OSHKOSH TRUCK CORP
Form 10-K
November 21, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2007

or

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

Commission file number: **1-31371**

Oshkosh Truck Corporation

(Exact name of registrant as specified in its charter)

Wisconsin	**39-0520270**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
P.O. Box 2566 **Oshkosh, Wisconsin**	**54903-2566**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: **(920) 235-9151**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($.01 par value)	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Section 405 of the Securities Act)

Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

[ ]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

At March 31, 2007, the aggregate market value of the Registrant s Common Stock held by non-affiliates was approximately $3,899,599,921 (based on the closing price of $53.00 per share on the New York Stock Exchange as of such date).

As of November 19, 2007, 74,213,678 shares of the Registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on February 5, 2008 (to be filed with the Commission under Regulation 14A within 120 days after the end of the registrant s fiscal year and, upon such filing, to be incorporated by reference into Part III).

OSHKOSH TRUCK CORPORATION

FISCAL 2007 ANNUAL REPORT OF FORM 10-K

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PART II

As used herein, the Company refers to Oshkosh Truck Corporation, including JLG Industries, Inc. and its wholly-owned subsidiaries (JLG), Pierce Manufacturing Inc. (Pierce), McNeilus Companies, Inc. (McNeilus) and its wholly-owned subsidiaries, Kewaunee Fabrications, LLC (Kewaunee), Medtec Ambulance Corporation (Medtec), JerrDan Corporation (JerrDan), Concrete Equipment Company, Inc. and its wholly-owned subsidiary (CON-E-CO), London Machinery Inc. and its wholly-owned subsidiary (London), Geesink Group B.V., Norba A.B. and Geesink Norba Limited and their wholly-owned subsidiaries (together, the Geesink Norba Group or Geesink), BAI Brescia Antincendi International S.r.l. and its wholly-owned subsidiary (BAI), Oshkosh Specialty Vehicles, LLC, Aluminum Body Corporation and Prime Medical Manufacturing, LLC and their wholly-owned subsidiaries (together, OSV) and Iowa Mold Tooling Co., Inc. (IMT). Oshkosh refers to Oshkosh Truck Corporation, not including JLG, Pierce, McNeilus, Kewaunee, Medtec, JerrDan, CON-E-CO, London, Geesink Norba Group, BAI, OSV, IMT or any other subsidiaries.

The Oshkosh®, JLG®, Pierce®, MEDTEC®, Jerr-Dan®, BAI, Frontline, SMIT®, McNeilus®, CON-E-CO®, London®, Geesink, Norba, Kiggen, IMT®, SkyTrak®, Lull®, Toucan®, Liftlux, Revolution®, Command Zone, ALL-STEER®, TAK-4®, Hercules, Husky®, Velocity, Impel, Smart-Pak®, Auto Reach®, Sky-Arm®, TerraMax and ProPulse™ trademarks and related logos are trademarks or registered trademarks of the Company. All other product and service names referenced in this document are the trademarks or registered trademarks of their respective owners.

All references herein to earnings per share refer to earnings per share assuming dilution.

For ease of understanding, the Company refers to types of specialty vehicles for particular applications as markets. When the Company refers to market positions, these comments are based on information available to the Company concerning units sold by those companies currently manufacturing the same types of specialty vehicles and vehicle bodies and are therefore only estimates. Unless otherwise noted, these market positions are based on sales in the United States of America. There can be no assurance that the Company will maintain such market positions in the future.

Cautionary Statement About Forward-Looking Statements

The Company believes that certain statements in Business and Management s Discussion and Analysis of Financial Condition and Results of Operations and other statements located elsewhere in this Annual Report on Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this report, including, without limitation, statements regarding the Company s future financial position, business strategy, targets, projected sales, costs, earnings, capital expenditures, debt levels and cash flows, and plans and objectives of management for future operations, including those under the captions Executive Overview and Fiscal 2008 Outlook are forward-looking statements. When used in this Annual Report on Form 10-K, words such as may, will, expect, intend, estimate, anticipate, believe, should, project or plan or the negative thereof or variations the terminology are generally intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond the Company s control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. In addition, the Company s expectations for fiscal 2008 are based in part on certain assumptions made by the Company, which are generally set forth under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Certain Assumptions. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Item 1A of Part I of this report.

All forward-looking statements, including those under the captions Executive Overview and Fiscal 2008 Outlook in Management s Discussion and Analysis of Financial Condition and Results of Operations, speak only as of November 21, 2007. The Company has adopted a policy that if the Company makes a determination that it expects the Company s earnings per share for future periods for which projections are contained in this Annual Report on Form 10-K to be lower than those projections, then the Company will publicly disseminate that fact. The Company s policy also provides that if the Company makes a determination that it expects the Company s earnings per share for future periods to be at or above the projections contained in this Annual Report on Form 10-K, then the Company does not intend to publicly disseminate that fact. Except as set forth above, the Company assumes no obligation, and disclaims any obligation, to update information contained in this Annual Report on Form 10-K. Investors should be aware that the Company may not update such information until the Company s next quarterly earnings conference call, if at all.

PART I

ITEM 1. BUSINESS

The Company

The Company is a leading designer, manufacturer and marketer of a broad range of specialty vehicles and vehicle bodies. The Company operates in four segments: access equipment, defense, fire & emergency and commercial. Oshkosh began business in 1917 and was among the early pioneers of four-wheel drive technology. In 1981, Oshkosh was awarded the first Heavy Expanded Mobility Tactical Truck (HEMTT) contract for the U.S. Department of Defense (DoD), and quickly its defense segment developed into the DoD s leading supplier of severe-duty, heavy-payload tactical trucks. As the leading manufacturer of severe-duty, heavy- and medium-payload tactical trucks for the DoD, the Company manufactures vehicles that perform a variety of demanding tasks such as hauling tanks, missile systems, ammunition, fuel and cargo for combat units. In 1996, the Company began a strategic initiative to diversify its business by making selective acquisitions in attractive segments of the specialty vehicle and vehicle body markets to complement its defense truck business.

In September 1996, the Company entered the firefighting apparatus market through the acquisition of Pierce, a domestic market leader in manufacturing and marketing of firefighting vehicles. The Company subsequently expanded into additional emergency response and geographic markets to form its fire & emergency segment. This segment manufactures commercial and custom firefighting vehicles and equipment, aircraft rescue and firefighting (ARFF) vehicles, snow removal vehicles, ambulances, wreckers, carriers and other emergency vehicles primarily sold to fire departments, airports, other governmental units and towing companies in the U.S. and abroad; mobile medical trailers sold to hospitals and third party medical service providers in the U.S. and Europe; and broadcast vehicles sold to broadcasters and TV stations in North America and abroad.

In February 1998, the Company entered the concrete mixer and refuse collection vehicle markets through the acquisition of McNeilus to form its commercial segment. Since that time, the Company has acquired additional businesses serving these markets and other adjacent markets. This segment manufactures rear- and front-discharge concrete mixers, refuse collection vehicles, mobile and stationary compactors and waste transfer units, portable and stationary concrete batch plants and vehicle components sold to ready-mix companies and commercial and municipal waste haulers in North America, Europe and other international markets and field service vehicles and truck-mounted cranes sold to mining, construction and other companies in the U.S. and abroad.

In December 2006, the Company entered the access equipment market (defined as aerial work platforms and telehandlers) through the acquisition of JLG, the Company s largest and most recent acquisition, to form its access equipment segment. Founded in 1969, JLG is a leading global producer of access equipment based on gross revenues. The access equipment segment manufactures aerial work platforms and telehandlers used in a wide variety of construction, industrial, institutional and general maintenance applications to position workers and materials at elevated heights. Access equipment customers include equipment rental companies, construction contractors, manufacturing companies, home improvement centers and the U.S. military.

The result of this diversification and acquisition initiative to date has been an increase in sales from $413 million in fiscal 1996 to $6.3 billion in fiscal 2007, with earnings from continuing operations increasing from a loss of $.01 per share for fiscal 1996 to earnings of $3.58 per share for fiscal 2007.

The Company believes it has developed a reputation for excellent product quality, performance and reliability at low total product life cycle costs in each of the specialty markets in which it participates. The Company has strong brand recognition in its markets and has demonstrated design and engineering capabilities through the introduction of several highly engineered proprietary components that increase the operating performance of the Company s products. The Company has developed comprehensive product and service portfolios for many of its markets in an effort to become a single-source supplier for its customers, including third-party customer lease financing programs for its fire & emergency products and certain commercial products through its wholly-owned subsidiary, Oshkosh Equipment Finance, L.L.C., doing business as Oshkosh Capital (Oshkosh Capital); for its access equipment products through its wholly-owned subsidiary, Access Financial Solutions, Inc.; and for certain of its commercial products through the Company s interest in Oshkosh/McNeilus Financial Services Partnership (OMFSP).

