

SUPERIOR ENERGY SERVICES INC

Form 10-Q

August 08, 2006

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 June 30, 2006

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. 0-20310

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.)**

1105 Peters Road
Harvey, Louisiana

(Address of principal executive offices)

70058

(Zip Code)

Registrant's telephone number, including area code: (504) 362-4321

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated

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 August 1, 2006 was 79,817,521.

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for
the Quarterly Period Ended June 30, 2006

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	36
<u>PART II OTHER INFORMATION</u>	
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	37
<u>Item 6. Exhibits</u>	37
<u>Officer's Certification Pursuant to Section 302</u>	
<u>Officer's Certification Pursuant to Section 302</u>	
<u>Officer's Certification Pursuant to Section 906</u>	
<u>Officer's Certification Pursuant to Section 906</u>	

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

Condensed Consolidated Balance Sheets

June 30, 2006 and December 31, 2005

(in thousands, except share data)

	6/30/06 (Unaudited)	12/31/05 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 115,846	\$ 54,457
Accounts receivable net	233,496	196,365
Current portion of notes receivable	4,712	2,364
Prepaid insurance and other	58,493	51,116
Total current assets	412,547	304,302
Property, plant and equipment net	608,548	534,962
Goodwill net	224,346	220,064
Notes receivable	26,085	29,483
Equity-method investments	32,541	953
Other assets net	12,416	7,486
Total assets	\$ 1,316,483	\$ 1,097,250
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 45,846	\$ 42,035
Accrued expenses	76,323	69,926
Income taxes payable	50,740	11,353
Fair value of commodity derivative instruments	5,658	10,792
Current portion of decommissioning liabilities	14,081	14,268
Current maturities of long-term debt	810	810
Total current liabilities	193,458	149,184
Deferred income taxes	95,321	97,987
Decommissioning liabilities	106,482	107,641
Long-term debt	311,694	216,596
Other long-term liabilities	3,330	1,468
Stockholders equity:		
Preferred stock of \$.01 par value. Authorized, 5,000,000 shares; none issued		

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

Common stock of \$.001 par value. Authorized, 125,000,000 shares; issued and outstanding, 79,815,021 shares at June 30, 2006, and 79,499,927 shares at December 31, 2005

	80	79
Additional paid in capital	433,415	428,507
Accumulated other comprehensive income (loss), net	1,104	(4,916)
Retained earnings	171,599	100,704
Total stockholders' equity	606,198	524,374
Total liabilities and stockholders' equity	\$ 1,316,483	\$ 1,097,250

See accompanying notes to consolidated financial statements.

3

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

Condensed Consolidated Statements of Operations
 Three and Six Months Ended June 30, 2006 and 2005
 (in thousands, except per share data)
 (unaudited)

	Three Months		Six Months	
	2006	2005	2006	2005
Oilfield service and rental revenues	\$ 228,134	\$ 160,522	\$ 435,132	\$ 307,814
Oil and gas revenues	33,625	29,478	49,096	55,433
Total revenues	261,759	190,000	484,228	363,247
Cost of oilfield services and rentals	101,286	79,561	194,541	153,174
Cost of oil and gas sales	18,702	11,091	32,907	23,896
Total cost of services, rentals and sales	119,988	90,652	227,448	177,070
Depreciation, depletion, amortization and accretion	25,727	23,580	48,642	45,977
General and administrative expenses	40,088	33,166	77,739	65,550
Gain on sale of liftboats		3,269		3,269
Income from operations	75,956	45,871	130,399	77,919
Other income (expense):				
Interest expense, net	(5,556)	(5,518)	(10,400)	(11,093)
Interest income	1,559	407	2,222	731
Loss on early extinguishment of debt	(12,596)		(12,596)	
Earnings in equity-method investments, net	1,148	259	1,148	778
Reduction in value of equity-method investment		(1,250)		(1,250)
Income before income taxes	60,511	39,769	110,773	67,085
Income taxes	21,784	14,715	39,878	24,822
Net income	\$ 38,727	\$ 25,054	\$ 70,895	\$ 42,263
Basic earnings per share	\$ 0.49	\$ 0.32	\$ 0.89	\$ 0.55
Diluted earnings per share	\$ 0.48	\$ 0.32	\$ 0.87	\$ 0.53

Weighted average common shares used in computing earnings per share:

Basic	79,798	77,704	79,719	77,544
Incremental common shares from stock options	1,490	1,407	1,422	1,493
Incremental common shares from restricted stock units	36	20	36	20
Diluted	81,324	79,131	81,177	79,057

See accompanying notes to consolidated financial statements.

4

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

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2006 and 2005

(in thousands)

(unaudited)

	2006	2005
Cash flows from operating activities:		
Net income	\$ 70,895	\$ 42,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	48,642	45,977
Deferred income taxes	(4,714)	(98)
Stock-based compensation expense	1,316	
Earnings from equity-method investments	(1,148)	(778)
Reduction in value of equity-method investment		1,250
Write-off of debt acquisition costs	2,817	
Amortization of debt acquisition costs and note discount	510	448
Gain on sale of liftboats		(3,269)
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables	(40,222)	(6,542)
Other net	(4,140)	(9,186)
Accounts payable	4,408	(1,360)
Accrued expenses	6,115	2,363
Decommissioning liabilities	(2,255)	(8,199)
Income taxes	40,461	16,789
Net cash provided by operating activities	122,685	79,658
Cash flows from investing activities:		
Payments for capital expenditures	(82,048)	(60,112)
Acquisitions of oil and gas properties, net of cash acquired	(46,631)	
Acquisitions of businesses, net of cash acquired	(9,822)	(5,273)
Cash contributed to equity-method investment	(30,441)	
Cash proceeds from sale of subsidiary, net of cash sold	18,343	
Cash proceeds from the sale of liftboats, net		19,313
Other	(2,412)	(1,208)
Net cash used in investing activities	(153,011)	(47,280)
Cash flows from financing activities:		
Proceeds from long-term debt	295,467	
Principal payments on long-term debt	(200,405)	(5,905)
Payment of debt acquisition costs	(6,203)	
Proceeds from exercise of stock options	2,393	6,427

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

Net cash provided by financing activities	91,252	522
Effect of exchange rate changes on cash	463	(304)
Net increase in cash	61,389	32,596
Cash and cash equivalents at beginning of period	54,457	15,281
Cash and cash equivalents at end of period	\$ 115,846	\$ 47,877

See accompanying notes to consolidated financial statements.

5

Table of Contents

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Six Months Ended June 30, 2006 and 2005

(1) Basis of Presentation

Certain information and footnote disclosures normally in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures which are made are adequate to make the information presented not misleading. These financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto and the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2005 included in Superior Energy Services, Inc.'s Current Report on Form 8-K filed on May 11, 2006 and in the Annual Report on Form 10-K.

The financial information of Superior Energy Services, Inc. and subsidiaries (the Company) for the six months ended June 30, 2006 and 2005 has not been audited. However, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the periods presented have been included therein. The results of operations for the first six months of the year are not necessarily indicative of the results of operations that might be expected for the entire year. Certain previously reported amounts have been reclassified to conform to the 2006 presentation.

(2) Stock-Based and Long-Term Compensation

The Company maintains various stock incentive plans, including the 2005 Stock Incentive Plan (2005 Incentive Plan), the 2002 Stock Incentive Plan (2002 Incentive Plan), the 1999 Stock Incentive Plan (1999 Incentive Plan) and the 1995 Stock Incentive Plan (1995 Incentive Plan), as amended. These plans provide long-term incentives to the Company's key employees, including officers and directors, consultants and advisers (Eligible Participants). Under the 2005 Incentive Plan, the 2002 Incentive Plan, the 1999 Incentive Plan and the 1995 Incentive Plan, the Company may grant incentive stock options, non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-based awards or any combination thereof to Eligible Participants for up to 4,000,000 shares, 1,400,000 shares, 5,929,327 shares and 1,900,000 shares, respectively, of the Company's common stock. The Compensation Committee of the Company's Board of Directors establishes the term and the exercise price of any stock options granted under the 2005 Incentive Plan and the 2002 Incentive Plan, provided the exercise price may not be less than the fair value of the common share on the date of grant. All of the options which have been granted under the 1999 Incentive Plan and the 1995 Incentive Plan were fully-vested by June 30, 2006.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R) (FAS No. 123R), Share-Based Payment (as amended) which requires that compensation costs relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award). The Company is using the modified prospective application method and, accordingly, financial statement amounts for prior periods presented in this Form 10-Q have not been restated to reflect the fair value method of recognizing compensation costs relating to non-qualified stock options. Prior to January 1, 2006, the Company followed the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (FAS No. 123), Accounting for Stock-Based Compensation using the measurement principles prescribed in Accounting Principles Board's Opinion No. 25, Accounting for Stock Issued to Employees. No stock-based compensation costs were recognized for stock options in net income prior to January 1, 2006, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of the grant. Stock compensation costs from the grant of restricted stock, restricted stock units, and performance stock units were expensed as incurred.

Table of Contents**Stock Options**

The Company has granted non-qualified stock options under its various stock incentive plans. The options generally vest in equal installments on the anniversary of the respective grant for three consecutive years and expire on the tenth anniversary of the respective date of grant. Non-vested options are generally subject to forfeiture in the event of termination of employment. On February 23, 2006, the Company granted 212,600 non-qualified stock options from its 2005 Incentive Plan under these same terms.

Beginning January 1, 2006, the Company began recognizing compensation expense for stock option grants based on the fair value at the date of grant using the Black-Scholes-Merton option pricing model. With the adoption of FAS No. 123R, the Company has contracted a third party to assist in the valuation of option grants. The Company uses historical data, among other factors, to estimate the expected price volatility, the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected life of the option. The following table presents the fair value of grants made during the three and six months ended June 30, 2006 and 2005 and the related assumptions used to calculate the fair value:

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	Actual	Pro Forma	Actual	Pro Forma
Weighted-average fair value of grants	*	\$ 7.47	\$ 11.58	\$ 7.47
Black-Scholes-Merton Assumptions:				
Risk free interest rate	*	3.85%	4.57%	3.85%
Expected life (years)	*	5.7	5.1	5.7
Volatility	*	38.91%	45.42%	38.91%
Dividend yield	*			

(* There were no stock option grants during the three months ended June 30, 2006.)

