

SUPERIOR ENERGY SERVICES INC

Form 10-Q

October 25, 2017

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, 2017

or

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

For the Transition Period from to

Commission File No. 001-34037

SUPERIOR ENERGY SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware	75-2379388
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1001 Louisiana Street, Suite 2900	77002
Houston, TX	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: (713) 654-2200

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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Non-accelerated filer (do not check if smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 20, 2017 was 153,083,270.

Table Of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for

the Quarterly Period Ended September 30, 2017

TABLE OF CONTENTS

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

Table Of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

September 30, 2017 and December 31, 2016

(in thousands, except share data)

(unaudited)

	9/30/2017	12/31/2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 167,025	\$ 187,591
Accounts receivable, net of allowance for doubtful accounts of \$27,075 and \$29,740 at September 30, 2017 and December 31, 2016, respectively	424,776	297,164
Income taxes receivable	-	101,578
Prepaid expenses	38,709	37,288
Inventory and other current assets	139,828	130,772
Assets held for sale	27,330	27,158
Total current assets	797,668	781,551
Property, plant and equipment, net of accumulated depreciation and depletion of \$2,711,597 and \$2,454,339 at September 30, 2017 and December 31, 2016, respectively	1,379,560	1,605,365
Goodwill	807,488	803,917
Notes receivable	59,226	56,650
Intangible and other long-term assets, net of accumulated amortization of \$80,122 and \$69,588 at September 30, 2017 and December 31, 2016, respectively	167,189	222,772
Total assets	\$ 3,211,131	\$ 3,470,255
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 126,368	\$ 94,831
Accrued expenses	237,823	218,192
Income taxes payable	801	694
Current portion of decommissioning liabilities	27,237	22,164
Liabilities held for sale	8,755	8,653
Total current liabilities	400,984	344,534
Deferred income taxes	150,612	243,611
Decommissioning liabilities	101,544	101,513
Long-term debt, net	1,281,714	1,284,600

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

Other long-term liabilities	161,522	192,077
Stockholders' equity:		
Preferred stock of \$0.01 par value. Authorized - 5,000,000 shares; none issued	-	-
Common stock of \$0.001 par value		
Authorized-250,000,000, Issued and Outstanding - 153,083,270 at September 30, 2017		
Authorized-250,000,000, Issued and Outstanding - 151,861,661 at December 31, 2016	153	152
Additional paid in capital	2,705,526	2,691,553
Accumulated other comprehensive loss, net	(68,873)	(80,248)
Retained deficit	(1,522,051)	(1,307,537)
Total stockholders' equity	1,114,755	1,303,920
Total liabilities and stockholders' equity	\$ 3,211,131	\$ 3,470,255

See accompanying notes to condensed consolidated financial statements.

Table Of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2017 and 2016

(in thousands, except per share data)

(unaudited)

	Three Months		Nine Months	
	2017	2016	2017	2016
Revenues:				
Services	\$ 431,874	\$ 266,093	\$ 1,170,455	\$ 873,985
Rentals	74,155	60,132	206,578	221,644
Total revenues	506,029	326,225	1,377,033	1,095,629
Costs and expenses:				
Cost of services (exclusive of depreciation, depletion, amortization and accretion)	340,401	223,766	959,630	703,061
Cost of rentals (exclusive of depreciation, depletion, amortization and accretion)	27,878	34,402	82,437	99,081
Depreciation, depletion, amortization and accretion - services	92,814	100,579	281,097	312,713
Depreciation, depletion, amortization and accretion - rentals	15,937	22,729	50,054	79,304
General and administrative expenses	74,372	86,743	226,573	270,467
Reduction in value of assets	9,953	-	9,953	462,461
Loss from operations	(55,326)	(141,994)	(232,711)	(831,458)
Other income (expense):				
Interest expense, net	(29,096)	(21,771)	(76,679)	(68,325)
Other income (expense)	(970)	3,667	(2,477)	22,103
Loss from continuing operations before income taxes	(85,392)	(160,098)	(311,867)	(877,680)
Income taxes	(28,203)	(46,185)	(102,978)	(210,599)
Net loss from continuing operations	(57,189)	(113,913)	(208,889)	(667,081)
Loss from discontinued operations, net of income tax	(1,860)	(4,085)	(5,625)	(8,577)
Net loss	\$ (59,049)	\$ (117,998)	\$ (214,514)	\$ (675,658)

Loss per share information:

Basic and diluted:

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

Net loss from continuing operations	\$ (0.37)	\$ (0.75)	\$ (1.37)	\$ (4.40)
Loss from discontinued operations	(0.02)	(0.03)	(0.04)	(0.06)
Net loss	\$ (0.39)	\$ (0.78)	\$ (1.41)	\$ (4.46)
Cash dividends declared per share	\$ -	\$ -	\$ -	0.08
Weighted average common shares used in computing loss per share:				
Basic and diluted	153,082	151,707	152,624	151,337

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss

Three and Nine Months Ended September 30, 2017 and 2016

(in thousands)

	Three Months		Nine Months	
	2017	2016	2017	2016
Net loss	\$ (59,049)	\$ (117,998)	\$ (214,514)	\$ (675,658)
Change in cumulative translation adjustment, net of tax	3,629	(4,693)	11,375	(26,616)
Comprehensive loss	\$ (55,420)	\$ (122,691)	\$ (203,139)	\$ (702,274)

See accompanying notes to condensed consolidated financial statements.

Table Of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2017 and 2016

(in thousands)

(unaudited)

	2017	2016
Cash flows from operating activities:		
Net loss	\$ (214,514)	\$ (675,658)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	331,151	392,017
Deferred income taxes	(92,999)	(186,232)
Reduction in value of assets	9,953	462,461
Stock based compensation expense	29,780	34,167
Other reconciling items, net	(2,408)	(10,392)
Changes in operating assets and liabilities:		
Accounts receivable	(116,989)	155,717
Inventory and other current assets	(8,510)	(5,028)
Accounts payable	24,821	(8,692)
Accrued expenses	7,182	(41,617)
Income taxes	100,969	(4,515)
Other, net	(13,028)	34,447
Net cash provided by operating activities	55,408	146,675
Cash flows from investing activities:		
Payments for capital expenditures	(109,635)	(74,071)
Decrease in cash held in escrow	30,600	-
Other	15,647	6,238
Net cash used in investing activities	(63,388)	(67,833)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	500,000	-
Principal payments on long-term debt	(500,000)	(337,576)
Payment of debt issuance costs	(9,091)	(2,675)
Proceeds from revolving line of credit	-	325,123
Payments on revolving line of credit	-	(325,123)
Cash dividends	-	(12,111)
Other	(6,789)	(5,410)
Net cash used in financing activities	(15,880)	(357,772)
Effect of exchange rate changes on cash	3,294	(6,932)
Net decrease in cash and cash equivalents	(20,566)	(285,862)
Cash and cash equivalents at beginning of period	187,591	564,017

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

Cash and cash equivalents at end of period	\$ 167,025	\$ 278,155
--	------------	------------

See accompanying notes to condensed consolidated financial statements.

