SUPERIOR ENERGY SERVICES INC
Form 10-Q
November 04, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the Transition Period from to

Commission File No. 001-34037

SUPERIOR ENERGY SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-2379388 (I.R.S. Employer Identification No.)
1001 Louisiana Street, Suite 2900 Houston, TX (Address of principal executive offices)	77002 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(do not check if smaller reporting company)	Smaller reporting company

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

The number of shares of the registrant's common stock outstanding on October 30, 2014 was 152,171,006.

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for

the Quarterly Period Ended September 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2014 and December 31, 2013
(in thousands, except share data)

	9/30/2014 (unaudited)	12/31/2013 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 320,042	$ 196,047
Accounts receivable, net of allowance for doubtful accounts of $27,366 and $31,030 as of September 30, 2014 and December 31, 2013, respectively	967,943	937,195
Income taxes receivable	-	5,532
Deferred income taxes	27,024	8,785
Prepaid expenses	72,072	70,421
Inventory and other current assets	185,613	258,449
Assets held for sale	285,759	-
Total current assets	1,858,453	1,476,429
Property, plant and equipment, net of accumulated depreciation and depletion of $2,159,166 and $1,827,011 as of September 30, 2014 and December 31, 2013, respectively	2,702,532	3,002,194
Goodwill	2,456,522	2,458,109
Notes receivable	25,560	23,708
Intangible and other long-term assets, net of accumulated amortization of $110,115 and $84,567 as of September 30, 2014 and December 31, 2013, respectively	420,873	450,867
Total assets	$ 7,463,940	$ 7,411,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 207,242	$ 216,029
Accrued expenses	367,476	376,049
Income taxes payable	37,417	-
Current maturities of long-term debt	20,344	20,000

Current portion of decommissioning liabilities	-	27,322
Liabilities held for sale	76,849	-
Total current liabilities	709,328	639,400
Deferred income taxes	729,246	736,080
Decommissioning liabilities	87,443	56,197
Long-term debt, net	1,630,834	1,646,535
Other long-term liabilities	165,379	201,651
Stockholders' equity:		
Preferred stock of $0.01 par value. Authorized - 5,000,000 shares; none issued	-	-
Common stock of $0.001 par value.		
Authorized - 250,000,000, Issued - 153,958,963, Outstanding - 154,019,882 as of September 30, 2014		
Authorized - 250,000,000, Issued - 158,976,784, Outstanding - 159,158,022 as of December 31, 2013	154	159
Additional paid in capital	2,724,777	2,873,579
Accumulated other comprehensive loss, net	(25,067)	(17,500)
Retained earnings	1,441,846	1,275,206
Total stockholders' equity	4,141,710	4,131,444
Total liabilities and stockholders' equity	$ 7,463,940	$ 7,411,307

See accompanying notes to condensed consolidated financial statements.

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2014 and 2013
(in thousands, except per share data)
(unaudited)

	Three Months		Nine Months	
	2014	2013	2014	2013
Revenues:				
Services	$ 935,560	$ 848,941	$ 2,574,565	$ 2,552,792
Rentals	273,466	247,471	803,431	721,621
Total revenues	1,209,026	1,096,412	3,377,996	3,274,413
Costs and expenses:				
Cost of services (exclusive of items shown separately below)	597,992	581,556	1,704,165	1,706,188
Cost of rentals (exclusive of items shown separately below)	123,700	90,076	319,425	263,742
Depreciation, depletion, amortization and accretion	170,154	152,028	493,437	446,432
General and administrative expenses	154,859	147,364	457,631	440,812
Income from operations	162,321	125,388	403,338	417,239
Other income (expense):				
Interest expense, net	(24,169)	(25,564)	(72,610)	(81,610)
Other income (expense)	(2,051)	(1,697)	(1,480)	41
Loss on early extinguishment of debt	-	-	-	(884)
Income from continuing operations before income taxes	136,101	98,127	329,248	334,786
Income taxes	50,358	30,658	121,822	112,620
Net income from continuing operations	85,743	67,469	207,426	222,166
Income (loss) from discontinued operations, net of income tax	(5,886)	2,366	(15,735)	(20,045)
Net income	$ 79,857	$ 69,835	$ 191,691	$ 202,121
Earnings (loss) per share information:				
Basic:				
Continuing operations	$ 0.55	$ 0.42	$ 1.33	$ 1.40
Discontinued operations	(0.03)	0.02	(0.10)	(0.13)
Basic earnings per share	$ 0.52	$ 0.44	$ 1.23	$ 1.27
Diluted:				
Continuing operations	$ 0.55	$ 0.42	$ 1.31	$ 1.38
Discontinued operations	(0.04)	0.01	(0.10)	(0.12)
Diluted earnings per share	$ 0.51	$ 0.43	$ 1.21	$ 1.26
Cash dividends per share	$ 0.08	$ -	$ 0.24	$ -

