

SUPERIOR ENERGY SERVICES INC  
Form 10-Q  
April 25, 2018

Table Of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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.)

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

77002  
(Zip Code)

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

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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 April 20, 2018 was 154,237,551.

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Table Of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for

the Quarterly Period Ended March 31, 2018

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements and Notes</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	24
PART II. OTHER INFORMATION	
Item 1 <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 6. <u>Exhibits</u>	25

Table Of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

March 31, 2018 and December 31, 2017

(in thousands, except share data)

(unaudited)

	3/31/2018	12/31/2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 90,438	\$ 172,000
Accounts receivable, net of allowance for doubtful accounts of \$25,762 and \$29,037 at March 31, 2018 and December 31, 2017, respectively	443,253	398,056
Income taxes receivable	-	959
Prepaid expenses	45,330	42,128
Inventory and other current assets	149,484	134,032
Assets held for sale	3,860	13,644
Total current assets	732,365	760,819
Property, plant and equipment, net of accumulated depreciation and depletion of \$2,804,983 and \$2,736,620 at March 31, 2018 and December 31, 2017, respectively	1,300,897	1,316,944
Goodwill	809,342	807,860
Notes receivable	61,087	60,149
Restricted cash	20,585	20,483
Intangible and other long-term assets, net of accumulated amortization of \$86,709 and \$83,359 at March 31, 2018 and December 31, 2017, respectively	140,487	143,970
Total assets	\$ 3,064,763	\$ 3,110,225
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 148,499	\$ 119,716
Accrued expenses	215,801	221,757
Income taxes payable	934	-
Current portion of decommissioning liabilities	22,287	27,261
Current maturities of long-term debt	744	-
Liabilities held for sale	4,851	6,463
Total current liabilities	393,116	375,197

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Deferred income taxes	48,773	61,058
Decommissioning liabilities	104,088	103,136
Long-term debt, net	1,280,569	1,279,771
Other long-term liabilities	160,048	158,634
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 - 154,237,262 at March 31, 2018		
Authorized-250,000,000, Issued and Outstanding - 153,263,097 at December 31, 2017	154	153
Additional paid in capital	2,714,236	2,713,161
Accumulated other comprehensive loss, net	(63,039)	(67,427)
Retained deficit	(1,573,182)	(1,513,458)
Total stockholders' equity	1,078,169	1,132,429
Total liabilities and stockholders' equity	\$ 3,064,763	\$ 3,110,225

See accompanying notes to condensed consolidated financial statements.

Table Of Contents

## SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

Three Months Ended March 31, 2018 and 2017

(in thousands, except per share data)

(unaudited)

	2018	2017
Revenues:		
Services	\$ 399,768	\$ 334,450
Rentals	82,550	66,486
Total revenues	482,318	400,936
Costs and expenses:		
Cost of services (exclusive of depreciation, depletion, amortization and accretion)	311,139	296,434
Cost of rentals (exclusive of depreciation, depletion, amortization and accretion)	32,321	25,552
Depreciation, depletion, amortization and accretion - services	87,747	95,330
Depreciation, depletion, amortization and accretion - rentals	17,972	18,951
General and administrative expenses	75,820	75,493
Loss from operations	(42,681)	(110,824)
Other income (expense):		
Interest expense, net	(24,887)	(24,250)
Other income (expense)	(1,735)	649
Loss from continuing operations before income taxes	(69,303)	(134,425)
Income taxes	(9,355)	(44,764)
Net loss from continuing operations	(59,948)	(89,661)
Income (loss) from discontinued operations, net of income tax	224	(1,998)
Net loss	\$ (59,724)	\$ (91,659)
Loss per share information:		
Basic and diluted:		
Net loss from continuing operations	\$ (0.39)	\$ (0.59)
Loss from discontinued operations	-	(0.01)
Net loss	\$ (0.39)	\$ (0.60)

Weighted average common shares used in computing loss per share:		
Basic and diluted	154,121	152,701

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES  
 Consolidated Statements of Comprehensive Loss  
 Three Months Ended March 31, 2018 and 2017  
 (in thousands)  
 (unaudited)

	2018	2017
Net loss	\$ (59,724)	\$ (91,659)
Change in cumulative translation adjustment, net of tax	4,388	1,724
Comprehensive loss	\$ (55,336)	\$ (89,935)

See accompanying notes to condensed consolidated financial statements.