The Company's compensation expense related to stock options for the six months ended June 30, 2006 was approximately \$404,000, which is reflected in general and administrative expenses. This compensation expense reduced net income, on an after tax basis, by approximately \$258,000 for the six months ended June 30, 2006, respectively. No compensation expense related to options was recorded during the six months ended June 30, 2005. The pro forma data presented below show the effects of stock option costs had they been expensed in prior periods (amounts are in thousands, except per share amounts):

Table of Contents

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	\$ 25,054	\$ 42,263
Stock-based employee compensation expense, net of tax	(218)	(306)
Pro forma net income	\$ 24,836	\$ 41,957
Basic earnings per share:		
Earnings, as reported	\$ 0.32	\$ 0.55
Stock-based employee compensation expense, net of tax	(0.01)	(0.01)
Pro forma earnings per share	\$ 0.31	\$ 0.54
Diluted earnings per share:		
Earnings, as reported	\$ 0.32	\$ 0.53
Stock-based employee compensation expense, net of tax	(0.01)	(0.01)
Pro forma earnings per share	\$ 0.31	\$ 0.52

The following table summarizes stock option activity for the six months ended June 30, 2006:

	Number of Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2005	3,893,633	\$ 11.44		
Granted	212,600	\$ 24.99		
Exercised	(212,651)	\$ 11.25		
Forfeited	(10,917)	\$ 16.43		
Outstanding at June 30, 2006	3,882,665	\$ 12.17	7.4	\$ 84,356
Exercisable at June 30, 2006	3,661,732	\$ 11.43	7.2	\$ 82,261

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between our closing stock price on June 30, 2006 and the option price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2006. The

Company expects all of its remaining non-vested options to vest as they are primarily held by its officers and senior managers.

The total intrinsic value of options exercised during the six months ended June 30, 2006 (the difference between the stock price upon exercise and the option price) was approximately \$3.3 million. The Company received approximately \$2.4 million during the six months ended June 30, 2006 from employee stock option exercises. The Company expects to reduce its future tax payments by approximately \$1.2 million as the result of the intrinsic value of options exercised during the six months ended June 30, 2006. Due to the I.R.S. administrative relief provisions related to Hurricanes Katrina and Rita, the Company has not been required to make income tax payments since June 15, 2005. The next income tax payment is scheduled on August 28, 2006. In accordance with Statement 123(R), the Company is now required to report the excess tax benefits from the exercise of stock options as financing cash flows. The Company expects to recognize this

Table of Contents

estimated benefit when the related tax payments are made during the third quarter of 2006.

The following table summarizes non-vested stock option activity for the six months ended June 30, 2006:

	Number of Options	Weighted Average Grant- Date Fair Value
Non-vested at December 31, 2005	133,912	\$ 3.63
Granted	212,600	\$ 11.58
Vested	(124,912)	\$ 3.62
Forfeited	(667)	\$ 3.62
Non-vested at June 30, 2006	220,933	\$ 11.29

As of June 30, 2006, there was approximately \$2.2 million of unrecognized compensation expense related to non-vested stock options outstanding. The Company expects to recognize approximately \$0.5 million, \$0.8 million, \$0.8 million and \$0.1 million during the remainder of 2006, the years 2007, 2008 and 2009, respectively, for these non-vested stock options outstanding.

Restricted Stock

During the six months ended June 30, 2006, the Company granted 104,643 shares of restricted stock to its employees under its 2005 Incentive Plan. These shares of restricted stock vest in equal annual installments on the anniversary of the respective grant for three consecutive years, and unvested shares are subject to forfeiture in the event of termination of employment. Holders of the shares of restricted stock are entitled to all rights of a shareholder of the Company with respect to the restricted stock, including the right to vote the shares and receive all dividends and other distributions declared thereon. Compensation expense associated with shares of restricted stock is measured based on the grant-date fair value of our common stock and is recognized on a straight-line basis over the vesting period. The Company's compensation expense related to shares of restricted stock outstanding for the six months ended June 30, 2006 was approximately \$410,000, which is reflected in general and administrative expenses.

A summary of the status of the shares of restricted stock for the six months ended June 30, 2006 is presented in the table below:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2005	24,000	\$ 22.24
Granted	104,643	\$ 25.02
Vested	(9,000)	\$ 22.55
Forfeited	(2,200)	\$ 24.99
Non-vested at June 30, 2006	117,443	\$ 24.65

As of June 30, 2006, there was approximately \$2.5 million of unrecognized compensation expense related to non-vested restricted stock shares. The Company expects to recognize approximately \$0.5 million, \$1.0 million, \$0.9 million and \$0.1 million during the remainder of 2006, the years 2007, 2008 and 2009, respectively, for these shares of non-vested restricted stock.

Table of Contents**Restricted Stock Units**

In May 2006, the Company's stockholders approved the Amended and Restated 2004 Directors Restricted Stock Units Plan. The amended plan provides that each non-employee director is granted a number of restricted stock units having an aggregate value of \$100,000, with the exact number of units determined by dividing \$100,000 by the fair market value of the Company's common stock on the day of the annual stockholders' meeting. In addition, upon the initial election or appointment of any non-employee director, other than at an annual stockholders' meeting, such person will receive a number of restricted stock units based on the number of full calendar months between the date of grant and the first anniversary of the previous annual stockholders' meeting. A restricted stock unit represents the right to receive from the Company, within 30 days of the date the participant ceases to serve on the Board, one share of the Company's common stock. As a result of this plan, 36,137 restricted stock units are outstanding at June 30, 2006. The Company's expense related to restricted stock units for the six months ended June 30, 2006 and 2005 was approximately \$0.6 million and \$0.1 million, respectively, which is reflected in general and administrative expenses.

A summary of the activity of restricted stock units for the six months ended June 30, 2006 is presented in the table below:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2005	19,998	\$ 12.38
Granted	16,139	\$ 30.98
Outstanding at June 30, 2006	36,137	\$ 20.69

Performance Share Units

The Company awards performance share units (PSUs) to its employees as part of the Company's long-term incentive program. There is a 3-year performance period associated with each PSU grant date. The two performance measures applicable to all participants are the Company's return on invested capital and total shareholder return relative to those of the Company's pre-defined peer group. Participants can earn from \$0 to \$200 per PSU, as determined by the Company's achievement of the performance measures. The PSUs provide for settlement in cash or up to 50% in equivalent value in Company common stock, if the participant has met specified continued service requirements. At June 30, 2006 there were 64,901 PSUs outstanding (31,464 and 33,437 related to the 3-year performance periods ending December 31, 2007 and 2008, respectively). The Company's compensation expense related to all outstanding PSUs for the six months ended June 30, 2006 was approximately \$1.1 million, which is reflected in general and administrative expenses. The Company's compensation expense related to all outstanding PSUs for the six months ended June 30, 2005 was immaterial. At June 30, 2006, the company has recorded a liability of approximately \$2.1 million for all outstanding PSU's which is reflected in accrued expenses.

(3) Earnings per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in the same manner as basic earnings per share except that the denominator is increased to include the number of additional common shares that could have been outstanding assuming the exercise of stock options that would have a dilutive effect on earnings per share and the conversion of restricted stock units into common stock using the treasury stock method.

(4) Acquisitions and Dispositions

In February 2006, the Company sold its subsidiary Environmental Treatment Team, L.L.C., (ETT) for approximately \$18.7 million in cash (exclusive of \$0.4 million of cash sold). The Company reduced the net asset

Table of Contents

value of ETT by \$3.8 million in 2005 to its approximate sales price. For the six months ended June 30, 2006 and 2005, revenue from ETT was approximately \$4.6 million and \$13.9 million, respectively, and operating income was approximately \$386,000 and \$312,000, respectively.

In the second quarter of 2006, the Company acquired two businesses for an aggregate purchase price of approximately \$9.8 million in cash consideration in order to expand the housing units offered by its rental tools segment into Wyoming and expand the snubbing services offered by its well intervention segment in Australia. These acquisitions have been accounted for as purchases, and the acquired assets and liabilities have been valued at their estimated fair value. The purchase price preliminarily allocated to net assets was approximately \$4.0 million, and the excess purchase price over the fair value of net assets of approximately \$5.8 million goodwill was recorded. The results of operations have been included from the acquisition date.

In April 2006, the Company's subsidiary, SPN Resources, LLC (SPN Resources), acquired additional oil and gas properties through the acquisition of five offshore Gulf of Mexico leases. Under the terms of the transaction, the Company acquired the properties and assumed the related decommissioning liabilities. The Company paid cash in the amount of \$46.6 million and preliminarily recorded decommissioning liabilities of approximately \$3.7 million and oil and gas producing assets of approximately \$50.3 million.

In 2005, the Company acquired a business for a purchase price of approximately \$1.3 million in cash consideration in order to geographically expand the snubbing services offered by its well intervention segment. The purchase price allocated to net assets was approximately \$1.3 million, and no goodwill was recorded. The results of operations have been included from the acquisition date.

Also in 2005, SPN Resources acquired additional oil and gas properties through the acquisition of three offshore Gulf of Mexico leases. Under the terms of the transaction, the Company acquired the properties and assumed the related decommissioning liabilities. The Company received \$3.7 million in cash and will invoice the sellers at agreed upon prices as the decommissioning activities (abandonment and structure removal) are completed. The Company recorded notes receivable of approximately \$2.4 million, decommissioning liabilities of \$11.5 million and oil and gas producing assets were recorded at their estimated fair value of \$5.4 million.

The following unaudited pro forma information for the three and six months ended June 30, 2006 and 2005 presents a summary of the consolidated results of operations as if the business acquisitions and dispositions described above had occurred on January 1, 2005, with pro forma adjustments to give effect to depreciation and certain other adjustments, together with related income tax effects (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 262,987	\$ 188,052	\$ 485,055	\$ 359,381
Net income	\$ 38,969	\$ 25,933	\$ 71,741	\$ 44,303
Basic earnings per share	\$ 0.49	\$ 0.33	\$ 0.90	\$ 0.57
Diluted earnings per share	\$ 0.48	\$ 0.33	\$ 0.88	\$ 0.56

The above pro forma information is not necessarily indicative of the results of operations that would have been achieved had the acquisitions been effected on January 1, 2005.