Weighted average common shares used in computing earnings (loss) per share:				
Basic	154,530	159,326	156,424	159,204
Incremental common shares from stock based compensation	1,806	1,557	1,644	1,600
Diluted	156,336	160,883	158,068	160,804

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2014 and 2013
(in thousands)
(unaudited)

	Three Months		Nine Months	
	2014	2013	2014	2013
Net income	$ 79,857	$ 69,835	$ 191,691	$ 202,121
Unrealized net gain (loss) on available-for-sale securities, net of tax	-	1,007	-	(448)
Reclassification adjustment, net of tax	-	-	1,153	-
Change in cumulative translation adjustment, net of tax	(14,439)	10,942	(8,720)	(2,203)
Comprehensive income	$ 65,418	$ 81,784	$ 184,124	$ 199,470

See accompanying notes to condensed consolidated financial statements.

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2014 and 2013
(in thousands)
(unaudited)

	2014		2013	
Cash flows from operating activities:				
Net income	$	191,691	$	202,121
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion, amortization and accretion		494,801		462,627
Loss on early extinguishment of debt		-		884
Deferred income taxes		(15,767)		113,207
Stock based compensation expense		32,899		26,788
Amortization of debt issuance costs		6,126		6,819
Other reconciling items, net		(20,884)		(6,562)
Changes in operating assets and liabilities, net of acquisitions:				
Accounts receivable		(60,611)		140
Inventory and other current assets		29,495		(54,924)
Accounts payable		30,198		7,085
Accrued expenses		36,802		24,721
Income taxes		43,214		(183,420)
Other, net		(3,653)		36,627
Net cash provided by operating activities		764,311		636,113
Cash flows from investing activities:				
Payments for capital expenditures		(438,349)		(466,831)
		10,622		-

Sale of available-for-sale securities				
Acquisitions of businesses, net of cash acquired		(2,380)		(23,797)
Cash proceeds from insurance settlement		-		22,650
Other		20,575		2,709
Net cash used in investing activities		(409,532)		(465,269)
Cash flows from financing activities:				
Proceeds from revolving line of credit		14,736		561,771
Payments on revolving line of credit		(14,736)		(561,771)
Principal payments on long-term debt		(15,000)		(165,000)
Purchase and retirement of common stock		(185,552)		-
Cash dividends		(37,586)		-
Proceeds from exercise of stock options		10,554		5,551
Other		(89)		(9,924)
Net cash used in financing activities		(227,673)		(169,373)
Effect of exchange rate changes on cash		(3,111)		(2,019)
Net increase (decrease) in cash and cash equivalents		123,995		(548)
Cash and cash equivalents at beginning of period		196,047		91,199
Cash and cash equivalents at end of period	$	320,042	$	90,651

See accompanying notes to condensed consolidated financial statements.

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2014

(1)Basis of Presentation

Certain information and footnote disclosures normally in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures that are made are adequate to make the information presented not misleading. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Superior Energy Services, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013, and Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

The financial information of Superior Energy Services, Inc. and subsidiaries (the Company) for the three and nine months ended September 30, 2014 and 2013 has not been audited. However, in the opinion of management, all adjustments necessary to present fairly the results of operations for the periods presented have been included therein. The results of operations for the first nine months of the year are not necessarily indicative of the results of operations that might be expected for the entire year. Certain previously reported amounts have been reclassified to conform to the 2014 presentation.