See Note 20 to the Consolidated Financial Statements for financial information related to the Company s business segments.

Competitive Strengths

The following competitive strengths support the Company s business strategy:

Strong Market Positions. The Company has developed strong market positions and brand recognition in its core businesses, which the Company attributes to its reputation for quality products, advanced engineering, innovation, vehicle performance, reliability, customer service and low total product life cycle costs.

Extensive Distribution Capabilities. The Company has established an extensive domestic and international distribution system for specialty vehicles and vehicle bodies tailored to each market. The Company utilizes networks of dealers and distributors in markets characterized by a large, fragmented customer base. The Company employs direct in-house sales and service representatives in markets characterized by a concentrated customer base. In addition, the Company s access equipment segment sells to independent rental companies to reach its various markets.

Flexible and Efficient Manufacturing. Over the past 11 years, the Company has significantly increased manufacturing efficiencies. The Company believes it has competitive advantages over larger vehicle manufacturers in its specialty vehicle markets due to its manufacturing flexibility and custom fabrication capabilities. In addition, the Company believes it has competitive advantages over smaller vehicle and vehicle body manufacturers due to the Company s relatively higher volumes of similar products that permit the use of moving assembly lines and allow the Company to leverage purchasing power opportunities across product lines.

Diversified Product Offering and Customer Base. The Company s broad product offerings and target markets serve to diversify its sources of revenues, mitigate the impact of economic cycles and provide multiple platforms for potential internal growth and acquisitions. For each of the Company s target markets, the Company has developed or acquired a broad product line to become a single-source provider of specialty vehicles, vehicle bodies, parts and service and related products to the Company s customers.

Strong Management Team. The present management team has successfully executed a strategic repositioning of the Company s business while significantly improving its financial and operating performance. With each acquisition since 1996, the Company assimilated the management and culture of the acquired company and has introduced, and continues to introduce, new strategies intended to increase sales and use the Company s expertise in purchasing, engineering and manufacturing to reduce costs.

Quality Products and Customer Service. The Company s products have developed strong brand recognition based on the Company s commitment to meet the stringent product quality and reliability requirements of its customers and the specialty vehicle and vehicle body markets it serves. The Company s commitment to product quality is exemplified by the ISO 9001 certification. Most of the Company s facilities are ISO 9001 certified. The Company also achieves high quality customer service through its extensive service and parts support program, which is available to domestic customers 365 days a year in all product lines throughout the Company s distribution systems.

Proprietary Components. The Company s advanced design and engineering capabilities have contributed to the development of proprietary, severe-duty components that enhance vehicle performance, reduce manufacturing costs and strengthen customer relationships. These proprietary components include front drive and steer axles, transfer cases, cabs, TAK-4 independent suspension, the Pierce Ultimate Configuration (PUC) vehicle configuration, the Hercules and Husky foam systems, the Command Zone embedded diagnostics multiplexing technology, the McNeilus Auto Reach Arm for automated side-loading refuse collection vehicles, the Geesink Norba Group s SmartPak compaction system, JerrDan s vehicle recovery system, JLG s electronic control system, the Pro-Pulse hybrid electric drive technology and the TerraMax autonomous vehicle navigation system. The Company also has an exclusive license to manufacture and market the Revolution composite concrete mixer drum in North, Central and South America and the Caribbean (the Americas) and Europe and a 20-year license to use certain Caterpillar Inc. (Caterpillar) intellectual property in connection with the design and manufacture of Caterpillar-branded telehandler products. The Company believes these proprietary components provide the Company a competitive advantage by increasing its products durability, operating efficiency and performance. The integration of many of these components across various product lines also reduces the Company s costs to manufacture its products compared to manufacturers who simply assemble purchased components.

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Business Strategy

The Company is focused on increasing its net sales, profitability and cash flow by capitalizing on its competitive strengths and pursuing a comprehensive, integrated business strategy. Key elements of the Company s business strategy include:

Focusing on Specialty Vehicle and Vehicle Body Markets. The Company plans to continue its focus on those specialty vehicle and vehicle body markets where it has or can acquire strong market positions and where the Company believes it can leverage synergies in purchasing, manufacturing, technology and distribution to increase sales and profitability. The Company believes the higher sales volumes associated with strong market positions will allow the Company to continue to enhance productivity in manufacturing operations, capitalize on extensive distribution capabilities, fund innovative product development and invest in further expansion. In addition to the Company s plans to increase its market share and profitability, the Company believes each of the Company s specialty vehicle and vehicle body markets, both domestically and internationally, exhibit opportunities for further market growth.

Introducing New Products. The Company has maintained a strong emphasis on new product development, as it seeks to expand sales by leading its core markets in the introduction of new or improved products and new technologies, through internal development, strategic acquisitions or licensing of technology. In fiscal 2007, the Company invested $75.8 million in development activities for new products and product enhancements. The Company believes it is at the forefront of commercializing emerging technologies that are capable of important changes in customer uses of its products, such as the TerraMax autonomously operated vehicle, ProPulse hybrid-electric drive, Revolution composite concrete mixer drum, Side Loading Vehicle Retriever, PUC vehicle configuration and Velocity and Impel custom fire chassis.

Providing Superior Quality and Service to Each Market. The Company generally markets a premium product line in each of its markets and seeks to provide superior quality and service in each market to sustain its premium product positioning. Each of its businesses maintains active programs involving customer outreach, design and manufacturing quality and supplier certification to assure superior product quality. Quality metrics are maintained at each business to drive continuous improvement.

The Company sustains its quality reputation with a strong aftermarket focus. The Company actively tailors distribution and service to each of its domestic and international markets. The Company utilizes dealers and distributors in markets characterized by a large, fragmented customer base. The Company uses its owned or leased facilities and in-house sales representatives in markets characterized by a concentrated customer base, supplemented by a network of nationwide service representatives. In addition, the Company s access equipment segment sells to independent rental companies to reach its various markets. The Company believes that this distribution and service model provides frequent contact with customers and timely service at a reasonable cost. Because the Company s vehicles must be ready to go to war, fight a fire, rescue, clean up, tow, broadcast, build and perform other critical missions, the Company has actively been expanding Company-owned service locations, opening remanufacturing facilities, encouraging dealers to expand service locations and adding roving service vans to maintain high readiness levels of its installed fleets.

Focusing on Lean Operations. The Company seeks to deliver high performance products to customers at both low total product life cycle costs and low acquisition prices. Historically, the Company has actively benchmarked competitor costs and best industry practices and utilized teams of industrial engineers and procurement specialists to re-engineer manufacturing processes and leverage purchasing volumes to meet these objectives. Since 1996, the Company s corporate strategic purchasing group has procured approximately two-thirds of all materials and components Company-wide to leverage the Company s full purchasing power. Beginning in fiscal 2004, the Company adopted a more comprehensive, lean enterprise focus to continue its drive to be a low cost producer in all of its product lines and to deliver low product life cycle costs for its customers. Lean is a methodology to eliminate non-value added work from a process stream. In fiscal 2006, the Company expanded its lean initiative with the creation of chartered cost reduction teams at all businesses and the introduction of broad-based training programs. By utilizing teams comprised of individuals with significant lean experience to train the Company s business units in lean skills, the Company has been able to introduce lean concepts to a number of its businesses. As a result of this lean focus, the Company expects to reduce product costs, manufacturing lead times and new product development cycle times over the next several years.

Pursuing Strategic Acquisitions. The Company s present management team has successfully negotiated and integrated fifteen acquisitions since 1996 that, taken as a whole, have significantly increased the Company s sales and earnings. Following the completion of additional integration tasks for the JLG acquisition and planned de-leveraging, in late fiscal 2008 or fiscal 2009, the Company intends to resume its pursuit of strategic acquisitions, both domestically and internationally, to enhance its product offerings and expand its international presence in specialty vehicle and vehicle body markets. The Company s acquisition strategy is focused on opportunities that provide or enhance the Company s ability to provide a full range of products to customers in growing specialty vehicle and vehicle body markets where the Company can improve its strong market positions and achieve significant acquisition synergies.

Products

The Company is focused on the following core segments of the specialty vehicle and vehicle body markets:

Access Equipment Segment. In December 2006, through its JLG acquisition, the Company became a leading worldwide manufacturer of a wide range of aerial work platforms, telehandlers, scissor lifts and vertical masts used in a variety of construction, industrial, institutional and general maintenance applications to safely and efficiently position workers and materials at elevated heights that might otherwise have to be reached by scaffolding, ladders, cranes or other means.