Table Of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2017

(1)Basis of Presentation

Certain information and footnote disclosures normally in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC); however, management believes the disclosures that are made are adequate to make the information presented not misleading. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Superior Energy Services, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016, 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, 2017 and 2016 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. Certain previously reported amounts have been reclassified to conform to the 2017 presentation. 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.

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

The Company evaluates events that occur after the balance sheet date but before the financial statements are issued for potential recognition or disclosure. Based on the evaluation, the Company determined that there were no material subsequent events for recognition or disclosure other than those disclosed herein.

(2)Inventory

Inventories are stated at the lower of cost or net realizable value. The Company applies net realizable value and obsolescence to the gross value of the inventory. Cost is determined using the first-in, first-out or weighted-average cost methods for finished goods and work-in-process. Supplies and consumables primarily consist of products used in our services provided to customers. The components of the inventory balances are as follows (in thousands):

	September 30, 2017	December 31, 2016
Finished goods	\$ 59,263	\$ 49,888
Raw materials	13,360	17,948
Work-in-process	5,289	5,214
Supplies and consumables	29,748	30,029
Total	\$ 107,660	\$ 103,079

(3) Notes Receivable

Notes receivable consist of a commitment from the seller of an oil and gas property acquired by the Company related to costs associated with the abandonment of the acquired property. Pursuant to an agreement with the seller, the Company will invoice the seller an agreed upon amount at the completion of certain decommissioning activities. The gross amount of this obligation totals \$115.0 million and is recorded at present value using an effective interest rate of 6.58%. The related discount is amortized to interest income based on the expected timing of completion of the decommissioning activities. The Company recorded interest income related to notes receivable of \$2.6 million and \$2.7 million for the nine months ended September 30, 2017 and 2016, respectively.

(4) Decommissioning Liabilities

The Company's decommissioning liabilities associated with an oil and gas property and its related assets consist of costs related to the plugging of wells, the removal of the related platform and equipment, and site restoration. The Company reviews the adequacy of its decommissioning liabilities whenever indicators suggest that the estimated cash flows needed to satisfy the liabilities have changed materially. The Company had decommissioning liabilities of \$128.8 million and \$123.7 million at September 30, 2017 and December 31, 2016, respectively.

Table Of Contents

(5)Debt

The Company's outstanding debt is as follows (in thousands):

	September 30, 2017 Long-term	December 31, 2016 Long-term
Senior Notes due September 2024	\$ 500,000	\$ -
Senior Notes due December 2021	800,000	800,000
Senior Notes due May 2019	-	500,000
Total debt, gross	1,300,000	1,300,000
Unamortized debt issuance costs	(18,286)	(15,400)
Total debt, net	\$ 1,281,714	\$ 1,284,600

Credit Facility

In February 2017, the Company amended its credit facility to, among other things, reduce the size of the credit facility from \$400.0 million to \$300.0 million (with a \$100.0 million accordion feature) and amend the financial covenants, in part to suspend the interest coverage ratio until the third quarter of 2017. Borrowings under the credit facility bear interest at LIBOR plus margins that depend on the Company's credit rating. Indebtedness under the credit facility is secured by substantially all of the Company's assets, including the pledge of the stock of its principal domestic subsidiaries. The credit facility contains customary events of default and requires that the Company satisfy various financial covenants. The credit facility also limits the Company's ability to pay dividends or make distributions, make acquisitions, create liens or incur additional indebtedness.

Subsequent to the quarter end, the Company extended its revolving credit facility maturity to October 2022 with a \$300 million asset-based revolving credit facility. The borrowing base under the credit facility will be calculated as the Company's subsidiary guarantors' eligible accounts receivable, eligible inventory and eligible premium rental drill pipe less reserves. Availability under the credit facility will be the lesser of (i) the commitments, (ii) the borrowing base and (iii) the highest principal amount permitted to be secured under the indenture governing 7 1/8% senior unsecured notes due 2021. At October 20, 2017, availability was \$285.6 million, and may increase or decrease as a result of, among other things, changes to the Company's consolidated tangible assets. The credit agreement contains various covenants, including, but not limited to, limitations on the incurrence of indebtedness, permitted investments, liens on assets, making distributions, transactions with affiliates, merger, consolidations, dispositions of assets and

other provisions customary in similar types of agreements.

Senior Unsecured Notes

In August 2017, the Company issued \$500 million of 7 3/4% senior unsecured notes due September 2024 in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the “Securities Act”). Costs associated with the issuance of these notes were \$8.9 million which will be amortized over the term of the notes. The Company used the net proceeds of the notes offering and cash on hand to redeem all of the outstanding \$500 million 6 3/8% senior unsecured notes due 2019. In connection with the redemption of the senior unsecured notes due 2019, the Company recorded \$2.6 million for the write-off of unamortized debt issuance costs. The indenture governing the 7 3/4% senior unsecured notes due 2024 requires semi-annual interest payments beginning on March 15, 2018, until the maturity date of September 15, 2024.

The Company also has outstanding \$800 million of 7 1/8% senior unsecured notes due December 2021. The indenture governing the 7 1/8% senior unsecured notes due 2021 requires semi-annual interest payments on June 15 and December 15 of each year through the maturity date of December 15, 2021.

(6) Derivative Financial Instruments

The Company had three interest rate swaps for notional amounts of \$100 million each, related to its 7 1/8% senior notes maturing in December 2021. In January 2017, the Company sold these interest rate swaps to the counterparties for a net amount of \$0.8 million. The remaining balance of the derivative asset is being amortized to interest expense over the remaining term of the related notes. For the nine months ended September 30, 2017, \$1.5 million of expense related to the amortization of the remaining derivative asset was recorded.

Table Of Contents

The location and effect of the derivative asset on the condensed consolidated statement of operations, presented on a pre-tax basis, are as follows (in thousands):

		Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Effect of derivative asset	Location of (gain) loss recognized		
Interest rate swap	Interest expense, net	\$ 1,791	\$ (4,329)
Hedged item - debt	Interest expense, net	(1,805)	365
		\$ (14)	\$ (3,964)

For the three and nine months ended September 30, 2016, \$0 and \$4.0 million of interest income, respectively, was related to the ineffectiveness associated with this derivative asset.

(7) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used in determining fair value are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. The three input levels of the fair value hierarchy are as follows.