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

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

(2)Discontinued Operations

During the first quarter of 2014, the Company conducted a strategic review and analysis of its subsea construction business. As of September 30, 2014, the Company was committed to sell the assets of and exit its subsea construction business. The disposition of assets is expected to be completed by the end of the first half of 2015.

During the first quarter of 2014, the Company also made a decision to discontinue its conventional decommissioning business. As of September 30, 2014, the Company was committed to sell the assets of and exit its conventional decommissioning business. The disposition of the assets is expected to be completed by the end of the first half of 2015.

Both of the subsea construction business and conventional decommissioning business were included in the Technical Solutions segment, formerly referred to as the Subsea and Technical Solutions segment. As of September 30, 2014, the assets and liabilities of these businesses were classified as held for sale. For the three and nine months ended September 30, 2014 and 2013, the results of operations of these businesses are reported as discontinued operations in the consolidated statements of operations.

The following summarizes certain financial information of the businesses reported as discontinued operations (in thousands):

	Three Months Ended September 30,	
	2014	2013
Revenues	$ 34,210	$ 92,203
Income/(loss) from discontinued operations, net of tax benefit of $4,063 and tax expense of $485, respectively	(5,886)	2,366

	Nine Months Ended September 30,	
	2014	2013
Revenues	$ 111,735	$ 209,394
Loss from discontinued operations, net of tax benefit of $10,131 and $3,786, respectively	(15,735)	(20,045)

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

	September 30, 2014	December 31, 2013
Accounts receivable, net	$ 25,415	$ 26,858
Prepaid expenses	5,810	8,164
Inventory and other current assets	30,891	63,618
Current assets	$ 62,116	$ 98,640
Property, plant and equipment, net	219,223	217,089
Intangible and other long-term assets, net	4,420	4,854
Long-term assets	$ 223,643	$ 221,943
Accounts payable	21,478	13,449
Accrued expenses	37,362	52,133
Current liabilities	$ 58,840	$ 65,582
Other long-term liabilities	$ 18,009	$ 21,801

Assets and liabilities held for sale include a capital lease for a dynamically positioned subsea vessel. Such amounts are recorded at the present value of the lease payments. The vessel's gross asset value under the capital lease was approximately $37.6 million at inception and accumulated depreciation through September 30, 2014 and December 31, 2013 was approximately $17.4 million and $16.4 million, respectively. As of September 30, 2014, $18.0 million of other long-term liabilities and $4.5 million of accounts payable related to this capital lease are included in the liabilities held for sale. As of December 31, 2013, $21.4 million of other long-term liabilities and $4.2 million of accounts payable related to this capital lease are included in the liabilities held for sale.

(3)Acquisitions

In March 2013, the Company acquired all of the equity interests in a company that provides cementing services in Colombia. The Company paid approximately $20.4 million at closing and repaid $3.0 million of the acquired company's debt. During the nine months ended September 30, 2014, the Company paid $2.4 million as a result of a post-closing process to reconcile the net working capital of the acquired company and settlement of certain liabilities. The Company will pay up to an additional $1.3 million during the first half of 2015, subject to the settlement of certain liabilities. Goodwill of approximately $15.1 million was recognized as a result of this acquisition and was calculated as the excess of the consideration paid over the net assets recognized and represents estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. None of the goodwill related to this acquisition will be deductible for tax purposes. All of the goodwill was assigned to the Production Services segment.

In October 2014, the Company acquired all of the equity interests in a company that provides well testing and slickline services in India. The purchase price of the acquisition was approximately $25.0 million.

(4)Accelerated Share Repurchase Program

In March 2014, the Company entered into an accelerated share repurchase program with a third-party financial institution to purchase $75.0 million aggregate amount of shares of the Company's outstanding common stock. The Company paid $75.0 million and received and retired an initial delivery of 1,899,055 shares that represented approximately 75% of the total number of shares repurchased under the agreement. In April 2014, the accelerated share repurchase program was completed and the Company received and retired 633,485 additional shares.

