an 18% decrease over the same period in 2008. Cost of rentals and sales percentage increased slightly to 34% of segment revenue for the nine months ended September 30, 2009 from 33% for the same period in 2008. The decrease in rental revenue is primarily related to a decrease in the rentals of our on-site accommodation units and stabilization equipment, specifically in the domestic land market. Rental revenue in our domestic land markets decreased 37% to approximately \$85.7 million for the nine months ended September 30, 2009 over the same period in 2008. Additionally, rental revenue generated from the Gulf of Mexico and our international markets decreased by 7% and 9%, respectively, for the nine months ended September 30, 2009 over the same period in 2008.

**Marine Segment**

Our marine segment revenue for the nine months ended September 30, 2009 was \$81.9 million, a 1% decrease over the same period in 2008. Our cost of services percentage decreased to 62% of segment revenue for the nine months ended September 30, 2009 from 68% for the same period in 2008 primarily due to decreased liftboat maintenance costs and direct expenses. The fleet's average utilization decreased to approximately 55% for the nine months of 2009 from 63% in the same period in 2008. The utilization decrease was offset by an increase in the fleet's average dayrate, which increased 12% to approximately \$16,900 in the nine months of 2009 from \$15,100 in the nine months of 2008. The increase in average dayrate was primarily due to the addition of two 265-foot class vessels in second quarter of 2009.

**Oil and Gas Segment**

On March 14, 2008, we sold 75% of our interest in SPN Resources for approximately \$167.2 million. SPN Resources represented substantially all of our operating oil and gas segment. Subsequent to March 14, 2008, we have accounted for our remaining interest in SPN Resources using the equity-method.

**Depreciation, Depletion, Amortization and Accretion**

Depreciation, depletion, amortization and accretion increased to \$153.6 million in the nine months ended September 30, 2009 from \$128.7 million in the same period in 2008. Depreciation and amortization expense related to our well intervention and rental segments for the nine months ended September 30, 2009 increased approximately \$26.2 million, or 22%, from the same period in 2008. The increase in depreciation and amortization expense for these segments is primarily attributable to our 2009 and 2008 capital expenditures. Depreciation expense related to the marine segment for the nine months ended September 30, 2009 increased approximately \$1.5 million, or 21%, from the same period in 2008. The increase in depreciation expense for the marine segment is primarily attributable to the delivery of two vessels partially offset by the decrease in utilization, as liftboats are depreciated primarily on a units of production basis. These increases were offset by the \$2.8 million decrease in the oil and gas segment as we sold 75% of our interest in SPN Resources in March 2008.

**General and Administrative Expenses**

General and administrative expenses decreased to \$188.7 million for the nine months ended September 30, 2009 from \$204.4 million for the same period in 2008. The decrease is primarily due to the sale of 75% of our interest in SPN Resources in March 2008 along with our efforts to reduce expenses during these difficult market conditions.

**Reduction in Value of Assets**

During the nine months ended September 30, 2009, we recorded approximately \$92.7 million of impairment expense relating to our intangible assets within our well intervention segment. This reduction in value of intangible assets is primarily due to the decline in demand for services in the domestic land markets.

Additionally, we recorded a \$36.5 million expense to write off our remaining investment in BOG, an equity-method investment in which we owned a 40% interest as of September 30, 2009. In April 2009, BOG defaulted under its loan agreements due primarily to the impact of pipeline curtailments from Hurricanes Gustav and Ike in 2008 and the decline of natural gas and oil prices. As a result of continued negative BOG operating results, lack of viable

**Table of Contents**

interested buyers and unsuccessful attempts to renegotiate the terms and conditions of BOG's loan agreements, we wrote off the remaining carrying value of our investment in BOG.

**Liquidity and Capital Resources**

The recent and unprecedented disruption in the current credit markets has had a significant adverse impact on a number of financial institutions. At this point in time, our liquidity has not been impacted by the current credit environment. We will continue to closely monitor our liquidity and the overall health of the credit markets. However, we cannot predict with any certainty the impact of any further disruption in the credit environment.