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

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

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

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

	Fair Value at September 30, 2017			
	Level	Level 2	Level	Total
	1		3	
Intangible and other long-term assets, net				
Non-qualified deferred compensation assets	\$ 369	\$ 13,341	\$ -	\$ 13,710
Accounts payable				
Non-qualified deferred compensation liabilities	\$ -	\$ 1,157	\$ -	\$ 1,157
Other long-term liabilities				
Non-qualified deferred compensation liabilities	\$ -	\$ 20,250	\$ -	\$ 20,250

	Fair Value at December 31, 2016			
	Level	Level 2	Level	Total
	1		3	
Intangible and other long-term assets, net				
Non-qualified deferred compensation assets	\$ 368	\$ 11,992	\$ -	\$ 12,360
Interest rate swaps	\$ -	\$ 8,579	\$ -	\$ 8,579
Accounts payable				
Non-qualified deferred compensation liabilities	\$ -	\$ 1,115	\$ -	\$ 1,115
Other long-term liabilities				
Non-qualified deferred compensation liabilities	\$ -	\$ 18,489	\$ -	\$ 18,489

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

Table Of Contents

The fair value of the Company's cash equivalents, accounts receivable and current maturities of long-term debt approximates their carrying amounts. The fair value of the Company's long-term debt was approximately \$1,351.6 million and \$1,307.6 million at September 30, 2017 and December 31, 2016, respectively. The fair value of these debt instruments is determined by reference to the market value of the instruments as quoted in over-the-counter markets, which are Level 1 inputs.

(8) Segment Information

Business Segments

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

The Company evaluates the performance of its reportable segments based on income or loss from operations. The segment measure is calculated as follows: segment revenues less segment operating expenses, depreciation, depletion, amortization and accretion expense, reduction in value of assets and allocated corporate general and administrative expenses. Corporate general and administrative expenses are allocated to the segments based primarily on specific identification and, to the extent that such identification is not practical, other methods that the Company believes to be a reasonable reflection of the utilization of services provided. The Company believes this segment measure is useful in evaluating the performance of its reportable segments because it highlights operating trends and aids analytical comparisons.

Summarized financial information for the Company's segments is as follows (in thousands):

Three Months Ended September 30, 2017

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	\$ 77,206	\$ 248,405	\$ 97,333	\$ 83,085	\$ -	\$ 506,029
Cost of services and rentals (exclusive of depreciation, depletion, amortization and accretion)	31,715	210,103	78,074	48,387	-	368,279
Depreciation, depletion, amortization and accretion	32,055	48,828	19,606	8,262	-	108,751
General and administrative expenses	16,491	22,931	17,441	17,509	-	74,372
Reduction in value of assets	-	1,838	-	8,115	-	9,953
Income (loss) from operations	(3,055)	(35,295)	(17,788)	812	-	(55,326)
Interest income (expense), net	-	-	-	926	(30,022)	(29,096)
Other expense	-	-	-	-	(970)	(970)
Income (loss) from continuing operations before income taxes	\$ (3,055)	\$ (35,295)	\$ (17,788)	\$ 1,738	\$ (30,992)	\$ (85,392)

Table Of Contents

Three Months Ended September 30, 2016

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	\$ 59,587	\$ 125,022	\$ 77,523	\$ 64,093	\$ -	\$ 326,225
Cost of services and rentals (exclusive of depreciation, depletion, amortization and accretion)	26,955	124,747	66,000	40,466	-	258,168
Depreciation, depletion, amortization and accretion	37,950	51,346	23,131	10,881	-	123,308
General and administrative expenses	20,431	23,124	19,712	23,476	-	86,743
Loss from operations	(25,749)	(74,195)	(31,320)	(10,730)	-	(141,994)
Interest income (expense), net	-	-	(17)	870	(22,624)	(21,771)
Other income	-	-	-	-	3,667	3,667
Loss from continuing operations before income taxes	\$ (25,749)	\$ (74,195)	\$ (31,337)	\$ (9,860)	\$ (18,957)	\$ (160,098)

Nine Months Ended September 30, 2017

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	\$ 214,464	\$ 702,463	\$ 254,544	\$ 205,562	\$ -	\$ 1,377,033
Cost of services and rentals (exclusive of depreciation, depletion, amortization and accretion)	94,191	610,154	210,778	126,944	-	1,042,067
Depreciation, depletion, amortization and accretion	100,859	144,090	60,905	25,297	-	331,151
	50,576	73,522	50,113	52,362	-	226,573

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

General and administrative expenses

Reduction in value of assets	-	1,838	-	8,115	-	9,953
Loss from operations	(31,162)	(127,141)	(67,252)	(7,156)	-	(232,711)
Interest income (expense), net	-	-	-	2,627	(79,306)	(76,679)
Other expense	-	-	-	-	(2,477)	(2,477)
Loss from continuing operations before income taxes	\$ (31,162)	\$ (127,141)	\$ (67,252)	\$ (4,529)	\$ (81,783)	\$ (311,867)

Nine Months Ended September 30, 2016

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	\$ 224,213	\$ 373,387	\$ 267,389	\$ 230,640	\$ -	\$ 1,095,629
Cost of services and rentals (exclusive of depreciation, depletion, amortization and accretion)	92,487	363,447	210,823	135,385	-	802,142
Depreciation, depletion, amortization and accretion	125,831	158,885	72,959	34,342	-	392,017
General and administrative expenses	71,403	68,250	61,214	69,600	-	270,467
Reduction in value of assets	47,659	188,741	226,061	-	-	462,461
Loss from operations	(113,167)	(405,936)	(303,668)	(8,687)	-	(831,458)
Interest income (expense), net	-	-	(1,330)	2,669	(69,664)	(68,325)
Other income	-	-	-	-	22,103	22,103
Loss from continuing operations before income taxes	\$ (113,167)	\$ (405,936)	\$ (304,998)	\$ (6,018)	\$ (47,561)	\$ (877,680)

Table Of Contents

Identifiable Assets

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Consolidated Total
September 30, 2017	\$ 686,609	\$ 1,564,596	\$ 531,809	\$ 428,117	\$ 3,211,131
December 31, 2016	\$ 849,046	\$ 1,573,801	\$ 598,909	\$ 448,499	\$ 3,470,255

Geographic Segments

The Company attributes revenue to various countries based on the location of where services are performed or the destination of the drilling products or equipment sold or rented. Long-lived assets consist primarily of property, plant and equipment and are attributed to various countries based on the physical location of the asset at the end of a period. The Company's revenue attributed to the U.S. and to other countries and the value of its long-lived assets by those locations are as follows (in thousands):

Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
United States	\$ 423,137	\$ 243,586	1,158,810	\$ 808,546
Other countries	82,892	82,639	218,223	287,083
Total	\$ 506,029	\$ 326,225	\$ 1,377,033	\$ 1,095,629

Long-Lived Assets

	September 30, 2017	December 31, 2016
United States	\$ 1,095,568	\$ 1,288,077
Other countries	283,992	317,288
Total	\$ 1,379,560	\$ 1,605,365

(9) Stock-Based Compensation Plans

The Company maintains various stock incentive plans that provide long-term incentives to the Company's key employees, including officers, directors, consultants and advisors (Eligible Participants). Under the stock incentive plans, the Company may grant incentive stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-based awards or any combination thereof to Eligible Participants. The Company's total compensation expense related to these plans was approximately \$29.2 million and \$32.4 million for the nine months ended September 30, 2017 and 2016, respectively, which is reflected in general and administrative expenses.