(5)Earnings per Share

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

Stock options for approximately 284,000 and 1,100,000 shares of the Company's common stock for the three months ended September 30, 2014 and 2013, respectively, and approximately 1,054,000 and 1,210,000 shares of the Company's common stock for the nine months ended September 30, 2014 and 2013, respectively, were excluded in the computation of diluted earnings per share for these periods as the effect would have been anti-dilutive.

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(6)Stock-Based Compensation Plans

The Company maintains various stock incentive plans that provide long-term incentives to the Company’s key employees, including officers, directors, consultants and advisors (Eligible Participants). Under the stock incentive plans, the Company may grant incentive stock options, non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-based awards or any combination thereof to Eligible Participants. The Company’s total compensation expense related to these plans was approximately $33.5 million and $27.7 million for the nine months ended September 30, 2014 and 2013, respectively, which is reflected in general and administrative expenses.

(7)Inventory and Other Current Assets

Inventory and other current assets includes approximately $164.0 million and $162.9 million of inventory as of September 30, 2014 and December 31, 2013, respectively. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out or weighted-average cost methods for finished goods and work-in-process. Supplies and consumables consist principally of products used in our services provided to customers. The components of the inventory balances are as follows (in thousands):

	September 30, 2014	December 31, 2013
Finished goods	$ 66,340	$ 65,621
Raw materials	33,281	20,764
Work-in-process	18,445	20,064
Supplies and consumables	45,936	56,470
Total	$ 164,002	$ 162,919

As of December 31, 2013, inventory and other current assets also included approximately $8.8 million of available-for-sale securities recorded at fair value. These available-for-sale securities consisted of approximately 1.4 million shares of SandRidge Energy, Inc. (SandRidge) common stock held by the Company. During the second quarter of 2014, the Company sold all of the remaining shares of SandRidge common stock for approximately $10.6 million. In connection with the sale, the Company reversed approximately $1.2 million of previously recorded unrealized losses, of which approximately $1.8 million was reclassified out of accumulated other comprehensive loss, net of tax benefit of approximately $0.6 million. During the nine months ended September 30, 2013, the Company recorded an unrealized loss related to the fair value of these securities of approximately $0.7 million, of which approximately $0.5 million was reported within accumulated other comprehensive loss, net of tax expense of approximately $0.2 million.

(8)Goodwill

Goodwill is tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. During the third quarter of 2014, the Company changed its annual goodwill impairment testing date from December 31 to October 1 of each year. Management considers this accounting change preferable because it allows the Company additional time to complete the annual goodwill impairment test. This change does not accelerate, delay, avoid, or cause an impairment charge, nor does this change result in adjustments to previously issued financial statements. The Company will complete its annual goodwill impairment test during the fourth quarter of 2014.

(9)Debt

Credit Facility

The Company has a $1.0 billion bank credit facility, comprised of a $600 million revolving credit facility and a $400 million term loan. The principal balance of the term loan is payable in installments of $5.0 million on the last day of each fiscal quarter, which began on June 30, 2012. As of September 30, 2014, the Company had $350 million outstanding under the term loan and had no amounts outstanding under the revolving portion of its credit facility. The Company also had approximately $48.2 million of letters of credit outstanding that reduce the Company's borrowing availability under the revolving portion of the credit facility.

All amounts outstanding under the bank credit facility are due on February 7, 2017. Amounts borrowed under the credit facility bear interest at LIBOR plus margins that depend on the Company's leverage ratio. Indebtedness under the credit facility is secured by substantially all of the Company's assets, including the pledge of the stock of the Company's principal domestic subsidiaries.

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Senior Unsecured Notes

The Company has outstanding $500 million of 6 3/8% unsecured senior notes due 2019. The indenture governing the 6 3/8% senior notes requires semi-annual interest payments on May 1st and November 1st of each year through the maturity date of May 1, 2019.

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

(10)Decommissioning Liabilities

The Company records estimated future decommissioning liabilities in accordance with the authoritative guidance related to asset retirement obligations, which requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, with a corresponding increase in the carrying amount of the related long-lived asset. Subsequent to initial measurement, the decommissioning liability is required to be accreted each period to present value.