Most of the Company's business acquisitions have involved additional contingent consideration based upon a multiple of the acquired companies' respective average earnings before interest, income taxes, depreciation and amortization (EBITDA) over a three-year period from the respective date of acquisition. As of June 30, 2006, the maximum additional consideration payable for the Company's prior acquisitions was approximately \$2.4 million, and will be determined and payable through 2008. These amounts are not classified as liabilities under generally accepted

accounting principles and are not reflected in the Company's financial statements until the amounts are fixed and determinable. The Company does not have any other financing arrangements that are not required under

Table of Contents

generally accepted accounting principles to be reflected in its financial statements. When the amounts are determined, they are capitalized as part of the purchase price of the related acquisition.

(5) Segment Information*Business Segments*

Effective as of January 1, 2006, the Company modified its segment disclosure by combining its other oilfield services segment into the well intervention segment. In February 2006, the Company sold its environmental subsidiary, which comprised a large part of the other oilfield services segment. The remaining businesses, which include platform and field management services, environmental cleaning services and the sale of drilling instrumentation equipment, are impacted by similar factors that affect the well intervention segment. The combination of the well intervention and other oilfield services segments better reflects the way management evaluates the Company's results. The prior year segment presentation has been restated to conform to the current segment classification.

The Company's reportable segments are now as follows: well intervention, rental tools, marine, and oil and gas. The first three segments offer products and services within the oilfield services industry. The well intervention segment provides plug and abandonment services, coiled tubing services, well pumping and stimulation services, data acquisition services, gas lift services, electric wireline services, hydraulic drilling and workover services, well control services, drilling instrumentation equipment, contract operations and maintenance services, transportation and logistics services, offshore oil and gas cleaning services, engineering support, technical analysis and mechanical wireline services that perform a variety of ongoing maintenance and repairs to producing wells, as well as modifications to enhance the production capacity and life span of the well. The rental tools segment rents and sells stabilizers, drill pipe, tubulars and specialized equipment for use with onshore and offshore oil and gas well drilling, completion, production and workover activities. It also provides onsite accommodations and bolting and machining services. The marine segment operates liftboats for production service activities, as well as oil and gas production facility maintenance, construction operations and platform removals. The oil and gas segment acquires mature oil and gas properties and produces and sells any remaining economic oil and gas reserves prior to the Company's other segments providing decommissioning services. Oil and gas eliminations represent products and services provided to the oil and gas segment by the Company's three other segments.

Summarized financial information concerning the Company's segments for the three and six months ended June 30, 2006 and 2005 is shown in the following tables (in thousands):

Three Months Ended June 30, 2006

	Well	Rental			Oil & Gas Eliminations & Unallocated	Consolidated & Total
	Intervention	Tools	Marine	Oil & Gas		
Revenues	\$ 111,675	\$86,593	\$33,951	\$33,625	\$ (4,085)	\$261,759
Cost of services, rentals and sales	63,355	28,223	13,793	18,702	(4,085)	119,988
Depreciation, depletion, amortization and accretion	4,329	12,482	2,133	6,783		25,727
General and administrative expense	18,270	16,483	2,687	2,648		40,088
Income from operations	25,721	29,405	15,338	5,492		75,956
Interest expense, net					(5,556)	(5,556)
Interest income				302	1,257	1,559
Loss on early extinguishment of debt					(12,596)	(12,596)
				1,148		1,148

Earnings in equity
method investments

Income before income taxes	\$ 25,721	\$29,405	\$15,338	\$ 6,942	\$(16,895)	\$ 60,511
-------------------------------	-----------	----------	----------	----------	------------	-----------

Table of Contents**Three Months Ended June 30, 2005**

	Well	Rental			Oil & Gas Eliminations & Unallocated	Consolidated Total
	Intervention	Tools	Marine	Oil & Gas		
Revenues	\$ 85,019	\$ 61,122	\$ 18,285	\$ 29,478	\$ (3,904)	\$ 190,000
Cost of services, rentals and sales	52,122	18,877	12,466	11,091	(3,904)	90,652
Depreciation, depletion, amortization and accretion	4,525	10,460	2,017	6,578		23,580
General and administrative expense	16,448	13,027	2,107	1,584		33,166
Gain on sale of liftboats			3,269			3,269
Income from operations	11,924	18,758	4,964	10,225		45,871
Interest expense, net					(5,518)	(5,518)
Interest income				263	144	407
Earnings in equity method investments, net		259				259
Reduction in value of investment		(1,250)				(1,250)
Income before income taxes	\$ 11,924	\$ 17,767	\$ 4,964	\$ 10,488	\$ (5,374)	\$ 39,769

Six Months Ended June 30, 2006

	Well	Rental			Oil & Gas Eliminations & Unallocated	Consolidated Total
	Intervention	Tools	Marine	Oil & Gas		
Revenues	\$ 213,748	\$ 164,367	\$ 64,158	\$ 49,096	\$ (7,141)	\$ 484,228
Cost of services, rentals and sales	123,355	52,521	25,806	32,907	(7,141)	227,448
Depreciation, depletion, amortization and accretion	8,864	24,195	4,285	11,298		48,642
General and administrative expense	36,138	31,749	5,585	4,267		77,739
Income from operations	45,391	55,902	28,482	624		130,399
Interest expense, net					(10,400)	(10,400)
Interest income				602	1,620	2,222
Loss on early extinguishment of debt					(12,596)	(12,596)
				1,148		1,148

Earnings in equity
method investments

Income before income taxes	\$ 45,391	\$ 55,902	\$ 28,482	\$ 2,374	\$(21,376)	\$ 110,773
-------------------------------	-----------	-----------	-----------	----------	------------	------------

Table of Contents**Six Months Ended June 30, 2005**

	Well Intervention	Rental Tools	Marine	Oil & Gas	Oil & Gas Eliminations & Unallocated	Consolidated Total
Revenues	\$ 165,135	\$ 113,749	\$ 38,083	\$ 55,433	\$ (9,153)	\$ 363,247
Cost of services, rentals and sales	101,520	36,411	24,396	23,896	(9,153)	177,070
Depreciation, depletion, amortization and accretion	9,104	20,370	4,120	12,383		45,977
General and administrative expense	32,651	25,621	4,215	3,063		65,550
Gain on sale of liftboats			3,269			3,269
Income from operations	21,860	31,347	8,621	16,091		77,919
Interest expense, net					(11,093)	(11,093)
Interest income				555	176	731
Earnings in equity method investments, net		778				778
Reduction in value of investment		(1,250)				(1,250)
Income before income taxes	\$ 21,860	\$ 30,875	\$ 8,621	\$ 16,646	\$ (10,917)	\$ 67,085

Identifiable Assets

	Well Intervention	Rental Tools	Marine	Oil & Gas	Unallocated	Consolidated Total
June 30, 2006	\$ 363,456	\$ 468,685	\$ 195,951	\$ 275,724	\$ 12,667	\$ 1,316,483
December 31, 2005	\$ 332,996	\$ 405,527	\$ 203,718	\$ 147,667	\$ 7,342	\$ 1,097,250

Geographic Segments

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

Revenues:

Three Months Ended June
30,

Six Months Ended June
30,

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

	2006	2005	2006	2005
United States	\$ 225,527	\$ 168,087	\$ 414,532	\$ 319,631
Other Countries	36,232	21,913	69,696	43,616
Total	\$ 261,759	\$ 190,000	\$ 484,228	\$ 363,247

Long-Lived Assets:

	June 30, 2006	December 31, 2005
United States	\$ 562,339	\$ 492,602
Other Countries	46,209	42,360
Total	\$ 608,548	\$ 534,962

Table of Contents**(6) Equity-Method Investments**

Investments in entities that are not controlled by the Company but where we have the ability to exercise influence over the operations are accounted for using the equity method. Our share of the income or losses of these entities is reflected as Earnings in equity-method investments on the Consolidated Statements of Operations.

In May 2006, the Company's subsidiary, SPN Resources, acquired a 40% interest in Coldren Resources LP (Coldren Resources) which entered into a purchase and sale agreement with Noble Energy, Inc. to purchase all of Noble's offshore Gulf of Mexico shelf assets. SPN Resources has made total cash contributions of approximately \$30.4 million as of June 30, 2006.

The Company has one additional equity investment of approximately \$900,000 and the investment income from both investments was approximately \$1.1 million through June 30, 2006.

Subsequent Event

On July 14, 2006, Coldren Resources completed the acquisition from Noble. After downward adjustments to the purchase price, including those for title defects and properties excluded from the sale as a result of the exercise of preferential rights to purchase, the aggregate purchase price for the Noble assets was approximately \$475 million. SPN made an additional contribution of approximately \$27.4 million at closing.

(7) Debt

The Company has a bank credit facility consisting of a \$150 million revolving credit facility, with an option to increase it to \$250 million. Any balance outstanding on the revolving credit facility is due on October 31, 2008. At June 30, 2006, the Company had no amounts outstanding under this bank credit facility, but it had approximately \$19.5 million of letters of credit outstanding, which reduce the borrowing availability under this credit facility. The credit facility bears interest at a LIBOR rate plus margins that depend on the Company's leverage ratio. Indebtedness under the credit facility is secured by substantially all of the Company's assets, including the pledge of the stock of the Company's principal subsidiaries. The credit facility contains customary events of default and requires that the Company satisfy various financial covenants. It also limits the Company's capital expenditures, its ability to pay dividends or make other distributions, make acquisitions, create liens, incur additional indebtedness or assume additional decommissioning liabilities. At June 30, 2006, the Company was in compliance with all such covenants. The Company has \$17.0 million outstanding at June 30, 2006, in U. S. Government guaranteed long-term financing under Title XI of the Merchant Marine Act of 1936, which is administered by the Maritime Administration (MARAD), for two 245-foot class liftboats. The debt bears interest at 6.45% per annum and is payable in equal semi-annual installments of \$405,000, on every June 3rd and December 3rd through June 3, 2027. The Company's obligations are secured by mortgages on the two liftboats. In accordance with this agreement, the Company is required to comply with certain covenants and restrictions, including the maintenance of minimum net worth and debt-to-equity requirements. At June 30, 2006, the Company was in compliance with all such covenants. This long-term financing ranks equally with the bank credit facility.

In the second quarter of 2006, the Company completed a tender offer for approximately 97.6% of its \$200 million outstanding of 8 7/8% unsecured senior notes due 2011. The cash consideration for the tender offer was \$1,045.63 per \$1,000 in aggregate principal amount of senior notes tendered. In conjunction with the tender offer, the Company also received consents to amend the indenture pursuant to which the senior notes were issued to eliminate from the indenture substantially all of the restrictive covenants and certain events of default. After the tender offer was completed, the Company redeemed the remaining outstanding senior notes in accordance with the indenture at the redemption price of \$1,044.38 per \$1,000 of the principal amount redeemed. The Company recognized a loss on the early extinguishment of debt of approximately \$12.6 million, which included the tender premiums, redemption premiums, fees and expenses and the write-off of the remaining unamortized debt acquisition costs associated with these notes.