(10) Income Taxes

The Company had \$29.9 million of unrecorded tax benefits as of September 30, 2017 and December 31, 2016, all of which would impact the Company's effective tax rate if recognized. It is the Company's policy to recognize interest and applicable penalties, if any, related to uncertain tax positions in income tax expense.

(11) 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 and the conversion of restricted stock units.

Table Of Contents

For the three and nine months ended September 30, 2017 and 2016, the Company incurred a loss from continuing operations; therefore the impact of any incremental shares would be anti-dilutive.

(12) Reduction in Value of Assets

For the nine months ended September 30, 2017, the Company recorded \$9.9 million in expense related to the reduction in value of assets of property, plant and equipment, primarily in the Technical Solutions segment.

For the three and nine months ended September 30, 2016, the Company recorded \$0 and \$462.5 million in expense related to the reduction in value of assets, respectively. The components of the reduction in value of assets are as follows (in thousands):

Reduction in value of goodwill	\$ 330,500
Reduction in value of long-lived assets	105,859
Retirements of long-lived assets	26,102
Total reduction in value of assets	\$ 462,461

Reduction in Value of Goodwill

Goodwill is tested for impairment annually as of October 1st or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. The Company's goodwill impairment evaluation as of June 30, 2016, indicated that the carrying values of the Onshore Completion and Workover Services and Production Services segments exceeded their fair values so that goodwill was potentially impaired. The Company then performed the second step of the goodwill impairment test, which involved calculating the implied fair value of the segments' goodwill by allocating the fair values of the Onshore Completion and Workover Services and Production Services segments to all of their assets and liabilities (other than goodwill) and comparing them to the carrying amounts of the goodwill. To estimate the fair value of the reporting unit (which is consistent with the reported business segment), the Company used a weighting of the discounted cash flow method and the public company guideline method of determining fair value of the reporting unit. The Company weighted the discounted cash flow method 80% and the public company guideline method 20% due to differences between the Company's reporting unit and peer companies' size, profitability and diversity of operations.

During the nine months ended September 30, 2016, the Company recorded a \$330.5 million reduction in value of goodwill relating to its Onshore Completion and Workover Services and Production Services segments. The Company determined that the implied fair value of its goodwill for the Onshore Completion and Workover Services segment was less than its carrying value and recorded a \$140.0 million impairment of the Onshore Completion and Workover Services segment's goodwill. In addition, the Company determined that the implied fair value of its goodwill for the Production Services segment was less than its carrying value and recorded a \$190.5 million impairment of the Production Services segment's goodwill.

At September 30, 2017 and December 31, 2016, the Company's accumulated reduction in value of goodwill was \$1,748.2 million.

Reduction in Value of Long-Lived Assets

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 assessed by a comparison of the carrying amount of such assets to their fair value calculated, in part, by the 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 line of business or division for the impairment testing, which represent the lowest level of identifiable cash flows. If the asset grouping's fair value is 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. 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.

During the nine months ended September 30, 2016, the Company recorded \$105.9 million in connection with the reduction in value of its long-lived assets. The reduction in value of assets was comprised of \$2.9 million related to equipment and \$45.9 million related to intangibles in the fluid management business in the Onshore Completion and Workover Services segment and \$12.4 million related to equipment and \$21.0 million related to intangibles, primarily relating to the cementing business in the Production Services segment. In addition, the Company recorded \$23.7 million related to the reduction in carrying values of certain accommodation units included in the Drilling Products and Services segment.

Table Of Contents

Retirements of Long-Lived Assets

During the nine months ended September 30, 2016, the Company recorded \$23.9 million in the Drilling Products and Services segment for retirement and abandonment of excess and inoperable and/or functionally obsolete long-lived assets that would require a significant cost to refurbish.

(13) Discontinued Operations

At September 30, 2017, the assets of the Company's former subsea construction business were being actively marketed and the Company's management is committed to selling the remaining assets, which were classified as held for sale.

The following summarizes the assets and liabilities related to the businesses reported as discontinued operations (in thousands):

	September 30, 2017	December 31, 2016
Current assets	\$ 330	\$ 158
Property, plant and equipment, net	27,000	27,000
Total assets	\$ 27,330	\$ 27,158
Current liabilities	\$ 8,755	\$ 8,653

Loss from discontinued operations for the three and nine months ended September 30, 2017 was \$1.9 million and \$5.6 million, respectively. Loss from discontinued operations for the three and nine months ended September 30, 2016 was \$4.1 million and \$8.6 million, respectively.

(14) New Accounting Pronouncements

Standards adopted

In January 2017, the Financial Accounting Standards Board (FASB) issued accounting standards update (ASU) 2017-04, Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments eliminate Step 2 from the goodwill impairment test. The annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments should be applied on a prospective basis. The new standard is effective for the Company on January 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted the accounting guidance as of January 1, 2017. The newly adopted accounting principle is preferable because it reduces the cost and complexity of evaluating goodwill for impairment. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which relates to the accounting for employee share-based payments. The guidance in this update addresses several aspects of the accounting for share-based payments, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company adopted the accounting guidance as of January 1, 2017. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330) – Simplifying the Measurement of Inventory, which applies to inventory measured using first-in, first-out or average cost. The guidance in this update states that inventory within its scope shall be measured at the lower of cost or net realizable value, and when the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in earnings. The Company adopted the accounting guidance as of January 1, 2017. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

Standards not yet adopted

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. The guidance in this ASU applies to all entities that change the terms or conditions of a share-based payment award. The amendments provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718, Compensation – Stock Compensation, to the modification of the terms and conditions of a share-based payment award. The amendments in ASU 2017-09 include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The new standard is effective for the Company beginning on January 1, 2018 and should be applied prospectively to awards modified on or after the adoption date. The Company does not expect the adoption of this ASU to have a material impact on its condensed consolidated financial statements.