Table Of Contents

## SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017

(in thousands)

(unaudited)

	2018	2017
Cash flows from operating activities:		
Net loss	\$ (59,724)	\$ (91,659)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	105,719	114,281
Deferred income taxes	(12,285)	(29,747)
Stock based compensation expense	8,197	10,691
Other reconciling items, net	(987)	(1,430)
Changes in operating assets and liabilities:		
Accounts receivable	(44,692)	(32,441)
Inventory and other current assets	(15,620)	(8,826)
Accounts payable	16,810	11,731
Accrued expenses	(14,501)	17,673
Income taxes	1,499	(20,496)
Other, net	(9,374)	(12,502)
Net cash used in operating activities	(24,958)	(42,725)
Cash flows from investing activities:		
Payments for capital expenditures	(65,734)	(21,188)
Proceeds from sales of assets	12,135	4,090
Net cash used in investing activities	(53,599)	(17,098)
Cash flows from financing activities:		
Proceeds from issuance of short-term debt	744	-
Tax withholdings for vested restricted stock units	(5,155)	(8,220)
Other	(304)	(486)
Net cash used in financing activities	(4,715)	(8,706)
Effect of exchange rate changes on cash	1,812	2,194
Net decrease in cash, cash equivalents, and restricted cash	(81,460)	(66,335)
Cash, cash equivalents, and restricted cash at beginning of period	192,483	246,092
Cash, cash equivalents, and restricted cash at end of period	\$ 111,023	\$ 179,757

See accompanying notes to condensed consolidated financial statements.



Table Of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Three Months Ended March 31, 2018

(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, 2017, and Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

The financial information of Superior Energy Services, Inc. and its subsidiaries (the Company) for the three months ended March 31, 2018 and 2017 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 2018 presentation. The results of operations for the first three months of the year are not necessarily indicative of the results of operations that might be expected for the entire year.

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.

(2)Revenues

Adoption of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The Company adopted this ASU using the modified retrospective adoption method. There was no impact on the condensed consolidated financial statements and no cumulative effect adjustment was recognized.

### Revenue Recognition

Revenues are recognized when performance obligations are satisfied in accordance with contractual terms, in an amount that reflects the consideration the Company expects to be entitled to in exchange for services rendered or rentals provided. Taxes collected from customers and remitted to governmental authorities and revenues are reported on a net basis in the Company's financial statements.

### Performance Obligations

A performance obligation arises under contracts with customers to render services or provide rentals, and is the unit of account under Topic 606. The Company accounts for services rendered and rentals provided separately if they are distinct and the service or rental is separately identifiable from other items provided to a customer and if a customer can benefit from the services rendered or rentals provided on its own or with other resources that are readily available to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. A contract's standalone selling prices are determined based on the prices that the Company charges for its services rendered and rentals provided. The majority of the Company's performance obligations are satisfied over time, which is generally represented by a period of 30 days or less. The Company's payment terms vary by the type of products or services offered. The term between invoicing and when the payment is due is typically 30 days.

Services revenue primarily represents amounts charged to customers for the completion of services rendered, including labor, products and supplies necessary to perform the service. Rates for these services vary depending on the type of services provided and can be based on a per job, per hour or per day basis.

Rentals revenue is, primarily priced on a per day, per man hour or similar basis and consists of fees charged to customers for use of the Company's rental equipment over the term of the rental period, which is generally less than twelve months.

The Company expenses sales commissions when incurred because the amortization period would have been one year or less.