Table of Contents

In May 2006, the Company issued \$300 million new unsecured senior notes, which were offered at 98.489% of par and bear interest at the rate of 6 7/8% per annum. The Company used the net proceeds to refinance the \$200 million senior notes, including the payment of tender premiums, redemption premiums, fees and expenses, and to fund the equity investment in Coldren Resources. The indenture governing the notes requires semi-annual interest payments, on every June 1st and December 1st through the maturity date of June 1, 2014. The indenture contains certain covenants that, among other things, prevent the Company from incurring, assuming or guaranteeing additional debt, repurchasing capital stock, paying dividends or making other distributions, unless its ratio of cash flow to interest expense is at least 2.0 to 1, except that the Company may incur additional debt in addition to the senior notes in an amount equal to the greater of \$250 million or 30% of its net tangible assets as defined, which was approximately \$248 million at June 30, 2006. The indenture also contains covenants that restrict the Company's ability to create certain liens, sell assets or enter into certain mergers or acquisitions. At June 30, 2006, the Company was in compliance with all such covenants.

(8) Hedging Activities

The Company has entered into hedging transactions with major financial institutions to secure a commodity price for a portion of its future oil production and to reduce its exposure to oil price fluctuations. The Company does not enter into derivative transactions for trading purposes. Crude oil hedges are settled based on the average of the reported settlement prices for West Texas Intermediate crude on the New York Mercantile Exchange (NYMEX) for each month. The Company has used financially-settled crude oil swaps and zero-cost collars that provide floor and ceiling prices with varying upside price participation. The Company's swaps and zero-cost collars are designated and accounted for as cash flow hedges. The Company has not hedged any of its natural gas production.

With a financially-settled swap, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is below the hedged price for the transaction, and the Company is required to make a payment to the counterparty if the settlement price for any settlement period is above the hedged price for the transaction. With a zero-cost collar, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is below the floor price of the collar, and the Company is required to make a payment to the counterparty if the settlement price for any settlement period is above the cap price for the collar. The Company recognizes the fair value of all derivative instruments as assets or liabilities on the balance sheet. Changes in the fair value of cash flow hedges are recognized, to the extent the hedge is effective, in other comprehensive income until the hedged item is settled and recorded in revenue. For the six months ended June 30, 2006, hedging settlement payments reduced oil revenues by approximately \$8.7 million, and no gains or losses were recognized due to hedge ineffectiveness.

The Company had the following hedging contracts as of June 30, 2006:

Remaining Contract Term	Instrument Type	Crude Oil Positions		Volume (Bbls)	
		Strike Price (Bbl)	Strike	Daily	Total (Bbls)
7/06 8/06	Swap	\$39.45		1,000	92,000
7/06 8/06	Collar	\$35.00/\$45.60		1,000	92,000

Based on the futures prices quoted at June 30, 2006, the Company expects to reclassify net losses of approximately \$3.6 million, net of taxes, into earnings related to the derivative contracts through August 2006 during the remaining term of the contracts; however, actual gains or losses recognized may differ materially depending on the movement of commodity pricing over the next twelve months.

(9) Decommissioning Liabilities

The Company records estimated future decommissioning liabilities related to its oil and gas producing properties pursuant to the provisions of Statement of Financial Accounting Standards No. 143 (FAS No. 143), Accounting for Asset Retirement Obligations. FAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation (decommissioning liabilities) in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Subsequent to initial measurement, the

Table of Contents

decommissioning liability is required to be accreted each period to present value. The Company's decommissioning liabilities consist of costs related to the plugging of wells, the removal of facilities and equipment, including pipeline, and site restoration on oil and gas properties.

The Company estimates the cost that would be incurred if it contracted an unaffiliated third party to plug and abandon wells, abandon the pipelines, decommission and remove the platforms and pipelines and restore the sites of its oil and gas properties, and uses that estimate to record its proportionate share of the decommissioning liability. In estimating the decommissioning liability, the Company performs detailed estimating procedures, analysis and engineering studies. Whenever practical, the Company utilizes its own equipment and labor services to perform well abandonment and decommissioning work. When the Company performs these services, all recorded intercompany revenues are eliminated in the consolidated financial statements. The recorded decommissioning liability associated with a specific property is fully extinguished when the property is abandoned. The recorded liability is first reduced by all cash expenses incurred to abandon and decommission the property. If the recorded liability exceeds (or is less than) the Company's total costs, then the difference is reported as income (or loss) within revenue during the period in which the work is performed. The Company reviews the adequacy of its decommissioning liabilities whenever indicators suggest that the estimated cash flows needed to satisfy the liability have changed materially. The timing and amounts of these expenditures are estimates, and changes to these estimates may result in additional (or decreased) liabilities recorded, which in turn would increase (or decrease) the carrying values of the related oil and gas properties. The Company revised its estimates for the timing of these expenditures during the six months ended June 30, 2006, which caused a reduction in the decommissioning liability of approximately \$5.1 million. The following table summarizes the activity for the Company's decommissioning liabilities for the six months ended June 30, 2006 and 2005 (amounts in thousands):

	Six Months Ended June 30,	
	2006	2005
Total decommissioning liabilities at December 31, 2005 and 2004, respectively	\$ 121,909	\$ 114,018
Liabilities acquired and incurred	3,554	
Liabilities settled	(2,255)	(8,200)
Accretion	2,419	2,125
Revision in estimated liabilities	(5,064)	(2,956)
Total decommissioning liabilities at June 30, 2006 and 2005, respectively	120,563	104,987
Current portion of decommissioning liabilities at June 30, 2006 and 2005, respectively	14,081	11,083
Long-term portion of decommissioning liabilities at June 30, 2006 and 2005, respectively	\$ 106,482	\$ 93,904

(10) Notes Receivable

Notes receivable consist primarily of contractual obligations of sellers of oil and gas properties to reimburse the Company a specified amount following the abandonment of acquired properties. The Company invoices the seller specified amounts following the performance of decommissioning operations (abandonment and structure removal) in accordance with the applicable agreements with the seller. These receivables are recorded at present value, and the related discounts are amortized to interest income, based on the expected timing of the decommissioning.

(11) Prepaid Insurance and Other

Prepaid insurance and other includes approximately \$26.2 million and \$23.9 million in insurance receivables at June 30, 2006 and December 31, 2005, respectively. The balances are primarily due to property and casualty insurance claims caused by the impact of Hurricanes Katrina and Rita on our oil and gas properties, as well as our buildings

Table of Contents

and equipment. The insurance deductibles on Hurricanes Katrina and Rita of approximately \$1 million were expensed during 2005. All amounts not expected to be reimbursed by insurance are expensed as incurred.

(12) Other Comprehensive Income

The following tables reconcile the change in accumulated other comprehensive income (loss) for the three and six months ended June 30, 2006 and 2005 (amounts in thousands):

	Three Months Ended June 30,	
	2006	2005
Accumulated other comprehensive loss, March 31, 2006 and 2005, respectively	\$ (3,353)	\$ (5,897)
Other comprehensive income (loss):		
Other comprehensive income (loss), net of tax		
Hedging activities:		
Adjustment for settled contracts, net of tax of \$1,736 in 2006 and \$789 in 2005	2,956	1,343
Changes in fair value of outstanding hedging positions, net of tax of (\$455) in 2006 and (\$650) in 2005	(776)	(1,105)
Foreign currency translation adjustment	2,277	(1,206)
Total other comprehensive income (loss)	4,457	(968)
Accumulated other comprehensive income (loss), June 30, 2006 and 2005, respectively	\$ 1,104	\$ (6,865)

	Six Months Ended June 30,	
	2006	2005
Accumulated other comprehensive income (loss), December 31, 2005 and 2004, respectively	\$ (4,916)	\$ 2,884
Other comprehensive income (loss):		
Other comprehensive income (loss), net of tax		
Hedging activities:		
Adjustment for settled contracts, net of tax of \$3,059 in 2006 and \$1,103 in 2005	5,209	1,877
Changes in fair value of outstanding hedging positions, net of tax of (\$1,160) in 2006 and (\$5,697) in 2005	(1,975)	(9,699)
Foreign currency translation adjustment	2,786	(1,927)
Total other comprehensive income (loss)	6,020	(9,749)
Accumulated other comprehensive income (loss), June 30, 2006 and 2005, respectively	\$ 1,104	\$ (6,865)

(13) Commitments and Contingencies

From time to time, the Company is involved in litigation and other disputes arising out of operations in the normal course of business. In management's opinion, the Company is not involved in any litigation or disputes, the outcome of

which would have a material effect on the financial position, results of operations or liquidity of the Company.

Table of Contents

(14) Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 155 (FAS No. 155), Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. FAS No. 155 simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation and eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. FAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of FAS No. 155 to have any impact on its results of operations or financial position.

In March 2006, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 156 (FAS No. 156), Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. FAS No. 156 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities by requiring that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. FAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of FAS No. 156 will have no impact on the Company's results of operations or financial position.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN No. 48 provides guidance on measurement and recognition in accounting for income tax uncertainties and also requires expanded financial statement disclosure. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, that FIN No. 48 will have on its results of operations and financial position.

(15) Financial Information Related to Guarantor Subsidiaries

In May 2006, SESI, L.L.C. (Issuer), a wholly-owned subsidiary of Superior Energy Services, Inc. (Parent), issued \$300 million of 6 7/8% Senior Notes at 98.489%. The Parent, along with substantially all of its direct and indirect subsidiaries, fully and unconditionally guaranteed the Senior Notes and such guarantees are joint and several. All of the guarantor subsidiaries are wholly-owned, direct or indirect subsidiaries of the Issuer. Income taxes are paid by the Parent through a consolidated tax return and are accounted for by the Parent. The following tables present the condensed consolidating financial statements as of June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and 2005.