Table Of Contents

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. The new standard is effective for the Company beginning on January 1, 2018. The Company does not expect the adoption of this ASU to have a material impact on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statements of Cash Flows (Topic 230): Restricted Cash. The guidance in this ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard is effective for the Company beginning on January 1, 2018 and should be applied on a retrospective basis. The Company does not expect the adoption of this ASU to have a material impact on its condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The guidance in this ASU requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. The new standard is effective for the Company beginning on January 1, 2018. The Company is evaluating the effect that ASU 2016-16 will have on its condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. This new ASU will require the lessee to recognize a lease liability equal to the present value of the lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for all leases longer than 12 months. For leases with a term of 12 month or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities and recognize the lease expense for such leases generally on a straight-line basis over the lease term. Under the new guidance, the Company will revise its leasing policies to require most of the leases, where the Company is the lessee, to be recognized on the balance sheet as a lease and lease liability. Further, the Company will separate leases from other contracts where the Company is either the lessor or lessee when the rights conveyed under the contracts indicate there is a lease. The Company is evaluating the effect ASU 2016-02 will have on its condensed consolidated financial statements. The Company anticipates that its assets and liabilities will increase by a significant amount. The new standard is effective for the Company beginning on January 1, 2019.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace most existing revenue recognition guidance in GAAP. The guidance in this ASU requires an entity to recognize the amount of revenue that it expects to be entitled for the transfer of promised goods or services to customers. The new standard is effective for the Company beginning on January 1, 2018. The Company is in the process of determining the impacts the new standard will have on its various revenue streams. The Company's approach includes performing a detailed review of key contracts representative of the different businesses and comparing historical accounting policies and practices to the new accounting guidance. The Company's services and rental contracts are primarily short-term in nature, and therefore, based on the initial assessment, the Company does not expect the adoption of this ASU to have a material impact on its condensed consolidated financial statements, other than the additional disclosure requirements. Remaining implementation matters include establishing new policies, procedures, controls, and quantifying any adoption date adjustments. The Company will adopt this standard on January 1, 2018 utilizing the modified retrospective method.

Table Of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q and other documents filed by us with the SEC contain, and future oral or written statements or press releases by us and our management may contain, forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Generally, the words “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks” and “estimates,” variations of such words and similar expressions identify forward-looking statements, although not all forward-looking statements contain these identifying words. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q or such other materials regarding our financial position, financial performance, liquidity, strategic alternatives, market outlook, future capital needs, capital allocation plans, 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 prevailing circumstances on the date such statements are made. Such forward-looking statements, and the assumptions on which they are based, are inherently speculative and are subject to a number of risks and uncertainties that could cause our actual results to differ materially from such statements. Such uncertainties include, but are not limited to: the cyclicity and volatility of the oil and gas industry, including changes in prevailing oil and gas prices or expectations about future prices; operating hazards, including the significant possibility of accidents resulting in personal injury or death, property damage or environmental damage for which we may have limited or no insurance coverage or indemnification rights; the effect of regulatory programs (including regarding worker health and safety laws) and environmental matters on our operations or prospects, including the risk that future changes in the regulation of hydraulic fracturing could reduce or eliminate demand for our pressure pumping services, or that future changes in climate change legislation could result in increased operating costs or reduced commodity demand globally; counterparty risks associated with reliance on key suppliers; risks associated with the uncertainty of macroeconomic and business conditions worldwide; changes in competitive and technological factors affecting our operations; credit risk associated with our customer base; the potential inability to retain key employees and skilled workers; challenges with estimating our oil and natural gas reserves and potential liabilities related to our oil and natural gas property; risks associated with potential changes of Bureau of Ocean Energy management security and bonding requirements for offshore platforms; risks inherent in acquiring businesses; risks associated with cyber-attacks; risks associated with business growth during an industry recovery outpacing the capabilities of our infrastructure and workforce; political, legal, economic and other risks and uncertainties associated with our international operations; potential changes in tax laws, adverse positions taken by tax authorities or tax audits impacting our operating results; risks associated with our outstanding debt obligations and the potential effect of limiting our future growth and operations; our continued access to credit markets on favorable terms; and the impact that unfavorable or unusual weather conditions could have on our operations. These risks and other uncertainties related to our business are described in detail in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Investors are cautioned that many of the assumptions on which our forward-looking statements are based are likely to change after

such statements are made, including for example the market prices of oil and gas and regulations affecting oil and gas operations, which we cannot control or anticipate. Further, we may make changes to our business strategies and plans (including our capital spending and capital allocation plans) at any time and without notice, based on any changes in the above-listed factors, our assumptions or otherwise, any of which could or will affect our results. For all these reasons, actual events and results may differ materially from those anticipated, estimated, projected or implied by us in our forward-looking statements. We undertake no obligation to update any of our forward-looking statements for any reason and, notwithstanding any changes in our assumptions, changes in our business plans, our actual experience, or other changes. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Executive Summary

General

We provide a wide variety of services and products to the energy industry. We serve major, national and independent oil and natural gas exploration and production companies around the world and offer products and services with respect to the various phases of a well's economic life cycle. We report our operating results in four business segments: Drilling Products and Services; Onshore Completion and Workover Services; Production Services; and Technical Solutions.

Industry Trends

The oil and gas industry is both cyclical and seasonal. The level of spending by oil and gas companies is highly influenced by current and expected demand and future prices of oil and natural gas. Changes in spending result in an increased or decreased demand for our services and products. Rig count is an indicator of the level of spending by oil and gas companies. Our financial performance is significantly affected by the rig count in the U.S. land and offshore market areas as well as oil and natural gas prices and worldwide rig activity, which are summarized in the tables below.

Table Of Contents

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Worldwide Rig Count (1)						
U.S.:						
Land	927	461	101%	841	459	83%
Offshore	19	18	6%	20	23	-13%
Total	946	479	97%	861	482	79%
International (2)	947	936	1%	948	965	-2%
Worldwide Total	1,893	1,415	34%	1,809	1,447	25%
Commodity Prices (average)						
Crude Oil (West Texas Intermediate)	\$ 48.18	\$ 44.85	7%	\$ 49.30	\$ 41.35	19%
Natural Gas (Henry Hub)	\$ 2.95	\$ 2.88	2%	\$ 3.01	\$ 2.34	29%

(1) Estimate of drilling activity as measured by the average active drilling rigs based on Baker Hughes, a GE company, rig count information.

(2) Excludes Canadian Rig Count.

Comparison of the Results of Operations for the Three Months Ended September 30, 2017 and June 30, 2017

For the three months ended September 30, 2017, revenue was \$506.0 million and net loss from continuing operations was \$57.2 million, or a \$0.37 loss per share. Net loss was \$59.0 million, or \$0.39 loss per share. This compares to a net loss from continuing operations of \$62.0 million, or a \$0.41 loss per share for the three months ended June 30, 2017, on revenue of \$470.1 million. Net loss for the three months ended June 30, 2017 was \$63.8 million, or \$0.42 loss per share. Worldwide rig count increased by 2% for the three months ended September 30, 2017 from 1,853 rigs for the three months ended June 30, 2017. U.S. land rig count increased by 6% for the three months ended September 30, 2017 from 874 rigs for the three months ended June 30, 2017. The increase in U.S land market drilling activity largely contributed to the overall increase in our total revenues for the three months ended September 30, 2017.