6

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Table Of Contents

The following table presents the Company's revenues by segment disaggregated by geography (in thousands):

	Three Months Ended	
	March 31,	
	2018	2017
U.S. land		
Drilling Products and Services	\$ 40,717	\$ 21,162
Onshore Completion and Workover Services	231,489	204,979
Production Services	52,457	23,435
Technical Solutions	6,833	9,085
Total U.S. land	\$ 331,496	\$ 258,661
Gulf of Mexico		
Drilling Products and Services	\$ 20,989	\$ 23,485
Onshore Completion and Workover Services	-	-
Production Services	17,500	17,746
Technical Solutions	37,562	33,717
Total Gulf of Mexico	\$ 76,051	\$ 74,948
International		
Drilling Products and Services	\$ 23,496	\$ 23,784
Onshore Completion and Workover Services	-	-
Production Services	30,760	27,424
Technical Solutions	20,515	16,119
Total International	\$ 74,771	\$ 67,327
Total Revenues	\$ 482,318	\$ 400,936

The following table presents the Company's revenues by segment disaggregated by type (in thousands):

	Three Months Ended	
	March 31,	
	2018	2017
Services		
Drilling Products and Services	\$ 24,005	\$ 16,871
Onshore Completion and Workover Services	221,347	199,446
Production Services	94,614	63,282
Technical Solutions	59,802	54,851
Total services	\$ 399,768	\$ 334,450
Rentals		
Drilling Products and Services	\$ 61,197	\$ 51,560
Onshore Completion and Workover Services	10,142	5,533
Production Services	6,103	5,323
Technical Solutions	5,108	4,070
Total rentals	\$ 82,550	\$ 66,486
Total Revenues	\$ 482,318	\$ 400,936

Table Of Contents

## (3)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):

	March 31, 2018	December 31, 2017
Finished goods	\$ 67,635	\$ 61,764
Raw materials	14,140	13,727
Work-in-process	8,419	6,174
Supplies and consumables	25,102	24,923
Total	\$ 115,296	\$ 106,588

## (4)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 \$1.0 million and \$0.8 million for the three months ended March 31, 2018 and 2017, respectively.

## (5)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 \$126.4 million and \$130.4 million at March 31, 2018 and December 31, 2017, respectively.

## (6)Debt

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

	March 31, 2018		December
	Long-term	Current	31, 2017
Senior unsecured notes due September 2024	\$ 500,000	\$ -	\$ 500,000
Senior unsecured notes due December 2021	800,000	-	800,000
Other	-	744	-
Total debt, gross	1,300,000	744	1,300,000
Unamortized debt issuance costs	(19,431)	-	(20,229)
Total debt, net	\$ 1,280,569	\$ 744	\$ 1,279,771

## Credit Facility

The Company has a \$300 million asset-based revolving credit facility which matures in October 2022. The borrowing base under the credit facility is calculated based on a formula referencing the borrower's and the subsidiary guarantors' eligible accounts receivable, eligible inventory and eligible premium rental drill pipe less reserves. Availability under the credit facility is the lesser of (i) the commitments, (ii) the borrowing base and (iii) the highest principal amount permitted to be secured under the indenture governing the 7 1/8% senior unsecured notes due 2021. At March 31, 2018, the borrowing base was \$267.7 million and the Company had \$35.3 million of letters of credit outstanding under the revolving credit facility. The borrowing base 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.

Table Of Contents

Senior Unsecured Notes

The Company has outstanding \$500 million of 7 3/4% senior unsecured notes due September 2024. The indenture governing the 7 3/4% senior unsecured notes due 2024 requires semi-annual interest payments on March 15th and September 15th of each year, beginning on March 15, 2018, through 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 15th and December 15th of each year through the maturity date of December 15, 2021.

(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 March 31, 2018			
	Level 1	Level 2	Level 3	Total
Intangible and other long-term assets, net				