The Company has decommissioning liabilities associated with its Bullwinkle platform and related assets that consist of costs related to the plugging of wells, the removal of the related facilities and equipment, and site restoration. Whenever practical, the Company utilizes its own equipment and labor services to perform well abandonment and decommissioning work. When the Company performs these services, all recorded intercompany revenues and related costs of services are eliminated in the condensed consolidated financial statements. The recorded decommissioning liability associated with a specific property is fully extinguished when the property is abandoned. The recorded liability is first reduced by all cash expenses incurred to abandon and decommission the property. If the recorded liability exceeds (or is less than) the Company's total costs, then the difference is reported as an increase or decrease in 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 liabilities have changed materially. During the fourth quarter of 2013, as a result of an increase in third party drilling activity in the vicinity of the Bullwinkle platform, the Company believed new economic opportunities existed for additional production handling agreements with those third party production companies utilizing the Bullwinkle platform. As a result, the Company revised its estimates relating to the timing of decommissioning work on its Bullwinkle assets, including a 10 year postponement of the platform decommissioning to an estimated date of 2038. This change in estimate resulted in a reduction in the present value of decommissioning liabilities. Further, as of December 31, 2013, the Company anticipated that it would be able to decommission several depleted wells that are part of the Bullwinkle assets based on the estimates received from engineers regarding platform availability during 2014. As a result, as of December 31, 2013, the decommissioning liabilities associated with those wells were classified as current liabilities on the consolidated balance sheet. Based on revised estimates received during the second quarter of 2014, the Company does not anticipate decommissioning any of the wells during the next twelve months. As a result, all of the decommissioning liabilities were classified as long-term liabilities on the consolidated balance sheet as of September 30, 2014.

The following table summarizes the activity for the Company's decommissioning liabilities for the nine months ended September 30, 2014 and 2013 (in thousands):

	Nine Months Ended September 30,			
	2014		2013	
Decommissioning liabilities, December 31, 2013 and 2012, respectively	$	83,519	$	93,053
Liabilities acquired and incurred		866		360
Liabilities settled		-		(87)
Accretion		3,324		4,269
Revision in estimated liabilities		(266)		-
Total decommissioning liabilities, September 30, 2014 and 2013, respectively	$	87,443	$	97,595

(11) Notes Receivable

Notes receivable consist of a commitment from the seller of an oil and gas property acquired by the Company towards costs associated with the abandonment of the acquired property. Pursuant to an agreement with the seller, the Company will invoice the seller an agreed upon amount at the completion of certain decommissioning activities. The gross amount of this obligation totals $115.0 million and is recorded at present value using an effective interest rate of 6.58%. The related discount is amortized to interest income based on the expected timing of completion of the decommissioning activities. The Company recorded interest income related to notes receivable of $1.2 million and $2.2 million for the nine months ended September 30, 2014 and 2013, respectively.

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(12) Segment Information

Business Segments

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

For the three and nine months ended September 30, 2014 and 2013, operating results for the Company's subsea construction and conventional decommissioning businesses are reported in discontinued operations (see note 2). Previously those operating results were reported within the Technical Solutions segment, which was named the Subsea and Technical Solutions segment.

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

Summarized financial information for the Company's segments for the three and nine months ended September 30, 2014 and 2013 is shown in the following tables (in thousands):

Three Months Ended September 30, 2014

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	$ 239,204	$ 470,849	$ 348,793	$ 150,180	$ -	$ 1,209,026
Cost of services and rentals (exclusive of items shown separately below)	76,277	317,433	248,567	79,415	-	721,692
Depreciation, depletion, amortization and accretion	47,904	59,009	41,225	22,016	-	170,154
General and administrative expenses	36,913	39,625	45,627	32,694	-	154,859
Income from operations	78,110	54,782	13,374	16,055	-	162,321
Interest expense, net	-	-	-	404	(24,573)	(24,169)
Other expense	-	-	-	-	(2,051)	(2,051)
Income (loss) from continuing operations before income taxes	$ 78,110	$ 54,782	$ 13,374	$ 16,459	$ (26,624)	$ 136,101

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Three Months Ended September 30, 2013