Third quarter 2017 revenue in our Drilling Products and Services segment increased 12% sequentially to \$77.2 million, as compared to \$68.8 million in the second quarter of 2017. U.S. land revenue increased 22% sequentially to \$33.8 million due to the increase in drilling activity during the quarter. Gulf of Mexico revenue increased 5% sequentially to \$23.2 million and international revenue increased 7% sequentially to \$20.2 million due to an increase

in rentals of premium drill pipe and bottom hole assemblies in those markets.

Third quarter 2017 revenue in our Onshore Completion and Workover Services segment remained flat at \$248.4 million. All of this segment's revenue is derived from the U.S. land market area. On a sequential basis, revenue increases related to the 6% increase in U.S. land rig count were partially offset by adverse weather conditions experienced during the quarter due to Hurricane Harvey.

Third quarter 2017 revenue in our Production Services segment increased 10% sequentially to \$97.3 million, as compared to \$88.6 million in the second quarter of 2017. U.S. land revenue increased 22% sequentially to \$40.1 million primarily due to an increase in well testing and coiled tubing activities. International revenue increased 14% sequentially to \$40.7 million primarily due to an increase in hydraulic workover and snubbing activities. Gulf of Mexico revenue decreased 18% sequentially to \$16.5 million, primarily as a result of decreased demand for specialty rentals.

Third quarter 2017 revenue in our Technical Solutions segment increased 31% sequentially to \$83.1 million, as compared to \$63.6 million in the second quarter of 2017. Gulf of Mexico revenue increased 24% sequentially to \$52.0 million due to the increased completion tools and products revenue. U.S. land revenue increased 14% sequentially to \$9.1 million and international revenue increased 62% sequentially to \$22.0 million primarily due to an increase in demand for well control services.

Comparison of the Results of Operations for the Three Months Ended September 30, 2017 and 2016

For the three months ended September 30, 2017, our revenue was \$506.0 million, an increase of \$179.8 million or 55%, as compared to the same period in 2016. The increase is largely attributable to a 34% increase in the worldwide rig count. The net loss from continuing operations was \$57.2 million, or a \$0.37 loss per share. Net loss was \$59.0 million, or a \$0.39 loss per share. This compares to a net loss from continuing operations for the three months ended September 30, 2016 of \$113.9 million, or a \$0.75 loss per share. Net loss was \$118.0 million, or a \$0.78 loss per share.

Table Of Contents

The following table compares our operating results for the three months ended September 30, 2017 and 2016 (in thousands, except percentages). Cost of services and rentals excludes depreciation, depletion, amortization and accretion for each of our business segments.

	Revenue				Cost of Services and Rentals				
	2017	2016	Change	%	2017	%	2016	%	Change
Drilling Products and Services	\$ 77,206	\$ 59,587	\$ 17,619	30%	\$ 31,715	41%	\$ 26,955	45%	\$ 4,760
Onshore Completion and Workover Services	248,405	125,022	123,383	99%	210,103	85%	124,747	100%	85,356
Production Services	97,333	77,523	19,810	26%	78,074	80%	66,000	85%	12,074
Technical Solutions	83,085	64,093	18,992	30%	48,387	58%	40,466	63%	7,921
Total	\$ 506,029	\$ 326,225	\$ 179,804	55%	\$ 368,279	73%	\$ 258,168	79%	\$ 110,111

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

Drilling Products and Services Segment

Revenue from our Drilling Products and Services segment increased 30% to \$77.2 million for the three months ended September 30, 2017, as compared to \$59.6 million for the same period in 2016. Cost of services and rentals as a percentage of revenue decreased to 41% of segment revenue for the three months ended September 30, 2017, as compared to 45% for the same period in 2016. Revenue from the Gulf of Mexico market area increased 3% primarily due to increases in revenues from rentals of premium drill pipe and accommodation units. The revenue from the international market areas decreased 7% primarily due to decreases in revenues from rentals of premium drill pipe and accommodation units. Revenue in the U.S. land market increased 122% as a result of increases in revenues from rentals of premium drill pipe, bottom hole assemblies and accommodation units, as demand for these rental products increased along with the increase in U.S. land rig count.

Onshore Completion and Workover Services Segment

Revenue from our Onshore Completion and Workover Services segment increased 99% to \$248.4 million for the three months ended September 30, 2017, as compared to \$125.0 million for the same period in 2016. All of this segment's revenue is derived from the U.S. land market area, in which rig count increased by 101%. Cost of services and rentals as a percentage of revenue decreased to 85% of segment revenue for the three months ended September 30, 2017, as compared to 100% for the same period in 2016, primarily due to improved pricing and efficiencies due to higher activity levels, partially offset by periodic delays caused by supply chain tightness and general oilfield inefficiencies. The increase in revenue is primarily attributable to an increase in activity in our pressure pumping business. During the three months ended September 30, 2017, we recorded \$1.8 million in reduction in value of assets.

Production Services Segment

Revenue from our Production Services segment for the three months ended September 30, 2017 increased by 26% to \$97.3 million, as compared to \$77.6 million for the same period in 2016. Cost of services and rentals as a percentage of revenue decreased to 80% of segment revenue for the three months ended September 30, 2017, as compared to 85% for the same period in 2016. Revenue from the U.S. land market area increased 108%, primarily due to increased activity in coiled tubing and well testing services. The revenue from the international market areas increased 2%, primarily due to an increase in hydraulic workover and snubbing, offset by decreased activity in coiled tubing and well testing services. Revenue derived from the Gulf of Mexico market area decreased 9%, as compared to the same period in 2016, primarily due to a decrease in slickline services and specialty rentals.

Technical Solutions Segment

Revenue from our Technical Solutions segment increased 30% to \$83.1 million for the three months ended September 30, 2017, as compared to \$64.0 million for the same period in 2016. Cost of services and rentals as a percentage of revenue decreased to 58% of segment revenue for the three months ended September 30, 2017, as compared to 63% for the same period in 2016. Revenue derived from the Gulf of Mexico market area increased 59%, primarily due to an increase in completion tools and products revenue, offset by a decrease in subsea intervention activities. Revenue from the U.S. land market area decreased 15%, primarily due to a decrease in demand for completion tools and products. Revenue from the international market areas increased 6%, primarily due to an increase in demand for well control services. During the three months ended September 30, 2017, we recorded \$8.1 million in reduction in value of assets.

Table Of Contents

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion decreased to \$108.8 million during the three months ended September 30, 2017 from \$123.3 million during the same period in 2016. Depreciation and amortization expense decreased for our Drilling Products and Services segment by \$5.9 million, or 16%; for our Onshore Completion and Workover Services segment by \$2.5 million, or 5%; for our Production Services segment by \$3.5 million, or 15% and for our Technical Solutions segment by \$2.6 million, or 24%. The decrease in depreciation, depletion, amortization and accretion is primarily due to assets becoming fully depreciated and reduced levels of capital expenditures.