In October 2005, JLG entered into a 20-year strategic alliance (the Alliance) with Caterpillar related to the design, manufacture and global sale of Caterpillar-branded telehandlers. JLG s manufacture and sale of Caterpillar-branded telehandlers commenced in July 2006.

JLG, through its wholly-owned subsidiary Access Financial Solutions, Inc., also arranges equipment financing and leasing solutions for its customers, primarily through private-label arrangements with independent third party financial companies, and provides credit support in connection with these financing and leasing arrangements. Financing arrangements that JLG offers or arranges through this segment include installment sale contracts, capital leases, operating leases and rental purchase guarantees. Terms of these arrangements vary depending on the type of transaction, but typically range between 36 and 72 months and generally require the customer to be responsible for insurance, taxes and maintenance of the equipment, and to bear the risk of damage to or loss of the equipment.

Defense Segment. The Company has sold products to the DoD for over 80 years. The Company s proprietary military all-wheel drive product line of heavy-payload tactical trucks includes the HEMTT, the Heavy Equipment Transporter (HET), the Palletized Load System (PLS), the Common Bridge Transporter (CBT) and the Logistic Vehicle System (LVS). Beginning with the award of the Medium Tactical Vehicle Replacement (MTVR) base contract in fiscal 1998, the Company became a major manufacturer of severe-duty, medium-payload trucks for the U.S. Marine Corps. In fiscal 2005, the Company launched the Medium Tactical Truck (MTT) to offer a line of lower-cost severe-duty, medium-payload trucks suitable for less demanding requirements than the MTVR. The Company also exports severe-duty heavy- and medium-payload tactical trucks to approved foreign customers.

The Company has developed and maintained a strong relationship with the DoD over the years and has established itself as a proven supplier. The Company operates under a one-year, renewable Family of Heavy Tactical Vehicles (FHTV) requirements contract with the DoD. The current contract expires in February 2008. The contract includes the following heavy-payload products: HEMTT, HEMTT-ESP (Extended Service Program), PLS and PLS Trailer and associated logistics and configuration management support. As of November 19, 2007, the Company was in negotiations to renew this contract for a one-year period. As a result of significant usage of the Company s heavy-payload trucks in Operation Iraqi Freedom and the Company s performance under the initial contract, the Company was awarded a five-year follow-on, fixed-price indefinite delivery, indefinite quantity (ID/IQ) contract in September 2004 to rebuild Oshkosh heavy-payload defense trucks and trailers deployed in Iraq. As funds become available to the DoD, the ID/IQ allows the DoD to contract with Oshkosh to rebuild Oshkosh defense trucks and trailers at fixed prices over a five-year period ending in September 2009.

In June 2006, the DoD awarded Oshkosh a production contract for the Logistics Vehicle System Replacement (LVSR) vehicle and associated manuals, vehicle kits, test support and training for the U.S. Marine Corps. The Company estimates that this fixed-price, ID/IQ contract has a value of $740.2 million based on a production quantity of 1,592 units over a six-year period. The contract allows for the purchase of up to 1,900 cargo, wrecker and fifth-wheel LVSR variants. The Company delivered the first units under the contract in fiscal 2007 and expects that full scale production will begin in the second half of fiscal 2009.

In February 2006, the Company entered into a licensing agreement with ADI Limited of Australia (ADI), a wholly-owned subsidiary of Thales Group, to allow the Company to manufacture, market and support the Bushmaster armored vehicle for North American customers as well as countries eligible for Foreign Military Sales. The Bushmaster, originally developed by ADI in conjunction with the Australian Defence Force, is a mine-blast resistant vehicle due to its v-shaped hull, and its armor provides improvised explosive device and ballistic protection to its occupants. The vehicle s mission profile requires it to travel long distances over rough terrain and deliver its occupants to their destination as safely and comfortably as possible, making it more effective in a tactical environment. To date, the Company has been unsuccessful in securing contracts for this vehicle from the DoD, but it continues to market this vehicle to friendly foreign militaries.

In July 2007, the Company announced a teaming agreement with Ceradyne, Inc. (Ceradyne) and Ideal Innovations, Inc. (I-3) to further develop, produce and market the Bull armored vehicle. The Bull is intended to address the increasing need for protection from improvised explosive devices (IED), mine blasts and lethal, explosively formed projectiles (EFP) and would be built on a combat-proven Oshkosh chassis. The Bull advanced technology armored solution, conceived by I-3 in 2005 and developed with Ceradyne in 2006, has been tested by the Army Test Center, Aberdeen, Md., and was demonstrated to be capable of protecting vehicle occupants against IED, EFP, mine blast and ballistic threats.

The Company s objective is to continue to diversify into other areas of the U.S. and international defense truck markets by expanding applications, uses and vehicle body styles of its current heavy- and medium-payload tactical truck lines. As the Company enters tactical truck competitions in the defense market segment, the Company believes it has multiple competitive advantages, including:

- *Truck engineering and testing.* DoD and international truck contract competitions require significant defense truck engineering expertise to ensure that a company s truck excels under demanding test conditions. The Company has a team of engineers and draftsmen and engages contract engineers to support current business and truck contract competitions. These personnel have significant expertise designing new trucks, using sophisticated computer-aided tools, supporting grueling testing programs at test sites and submitting detailed, comprehensive, successful contract proposals.
- *Proprietary components.* The Company s patented TAK-4 independent suspension and proprietary transfer case enhance its trucks off-road performance. In addition, because these are two of the highest cost components in a truck, the Company has a competitive cost-advantage based on the in-house manufacturing of these two truck components. The Company s Command Zone tool also simplifies maintenance troubleshooting.
- *Past performance.* The Company has been building trucks for the DoD for over 80 years. The Company believes that its past success in delivering reliable, high quality trucks on time, within budget and meeting specifications is a competitive advantage in future defense truck procurement programs. The Company understands the special contract procedures in use by the DoD and other foreign armies and has developed substantial expertise in contract management and accounting.
- *Flexible manufacturing.* The Company s ability to produce a variety of truck models on the same moving assembly line permits it to avoid facilitation costs on most new contracts and maintain competitive manufacturing efficiencies.
- *Logistics.* The Company has gained significant experience in the development of operators manuals and training and in the delivery of parts and services worldwide in accordance with the DoD s expectations, which differ materially from commercial practices. The Company has logistics capabilities to permit the DoD to order parts, receive invoices and remit payments electronically.

Fire & Emergency Segment. Through Pierce, the Company is a leading domestic manufacturer of fire apparatus assembled on custom chassis, designed and manufactured by Pierce to meet the special needs of firefighters. Pierce also manufactures fire apparatus assembled on commercially available chassis, which are produced for multiple end-customer applications. Pierce s engineering expertise allows it to design its vehicles to meet stringent industry guidelines and government regulations for safety and effectiveness. Pierce primarily serves domestic municipal customers, but also sells fire apparatus to airports, universities and large industrial companies, and in international markets. Pierce s history of innovation and research and development in consultation with firefighters has resulted in a broad product line that features a wide range of innovative, high-quality custom and commercial firefighting equipment with advanced fire suppression capabilities. In an effort to be a single-source supplier for its customers, Pierce offers a full line of custom and commercial fire apparatus and emergency vehicles, including pumpers, aerial and ladder trucks, tankers, light-, medium- and heavy-duty rescue vehicles, wildland rough terrain response vehicles, mobile command and control centers, bomb squad vehicles, hazardous materials control vehicles and other emergency response vehicles.

Through JerrDan, the Company is a leader in the manufacturing and marketing of towing and recovery equipment in the U.S. The Company believes JerrDan is recognized as an industry leader in quality and innovation. JerrDan offers a complete line of both roll-back carriers (carriers) and traditional tow trucks (wreckers). In addition to manufacturing equipment, JerrDan provides its customers with one-stop service for carriers and wreckers and generates revenue from the installation of equipment, as well as the sale of chassis and service parts.

The Company, through its Oshkosh and BAI brands, is among the leaders in sales of ARFF vehicles to domestic and international airports. These highly specialized vehicles are required to be in service at most airports worldwide to support commercial airlines in the event of an emergency. Many of the world s largest airports, including LaGuardia International Airport, O Hare International Airport, Hartsfield-Jackson International Airport and Dallas/Fort Worth International Airport in the United States and airports located in Montreal and Toronto, Canada; Rome and Milan, Italy and Shanghai and Hangzhou, China, are served by the Company s ARFF vehicles. The Company believes that the performance and reliability of its ARFF vehicles contribute to the Company s strong position in this market.