In the nine months ended September 30, 2009, we generated net cash from operating activities of \$176.9 million as compared to \$308.7 million in the same period of 2008. This decrease is primarily attributable to the increase in costs and estimated earnings in excess of billings related to the large-scale decommissioning contract in the Gulf of Mexico, which is currently expected to be completed by the end of the first half of 2010. Included in other current assets is approximately \$320.6 million at September 30, 2009 and \$164.4 million at December 31, 2008 of costs and estimated earnings in excess of billings related to this project. Billings, and subsequent receipts, are based on the completion of milestones. We are working on several aspects of this project at the same time, so we continue to incur costs and recognize revenue in advance of completing milestones. Our primary liquidity needs are for working capital, capital expenditures, debt service and acquisitions. Our primary sources of liquidity are cash flows from operations and available borrowings under our revolving credit facility. We had cash and cash equivalents of \$34.3 million at September 30, 2009 compared to \$44.9 million at December 31, 2008.

We spent \$241.6 million of cash on capital expenditures during the nine months ended September 30, 2009.

Approximately \$101.0 million was used to expand and maintain our rental tool equipment inventory, approximately \$56.0 million was spent on our marine segment and approximately \$71.5 million was used to expand and maintain the asset base of our well intervention segment.

In April 2008, we contracted to purchase a 50% interest in four 265-foot class liftboats. The first two vessels were placed in service during April and May of 2009, and are currently working in the Gulf of Mexico. Construction on the two remaining vessels was suspended in March 2009, as a result of disputes with the builder. Those disputes have been resolved and the uncompleted vessels have been delivered to a different shipyard to be completed. We expect the remaining two vessels to be completed during the first half of 2011. In September 2009, we acquired the other 50% interest in the four liftboats for a total price of \$38.1 million, following the other owner's exercise of an option requiring us to purchase its interest in these liftboats.

In May 2009, we amended our revolving credit facility to increase the borrowing capacity to \$325 million from \$250 million. Any amounts outstanding under the revolving credit facility are due on June 14, 2011. Costs incurred during the nine months ended September 30, 2009 associated with amending the revolving credit facility were approximately \$2.3 million. These costs were capitalized and are being amortized over the remaining term of the credit facility. At September 30, 2009, we had \$57.2 million outstanding under the bank credit facility. We also had approximately \$12.1 million of letters of credit outstanding, which reduces our borrowing capacity under this credit facility. The current amounts outstanding on the revolving credit facility are primarily due to increased working capital needs for our large-scale decommissioning project. As of October 30, 2009, we had \$29.5 million outstanding under the bank credit facility. Borrowings under the credit facility bear interest at a LIBOR rate plus margins that depend on 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 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 September 30, 2009, we had outstanding \$14.6 million in U.S. Government guaranteed long-term financing under Title XI of the Merchant Marine Act of 1936, which is administered by the Maritime Administration (MARAD), for two 245-foot class liftboats. This debt bears an interest rate of 6.45% per annum and is payable in equal semi-annual installments of \$405,000 on June 3<sup>rd</sup> and December 3<sup>rd</sup> of each year through the maturity date of June 3, 2027. Our obligations are secured by mortgages on the two liftboats. This MARAD financing also requires that we comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements.



**Table of Contents**

We have outstanding \$300 million of 6 7/8% unsecured senior notes due 2014. The indenture governing the senior notes requires semi-annual interest payments on June 1<sup>st</sup> and December 1<sup>st</sup> 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.

The Company's current long-term issuer credit rating is BB+ by Standard and Poor's and Ba3 by Moody's. Our credit rating may be impacted by the rating agencies' view of the cyclical nature of our industry sector.

We also have outstanding \$400 million of 1.50% senior exchangeable notes due 2026. The exchangeable notes bear interest at a rate of 1.50% per annum and decrease to 1.25% per annum on December 15, 2011. Interest on the exchangeable notes is payable semi-annually in arrears on December 15<sup>th</sup> and June 15<sup>th</sup> of each year through the maturity date of December 15, 2026. The exchangeable notes do not contain any restrictive financial covenants. Under certain circumstances, holders may exchange the notes for shares of our common stock. The initial exchange rate is 21.9414 shares of common stock per \$1,000 principal amount of notes. This is equal to an initial exchange price of \$45.58 per share. The exchange price represents a 35% premium over the closing share price at the date of issuance. The notes may be exchanged under the following circumstances:

- during any fiscal quarter (and only during such fiscal quarter), if the last reported sale price of our common stock is greater than or equal to 135% of the applicable exchange price of the notes for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;
- prior to December 15, 2011, during the five business-day period after any ten consecutive trading-day period (the measurement period) in which the trading price of \$1,000 principal amount of notes for each trading day in the measurement period was less than 95% of the product of the last reported sale price of our common stock and the exchange rate on such trading day;
- if the notes have been called for redemption;
- upon the occurrence of specified corporate transactions; or
- at any time beginning on September 15, 2026, and ending at the close of business on the second business day immediately preceding the maturity date of December 15, 2026.

In connection with the issuance of the exchangeable notes, we entered into agreements with affiliates of the initial purchasers to purchase call options and sell warrants on our common stock. We may exercise the call options we purchased at any time to acquire approximately 8.8 million shares of our common stock at a strike price of \$45.58 per share. The owners of the warrants may exercise the warrants to purchase from us approximately 8.8 million shares of our common stock at a price of \$59.42 per share, subject to certain anti-dilution and other customary adjustments. The warrants may be settled in cash, in common stock or in a combination of cash and common stock, at our option. These transactions may potentially reduce the dilution of our common stock from the exchange of the notes by increasing the effective exchange price to \$59.42 per share. Lehman Brothers OTC Derivatives, Inc. (LBOTC) is the counterparty to 50% of our call option and warrant transactions. In October 2008, LBOTC filed for bankruptcy protection, which is an event of default under the contracts relating to the call option and warrant transactions. We have not terminated these contracts and continue to carefully monitor the developments affecting LBOTC. Although we may not retain the benefit of the call option due to LBOTC's bankruptcy, we do not expect that there will be a material impact, if any, on the financial statements or results of operations. The call option and warrant transactions described above do not affect the terms of the outstanding exchangeable notes.

As of September 30, 2009, our accounts receivable in Venezuela comprised approximately 6% of our total accounts receivable. While we have experienced an increased delay in receiving payment on our receivables in Venezuela, we have received approximately \$8.2 million in payments during the three month period ended September 30, 2009. We will continue to closely monitor the situation in Venezuela.



**Table of Contents**

The following table summarizes our contractual cash obligations and commercial commitments at September 30, 2009 (amounts in thousands) for our long-term debt (including estimated interest payments), operating leases and other long-term liabilities. We do not have any other material obligations or commitments.

Description	Remaining Three Months 2009	2010	2011	2012	2013	2014	Thereafter
Long-term debt, including estimated interest payments	\$14,841	\$31,267	\$ 86,449	\$27,231	\$27,179	\$316,814	\$474,354
Operating leases	3,696	13,452	7,536	4,697	2,872	970	14,248
Other long-term liabilities		12,256	13,260	6,849	3,094	299	13,209
Total	\$18,537	\$56,975	\$107,245	\$38,777	\$33,145	\$318,083	\$501,811

We currently believe that we will spend approximately \$40 million to \$50 million on capital expenditures, excluding acquisitions, during the remaining three months of 2009. We believe that our current working capital, cash generated from our operations and availability under our revolving credit facility will provide sufficient funds for our identified capital projects.

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

**Off-Balance Sheet Financing Arrangements**

We have no off-balance sheet financing arrangements other than the potential additional consideration that may be payable as a result of the future operating performances of our acquisitions. At September 30, 2009, the maximum additional consideration payable for these acquisitions was approximately \$27.9 million. Since these acquisitions occurred before the adoption of ASC 805-10 (formerly Statement of Financial Accounting Standards No. 141(R)), these amounts are not classified as liabilities and are not reflected in our financial statements until the amounts are fixed and determinable. When amounts are determined, they are capitalized as part of the purchase price of the related acquisition. We do not have any other financing arrangements that are not required under generally accepted accounting principles to be reflected in our financial statements.