General and Administrative Expenses

General and administrative expenses decreased 14% to \$74.4 million for the three months ended September 30, 2017 as compared to \$86.7 million for the same period in 2016. The decrease is primarily attributable to significant cost reduction initiatives implemented during 2016. These cost reduction initiatives resulted in significantly lower expenses for salaries and wages, other employee-related expenses and infrastructure-related expenses.

Reduction in Value of Assets

The reduction in value of assets recorded during the three months ended September 30, 2017 included \$9.9 million related to the reduction in value of long-lived assets within the Onshore Completion and Workover Services and Technical Solutions segments.

Income Taxes

Our effective income tax rate for the three months ended September 30, 2017 was 33% compared to a 29% effective income tax rate for the same period in 2016. The difference in the effective tax rate from the statutory rate is primarily due to the reduction in value of goodwill in 2016, which is non-deductible for income tax purposes.

Comparison of the Results of Operations for the Nine Months Ended September 30, 2017 and 2016

For the nine months ended September 30, 2017, our revenue was \$1,377.0 million, an increase of \$281.4 million or 26%, as compared to the same period in 2016. The increase is largely attributable to a 25% increase in the worldwide rig count. The net loss from continuing operations was \$208.9 million, or a \$1.37 loss per share. Net loss was \$214.5 million, or a \$1.41 loss per share. This compares to a net loss from continuing operations for the nine months ended September 30, 2016 of \$667.1 million, or a \$4.40 loss per share. Net loss was \$675.7 million, or a \$4.46 loss per share for the nine months ended September 30, 2016.

The following table compares our operating results for the nine months ended September 30, 2017 and 2016 (in thousands, except percentages). Cost of services and rentals excludes depreciation, depletion, amortization and accretion for each of our business segments.

	Revenue				Cost of Services and Rentals				
	2017	2016	Change	%	2017	%	2016	%	Change
Drilling									
Products and									
Services	\$ 214,464	\$ 224,213	\$ (9,749)	-4%	\$ 94,191	44%	\$ 92,487	41%	\$ 1,704
Onshore									
Completion									
and									
Workover									
Services	702,463	373,387	329,076	88%	610,154	87%	363,447	97%	246,707
Production									
Services	254,544	267,389	(12,845)	-5%	210,778	83%	210,823	79%	(45)
Technical									
Solutions	205,562	230,640	(25,078)	-11%	126,944	62%	135,385	59%	(8,441)
Total	\$ 1,377,033	\$ 1,095,629	\$ 281,404	26%	\$ 1,042,067	76%	\$ 802,142	73%	\$ 239,925

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

Drilling Products and Services Segment

Revenue from our Drilling Products and Services segment decreased 4% to \$214.5 million for the nine months ended September 30, 2017, as compared to \$224.2 million for the same period in 2016. Cost of services and rentals as a percentage of revenue increased to 44% of segment revenue for the nine months ended September 30, 2017, as compared to 41% for the same period in 2016, primarily due to a decrease in revenue. Revenue from the Gulf of Mexico market area decreased 27% and revenue from the international market areas decreased 25%. The decline in revenue in these market areas is primarily attributable to decreases in revenues from rentals of

Table Of Contents

premium drill pipe, bottom hole assemblies and accommodation units, primarily driven by a decrease in offshore and international rig counts. These decreases were partially offset by a 78% increase in revenue generated in the U.S. land market area. The revenue in the U.S. land market area increased primarily as a result of increases in revenues from rentals of premium drill pipe, bottom hole assemblies and accommodation units, as demand for these rental products increased along with the increase in U.S. land rig count. During the nine months ended September 30, 2016, we recorded \$47.7 million in reduction in value of assets.

Onshore Completion and Workover Services Segment

Revenue from our Onshore Completion and Workover Services segment increased 88% to \$702.4 million for the nine months ended September 30, 2017, as compared to \$373.4 million for the same period in 2016. All of this segment's revenue is derived from the U.S. land market area, in which rig count was up 83%. Cost of services and rentals as a percentage of revenues decreased to 87% of segment revenue for the nine months ended September 30, 2017, as compared to 97% for the same period in 2016, primarily due to improved pricing and efficiencies due to higher activity levels, partially offset by periodic delays caused by supply chain tightness and general oilfield inefficiencies. The increase in revenue is primarily attributable to an increase in activity in our pressure pumping business. During the nine months ended September 30, 2017, we recorded \$1.8 million in reduction in value of assets, as compared to \$188.7 million recorded for the same period in 2016.

Production Services Segment

Revenue from our Production Services segment for the nine months ended September 30, 2017 decreased by 5% to \$254.5 million, as compared to \$267.4 million for the same period in 2016. Cost of services and rentals as a percentage of revenue increased to 83% of segment revenue for the nine months ended September 30, 2017, as compared to 79% for the same period in 2016, primarily due to a decrease in revenue. Revenue derived from the Gulf of Mexico market area decreased 13%, primarily due to decreased demand for specialty rentals. Revenue from the international market areas decreased 25%, primarily due to decreased activity from hydraulic workover and snubbing in the Latin America and Asia Pacific regions and well testing and coiled tubing services in the Latin America region. These decreases were partially offset by a 43% increase in revenue generated from the U.S. land market area. The increase in revenue in the U.S. land market area is primarily due to an increase in coiled tubing and well testing services driven primarily by the increase in U.S. land rig count. During the nine months ended September 30, 2016, we recorded \$226.1 million in reduction in value of assets.

Technical Solutions Segment

Revenue from our Technical Solutions segment decreased 11% to \$205.6 million for the nine months ended September 30, 2017, as compared to \$230.6 million for the same period in 2016. Cost of services and rentals as a percentage of revenue increased to 62% of segment revenue for the nine months ended September 30, 2017, as compared to 59% for the same period in 2016. Revenue derived from the Gulf of Mexico market area decreased 5%, primarily due to a decrease in demand for subsea intervention services, partially offset by an increase in demand for completion tools and products. Revenue from the U.S. land market area decreased 13% and revenue from the international market areas decreased 22%, primarily due to a decrease in demand for completion tools and products and well control services. During the nine months ended September 30, 2017, we recorded \$8.1 million in reduction in value of assets.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion decreased to \$331.2 million during the nine months ended September 30, 2017 from \$392.0 million during the same period in 2016. Depreciation and amortization expense decreased for our Drilling Products and Services segment by \$25.0 million, or 20%; for our Onshore Completion and Workover Services segment by \$14.8 million, or 9%; for our Production Services segment by \$12.0 million, or 17%, and for our Technical Solutions segment by \$9.0 million, or 26%. The decrease in depreciation, depletion, amortization and accretion is primarily due to assets becoming fully depreciated and reduced levels of capital expenditures.

General and Administrative Expenses

General and administrative expenses decreased 16% to \$226.6 million for the nine months ended September 30, 2017 as compared to \$270.5 million for the same period in 2016. The decrease is primarily attributable to significant cost reduction initiatives implemented during 2016. These cost reduction initiatives resulted in significantly lower expenses for salaries and wages, other employee-related expenses and infrastructure-related expenses.