The Company is a leader in airport snow removal vehicles in the U.S. The Company s specially designed airport snow removal vehicles can cast up to 5,000 tons of snow per hour and are used by some of the largest airports in the United States, including Denver International Airport, LaGuardia International Airport, Minneapolis-St. Paul International Airport and O Hare International Airport. The Company believes that the reliability of its high performance snow removal vehicles and the speed with which they clear airport runways contribute to its strong position in this market.

Through Medtec, the Company is one of the leading U.S. manufacturers of custom ambulances for private and public transporters and fire departments. Medtec markets a broad line of ambulances for private patient transporters, fire departments and public transporters, but specializes in Type I and Type III ambulances. Type I and Type III ambulances are popular among public patient transporters and fire departments. Type I ambulances feature a conventional style, light- or medium-duty chassis with a modular patient transport body mounted separately behind the vehicle cab. Type III ambulances are built on light-duty van chassis with a walk-through opening into the patient transport body which is mounted behind the vehicle cab.

Through OSV, the Company is one of the leaders in the manufacturing of mobile medical vehicles for North American and European medical centers and service providers. OSV is the only mobile medical vehicle manufacturer certified by all major original equipment manufacturers of mobile medical imaging equipment General Electric Company, Royal Philips Electronics and Siemens AG. OSV is also a leading manufacturer and integrator of custom vehicles for the broadcast and communications industry, where the Company, under its Frontline brand, markets a full line of television broadcast, satellite news gathering and microwave transmission electronic news gathering vehicles to broadcasters, TV stations, radio stations and NASA.

Through BAI, the Company is one of the leaders in manufacturing and marketing fire apparatus and equipment to municipalities and airports throughout Europe, the Middle East and Africa. BAI produces a wide range of firefighting vehicles, ARFF units, industrial firefighting vehicles and forest firefighting vehicles.

The Company offers three- to fifteen-year municipal lease financing programs to its fire & emergency segment customers in the United States through Oshkosh Capital. Programs include competitive lease financing rates, creative and flexible finance arrangements and the ease of one-stop shopping for customers equipment and financing. The lease financing transactions are executed through a private label arrangement with an independent third party finance company.

Commercial Segment. Through McNeilus and the Geesink Norba Group, the Company is a leading North American and European manufacturer of refuse collection vehicles for the waste services industry. Through Oshkosh, McNeilus, London and CON-E-CO, the Company is a leading manufacturer of front- and rear-discharge concrete mixers and portable and stationary concrete batch plants for the concrete ready-mix industry throughout the Americas. Through IMT, the Company is a leading North American manufacturer of field service vehicles and truck-mounted cranes for the construction, equipment dealer, building supply, utility, tire service and mining industries. The Company believes its commercial segment vehicles and equipment have a reputation for efficient, cost-effective, dependable and low maintenance operation.

In March 2002, the Company introduced the rear-discharge Revolution concrete mixer drum, which is constructed of lightweight composite materials. In fiscal 2006, the Company launched the sale of front-discharge Revolution drums. Since the introduction of the first concrete mixer drum about 90 years ago, the Company believes all commercially successful drums worldwide had been produced utilizing steel until the launch of the Revolution. The Company believes the Revolution is the first composite concrete mixer drum ever produced. The Revolution drum offers improved concrete payload on a vehicle and longer drum life, which lowers the cost per yard of concrete delivered. The Company s strategy has been to sell the Revolution drum as a premium-priced product as the Company believes the Revolution drum yields a quick payback to customers through lower operating costs. The Company is required to pay to its Australian partner royalty fees for each drum sold. The Company has sold over 2,000 Revolution drums in the U.S. since the launch of the Revolution. The ramp-up of the production and sale of Revolution drums has proceeded at a much slower pace than the Company s initial expectations, as the Company has addressed various technical design and production process control issues, which the Company believes have now been addressed.

The Company, through OMFSP, an affiliated financial services partnership, offers three- to seven-year tax advantaged lease financing to concrete mixer customers, concrete batch plant customers and commercial waste haulers in the United States. Offerings include competitive lease financing rates and the ease of one-stop shopping for customers equipment and financing.

Marketing, Sales, Distribution and Service

The Company believes it differentiates itself from many of its larger competitors by tailoring its distribution to the needs of its specialty vehicle and vehicle body markets and from its smaller competitors with its national and global sales and service capabilities. Distribution personnel use demonstration vehicles to show customers how to use the Company s vehicles and vehicle bodies properly. In addition, the Company s flexible distribution is focused on meeting customers on their terms, whether on a jobsite, in an evening public meeting or at a municipality s offices, compared to the showroom sales approach of the typical dealers of large vehicle manufacturers. The Company backs all products by same-day parts shipment, and its service technicians are available in person or by telephone to domestic customers 365 days a year. The Company believes its dedication to keeping its products in-service in demanding conditions worldwide has contributed to customer loyalty.

The Company provides its salespeople, representatives and distributors with product and sales training on the operation and specifications of its products. The Company s engineers, along with its product managers, develop operating manuals and provide field support at vehicle delivery for some markets.

U.S. dealers and representatives, where used, enter into agreements with the Company that allow for termination by either party generally upon 90 days notice. Dealers and representatives, except for those utilized by JLG, JerrDan, Medtec and IMT, are generally not permitted to market and sell competitive products.

Access Equipment Segment. JLG s products are marketed in over 3,500 locations worldwide through independent rental companies and distributors that purchase JLG products and then rent and sell them and provide service support, as well as through other sales and service branches or organizations in which the Company holds equity positions. North American customers are located in all 50 states in the U.S., as well as in Canada and Mexico. International customers are located in Europe, the Asia/Pacific region, Australia, Africa, the Middle East and Latin America. JLG s sales force is comprised of approximately 180 employees worldwide. In North America, teams of sales employees are dedicated to specific major customers, channels or geographic regions. JLG s sales employees in Europe and the rest of the world are spread among JLG s approximately 20 international sales and service offices.

Defense Segment. The Company sells substantially all of its domestic defense products directly to principal branches of the DoD. The Company maintains a liaison office in Washington, D.C. to represent its interests with the Pentagon, Congress and the offices of the Executive Branch of the U.S. government. The Company also sells and services defense products to approved foreign governments directly through a limited number of international sales offices, through dealers, consultants and representatives and through the U.S. Foreign Military Sales (FMS) program.

The Company maintains a marketing staff and engages consultants to regularly meet with all branches of the Armed Services, Reserves and National Guard and with representatives of key military bases to determine their vehicle requirements and identify specialty truck variants and apparatus required to fulfill their missions.

In addition to marketing its current truck offerings and competing for new contracts in the heavy- and medium-payload segment, the Company actively works with the Armed Services to develop new applications for its vehicles and expand its services.

Logistics services are increasingly important to the DoD, especially following the commencement of Operation Iraqi Freedom. The Company believes that its proven worldwide logistics capabilities and internet-based ordering, invoicing and electronic payment systems have significantly contributed to the expansion of its defense parts and service business since fiscal 2002, following the commencement of Operation Iraqi Freedom. The Company maintains a large parts distribution warehouse in Milwaukee, Wisconsin to fulfill stringent parts delivery schedule requirements, as well as satellite facilities near DoD bases in the U.S., Europe, Asia and the Middle East. The Company has been particularly active in recent years performing maintenance and armoring services at areas near, or in, military conflicts including in the Middle East to support Operation Iraqi Freedom.

Fire & Emergency Segment. The Company believes the geographic breadth, size and quality of its Pierce fire apparatus sales and service organization are competitive advantages in a market characterized by a few large manufacturers and numerous small, regional competitors. Pierce s fire apparatus are sold through over 30 sales and service organizations with more than 250 sales representatives nationwide, which combine broad geographical reach with frequency of contact with fire departments and municipal government officials. These sales and service organizations are supported by approximately 70 product and marketing support professionals and contract administrators at Pierce. The Company believes frequency of contact and local presence are important to cultivate major, and typically infrequent, purchases involving the city or town council, fire department, purchasing, finance and mayoral offices, among others, that may participate in a fire apparatus bid and selection. After the sale, Pierce s nationwide local parts and service capability is available to help municipalities maintain peak readiness for this vital municipal service.

The Company markets its Oshkosh-branded ARFF vehicles through a combination of three direct sales representatives domestically and 41 representatives and distributors in international markets. Certain of these international representatives and distributors also handle Pierce products. In addition, the Company has 25 full-time sales and service representatives and distributor locations with over 48 sales people focused on the sale of snow removal vehicles, principally to airports, but also to municipalities, counties and other governmental entities in the U.S. and Canada. In addition, the Company has opened an office in Beijing, China to support ARFF sales in China and Southeast Asia.