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	$ 215,523	$ 398,016	$ 359,722	$ 123,151	$ -	$ 1,096,412
Cost of services and rentals (exclusive of items shown separately below)	73,873	275,676	251,575	70,508	-	671,632
Depreciation, depletion, amortization and accretion	42,390	52,576	45,554	11,508	-	152,028
General and administrative expenses	35,864	37,216	46,735	27,549	-	147,364
Income from operations	63,396	32,548	15,858	13,586	-	125,388
Interest expense, net	-	-	-	743	(26,307)	(25,564)
Other expense	-	-	-	-	(1,697)	(1,697)
Income (loss) from continuing operations before income taxes	$ 63,396	$ 32,548	$ 15,858	$ 14,329	$ (28,004)	$ 98,127

Nine Months Ended September 30, 2014

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	$ 685,396	$ 1,258,774	$ 1,013,904	$ 419,922	$ -	$ 3,377,996
Cost of services and rentals (exclusive of items shown separately below)	216,166	876,575	706,911	223,938	-	2,023,590
Depreciation, depletion, amortization and accretion	140,265	174,995	123,213	54,964	-	493,437

General and administrative expenses	117,026	114,604	138,058	87,943	-	457,631
Income from operations	211,939	92,600	45,722	53,077	-	403,338
Interest expense, net	-	-	-	1,167	(73,777)	(72,610)
Other expense	-	-	-	-	(1,480)	(1,480)
Income (loss) from continuing operations before income taxes	$ 211,939	$ 92,600	$ 45,722	$ 54,244	$ (75,257)	$ 329,248

Nine Months Ended September 30, 2013

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
Revenues	$ 614,924	$ 1,222,215	$ 1,096,185	$ 341,089	$ -	$ 3,274,413
Cost of services and rentals (exclusive of items shown separately below)	205,502	819,472	756,954	188,002	-	1,969,930
Depreciation, depletion, amortization and accretion	125,768	158,021	133,361	29,282	-	446,432
General and administrative expenses	104,002	116,786	143,349	76,675	-	440,812
Income from operations	179,652	127,936	62,521	47,130	-	417,239
Interest expense, net	-	-	-	2,195	(83,805)	(81,610)
Other income	-	-	-	-	41	41
Loss on early extinguishment of debt	-	-	-	-	(884)	(884)
Income (loss) from continuing operations before income taxes	$ 179,652	$ 127,936	$ 62,521	$ 49,325	$ (84,648)	$ 334,786

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Identifiable Assets

	Drilling Products and Services	Onshore Completion and Workover Services	Production Services	Technical Solutions	Unallocated	Consolidated Total
September 30, 2014	$ 1,282,129	$ 3,012,785	$ 2,123,888	$ 1,045,138	$ -	$ 7,463,940
December 31, 2013	$ 1,245,501	$ 2,973,916	$ 2,176,785	$ 1,015,105	$ -	$ 7,411,307

As of September 30, 2014, the Technical Solutions segment included $285.8 million of identifiable assets of the subsea construction and conventional decommissioning businesses that were classified as assets held for sale on the consolidated balance sheet.

Geographic Segments

The Company attributes revenue to various countries based on the location of where services are performed or the destination of the drilling products or equipment sold or leased. Long-lived assets consist primarily of property, plant and equipment and are attributed to various countries based on the physical location of the asset at the end of a period. As of September 30, 2014, the assets of the subsea construction and conventional decommissioning businesses were classified as assets held for sale on the consolidated balance sheet. The Company's revenue by geographic area for the three and nine months ended September 30, 2014 and 2013 and long-lived assets by geographic area as of September 30, 2014 and December 31, 2013 are as follows (in thousands):

Revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
United States	$ 1,024,919	$ 932,686	$ 2,850,179	$ 2,783,756
Other Countries	184,107	163,726	527,817	490,657
Total	$ 1,209,026	$ 1,096,412	$ 3,377,996	$ 3,274,413

Long-Lived Assets:

	September 30, 2014	December 31, 2013
United States	$ 2,343,365	$ 2,476,792
Other Countries	359,167	525,402
Total, net	$ 2,702,532	$ 3,002,194

(13) Fair Value Measurements

The Company follows the authoritative guidance for fair value measurements relating to financial and nonfinancial assets and liabilities, including presentation of required disclosures herein. This guidance establishes a fair value framework requiring the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets and liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