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

Condensed Consolidating Balance Sheets

June 30, 2006

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$ 83,971	\$ 19,260	\$ 12,615	\$	\$ 115,846
Accounts receivable net		2,503	212,692	30,095	(11,794)	233,496
Current portion of notes receivable			4,712			4,712
Prepaid insurance and other	37	4,679	51,006	2,771		58,493
Total current assets	37	91,153	287,670	45,481	(11,794)	412,547
Property, plant and equipment net			553,264	55,284		608,548
Goodwill net			199,567	24,779		224,346
Notes receivable			26,085			26,085
Investments in affiliates	124,271	190,742	31,573	968	(315,013)	32,541
Other assets net		11,699	104	613		12,416
Total assets	\$ 124,308	\$ 293,594	\$ 1,098,263	\$ 127,125	\$ (326,807)	\$ 1,316,483
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	\$	\$ 1,416	\$ 39,227	\$ 16,997	\$ (11,794)	\$ 45,846
Accrued expenses	372	16,746	51,186	8,019		76,323
Income taxes payable	48,728			2,012		50,740
Fair value of commodity derivative instruments			5,658			5,658
Current portion of decommissioning liabilities			14,081			14,081
Current maturities of long-term debt				810		810

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

Total current liabilities	49,100	18,162	110,152	27,838	(11,794)	193,458
Deferred income taxes	92,519			2,802		95,321
Decommissioning liabilities			106,482			106,482
Long-term debt		295,503		16,191		311,694
Intercompany payables/(receivables)	(337,065)	28,541	465,039	26,874	(183,389)	
Other long-term liabilities		3,294	36			3,330
Stockholders' equity:						
Preferred stock of \$.01 par value.						
Common stock of \$.001 par value.	80			101	(101)	80
Additional paid in capital	433,415	127,173		4,350	(131,523)	433,415
Accumulated other comprehensive loss, net			(3,565)	4,669		1,104
Retained earnings (deficit)	(113,741)	(179,079)	420,119	44,300		171,599
Total stockholders' equity	319,754	(51,906)	416,554	53,420	(131,624)	606,198
Total liabilities and stockholders' equity	\$ 124,308	\$ 293,594	\$ 1,098,263	\$ 127,125	\$ (326,807)	\$ 1,316,483

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

Condensed Consolidating Balance Sheets

December 31, 2005

(in thousands)

(unaudited except as noted)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated (Audited)
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$ 21,414	\$ 19,421	\$ 13,622	\$	\$ 54,457
Accounts receivable net		3,748	180,670	23,332	(11,385)	196,365
Current portion of notes receivable			2,364			2,364
Prepaid insurance and other		3,039	46,237	1,840		51,116
Total current assets		28,201	248,692	38,794	(11,385)	304,302
Property, plant and equipment net			481,265	53,697		534,962
Goodwill net			196,696	23,368		220,064
Notes receivable			29,483			29,483
Investments in subsidiaries and affiliates	124,271	203,083		953	(327,354)	953
Other assets net		6,390	553	543		7,486
Total assets	\$ 124,271	\$ 237,674	\$ 956,689	\$ 117,355	\$ (338,739)	\$ 1,097,250
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	\$	\$ 821	\$ 34,790	\$ 17,809	\$ (11,385)	\$ 42,035
Accrued expenses	269	17,300	46,025	6,332		69,926
Income taxes payable	9,917			1,436		11,353
Fair value of commodity derivative instruments			10,792			10,792
Current portion of decommissioning liabilities			14,268			14,268
Current maturities of long-term debt				810		810
Total current liabilities	10,186	18,121	105,875	26,387	(11,385)	149,184

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

Deferred income taxes	95,196			2,791		97,987
Decommissioning liabilities			107,641			107,641
Long-term debt		200,000		16,596		216,596
Intercompany payables/(receivables)	(332,937)	31,751	467,362	29,554	(195,730)	
Other long-term liabilities		1,458	10			1,468
Stockholders' equity:						
Preferred stock of \$.01 par value.						
Common stock of \$.001 par value.	79			101	(101)	79
Additional paid in capital	428,507	127,173		4,350	(131,523)	428,507
Accumulated other comprehensive income (loss), net			(6,799)	1,883		(4,916)
Retained earnings (deficit)	(76,760)	(140,829)	282,600	35,693		100,704
Total stockholders' equity	351,826	(13,656)	275,801	42,027	(131,624)	524,374
Total liabilities and stockholders' equity	\$ 124,271	\$ 237,674	\$ 956,689	\$ 117,355	\$ (338,739)	\$ 1,097,250

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

Condensed Consolidating Statements of Operations

Three Months Ended June 30, 2006

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 205,929	\$ 28,116	\$ (5,911)	\$ 228,134
Oil and gas revenues			33,625			33,625
Total revenues			239,554	28,116	(5,911)	261,759
Cost of oilfield services and rentals			91,409	15,788	(5,911)	101,286
Cost of oil and gas sales			18,702			18,702
Total cost of services, rentals and sales			110,111	15,788	(5,911)	119,988
Depreciation, depletion, amortization and accretion			23,707	2,020		25,727
General and administrative expenses	156	9,886	26,912	3,134		40,088
Gain on sale of liftboats						
Income from operations	(156)	(9,886)	78,824	7,174		75,956
Other income (expense):						
Interest expense, net		(5,119)	(156)	(281)		(5,556)
Interest income		1,072	425	62		1,559
Loss on early extinguishment of debt		(12,596)				(12,596)
Earnings in equity-method investments, net			1,133	15		1,148
Reduction in value of equity-method investment						
Income before income taxes	(156)	(26,529)	80,226	6,970		60,511
Income taxes	19,959			1,825		21,784

Net income (loss)	\$ (20,115)	\$ (26,529)	\$ 80,226	\$ 5,145	\$ 38,727
-------------------	-------------	-------------	-----------	----------	-----------

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

Condensed Consolidating Statements of Operations

Three Months Ended June 30, 2005

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 148,550	\$ 16,216	\$ (4,244)	\$ 160,522
Oil and gas revenues			29,478			29,478
Total revenues			178,028	16,216	(4,244)	190,000
Cost of oilfield services and rentals			75,305	8,500	(4,244)	79,561
Cost of oil and gas sales			11,091			11,091
Total cost of services, rentals and sales			86,396	8,500	(4,244)	90,652
Depreciation, depletion, amortization and accretion			21,710	1,870		23,580
General and administrative expenses	137	6,668	24,441	1,920		33,166
Gain on sale of liftboats			3,269			3,269
Income from operations	(137)	(6,668)	48,750	3,926		45,871
Other income (expense):						
Interest expense, net		(5,179)	(2)	(337)		(5,518)
Interest income		109	269	29		407
Loss on early extinguishment of debt						
Earnings in equity-method investments, net				259		259
Reduction in value of equity-method investment				(1,250)		(1,250)
Income before income taxes	(137)	(11,738)	49,017	2,627		39,769
Income taxes	13,976			739		14,715

Net income (loss)	\$ (14,113)	\$ (11,738)	\$ 49,017	\$ 1,888	\$ 25,054
-------------------	-------------	-------------	-----------	----------	-----------

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

Condensed Consolidating Statements of Operations

Six Months Ended June 30, 2006

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 396,150	\$ 49,889	\$ (10,907)	\$ 435,132
Oil and gas revenues			49,096			49,096
Total revenues			445,246	49,889	(10,907)	484,228
Cost of oilfield services and rentals			178,073	27,375	(10,907)	194,541
Cost of oil and gas sales			32,907			32,907
Total cost of services, rentals and sales			210,980	27,375	(10,907)	227,448
Depreciation, depletion, amortization and accretion			44,480	4,162		48,642
General and administrative expenses	262	17,244	54,071	6,162		77,739
Gain on sale of liftboats						
Income from operations	(262)	(17,244)	135,715	12,190		130,399
Other income (expense):						
Interest expense, net		(9,667)	(166)	(567)		(10,400)
Interest income		1,257	837	128		2,222
Loss on early extinguishment of debt		(12,596)				(12,596)
Earnings in equity-method investments, net			1,133	15		1,148
Reduction in value of equity-method investment						
Income before income taxes	(262)	(38,250)	137,519	11,766		110,773
Income taxes	36,719			3,159		39,878

Net income (loss)	\$ (36,981)	\$ (38,250)	\$ 137,519	\$ 8,607	\$ 70,895
-------------------	-------------	-------------	------------	----------	-----------

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

Condensed Consolidating Statements of Operations

Six Months Ended June 30, 2005

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Oilfield service and rental revenues	\$	\$	\$ 285,976	\$ 29,819	\$ (7,981)	\$ 307,814
Oil and gas revenues			55,433			55,433
Total revenues			341,409	29,819	(7,981)	363,247
Cost of oilfield services and rentals			144,940	16,215	(7,981)	153,174
Cost of oil and gas sales			23,896			23,896
Total cost of services, rentals and sales			168,836	16,215	(7,981)	177,070
Depreciation, depletion, amortization and accretion			42,357	3,620		45,977
General and administrative expenses	250	12,942	47,653	4,705		65,550
Gain on sale of liftboats			3,269			3,269
Income from operations	(250)	(12,942)	85,832	5,279		77,919
Other income (expense):						
Interest expense, net		(10,413)	(4)	(676)		(11,093)
Interest income		116	563	52		731
Earnings in equity-method investments, net				778		778
Reduction in value of equity-method investment				(1,250)		(1,250)
Income before income taxes	(250)	(23,239)	86,391	4,183		67,085
Income taxes	23,467			1,355		24,822
Net income (loss)	\$ (23,717)	\$ (23,239)	\$ 86,391	\$ 2,828	\$	\$ 42,263

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

Condensed Consolidating Statements of Cash Flows

Six Months Ended June 30, 2006

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:					
Net income	\$ (36,981)	\$ (38,250)	\$ 137,519	\$ 8,607	\$ 70,895
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, depletion, amortization and accretion			44,480	4,162	48,642
Deferred income taxes	(4,576)			(138)	(4,714)
Stock-based compensation expense		1,316			1,316
Earnings from equity-method investments			(1,133)	(15)	(1,148)
Write-off of debt acquisition costs		2,817			2,817
Amortization of debt acquisition costs and note discount		510			510
Changes in operating assets and liabilities, net of acquisitions:					
Receivables		1,246	(35,184)	(6,284)	(40,222)
Other net	(37)	209	(4,316)	4	(4,140)
Accounts payable		595	4,917	(1,104)	4,408
Accrued expenses	103	(554)	5,051	1,515	6,115
Decommissioning liabilities			(2,255)		(2,255)
Income taxes	40,008			453	40,461
Net cash provided by (used in) operating activities	(1,483)	(32,111)	149,079	7,200	122,685
Cash flows from investing activities:					
Payments for capital expenditures			(78,119)	(3,929)	(82,048)
Acquisitions of oil and gas properties, net of cash acquired			(46,631)		(46,631)
Acquisitions of businesses, net of cash acquired		(9,822)			(9,822)
Cash contributed to equity method investment			(30,441)		(30,441)
Cash proceeds from sale of subsidiary, net of cash sold		18,343			18,343
Other		(2,412)			(2,412)
Intercompany receivables/payables	(910)	(705)	5,951	(4,336)	