Medtec sells ambulances through over 20 distributor organizations with more than 70 representatives focused on sales to the ambulance market. Eighteen of these distributor organizations are common to Pierce. JerrDan markets its carriers and wreckers through its worldwide network of 93 independent distributors, supported by JerrDan s direct sales force. OSV markets its mobile medical trailers and broadcast vehicles through 28 in-house sales and service representatives in the U.S. and three in-house sales and service representatives in Europe. BAI sells firefighting vehicles and equipment direct in the Italian market. Internationally, BAI has agreements with a limited number of distributors and uses sales agents for one-off sales in countries that do not buy in large quantities on a regular basis. Most of BAI s international distribution is focused in the Middle East, Europe and Africa.

Commercial Segment. The Company operates 20 distribution centers with over 200 in-house sales and service representatives in the U.S. to sell and service refuse collection vehicles, rear- and front-discharge concrete mixers and concrete batch plants. These centers are in addition to sales and service activities at the Company s manufacturing facilities, and they provide sales, service and parts distribution to customers in their geographic regions. Four of the distribution centers also have paint facilities and provide significant additional paint and mounting services during peak demand periods. Two of the centers also manufacture concrete mixer replacement drums. The Company also uses 18 independent sales and service organizations to market its CON-E-CO branded concrete batch plants. The Company believes this network represents one of the largest concrete mixer, concrete batch plant and refuse collection vehicle distribution networks in the United States.

In Canada, the Company operates two distribution centers with 11 outside and in-house sales and service representatives to sell and service its rear-discharge concrete mixers, refuse collection vehicles and concrete batch plants.

In Europe, through the Geesink Norba Group, the Company operates 19 distribution centers with 130 in-house sales and service representatives in nine countries to sell and service its refuse collection vehicles and stationary compactors. Two of the centers have paint facilities, and five of the centers provide mounting services. The Company also operates 100 roving service vans throughout Europe. The Company believes this network represents one of the largest refuse collection vehicle distribution networks in Europe. The Geesink Norba Group also has sales and service agents in Europe and the Middle East.

The Company believes its direct distribution to customers is a competitive advantage in concrete and refuse collection vehicle markets, particularly in the U.S. waste services industry where principal competitors distribute through dealers, and to a lesser extent in the ready mix concrete industry, where several competitors and the Company in part use dealers. The Company believes direct distribution permits a more focused sales force in the U.S. refuse collection vehicle market, whereas dealers frequently offer a very broad and mixed product line, and accordingly, the time dealers tend to devote to refuse collection vehicle sales activities is limited.

With respect to distribution, the Company has been applying Oshkosh s and Pierce s sales and marketing expertise in municipal markets to increase sales of McNeilus refuse collection vehicles to municipal customers. While the Company believes commercial customers represent a majority of the refuse collection vehicle market, many municipalities purchase their own refuse collection vehicles. The Company believes it is positioned to create an effective municipal distribution system in the refuse collection vehicle market by leveraging its existing commercial distribution capabilities and by opening service centers in major metropolitan markets.

The Company also has established an extensive network of representatives and dealers throughout the Americas for the sale of Oshkosh, McNeilus, CON-E-CO and London concrete mixers, concrete batch plants and refuse collection vehicles. The Company coordinates among its various businesses to respond to large international tenders with its most appropriate product offering for the tender.

IMT distributes its products through approximately 85 dealers with a total of 115 locations worldwide, including approximately 15 international dealers. International dealers are primarily located in Central and South America, Australia and Asia and are primarily focused on mining and construction markets. The Company believes this network represents one of the most extensive networks in its market.

Manufacturing

As of November 21, 2007, the Company manufactures vehicles and vehicle bodies at 54 manufacturing facilities. To reduce production costs, the Company maintains a continuing emphasis on the development of proprietary components, self-sufficiency in fabrication, just-in-time inventory management, improvement in production flows, interchangeability and simplification of components among product lines, creation of jigs and fixtures to ensure repeatability of quality processes, utilization of robotics, and performance measurement to assure progress toward cost reduction targets. The Company encourages employee involvement to improve production processes and product quality. The Company is in the process of adopting lean manufacturing management practices across all facilities.

The Company focuses on achieving targeted synergies with each acquisition. The Company seeks to relocate activities to the lowest cost facilities, install robotic and high speed manufacturing equipment, introduce lean production processes and minimize material handling to enhance the operations of acquired businesses.

The Company recognizes the importance of maintaining efficient factories to be a low cost producer and to have the capacity needed to meet customer demands. Accordingly, the Company has conducted numerous facility expansions in recent years.

The Company educates and trains all employees at its facilities in quality principles. The Company encourages employees at all levels of the Company to understand customer and supplier requirements, measure performance, develop systems and procedures to prevent nonconformance with requirements and produce continuous improvement in all work processes. ISO 9001 is a set of internationally accepted quality requirements established by the International Organization for Standardization. ISO 9001 certification indicates that a company has established and follows a rigorous set of requirements aimed at achieving customer satisfaction by preventing nonconformity in design, development, production, installation and servicing of products. Most of the Company s facilities are ISO 9001 certified.

Engineering, Research and Development

The Company believes its extensive engineering, research and development capabilities have been key drivers of the Company s marketplace success. The Company maintains five facilities for new product development and testing with a staff of approximately 300 engineers and technicians who are dedicated to improving existing products and development and testing of new vehicles, vehicle bodies and components. The Company prepares annual new product development and improvement plans for each of its markets and measures progress against those plans each month.

Virtually all of the Company s sales of fire apparatus, broadcast vehicles and mobile medical trailers require some custom engineering to meet the customer s specifications and changing industry standards. Engineering is also a critical factor in defense vehicle markets due to the severe operating conditions under which the Company s vehicles are utilized, new customer requirements and stringent government documentation requirements. In the access equipment and commercial segments, product innovation is highly important to meet customers changing requirements. Accordingly, the Company maintains a permanent staff of over 475 engineers and engineering technicians, and it regularly outsources significant engineering activities in connection with new product development projects.

For fiscal 2007, 2006 and 2005, the Company incurred engineering, research and development expenditures of $75.8 million, $42.1 million and $33.4 million, respectively, portions of which were recoverable from customers, principally the U.S. government.

Competition

In all of the Company s segments, competitors include smaller, specialized manufacturers as well as large, mass producers. The Company believes that, in its specialty vehicle and vehicle body markets, it has been able to effectively compete against large, mass producers due to its product quality, flexible manufacturing and tailored distribution systems. The Company believes that its competitive cost structure, strategic global purchasing capabilities, engineering expertise, product quality and global distribution and service systems have enabled it to compete effectively.

Certain of the Company s competitors have greater financial, marketing, manufacturing and distribution resources than the Company. There can be no assurance that the Company s products will continue to compete successfully with the products of competitors or that the Company will be able to retain its customer base or to improve or maintain its profit margins on sales to its customers, all of which could have a material and adverse affect on the Company s financial condition, results of operations and cash flows.

Access Equipment Segment. JLG operates in the global construction, maintenance, industrial and agricultural equipment markets. JLG s competitors range from some of the world s largest multi-national construction equipment manufacturers to small single-product niche manufacturers. Within this global market, competition for sales of aerial work platform vehicles includes Genie Industries, Inc. (a subsidiary of Terex Corporation), Haulotte Group, Skyjack Inc. (a subsidiary of Linamar Corporation) and over 20 smaller manufacturers. Global competition for sales of telehandler vehicles includes Genie Industries, Inc. (a subsidiary of Terex Corporation), J C Bamford Excavators Ltd., the Manitou Group, Merlo SpA and over 20 smaller manufacturers. In addition, JLG faces competition from numerous manufacturers of other niche products such as boom vehicles, cherry pickers, skid steer loaders, mast climbers, straight mast and vehicle-mounted fork-lifts, rough-terrain and all-terrain cranes, vehicle-mounted cranes, portable material lifts and various types of material handling equipment that offer functionality that is similar to or overlaps that of JLG s products. Principal methods of competition include brand awareness, product innovation and performance, quality, service and support, product availability and the extent to which a company offers single-source customer solutions. The Company believes its competitive strengths include: premium brand names; broad and single-source product offerings; product quality; worldwide distribution; service and support network; and extensive manufacturing capabilities.