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

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

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

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The following tables provide a summary of the financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	September 30, 2014	Level 1	Level 2	Level 3
Intangible and other long-term assets, net				
Non-qualified deferred compensation assets	$ 11,830	$ 342	$ 11,488	-
Interest rate swaps	$ 2,642	-	$ 2,642	-
Accounts payable				
Non-qualified deferred compensation liabilities	$ 2,667	-	$ 2,667	-
Other long-term liabilities				
Non-qualified deferred compensation liabilities	$ 14,052	-	$ 14,052	-

	December 31, 2013	Level 1	Level 2	Level 3
Inventory and other current assets				
Available-for-sale securities	$ 8,817	$ 8,817	-	-
Intangible and other long-term assets, net				
Non-qualified deferred compensation assets	$ 13,731	$ 2,330	$ 11,401	-
Interest rate swap	$ 337	-	$ 337	-
Accounts payable				
Non-qualified deferred compensation liabilities	$ 1,944	-	$ 1,944	-
Other long-term liabilities				
Non-qualified deferred compensation liabilities	$ 14,986	-	$ 14,986	-

As of December 31, 2013, available-for-sale securities was comprised of approximately 1.4 million shares of SandRidge common stock. The securities were reported at fair value based on the closing price of the shares as reported on the New York Stock Exchange (see note 7).

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

The Company has three interest rate swap agreements related to its fixed rate debt maturing in 2021 for notional amounts of $100 million each, whereby the Company is entitled to receive semi-annual interest payments at a fixed rate of 7 1/8% per annum and is obligated to make semi-annual interest payments at floating rates, which are adjusted every 90 days, based on LIBOR plus a fixed margin. The swap agreements, scheduled to terminate on December 15, 2021, are designated as fair value hedges of a portion of the Company's 7 1/8% senior notes, as the derivatives have been tested to be highly effective in offsetting changes in the fair value of the underlying note. As these derivatives are classified as fair value hedges, the changes in the fair value of the derivatives are offset against the changes in the fair value of the underlying note in interest expense, net (see note 14).

The fair value of the Company's cash equivalents, accounts receivable and current maturities of long-term debt approximates their carrying amounts. The fair value of the Company's long-term debt was approximately $1,753.2 million and $1,789.0 million as of September 30, 2014 and December 31, 2013, respectively. The fair value of these debt instruments is determined by reference to the market value of the instruments as quoted in over-the-counter markets, which are Level 1 inputs.

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(14) Derivative Financial Instruments

From time to time, the Company may employ interest rate swaps in an attempt to achieve a more balanced debt portfolio between fixed and variable interest. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company has three interest rate swaps for notional amounts of $100 million each related to its 7 1/8% senior notes maturing in December 2021. These interest rate swaps are accounted for as fair value hedges since the swaps hedge against the change in fair value of fixed rate debt resulting from changes in interest rates. The Company recorded a derivative asset relating to these swaps of $2.6 million and $0.3 million within intangible and other long term assets in the consolidated balance sheets as of September 30, 2014 and December 31, 2013, respectively.

The changes in fair value of the interest rate swaps are included in the adjustments to reconcile net income to net cash provided by operating activities in the consolidated statement of cash flows. The effect and location of the derivative instruments in the condensed consolidated statement of operations, presented on a pre-tax basis, are as follows (in thousands):

		Three Months Ended September 30,	
Effect of derivative instrument	Location of (gain) loss recognized	2014	2013
Interest rate swap	Interest expense, net	$ 1,907	$ (513)
Hedged item - debt	Interest expense, net	(2,639)	615
		$ (732)	$ 102

		Nine Months Ended September 30,	
		2014	2013
Interest rate swap	Interest expense, net	$ (6,727)	$ 7,383
Hedged item - debt	Interest expense, net	4,422	(6,886)
		$ (2,305)	$ 497

For the nine months ended September 30, 2014 and 2013, approximately $2.3 million of interest income and $0.5 million of interest expense, respectively, was related to the ineffectiveness associated with these fair value hedges. Hedge ineffectiveness represents the difference between the changes in fair value of the derivative instruments and the changes in fair value of the fixed rate debt attributable to changes in the benchmark interest rate.