Net cash provided by (used in) investing activities	(910)	5,404	(149,240)	(8,265)	(153,011)
Cash flows from financing activities:					
Proceeds from long-term debt		295,467			295,467
Principal payments on long-term debt		(200,000)		(405)	(200,405)
Payment of debt acquisition costs		(6,203)			(6,203)
Proceeds from exercise of stock options	2,393				2,393
Net cash provided by (used in) financing activities	2,393	89,264		(405)	91,252
Effect of exchange rate changes on cash				463	463
Net increase (decrease) in cash		62,557	(161)	(1,007)	61,389
Cash and cash equivalents at beginning of period		21,414	19,421	13,622	54,457
Cash and cash equivalents at end of period	\$	\$ 83,971	\$ 19,260	\$ 12,615	\$ 115,846

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

Condensed Consolidating Statements of Cash Flows

Six Months Ended June 30, 2005

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidated
Cash flows from operating activities:					
Net income	\$ (23,717)	\$ (23,239)	\$ 86,391	\$ 2,828	\$ 42,263
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, depletion, amortization and accretion			42,357	3,620	45,977
Deferred income taxes	(8)			(90)	(98)
Earnings from equity-method investments				(778)	(778)
Reduction in value of equity-method investment				1,250	1,250
Amortization of debt acquisition costs		448			448
Gain on sale of liftboats			(3,269)		(3,269)
Changes in operating assets and liabilities, net of acquisitions:					
Receivables		342	(4,988)	(1,896)	(6,542)
Other net	(28)	(3,213)	(6,812)	867	(9,186)
Accounts payable		(310)	(1,613)	563	(1,360)
Accrued expenses	118	57	1,649	539	2,363
Decommissioning liabilities			(8,199)		(8,199)
Income taxes	16,789				16,789
Net cash provided by (used in) operating activities	(6,846)	(25,915)	105,516	6,903	79,658
Cash flows from investing activities:					
Payments for capital expenditures			(55,796)	(4,316)	(60,112)
Acquisitions of businesses, net of cash acquired		(5,273)			(5,273)
Cash proceeds from the sale of liftboats, net			19,313		19,313
Other		(1,208)			(1,208)
Intercompany receivables/payables	419	66,209	(65,297)	(1,331)	
Net cash provided by (used in) used in investing activities	419	59,728	(101,780)	(5,647)	(47,280)

Cash flows from financing activities:				
Principal payments on long-term debt		(5,500)	(405)	(5,905)
Proceeds from exercise of stock options	6,427			6,427
Net cash provided by (used in) financing activities	6,427	(5,500)	(405)	522
Effect of exchange rate changes on cash			(304)	(304)
Net increase in cash		28,313	3,736	547
Cash and cash equivalents at beginning of period		3,548	5,173	6,560
Cash and cash equivalents at end of period	\$	\$ 31,861	\$ 8,909	\$ 7,107
			\$	\$ 47,877

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

The following management's discussion and analysis of financial condition and results of operations contains forward-looking statements which involve risks and uncertainties. All statements other than statements of historical fact included in this section regarding our financial position and liquidity, strategic alternatives, future capital needs, business strategies and other plans and objectives of our management for future operations and activities, are forward-looking statements. These statements are based on certain assumptions and analyses made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate under the circumstances. Such forward-looking statements are subject to uncertainties that could cause our actual results to differ materially from such statements. Such uncertainties include but are not limited to: the volatility and cyclicity of the oil and gas industry, including oil and gas prices and the level of offshore exploration, production and development activity; changes in competitive factors affecting our operations; risks associated with the acquisition of mature oil and gas properties, including estimates of recoverable reserves, future oil and gas prices and potential environmental and plugging and abandonment liabilities; seasonality of the offshore industry in the Gulf of Mexico and the long-term effects of Hurricanes Katrina and Rita; our dependence on key personnel and certain customers; operating hazards, including the significant possibility of accidents resulting in personal injury, property damage or environmental damage; the volatility and risk associated with oil and gas prices; risks of our growth strategy, including the risks of rapid growth and the risks inherent in acquiring businesses and mature oil and gas properties; the effect on our performance of regulatory programs and environmental matters and risks associated with international expansion, including political and economic uncertainties. These and other uncertainties related to our business are described in detail in our Annual Report on Form 10-K for the year ended December 31, 2005. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any of our forward-looking statements for any reason.

Executive Summary

During the second quarter of 2006, we achieved our highest quarterly levels ever for revenue, income from operations, net income and diluted earnings per share. Revenue was \$261.8 million, income from operations was \$76.0 million and net income was \$38.7 million, or \$0.48 diluted earnings per share.

Our revenue increased in all geographic market areas in which we compete as compared to the first quarter of 2006. The biggest increase was in the Gulf of Mexico market area, where revenue increased approximately 21% due primarily to a significant increase in revenue from the oil and gas segment. Early in the quarter, full oil and gas production resumed following extended shut-ins due to hurricane repairs. Revenue from other geographic market areas increased approximately 14%.

In the well intervention segment, revenue was \$111.7 million and income from operations was \$25.7 million, a 9% and 31% increase, respectively, over the first quarter of 2006. The three drivers of this segment continue to be growing demand for production-related services, increased well abandonment work in the Gulf of Mexico and our continued involvement in providing hurricane-recovery project management and services. As compared to the first quarter, the biggest activity increases came from cased-hole logging, engineering and project management services, plug and abandonment and well control.

In our rental tools segment, revenue was \$86.6 million, an 11% increase as compared to the first quarter of 2006, and income from operations was \$29.4 million, an 11% increase over the first quarter of 2006. Activity increases over the first quarter were evenly split between the Gulf of Mexico and international market areas. In the Gulf of Mexico, the biggest demand increases were for drill collars, stabilizers and drill pipe. Internationally, drill pipe, landing strings, drill collars and stabilizers saw the biggest increases in markets such as South America, West Africa and the North Sea. Non-GOM revenue increased 10% over the first quarter of 2006, with the biggest increase coming from the international markets. We continue to experience significant growth opportunities for rentals both domestically and internationally.

Table of Contents

In our marine segment, revenue was \$34.0 million and income from operations was \$15.3 million, a 12% and 17% increase, respectively, over the first quarter of 2006. Average daily revenue increased 11% as compared to the first quarter as we benefited from the first full quarter of rate increases that went into place on March 1. Utilization was 84% compared to 85% in the first quarter of 2006. We are currently refurbishing a 200-ft. class liftboat that we expect to add to our fleet during the third quarter.

Revenue from our oil and gas segment was \$33.6 million and income from operations was \$5.5 million, representing significant increases over first quarter 2006 results. Second quarter oil and gas production was approximately 636,000 barrels of oil equivalent (boe) as compared to 359,000 boe in the first quarter of 2006. Our operating results were impacted by \$1.3 million in repairs and maintenance expense related to hurricane damage repair work, and \$4.5 million in additional insurance expense as compared to the first quarter. Insurance on offshore oil and gas properties has increased dramatically in the Gulf of Mexico in the wake of last year's hurricane season.

Comparison of the Results of Operations for the Three Months Ended June 30, 2006 and 2005

For the three months ended June 30, 2006, our revenues were \$261.8 million, resulting in net income of \$38.7 million or \$0.48 diluted earnings per share. This net income includes a loss on early extinguishment of debt of \$12.6 million. For the three months ended June 30, 2005, revenues were \$190.0 million and net income was \$25.1 million or \$0.32 diluted earnings per share. Revenue and gross margin were higher in the well intervention, rental tools and marine segments as a result of increased production-related projects and drilling activity worldwide, and demand for repair and recovery services we provide to our Gulf of Mexico customers as the result of damage caused by hurricanes in 2004 and 2005. These factors resulted in higher utilization and dayrates for many of our services, liftboats and rental tools. Revenues in our oil and gas segment were higher due to high commodity prices, but hurricane-related shut-ins resulted in less oil and gas production and higher operating expenses which lead to a lower gross margin.

The following table compares our operating results for the three months ended June 30, 2006 and 2005. Gross margin is calculated by subtracting cost of services from revenue for each of our four business segments. Oil and gas eliminations represent products and services provided to the oil and gas segment by the Company's other three segments.

	Revenue			Gross Margin				
	2006	2005	Change	2006	%	2005	%	Change
Well Intervention	\$ 111,675	\$ 85,019	\$ 26,656	\$ 48,320	43%	\$ 32,897	39%	\$ 15,423
Rental Tools	86,593	61,122	25,471	58,370	67%	42,245	69%	16,125
Marine	33,951	18,285	15,666	20,158	59%	5,819	32%	14,339
Oil and Gas	33,625	29,478	4,147	14,923	44%	18,387	62%	(3,464)
Less: Oil and Gas Elim.	(4,085)	(3,904)	(181)					
Total	\$ 261,759	\$ 190,000	\$ 71,759	\$ 141,771	54%	\$ 99,348	52%	\$ 42,423

The following discussion analyzes our results on a segment basis.

Well Intervention Segment

Revenue for our well intervention segment was \$111.7 million for the three months ended June 30, 2006, as compared to \$85.0 million for the same period in 2005. This segment's gross margin percentage increased to 43% for the three months ended June 30, 2006 from 39% for the same period of 2005. We experienced higher revenue for most of our production-related services, especially cased hole logging, pumping and stimulation, well control, hydraulic workover services, and engineering and project management services as production-related activity improved significantly, especially in the Gulf of Mexico. In addition, revenue increased for our plug and abandonment services as many customers continued plugging severely damaged wells and temporarily or permanently plugging other wells to lower their insurance exposure and risk of damage from any future hurricanes.

Table of Contents

Gross margins improved due to higher utilization and dayrates for many of our services, which generally have high fixed costs.