Defense Segment. The Company produces heavy-payload and medium-payload tactical wheeled vehicles for the U.S. and other militaries. Competition for sales of these tactical wheeled vehicles includes the Man Group plc, Mercedes-Benz (a subsidiary of Daimler AG), The Volvo Group, Stewart & Stevenson Services, Inc. (a subsidiary of BAE Systems plc), International Military and Government LLC (a subsidiary of Navistar International Corporation), Force Protection Inc. and General Dynamics Corp. The principal method of competition in the defense segment involves a competitive bid that takes into account factors as determined by the applicable military, such as price, product performance, product quality, adherence to bid specifications, production capability, past performance and product support. Usually, the Company s truck systems must also pass extensive testing. The Company believes that its competitive strengths include: strategic global purchasing capabilities leveraged across multiple business segments; extensive pricing/costing and defense contracting expertise; a significant installed base of vehicles currently in use throughout the world; large-scale and high-efficiency manufacturing capabilities; patented and/or proprietary vehicle components such as TAK-4 independent suspension, Oshkosh transfer cases and Command Zone vehicle diagnostics; ability to develop new and improved product capabilities responsive to the needs of its customers; product quality and after-market parts sales and service capabilities.

Fire & Emergency Segment. The Company produces and sells custom and commercial firefighting vehicles in the U.S. under the Pierce brand. Competitors include Rosenbauer International AG, Emergency One, Inc. (a subsidiary of Federal Signal Corporation), Kovatch Mobile Equipment Corp. and numerous smaller, regional manufacturers. Principal methods of competition include brand awareness, the extent to which a company offers single-source customer solutions, product quality, product innovation, dealer distribution, service and support and price. The Company believes that its competitive strengths include: recognized, premium brand name; nationwide network of independent Pierce dealers; extensive, high-quality and innovative product offerings which include single-source customer solutions for aerials, pumpers and rescue units; large-scale and high-efficiency custom manufacturing capabilities; and proprietary technologies such as the PUC vehicle configuration, TAK-4 independent suspension, Hercules and Husky foam systems and Command Zone electronics.

Oshkosh manufactures ARFF vehicles for sale in the U.S. and abroad. Oshkosh s principal competitors for ARFF sales are Rosenbauer International AG and Emergency One, Inc. (a subsidiary of Federal Signal Corporation). Oshkosh also manufactures snow removal vehicles, principally for U.S. airports. The Company s principal competitor for snow removal vehicle sales is Øveraasen AS. Principal methods of competition for airport products are product quality and innovation, product performance, price and service. The Company believes its competitive strengths in these airport markets include its high-quality, innovative products and low-cost manufacturing capabilities.

JerrDan produces carriers and wreckers, primarily for sale in the U.S. and Mexico. JerrDan s principal competitor is Miller Industries, Inc. Principal methods of competition for carriers and wreckers include product quality and innovation, product performance, price and service. The Company believes its competitive strengths in this market include its high quality, innovative and high-performance product line and its low-cost manufacturing capabilities.

BAI manufactures firefighting vehicles, ARFF vehicles and related equipment, primarily for the Italian market, with significant export sales into the Middle East, Europe and Africa. BAI s principal competitors include Iveco Magirus (a subsidiary of Fiat SpA) and Rosenbauer International AG. Principal methods of competition for BAI products include product innovation and price. The Company believes its competitive strengths in these markets include its low-cost manufacturing capability, distribution network and innovative products.

Medtec is a manufacturer of ambulances, primarily for sale in the U.S. Medtec s principal competition for ambulance sales is from Halcore Group, Inc. (owned by TransOcean Capital, Inc.), Wheeled Coach Industries (owned by American Industrial Partners) and Marque Inc./McCoy-Miller, LLC. Principal methods of competition are price, service and product quality. The Company believes its competitive strengths in the ambulance market include its high-quality products and low-cost manufacturing capabilities.

OSV is a manufacturer of mobile medical trailers and broadcast vehicles. OSV s principal competition for mobile medical trailers is from Med Coach, LLC. OSV s principal competition for broadcast vehicles is from Wolf Coach (a subsidiary of L-3 Communication Holdings, Inc.). Principal methods of competition are product quality and availability, price and service. The Company believes its competitive strengths in both of OSV s markets include its high-quality products, excellent relationships with manufacturers of equipment installed in its vehicles and low-cost manufacturing capabilities.

Commercial Segment. The Company produces front- and rear-discharge concrete mixers and batch plants for the Americas under the Oshkosh, McNeilus, CON-E-CO and London brands. Competition for concrete mixer and batch plant sales is limited to a small number of companies, including Terex Corporation, Continental Manufacturing Co. and Schwing America Inc. Principal methods of competition are service, product features, product quality, product availability and price. The Company believes its competitive strengths include strong brand recognition, large-scale and high-efficiency manufacturing, extensive product offerings, high product quality, a significant installed base of concrete mixers in use in the marketplace and its nation-wide, Company-owned network of sales and service centers.

McNeilus also produces refuse collection vehicles for the Americas. Competitors include The Heil Company (a subsidiary of Dover Corporation), LaBrie Equipment Ltd. and New Way (a subsidiary of Scranton Manufacturing Company, Inc.). In Europe, the Geesink Norba Group produces refuse collection vehicles and compactors under the Geesink, Norba and Kiggen brand names. There are a limited number of European competitors, including Ros Roca S.A./Dennis Eagle Ltd. and Faun Umwelttechnik GmbH & Co. The principal methods of competition in the U.S. and Europe are service, product quality, product performance and price. Increasingly, the Company is competing for municipal business and large commercial business in the Americas and Europe, which is based on lowest qualified bid. The Company believes that its competitive strengths in the Americas and European refuse collection vehicle markets include strong brand recognition, comprehensive product offerings, a reputation for high-quality, innovative products, large-scale and high-efficiency manufacturing and extensive networks of Company-owned sales and service centers located throughout the U.S. and Europe.

IMT is a manufacturer of field service vehicles and truck-mounted cranes for the construction, equipment dealer, building supply, utility, tire service and mining industries. IMT s principal competition is from Auto Crane Company (owned by Gridiron Capital), Stellar Industries, Inc., Maintainer Corporation of Iowa, Inc. and other regional companies. Principal methods of competition are product quality, price and service. The Company believes its competitive strengths include its high-quality products, global distribution network and low-cost manufacturing capabilities.

Customers and Backlog

Sales to the U.S. government comprised approximately 23% of the Company s net sales in fiscal 2007. No other single customer accounted for more than 10% of the Company s net sales for this period. A substantial majority of the Company s net sales are derived from customer orders prior to commencing production.

The Company s backlog as of September 30, 2007 increased 66.0% to $3,177.8 million compared to $1,914.3 million at September 30, 2006. The access equipment segment, which the Company acquired after September 30, 2006, contributed backlog of $854.1 million at September 30, 2007. The defense segment backlog increased 82.4% to $1,554.8 million at September 30, 2007 compared to $852.4 million at September 30, 2006 due to the renewal of the FHTV contract and additional contract funding received in the May 2007 federal supplemental spending bill. The defense segment backlog included $53.9 million related to the LVSR contract. Fire & emergency segment backlog decreased 10.2% to $577.5 million at September 30, 2007 compared to $643.0 million at September 30, 2006. Commercial segment backlog decreased 54.3% to $191.4 million at September 30, 2007 compared to $418.9 million at September 30, 2006. Prior year fire & emergency and commercial segment backlogs included orders in advance of diesel engine emissions standards changes effective January 1, 2007. Commercial segment backlogs were also impacted by lower residential construction in fiscal 2007. Unit backlog for refuse collection vehicles was down 68.6% domestically compared to September 30, 2006. Unit backlog for front-discharge and rear-discharge concrete mixers were down 79.0% and 80.3%, respectively, compared to September 30, 2006. Unit backlog for refuse collection vehicles was up 52.4% in Europe as a result of better demand in the United Kingdom and the return of chassis availability in France. Approximately 9.7% of the Company s September 30, 2007 backlog is not expected to be filled in fiscal 2008.

Reported backlog excludes purchase options and announced orders for which definitive contracts have not been executed. Additionally, backlog excludes unfunded portions of the FHTV, MTVR, ID/IQ and LVSR contracts. Backlog information and comparisons thereof as of different dates may not be accurate indicators of future sales or the ratio of the Company s future sales to the DoD versus its sales to other customers.

Government Contracts

Approximately 23% of the Company s net sales for fiscal 2007 were made to the U.S. government, a substantial majority of which were under long-term contracts and programs in the defense vehicle market. Accordingly, a significant portion of the Company s sales are subject to risks specific to doing business with the U.S. government, including uncertainty of economic conditions, changes in government policies and requirements that may reflect rapidly changing military and political developments, the availability of funds and the ability to meet specified performance thresholds. Long-term contracts may be conditioned upon continued availability of congressional appropriations. Variances between anticipated budget and congressional appropriations may result in a delay, reduction or termination of these contracts.