**Hedging Activities**

We enter into forward foreign exchange contracts to mitigate 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. During the nine months ended September 30, 2009, we held outstanding foreign currency forward contracts in order to hedge exposure to currency fluctuations between the British Pound Sterling and the Euro. These contracts were not accounted for as hedges and were marked to fair market value each period. As of September 30, 2009, we had no outstanding foreign currency forward contracts.

**New Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board issued Accounting Standards Update No. 2009-01 (ASC Topic 105), Generally Accepted Accounting Principles (formerly Statement of Financial Accounting Standards

No. 168), which establishes the FASB Accounting Standards Codification ( the Codification or ASC ) as the official single source of authoritative U.S. generally accepted accounting principles ( GAAP ). All existing accounting standards are superseded. All other accounting guidance not included in the Codification is considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission guidance

**Table of Contents**

organized using the same topical structure in separate sections within the Codification. Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. The Codification is not intended to change GAAP, but it changes the way GAAP is organized and presented. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and the principal impact on our financial statements is limited to disclosures as all current and future references to authoritative accounting literature will be referenced in accordance with the Codification.

In June 2009, the Financial Accounting Standards Board issued its Accounting Standards Codification 810-10 (ASC 810-10), Amendments to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (formerly Statement of Financial Accounting Standards No. 167), for determining whether an entity is a variable interest entity (VIE) and requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. ASC 810-10 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. ASC 810-10 is effective for annual reporting periods beginning after November 15, 2009. We are currently evaluating the impact the adoption of ASC 810-10 will have on our results of operations and financial position.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk****Foreign Currency Exchange Rates**

Because we operate in a number of countries throughout the world, we conduct a portion of our business in currencies other than the U.S. dollar. The functional currency for our international operations, other than our operations in the United Kingdom 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. Any gains or losses associated with such fluctuations have not been material.

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

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 September 30, 2009, we had no outstanding foreign currency forward contracts.

**Interest Rate Risk**

At September 30, 2009, \$57.2 million of our long-term debt outstanding had variable interest rates. Based on the amount of this debt outstanding at September 30, 2009, a 10% increase in the variable interest rate would increase our interest expense for the nine months ended September 30, 2009 by approximately \$148,000, while a 10% decrease would decrease our interest expense by approximately \$148,000.

**Equity Price Risk**

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

## **Table of Contents**

Each \$1,000 of principal amount of the notes is initially exchangeable into 21.9414 shares of our common stock, subject to adjustment upon the occurrence of specified events. Holders of the notes may exchange their notes prior to maturity only if (1) the price of our common stock reaches 135% of the applicable exchange rate during certain periods of time specified in the notes; (2) specified corporate transactions occur; (3) the notes have been called for redemption; or (4) the trading price of the notes falls below a certain threshold. In addition, in the event of a fundamental change in our corporate ownership or structure, the holders may require us to repurchase all or any portion of the notes for 100% of the principal amount.

We also have agreements with affiliates of the initial purchasers to purchase call options and sell warrants of our common stock. We may exercise the call options at any time to acquire approximately 8.8 million shares of our common stock at a strike price of \$45.58 per share. The owners of the warrants may exercise their warrants to purchase from us approximately 8.8 million shares of our common stock at a price of \$59.42 per share, subject to certain anti-dilution and other customary adjustments. The warrants may be settled in cash, in shares or in a combination of cash and shares, at our option. Lehman Brothers OTC Derivatives, Inc. (LBOTC) is the counterparty to 50% of our call option and warrant transactions. In October 2008, LBOTC filed for bankruptcy protection, which is an event of default under the contracts relating to the call option and warrant transactions. We have not terminated these contracts and continue to carefully monitor the developments affecting LBOTC. Although we may not retain the benefit of the call option due to LBOTC's bankruptcy, we do not expect that there will be a material impact, if any, on the financial statements or results of operations. The call option and warrant transactions described above do not affect the terms of the outstanding exchangeable notes.

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

### **Commodity Price Risk**

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

### **Item 4. Controls and Procedures**

- a. **Evaluation of disclosure control 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 SEC'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 September 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

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

- 3.1 Composite Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Form 10-Q filed on August 7, 2009).
- 3.2 Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on September 12, 2007).
- 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.

**SIGNATURE**

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

**SUPERIOR ENERGY SERVICES, INC.**

Date: November 6, 2009

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

30