Rental Tools Segment

Revenue for our rental tools segment for the three months ended June 30, 2006 was \$86.6 million, a 42% increase over the same period in 2005. The gross margin percentage slightly decreased to 67% for the three months ended June 30, 2006 from 69% for the same period of 2005. We experienced significant increases in revenue from our on-site accommodations, drill pipe and accessories, specialty tubulars and stabilizers and drill collars. The increases are primarily the result of significant increases in activity in the Gulf of Mexico particularly in our deepwater market area, as well as our international and domestic land expansion efforts. Our international revenue for the rental tools segment has increased 75% to approximately \$20.7 million for the quarter ended June 30, 2006 over the same period of 2005. Our biggest improvements were in the North Sea, South America and Mexico market areas.

Marine Segment

Our marine segment revenue for the three months ended June 30, 2006 increased 86% over the same period in 2005 to \$34.0 million. The gross margin percentage for the three months ended June 30, 2006 increased to 59% from 32% for the same period in 2005. The three months ended June 30, 2006 were characterized by a significant increase in liftboat pricing and utilization due to higher activity levels resulting from increases in Gulf of Mexico production-related activity and ongoing construction and repair work needed as the result of the damage in the Gulf of Mexico from Hurricanes Katrina and Rita. The fleet's average dayrate increased over 100% to approximately \$15,770 in the second quarter of 2006 from \$7,370 in the second quarter of 2005. The fleet's average utilization increased to approximately 83% for the second quarter of 2006 from 73% in the same period in 2005. The second quarter of 2005 also includes two months of rental activity from the 105-foot and the 120 to 135-foot class liftboats, which were sold effective June 1, 2005.

Oil and Gas Segment

Oil and gas revenues were \$33.6 million in the three months ended June 30, 2006, as compared to \$29.5 million in the same period of 2005. In the second quarter of 2006, production was approximately 636,000 boe, as compared to approximately 662,000 boe in the second quarter of 2005. The gross margin percentage decreased to 44% in the three months ended June 30, 2006 from 62% in the same period of 2005 due to increased insurance costs and ongoing repair costs related to Hurricanes Katrina and Rita.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion increased to \$25.7 million in the three months ended June 30, 2006 from \$23.6 million in the same period in 2005. The increase results from the depreciation associated with our 2006 and 2005 capital expenditures primarily in the rental tools segment.

General and Administrative Expenses

General and administrative expenses increased to \$40.1 million for the three months ended June 30, 2006 from \$33.2 million for the same period in 2005. This increase was primarily related to increased bonus accruals due to our improved performance; increased compensation expense from our new long-term incentive plan established late in the second quarter of 2005; increased insurance costs; and increased expenses related to our geographic expansion, oil and gas acquisitions and our growth. General and administrative expenses decreased to 15% of revenue for the three months ended June 30, 2006 from 17% for the same period in 2005.

Comparison of the Results of Operations for the Six Months Ended June 30, 2006 and 2005

For the six months ended June 30, 2006, our revenues were \$484.2 million, resulting in net income of \$70.9 million or \$0.87 diluted earnings per share. This net income includes a loss on early extinguishment of debt of \$12.6 million. For the six months ended June 30, 2005, revenues were \$363.2 million and net income was \$42.3 million or \$0.53 diluted earnings per share.

Table of Contents

We experienced significantly higher revenue and gross margin for our well intervention, rental tools and marine segments due to higher pricing and utilization for most products and services offered. Factors driving our improved performance include higher commodity prices resulting in additional production and drilling-related activity worldwide, as well as demand for our services and liftboats that are necessary to assist in repair work needed as the result of the active Gulf of Mexico hurricane seasons of 2004 and 2005. These increases more than offset the lower revenue and gross margin in the oil and gas segment due to lower production and higher operating expenses as the result of damage from Hurricanes Katrina and Rita.

The following table compares our operating results for the six months ended June 30, 2006 and 2005. Gross margin is calculated by subtracting cost of services from revenue for each of our four business segments. Oil and gas eliminations represent products and services provided to the oil and gas segment by the Company's other three segments.

	Revenue			Gross Margin				
	2006	2005	Change	2006	%	2005	%	Change
Well Intervention	\$ 213,748	\$ 165,135	\$ 48,613	\$ 90,393	42%	\$ 63,615	39%	\$ 26,778
Rental Tools	164,367	113,749	50,618	111,846	68%	77,338	68%	34,508
Marine	64,158	38,083	26,075	38,352	60%	13,687	36%	24,665
Oil and Gas	49,096	55,433	(6,337)	16,189	33%	31,537	57%	(15,348)
Less: Oil and Gas Elim.	(7,141)	(9,153)	2,012					
Total	\$ 484,228	\$ 363,247	\$ 120,981	\$ 256,780	53%	\$ 186,177	51%	\$ 70,603

The following discussion analyzes our results on a segment basis.

Well Intervention Segment

Revenue for our well intervention segment was \$213.7 million for the six months ended June 30, 2006, as compared to \$165.1 million for the same period in 2005. This segment's gross margin percentage increased to 42% for the six months ended June 30, 2006 from 39% for the same period of 2005. We experienced higher revenue for most of our production-related services as pricing and utilization were higher due to increased production-related activity and hurricane-related repair work in the Gulf of Mexico. In addition, revenue increased for our plug and abandonment services as many customers began plugging severely damaged wells and temporarily or permanently plugging other wells to lower their insurance exposure and risk of damage from any future hurricanes.

Rental Tools Segment

Revenue for our rental tools segment for the six months ended June 30, 2006 was \$164.4 million, a 44% increase over the same period in 2005. The gross margin percentage remained constant at 68% for the six months ended June 30, 2006 and 2005. We experienced significant increases in revenue from our on-site accommodations, drill pipe and accessories, specialty tubulars, stabilizers and drill collars. The increases are primarily the result of significant increases in activity in the Gulf of Mexico particularly in our deepwater market area, as well as our international and domestic land expansion efforts. Our international revenue for the rental tools segment has increased 66% to approximately \$36.6 million for the six months ended June 30, 2006 over the same period of 2005.

Marine Segment

Our marine segment revenue for the six months ended June 30, 2006 increased 68% over the same period in 2005 to \$64.2 million. The gross margin percentage for the six months ended June 30, 2006 increased to 60% from 36% for the same period in 2005. The six months ended June 30, 2006 were characterized by a significant increase in liftboat pricing and utilization due to higher activity levels resulting from increases in Gulf of Mexico production-related activity and ongoing construction and repair work needed as the result of the damage in the Gulf of Mexico from Hurricanes Katrina and Rita. The fleet's average dayrate increased over 100% to approximately \$15,020 in the first six months of 2006 from \$7,140 in the same period of 2005. The fleet's average utilization increased to approximately

84% for the six months ended June 30, 2006 from 75% in the same period in 2005. The six months

Table of Contents

ended June 30, 2005 also includes five months of rental activity from the 105-foot and the 120 to 135-foot class liftboats, which were sold effective June 1, 2005.

Oil and Gas Segment

Oil and gas revenues were \$49.1 million in the six months ended June 30, 2006, as compared to \$55.4 million in the same period of 2005. The decrease in revenue is primarily the result of production which remained shut-in during the first quarter of 2006 following significant damage from Hurricanes Katrina and Rita. In the six months ended June 30, 2006, production was approximately 995,000 boe, as compared to approximately 1,263,000 boe in the same period of 2005. The gross margin percentage decreased to 33% in the six months ended June 30, 2006 from 57% in the same period of 2005 due to the shut-in production in the first quarter of 2006, increased insurance cost and ongoing repair costs related to Hurricanes Katrina and Rita.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion increased to \$48.6 million in the six months ended June 30, 2006 from \$46.0 million in the same period in 2005. The increase results from the depreciation associated with our 2006 and 2005 capital expenditures primarily in the rental tools segment. This increase was offset by a decrease in depletion related to decreased production in our oil and gas properties.

General and Administrative Expenses

General and administrative expenses increased to \$77.7 million for the six months ended June 30, 2006 from \$65.6 million for the same period in 2005. This increase was primarily related to increased compensation expense from our new long-term incentive plan established late in the second quarter of 2005; increased expenses related to our geographic expansion, oil and gas acquisitions and our growth; increased bonus accruals due to our improved performance; and increased insurance costs. General and administrative expenses decreased to 16% of revenue for the six months ended June 30, 2006 from 18% for the same period in 2005.

Liquidity and Capital Resources

In the six months ended June 30, 2006, we generated net cash from operating activities of \$122.7 million as compared to \$79.7 million in the same period of 2005. Our primary liquidity needs are for working capital, capital expenditures, debt service and acquisitions. Our primary sources of liquidity are cash flows from operations and borrowings under our revolving credit facility. We had cash and cash equivalents of \$115.8 million at June 30, 2006 compared to \$54.5 million at December 31, 2005.

We made \$82.0 million of capital expenditures during the six months ended June 30, 2006, of which approximately \$42.4 million was used to expand and maintain our rental tool equipment inventory. We also made \$13.5 million of capital expenditures in our oil and gas segment and \$23.6 million of capital expenditures to expand and maintain the asset base of our well intervention and marine segments, including \$5.9 million related to the anchor handling tug and \$2.2 million of progress payments on the crane. In addition, we made \$2.5 million of capital expenditures on construction and improvements to our facilities.

During the six months ending June 30, 2006, we paid cash in the amount of \$46.6 million for five offshore Gulf of Mexico leases. The five leases are located on the Outer Continental Shelf of the Gulf of Mexico, on blocks that span from Matagorda Island to Ship Shoal. We also purchased two businesses for an aggregate purchase price of approximately \$9.8 million in cash consideration in order to expand the housing units offered by its rental tools segment into Wyoming and expand the snubbing services offered by its well intervention segment in Australia. We acquired a 40% interest in Coldren Resources which entered into a purchase and sale agreement with Noble Energy, Inc. to purchase all of Noble's offshore Gulf of Mexico shelf assets. We have made total cash contributions of approximately \$30.4 million as of June 30, 2006. On July 14, 2006, we made an additional contribution of approximately \$27.4 million upon Coldren Resources completing the acquisition of the Noble assets.

Table of Contents

During the first quarter of 2006, we sold our subsidiary, ETT, for approximately \$18.3 million in cash, net of \$0.4 million of cash sold.

On July 27, 2006, we took delivery of an 880-ton derrick barge (DB Superior Performance). The final payments of \$13.7 million for the DB Superior Performance, subject to some non-material change order adjustments, were made upon its delivery and acceptance. On July 13, 2006, we entered into an agreement to charter the DB Superior Performance and the Anchor Handling Tug (MV Superior Pacesetter , previously under a bareboat charter in Asia) for a period of approximately 14 months, expiring on October 31, 2007. Upon expiration of the charter, we intend to continue to work these vessels in international markets.