The Company s sales into defense vehicle markets are substantially dependent upon periodic awards of new contracts and the purchase of base vehicle quantities and the exercise of options under existing contracts. The Company s existing contracts with the DoD may be terminated at any time for the convenience of the government. Upon such termination, the Company would generally be entitled to reimbursement of its incurred costs and, in general, to payment of a reasonable profit for work actually performed.

Under firm-fixed-price contracts with the U.S. government, the price paid to the Company is generally not subject to adjustment to reflect the Company s actual costs, except costs incurred as a result of contract changes ordered by the government. The Company generally attempts to negotiate with the government the amount of increased compensation to which the Company is entitled for government-ordered changes that result in higher costs. If the Company is unable to negotiate a satisfactory agreement to provide such increased compensation, then the Company may file an appeal with the Armed Services Board of Contract Appeals or the U.S. Claims Court. The Company has no such appeals pending. The Company seeks to mitigate risks with respect to fixed-price contracts by executing firm-fixed-price contracts with a substantial majority of its suppliers for the duration of the Company s contracts.

The Company, as a U.S. government contractor, is subject to financial audits and other reviews by the U.S. government of performance of, and the accounting and general practices relating to, U.S. government contracts. Like most large government contractors, the Company is audited and reviewed by the government on a continual basis. Costs and prices under such contracts may be subject to adjustment based upon the results of such audits and reviews. Additionally, such audits and reviews can and have led to civil, criminal or administrative proceedings. Such proceedings could involve claims by the government for fines, penalties, compensatory and treble damages, restitution and/or forfeitures.

Under government regulations, a company or one or more of its subsidiaries can also be suspended or debarred from government contracts, or lose its export privileges based on the results of such proceedings. The Company believes that the outcome of all such audits, reviews and proceedings that are now pending will not have a material adverse effect on its financial condition, results of operations or cash flows.

Suppliers

The Company is dependent on its suppliers and subcontractors to meet commitments to its customers, and many components are procured or subcontracted on a sole-source basis with a number of domestic and foreign companies. Components for the Company s products are generally available from a number of suppliers, although the transition to a new supplier may require several months to conclude. The Company purchases chassis components, such as vehicle frames, engines, transmissions, radiators, axles, tires, drive motors, bearings and hydraulic components and vehicle body options, such as cranes, cargo bodies and trailers, from third party suppliers. These body options may be manufactured specific to the Company s requirements; however, most of the body options could be manufactured by other suppliers or the Company itself. Through reliance on this supply network for the purchase of certain components, the Company is able to reduce many of the preproduction and fixed costs associated with the manufacture of these components and vehicle body options. The Company purchases a large amount of fabrications and outsources certain manufacturing services, each generally from small companies located near its facilities. While providing low-cost services and product surge capability, such companies often require additional management attention during difficult economic conditions or contract start-up. The Company also purchases complete vehicle chassis from truck chassis suppliers in its commercial segment and, to a lesser extent, in its fire & emergency segment. Increasingly, the Company is sourcing components globally which may involve additional inventory requirements and introduces additional foreign currency exposures. The Company maintains an extensive qualification, on-site inspection, assistance and performance measurement system to control risks associated with reliance on suppliers. The Company occasionally experiences problems with supplier and subcontractor performance and availability and must identify alternate sources of supply and/or address related warranty claims from customers.

While the Company purchases many costly components such as chassis, engines, transmissions and axles, it manufactures certain proprietary components. These components include the Revolution composite concrete mixer drum, front drive and steer axles, transfer cases, cabs, TAK-4 independent suspension system, the McNeilus Auto Reach arm, the Hercules compressed air foam system, the Command Zone vehicle control and diagnostic system technology, body structures and many smaller parts which add uniqueness and value to the Company s products. The Company believes internal production of these components provides a significant competitive advantage and also serves to reduce the manufacturing costs of the Company s products.

Intellectual Property

Patents and licenses are important in the operation of the Company s business, as one of management s key objectives is developing proprietary components to provide the Company s customers with advanced technological solutions at attractive prices. The Company holds in excess of 550 active domestic and foreign patents. The Company believes patents for the TAK-4 independent suspension system, which have remaining lives of 13 years, provide the Company with a competitive advantage in the fire & emergency segment. In the defense segment, the TAK-4 independent suspension system was added to the U.S. Marine Corps MTVR and LVSR programs, which the Company believes provided a performance and cost advantage in the successful competition for the production contracts. The Company believes that patents for certain components of its ProPulse hybrid electric drive system, Command Zone electronics and TerraMax autonomous vehicle systems offer potential competitive advantages to product lines across all its segments. To a lesser extent, other proprietary components provide the Company a competitive advantage in the Company s segments.

In fiscal 2002, the Company introduced the Revolution composite concrete mixer drum in the U.S. The Company has purchased exclusive, renewable licenses for the rights to manufacture and market this technology in the Americas and Europe. This license requires the Company to make royalty fee payments to its Australian partner for each Revolution drum sold. The Company believes that these licenses create an important competitive advantage over competitors that manufacture steel concrete mixer drums. The Revolution composite drum is substantially lighter than a comparable steel drum permitting greater payload capacity and is easier to clean, which together lower the cost of delivered concrete. The Company sells the Revolution composite drum at prices substantially higher than prices for steel drums.

As part of the Company s 20-year alliance with Caterpillar, the Company acquired a non-exclusive, non-transferable worldwide license to use certain Caterpillar intellectual property through 2025 in connection with the design and manufacture of Caterpillar s current telehandler products. Additionally, Caterpillar assigned to JLG certain patents and patent applications relating to the Caterpillar-branded telehandler products.

The Company holds trademarks for Oshkosh, JLG, SkyTrak, Lull, Toucan, Pierce, McNeilus, Revolution, Medtec, Jerr-D London, BAI, Geesink, Norba, Kiggen, Frontline, SMIT and IMT among others. These trademarks are considered to be important t success of the Company s business.

Employees

As of September 30, 2007, the Company had approximately 14,200 employees. The United Auto Workers union (UAW) represented approximately 1,875 production employees at the Company s Oshkosh, Wisconsin facilities; the Boilermakers, Iron Shipbuilders, Blacksmiths, and Forgers Union (Boilermakers) represented approximately 250 employees at the Company s Kewaunee, Wisconsin facilities; and the International Brotherhood of Teamsters Union (Teamsters) represented approximately 50 employees at the Company s Garner, Iowa facilities. The Company s five-year agreement with the UAW extends through September 2011, and the Company s agreement with the Boilermakers extends through May 2008. The Company s three-year agreement with the Teamsters extends through October 2008. In addition, the Canadian Auto Workers union represented approximately 60 employees at London, and approximately 650 employees at the Geesink Norba Group are represented by separate works councils. The Company believes its relationship with employees is satisfactory.

Seasonal Nature of Business

In the Company s access equipment and commercial segments, business tends to be seasonal with an increase in sales occurring in the spring and summer months that constitute the traditional construction season. In addition, sales are generally lower in the first fiscal quarter in all segments due to the relatively high number of holidays which reduce available shipping days.

Industry Segments

Financial information concerning the Company s industry segments is included in Note 20 to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Foreign and Domestic Operations and Export Sales

The Company manufactures products in the United States, Belgium, Canada, The Netherlands, Italy, Sweden, France and Romania for sale throughout the world. Sales from customers outside of the United States were 24.8%, 17.7% and 15.5% of the Company s consolidated sales for fiscal 2007, 2006 and 2005, respectively.

Financial information concerning the Company s foreign and domestic operations and export sales is included in Note 20 to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Available Information

The Company maintains a website with the address www.oshkoshtruckcorporation.com. The Company is not including the information contained on the Company s website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. The Company makes available free of charge (other than an investor s own Internet access charges) through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such materials with, or furnishes such materials to, the SEC.

ITEM 1A. RISK FACTORS

The Company s financial position, results of operations and cash flows are subject to various risks, many of which are not exclusively within the Company s control that may cause actual performance to differ materially from historical or projected future performance. Information in this Form 10-K should be considered carefully by investors in light of the risk factors described below and the information set forth under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Certain Assumptions.

Our markets are highly cyclical and a decline in these markets could have a material adverse effect on our operating performance.