Reduction in Value of Assets

The reduction in value of assets recorded during the three months ended September 30, 2017 included \$9.9 million related to reduction in value of long-lived assets within the Onshore Completion and Workover Services and Technical Solutions segments. Reduction in value of assets for the nine months ended September 30, 2016 was \$462.5 million, which included \$190.5 million related to the Production Services segment goodwill impairment and \$140.0 million related to the Onshore Completion and Workover Services

Table Of Contents

segment goodwill impairment. In addition, the reduction in value of assets included \$132.0 million related to reduction in value of long-lived assets within the Drilling Products and Services, Onshore Completion and Workover Services and Production Services segments.

Other Income/Expense

Other income/expense for the nine months ended September 30, 2017 was \$2.5 million loss as compared to \$22.1 million income for the same period in 2016. The decrease in other income is primarily attributable to foreign currency fluctuations.

Income Taxes

Our effective income tax rate for the nine months ended September 30, 2017 was 33% compared to 24% effective income tax rate for the same period in 2016. The difference in the effective tax rate from the statutory rate is primarily due to the reduction in value of goodwill in 2016, which is non-deductible for income tax purposes.

Liquidity and Capital Resources

For the nine months ended September 30, 2017, we generated net cash from operating activities of \$55.4 million, as compared to \$146.7 million in the same period of 2016. Our primary liquidity needs during the next twelve months are for working capital and capital expenditures. Our primary sources of liquidity are cash flows from operations and available borrowings under our credit facility. We had cash and cash equivalents of \$167.0 million at September 30, 2017, compared to \$187.6 million at December 31, 2016. At September 30, 2017, approximately \$39.9 million of our cash balance was held outside the United States. Cash balances held in foreign jurisdictions could be repatriated to the United States, however, they would be subject to federal income taxes, less applicable foreign tax credits. We have not provided U.S. income tax expense on earnings of our foreign subsidiaries because we expect to reinvest the undistributed earnings indefinitely.

We spent \$109.6 million of cash on capital expenditures during the nine months ended September 30, 2017. Approximately \$15.9 million was used to expand and maintain our Drilling Products and Services segment's equipment inventory, and approximately \$74.9 million, \$8.3 million and \$10.5 million was spent to expand and

maintain the asset bases of our Onshore Completion and Workover Services, Production Services and Technical Solutions segments, respectively. We expect to spend approximately \$150 million on capital expenditures during 2017.

Subsequent to the quarter end, the Company extended its revolving credit facility maturity to October 2022 with a \$300 million asset-based revolving credit facility. The borrowing base under the credit facility will be calculated as the Company's subsidiary guarantors' eligible accounts receivable, eligible inventory and eligible premium rental drill pipe less reserves. Availability under the credit facility will be the lesser of (i) the commitments, (ii) the borrowing base and (iii) the highest principal amount permitted to be secured under the indenture governing 7 1/8% senior unsecured notes due 2021. At October 20, 2017, availability was \$285.6 million, and may increase or decrease as a result of, among other things, changes to the Company's consolidated tangible assets. The credit agreement contains various covenants, including, but not limited to, limitations on the incurrence of indebtedness, permitted investments, liens on assets, making distributions, transactions with affiliates, merger, consolidations, dispositions of assets and other provisions customary in similar types of agreements. At September 30, 2017, we were in compliance with all such covenants.

In August 2017, the Company issued \$500 million of 7 3/4% unsecured senior notes due September 2024 in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act. Costs associated with the issuance of these notes were \$8.9 million which will be amortized over the term of the notes. The Company used the net proceeds of the notes offering and cash on hand to redeem all of the outstanding \$500 million 6 3/8% senior unsecured notes due 2019. In connection with the redemption of the senior unsecured notes due May 2019, the Company recorded \$2.6 million for the write-off of unamortized debt issuance costs. The indenture governing the 7 3/4% senior notes requires semi-annual interest payments beginning on March 15, 2018, until the maturity date of September 15, 2024. The indenture contains customary events of default and requires that we satisfy various covenants. At September 30, 2017, we were in compliance with all such covenants.

We also have outstanding \$800 million of 7 1/8% unsecured senior notes due December 2021. The indenture governing the 7 1/8% senior notes due 2021 requires semi-annual interest payments on June 15 and December 15 of each year through the maturity date of December 15, 2021. The indenture contains customary events of default and requires that we satisfy various covenants. At September 30, 2017, we were in compliance with all such covenants.

Other Matters

Off-Balance Sheet Arrangements and Hedging Activities

At September 30, 2017, we had no off-balance sheet arrangements and no hedging contracts.

Table Of Contents

Recently Issued Accounting Guidance

See Part I, Item 1, “Financial Statements – Note 14 – New Accounting Pronouncements.”

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exchange Rates Risk

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

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

We do not hold derivatives for trading purposes or use derivatives with complex features. When we believe prudent, we enter into forward foreign exchange contracts to hedge the impact of foreign currency fluctuations. We do not enter into forward foreign exchange contracts for trading or speculative purposes. At September 30, 2017, we had no outstanding foreign currency forward contracts.

Interest Rate Risk

At September 30, 2017, we had no variable rate debt outstanding.

Commodity Price Risk

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

For additional discussion, see Part 1, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this quarterly report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective for ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures and is recorded, processed, summarized and reported within the time periods specified in the 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, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table Of Contents

PART II. OTHER INFORMATION

Item 1A. Risk Factors

For information regarding certain risks relating to our operations, any of which could negatively affect our business, financial condition, operating results or prospects, see Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share
July 1 - 31, 2017	2,644	\$ 9.92
August 1 - 31, 2017	197	\$ 10.51
September 1 - 30, 2017	-	\$ -
Total	2,841	\$ 9.96

(1) Through our stock incentive plans, 2,841 shares were delivered to us by our employees to satisfy their tax withholding requirements upon vesting of restricted stock units.

Item 6. Exhibits

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

Exhibit No. Description

- 3.1 Restated Certificate of Incorporation of Superior Energy Services, Inc. (incorporated herein by reference to Exhibit 3.1 to Superior Energy Services, Inc.'s Quarterly Report on Form 10-Q filed August 7, 2013 (File No. 001-34037)).
- 3.2 Amended and Restated Bylaws of Superior Energy Services, Inc. (as amended through March 7, 2012) (incorporated herein by reference to Exhibit 3.1 to Superior Energy Services, Inc.'s Current Report on Form 8-K filed March 12, 2012 (File No. 001-34037)).
- 31.1* Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Officer's certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

*Filed herein

Table Of Contents

SIGNATURE

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

SUPERIOR ENERGY SERVICES, INC.

Date: October 25, 2017 By: /s/ Robert S. Taylor
Robert S. Taylor
Executive Vice President, Treasurer and
Chief Financial Officer
(Principal Financial and Accounting Officer)