On July 13, 2006, we contracted to construct a derrick barge (DB 2) that will be sold to a third party for approximately \$54 million. We expect this transaction to be completed in the first quarter of 2008. We will receive monthly payments on the sale in accordance with the terms of the contract. These payments are guaranteed by commercial letters of credit. We have entered into fixed-price contracts to construct DB 2. The contract for the hull is secured by letters of credit payable upon delivery and acceptance. The contract for the crane requires periodic progress payments with final payment due upon completion of the contract.

On July 28, 2006, we contracted to construct a derrick barge (DB 3) to support our decommissioning and construction operations. We expect to take delivery of this barge in the second quarter of 2008. We have entered into fixed-price contracts to construct DB 3. The contract for the hull is secured by letters of credit payable upon delivery and acceptance. The contract for the crane requires periodic progress payments with final payment due upon completion of the contract. We intend to utilize DB 3 for construction or removal projects in the Gulf of Mexico market area for both third party customers and our subsidiary, SPN Resources.

We currently believe that we will make approximately \$140 to \$150 million of capital expenditures, excluding acquisitions and targeted asset purchases, during the remaining six months of 2006 primarily to purchase the derrick barges, further expand our rental tool asset base and perform workovers on SPN Resources oil and gas properties. We believe that our current working capital, cash generated from our operations and availability under our revolving credit facility will provide sufficient funds for our identified capital projects.

We have a bank credit facility consisting of a \$150 million revolving credit facility, with an option to increase it to \$250 million. Any balance outstanding on the revolving credit facility is due on October 31, 2008. At June 30, 2006, we had no balance on this bank credit facility, but we had approximately \$19.5 million of letters of credit outstanding, which reduce the borrowing availability under this credit facility. The credit facility bears interest at a LIBOR rate plus margins that depend on our leverage ratio. As of August 1, 2006, we had nothing outstanding on this facility. Indebtedness under the credit facility is secured by substantially all of our assets, including the pledge of the stock of our principal subsidiaries. The credit facility contains customary events of default and requires that we satisfy various financial covenants. It also limits our capital expenditures, our ability to pay dividends or make other distributions, make acquisitions, make changes to our capital structure, create liens, incur additional indebtedness or assume additional decommissioning liabilities.

We have \$17.0 million outstanding at June 30, 2006 in U. S. Government guaranteed long-term financing under Title XI of the Merchant Marine Act of 1936, which is administered by the Maritime Administration (MARAD), for two 245-foot class liftboats. This debt bears an interest rate of 6.45% per annum and is payable in equal semi-annual installments of \$405,000 on every June 3rd and December 3rd through June 3, 2027. Our obligations are secured by mortgages on the two liftboats. This MARAD financing also requires that we comply with certain covenants and restrictions, including the maintenance of minimum net worth and debt-to-equity requirements.

In the second quarter of 2006, we completed a tender offer for approximately 97.6% of our \$200 million outstanding of 8 7/8% unsecured senior notes due 2011. The cash consideration for the tender offer was \$1,045.63 per \$1,000 in aggregate principal amount of senior notes tendered. In conjunction with the tender offer, we also received consents to amend the indenture pursuant to which the senior notes were issued to eliminate from the indenture substantially all of the restrictive covenants and certain events of default. After the tender offer was completed, we redeemed the remaining outstanding senior notes in accordance with the indenture at the redemption price of \$1,044.38 per \$1,000 of the principal amount redeemed. We recognized a loss on the early extinguishment

Table of Contents

of debt of approximately \$12.6 million, which included the tender premiums, redemption premiums, fees and expenses and the write-off of the remaining unamortized debt acquisition costs associated with these notes.

We issued \$300 million new unsecured senior notes, which were offered at 98.489% of par and bear interest at the rate of 6 7/8% per annum. We used the net proceeds to refinance the \$200 million senior notes, including the payment of tender premiums, redemption premiums, fees and expenses, and to fund the equity investment in Coldren Resources. The indenture governing the notes requires semi-annual interest payments, on every June 1st and December 1st through the maturity date of June 1, 2014. The indenture contains certain covenants that, among other things, prevent us from incurring, assuming or guaranteeing additional debt, repurchasing capital stock, paying dividends or making other distributions, unless our ratio of cash flow to interest expense is at least 2.0 to 1, except that we may incur additional debt in addition to the senior notes in an amount greater of \$250 million or equal to 30% of its net tangible assets as defined, which was approximately \$248 million at June 30, 2006. The indenture also contains covenants that restrict our ability to create certain liens, sell assets or enter into certain mergers or acquisitions.

The following table summarizes our contractual cash obligations and commercial commitments at June 30, 2006 (amounts in thousands) for our long-term debt (including estimated interest payments), decommissioning liabilities, operating leases and contractual obligations. The decommissioning liability amounts do not give any effect to our contractual right to receive amounts from third parties, which is approximately \$30.8 million, when decommissioning operations are performed. The derrick barge construction commitment amount does not give any effect for contracts entered into after June 30, 2006. We do not have any other material obligations or commitments.

Description	Remaining Six Months 2006	2007	2008	2009	2010	2011	Thereafter
Long-term debt, including estimated interest payments	\$ 12,125	\$ 22,492	\$ 22,440	\$ 22,388	\$ 22,336	\$ 22,283	\$ 370,578
Decommissioning liabilities	10,012	25,358	5,668	2,321	10,029	28,781	38,394
Operating leases	2,811	4,759	2,325	1,019	522	183	12,333
Derrick barge construction	13,686						
Equity method investment	27,452						
Total	\$ 66,086	\$ 52,609	\$ 30,433	\$ 25,728	\$ 32,887	\$ 51,247	\$ 421,305

We have no off-balance sheet arrangements other than our potential additional consideration that may be payable as a result of the future operating performances of our acquisitions. At June 30, 2006, the maximum additional consideration payable for our prior acquisitions was approximately \$2.4 million. These amounts are not classified as liabilities under generally accepted accounting principles and are not reflected in our financial statements until the amounts are fixed and determinable. When amounts are determined, they are capitalized as part of the purchase price of the related acquisition. We do not have any other financing arrangements that are not required under generally accepted accounting principles to be reflected in our financial statements.

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

credit facility.

New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 155 (FAS No. 155), Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. FAS No. 155 simplifies accounting for certain hybrid financial instruments by

Table of Contents

permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation and eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. FAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of FAS No. 155 will have no impact on our results of operations or our financial position.

In March 2006, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 156 (FAS No. 156), Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140. FAS No. 156 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities by requiring that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. FAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of FAS No. 156 will have no impact on our results of operations or our financial position.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109. FIN No. 48 provides guidance on measurement and recognition in accounting for income tax uncertainties and also requires expanded financial statement disclosure. This interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact, if any, that FIN No. 48 will have on our results of operations and financial position.

Item 3. Quantitative and Qualitative Disclosures about Market Risk**Commodity Price Risk**

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

We use derivative commodity instruments to manage commodity price risks associated with future oil production. We have not hedged any of our natural gas production. As of June 30, 2006, we had the following contracts in place:

Remaining Contract Term	Instrument	Crude Oil Positions		Volume (Bbls)	Total (Bbls)
		Type	Strike Price (Bbl)		
7/06 8/06	Swap		\$39.45	1,000	92,000
7/06 8/06	Collar		\$35.00/\$45.60	1,000	92,000

Our hedged volume as of June 30, 2006 was approximately 51% of our estimated production from proved reserves for the balance of the terms of the contracts. Had these contracts been terminated at June 30, 2006, the estimated loss would have been \$3.6 million, net of taxes.

We used a sensitivity analysis technique to evaluate the hypothetical effect that changes in the market value of crude oil would have on the fair value of our existing derivative instruments. Based on the derivative instruments outstanding at June 30, 2006, a 10% increase in the underlying commodity price, would increase the estimated loss associated with the commodity derivative instrument by \$588,000, million, net of taxes.

Interest Rate Risk

At June 30, 2006, none of our long-term debt outstanding had variable interest rates, and we had no interest rate risks at that time.

Table of Contents

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, our chief financial officer and chief executive officer have concluded, based on their evaluation, that our disclosure controls and procedures (as defined in rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) 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 recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There were no material changes to our system of internal controls over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect those internal controls subsequent to the date of the most recent evaluation by our chief financial officer and chief executive officer.

Table of Contents**PART II. OTHER INFORMATION****Item 4. Submission of Matters to a Vote of Security Holders**

- (a) The annual meeting of our stockholders was held on May 23, 2006.
- (b) At the annual meeting, the stockholders elected Enoch L. Dawkins, James M. Funk, Terence E. Hall, Ernest E. Howard, III, Richard A. Pattarozzi, and Justin L. Sullivan to serve as directors until the next annual meeting of stockholders.
- (c) At the annual meeting, our stockholders:
- (i) Elected six directors with the following number of votes cast for and withheld from such nominees:

Director	For	Withheld
Enoch L. Dawkins	69,023,439	7,324,301
James M. Funk	75,105,514	1,242,226
Terence E. Hall	74,420,250	1,927,490
Ernest E. Howard, III	69,864,605	6,483,135
Richard A. Pattarozzi	75,001,414	1,346,326
Justin L. Sullivan	74,120,728	2,227,012

- (ii) Approved the Amended and Restated 2004 Directors Restricted Stock Units Plan. The number of votes cast for and against this proposal, as well as the number of abstentions and non-votes, is as follows:

For	Against	Abstentions	Non-Votes
59,482,204	6,297,808	197,245	10,370,483

- (iii) Ratified the appointment of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006. The number of votes cast for and against this proposal, as well as the number of abstentions and non-votes, is as follows:

For	Against	Abstentions	Non-Votes
74,961,043	1,339,230	47,465	

Item 6. Exhibits

- (a) The following exhibits are filed with this Form 10-Q:
- 3.1 Certificate of Incorporation of the Company (incorporated herein by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996).
- 3.2 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
- 3.3 Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on November 15, 2004).
- 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.

37

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: August 8, 2006

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

38

Table of Contents

Index to Exhibits

- 3.1 Certificate of Incorporation of the Company (incorporated herein by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996).
- 3.4 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
- 3.5 Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on November 15, 2004).
- 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.