(15) Income Taxes

The Company follows authoritative guidance with respect to accounting for uncertainty in income taxes. It is the Company's policy to recognize interest and applicable penalties, if any, related to uncertain tax positions in income tax expense. The Company had approximately $29.9 million of unrecorded tax benefits as of September 30, 2014 and December 31, 2013, all of which would impact the Company's effective tax rate if recognized.

(16) Related Party Disclosures

The Company purchases services, products and equipment, as well as leases certain facilities, from companies affiliated with an officer of one of its subsidiaries. The Company believes the transactions reflected below with these related parties are on terms and conditions no less favorable to the Company than transactions with unaffiliated parties. For the nine months ended September 30, 2014 and 2013, these purchases totaled approximately $146.8 million and $140.7 million, respectively. For the nine months ended September 30, 2014, approximately $56.7 million was purchased from ORTEQ Energy Services, a heavy equipment construction company which also manufactures pressure pumping equipment, approximately $0.6 million was purchased from Ortowski Construction, primarily related to the manufacture of pressure pumping units, approximately $15.2 million was paid to Resource Transport, LLC, related to the transportation of sand used in pressure pumping activities, approximately $51.6 million was purchased from Texas Specialty Sands, LLC, primarily for the purchase of sand used for pressure pumping activities, approximately $21.1 million was purchased from ProFuel, LLC, primarily related to the purchase of diesel used to operate equipment and trucks, and approximately $1.6 million was related to leasehold improvements and facilities leased from Timber Creek Real Estate Partners. For the nine months ended September 30, 2013, approximately $41.1 million was purchased from ORTEQ Energy Services, approximately $0.1 million was purchased from Ortowski Construction, approximately $11.9 million was paid to Resource Transport, LLC, approximately $64.6 million was purchased from Texas Specialty Sands, LLC, approximately $22.6 million was purchased from ProFuel, LLC and approximately $0.4 million was related to facilities leased from Timber Creek Real Estate Partners.

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As of September 30, 2014, the Company's trade accounts payable includes amounts due to these companies totaling approximately $29.0 million, of which approximately $4.6 million was due ORTEQ Energy Services, approximately $4.0 million was due Resource Transport, LLC, approximately $16.2 million was due Texas Specialty Sands, LLC and approximately $4.2 million was due ProFuel, LLC. As of December 31, 2013, the Company's trade accounts payable includes amounts due to these companies totaling approximately $14.6 million, of which approximately $7.8 million was due ORTEQ Energy Services, approximately $0.9 million was due Resource Transport, LLC, approximately $2.0 million was due Texas Specialty Sands, LLC, approximately $2.6 million was due ProFuel, LLC and approximately $1.3 million was due Timber Creek Real Estate Partners.

The Company's President and Chief Executive Officer serves as an independent director of the board of Linn Energy, LLC (Linn), an independent oil and gas development company with focus areas in the Rockies, Mid-Continent, the Hugoton Basin, California, the Permian Basin, Michigan, Illinois and east Texas. The Company recorded revenues from Linn and its subsidiaries of approximately $15.3 million and $15.9 million for the nine months ended September 30, 2014 and 2013, respectively. The Company had trade receivables from Linn and its subsidiaries of approximately $1.3 million and $2.9 million as of September 30, 2014 and December 31, 2013, respectively.

(17) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in GAAP. The guidance in this update requires an entity to recognize the amount of revenue that it expects to be entitled for the transfer of promised goods or services to customers. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the accounting guidance on its ongoing financial reporting.

In April 2014, the Financial Accounting Standards Board issued ASU No. 2014-08, Presentation of Financial Statements and Property, Plant and Equipment, which changes the definition of discontinued operations. The guidance permits only those disposed components (or components held-for-sale) representing a strategic shift that have (or will have) a major effect on operations and financial results to be reported in discontinued operations. The new standard is effective prospectively for disposals (or classifications as held-for-sale) that occur after December 31, 2014. The Company elected not to early adopt the accounting guidance.

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

Forward-Looking Statements