Roman" SIZE="2">

Other, net

(25,701) 2,683

Net cash provided by operating activities

696,588 362,125

Cash flows from investing activities:

Payments for capital expenditures

(918,193) (329,229)

Purchases of short-term investments, net

(223,491)

Sale of available-for-sale securities

31,150

Change in restricted cash held for acquisition of business

785,280

Acquisitions of businesses, net of cash acquired

(1,072,532) (748)

Cash proceeds from sale of businesses

183,094 22,349

Cash proceeds from sale of equity-method investment

34,087

Other

28,438 (720)

Our markets are highly cyclical and a decline in these markets could have a material adverse effect on our operatin

Net cash used in investing activities

(928,676) (531,839)

Cash flows from financing activities:

Net payments on revolving line of credit

15,000 (175,000)

Proceeds from issuance of long-term debt

400,000 500,000

Principal payments on long-term debt

(172,546) (405)

Payment of debt acquisition costs

(25,266) (9,558)

Proceeds from exercise of stock options

13,915 10,211

Excess tax benefit from stock-based compensation

1,537 10,262

Proceeds from issuance of stock through employee benefit plans

2,193 1,702

Other

(5,843) (8,453)

Our markets are highly cyclical and a decline in these markets could have a material adverse effect on our operatin

Net cash provided by financing activities

228,990 328,759

Effect of exchange rate changes on cash

1,910 409

Net increase (decrease) in cash and cash equivalents

(1,188) 159,454

Cash and cash equivalents at beginning of period

80,274 50,727

Cash and cash equivalents at end of period

Our markets are highly cyclical and a decline in these markets could have a material adverse effect on our operatin

$79,086	$210,181

See accompanying notes to consolidated financial statements.

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Our markets are highly cyclical and a decline in these markets could have a material adverse effect on our operatin

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2012

(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, 2011, except the portions updated by the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2012, 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, 2012 and 2011 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 2012 presentation.

(2) Acquisitions

Complete Production Services

On February 7, 2012, the Company acquired Complete Production Services, Inc. (Complete) in a cash and stock merger transaction valued at approximately $2,914.8 million. Complete focuses on providing specialized completion and production services and products that help oil and gas companies develop hydrocarbon reserves, reduce costs and enhance production. Complete s operations are located throughout the U.S. and Mexico. The acquisition of Complete substantially expanded the size and scope of services of the Company. Management believes that this acquisition positions the combined company to be better equipped to compete with the larger oilfield service companies and to expand internationally. All of Complete s operations have been reported in the subsea and well enhancement segment.

Pursuant to the merger agreement, Complete stockholders received 0.945 of a share of the Company s common stock and $7.00 cash for each share of Complete s common stock outstanding at the time of the acquisition. In total, the Company paid approximately $553.3 million in cash and issued approximately 74.7 million shares valued at approximately $2,308.2 million (based on the closing price of the Company s common stock on the acquisition date of $30.90). Additionally, the Company paid $676.0 million, inclusive of a $26.0 million prepayment premium, to redeem $650 million of Complete s 8.0% senior notes. The Company also assumed all outstanding stock options and shares of non-vested and unissued restricted stock held by Complete s employees and directors at the time of acquisition.

Complete s stock options and shares of restricted stock outstanding at closing were converted into the Company s options and restricted stock using a conversion ratio of 1.1999. The estimated fair value associated with the Company s options issued in exchange for Complete s options was approximately $58.1 million based on a Black-Scholes valuation model. $56.6 million of this value was attributable to service rendered prior to the date of acquisition, of which $52.7 million was recorded as part of the consideration transferred and $3.9 million was recorded as an expense. The remaining $1.5 million will be expensed over the remaining service term of the replacement stock option awards. In addition, $0.6 million of replacement restricted stock awards was attributable to service rendered prior to the date of acquisition and recorded as part of the consideration transferred. An additional $18.2 million will be expensed over the remaining service term of the replacement restricted stock awards.

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The transaction has been accounted for using the acquisition method of accounting which requires that, among other things, assets acquired and liabilities assumed be recorded at their fair values as of the acquisition date. The Company has not finalized the determination of the fair values of the assets acquired and liabilities assumed and, therefore, the fair values set forth are subject to adjustment as the valuations are completed. Under U.S. GAAP, companies have up to one year following an acquisition to finalize acquisition accounting. The following table summarizes the consideration paid and the provisional fair value of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Assets:	
Current assets	$ 751,706
Property, plant and equipment	1,223,448
Goodwill	1,922,277
Intangible and other long-term assets	370,377
Liabilities:	
Current liabilities	236,986
Deferred income taxes	435,904
Other long-term liabilities	4,125
Net assets acquired	$ 3,590,793

Included in current assets acquired is approximately $214.6 million of cash, and accounts receivable, including unbilled receivables, with a fair value of approximately $443.7 million. The gross amount due from customers is approximately $449.0 million, of which approximately $5.3 million is deemed to be doubtful.

Property, Plant and Equipment

A step-up adjustment of approximately $45.8 million was recorded to present property, plant and equipment acquired at its estimated fair value. The preliminary weighted average useful life used to calculate depreciation of the step-up related to property, plant and equipment is approximately 5 years.

Goodwill

Goodwill of approximately $1,922.3 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. It includes access to new product and service offerings, an experienced management team and workforce, and other benefits that the Company believes will result from the combination of the operations, and any other intangible assets that do not qualify for separate recognition. None of the goodwill related to this acquisition will be deductible for tax purposes. All of the goodwill has been assigned to the subsea and well enhancement segment.

Intangible Assets

The Company identified intangible assets related to trade names and customer relationships. The following table summarizes the fair value estimates recorded for the identifiable intangible assets (in thousands) and their estimated useful lives:

	Estimated Fair Value	Estimated Useful Life
Customer relationships	$ 315,000	17 years
Trade names	35,000	10 years
Total identifiable intangible assets	$ 350,000	

Deferred Income Taxes

The Company provided deferred income taxes and other tax liabilities as part of the acquisition accounting related to the estimated fair value of acquired intangible assets and property, plant and equipment, as well as for uncertain tax positions taken in prior year tax returns. An adjustment of approximately $132.0 million was recorded to present the deferred tax assets and liabilities and other tax liabilities at fair value. The Company is still assessing the factors that impact deferred tax assets and liabilities related to this acquisition. These assets and liabilities will be revised when the assessment is finalized.

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Acquisition Related Expenses

Acquisition related expenses totaled approximately $33.5 million, of which approximately $29.0 million was recorded in the nine months ended September 30, 2012. The remainder was recorded in the three months ended December 31, 2011. These acquisition related costs include expenses directly related to acquiring Complete and have been recorded in general and administrative expenses.

Other Acquisitions

In August 2012, the Company acquired 100% of the equity interest in a company that provides mechanical wireline, electric line and well testing services to the oil and gas exploration and production industry in Argentina. This acquisition provides the Company with a platform for the continued expansion in the South American market area. The Company paid $25.5 million at closing with an additional $5.6 million payable based upon the finalized shareholders equity as of the closing date. The Company has also recorded a current liability of approximately $4.5 million for contingent consideration based upon certain performance metrics. Additionally, the Company deposited $8.0 million in an escrow account on behalf of the sellers for the settlement of certain liabilities. Goodwill of approximately $22.6 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 has been assigned to the subsea and well enhancement segment.

Current Earnings and Pro Forma Impact of Acquisitions

The revenue and earnings related to Complete and certain other acquisitions included in the Company s condensed consolidated statement of operations for the three and nine months ended September 30, 2012, and the revenue and earnings of the Company on a consolidated basis as if these acquisitions had occurred on January 1, 2011, are as follows. The earnings related to Complete and certain other acquisitions included in the Company s condensed consolidated statement of operations for the nine months ended September 30, 2012 do not include interest expense or other corporate costs. The pro forma results include (i) the amortization associated with the acquired intangible assets, (ii) additional depreciation expense related to adjustments to property, plant and equipment, (iii) additional interest expense associated with debt used to fund a portion of the acquisitions, (iv) a reduction to interest expense associated with repayment of the acquirees debt, and (v) operating results of certain acquisitions of Complete prior to February 7, 2012, including costs directly related to these acquisitions. For the nine months ended September 30, 2012, these pro forma results exclude approximately $79.0 million of non-recurring expenses, of which $48.4 million was recorded by Complete prior to February 7, 2012. These nonrecurring expenses include banking, legal, consulting and accounting fees, and change of control and other acquisition related expenses. The pro forma results do not include any potential synergies, cost savings or other expected benefits of the acquisition. Accordingly, the pro forma results should not be considered indicative of the results that would have occurred if the acquisition and related borrowings had been consummated as of January 1, 2011, nor are they indicative of future results. The following amounts are presented in thousands, except per share amounts:

	Revenue	Net income from continuing operations	Basic earnings per share	Diluted earnings per share
Actual results of acquisitions from date of acquisitions through September 30, 2012	$ 1,644,736	$ 195,924	$ 1.34	$ 1.32
Supplemental pro forma for the Company:				
Three months ended September 30, 2012	$ 1,186,161	$ 95,184	$ 0.61	$ 0.60
Nine months ended September 30, 2012	$ 3,678,070	$ 350,297	$ 2.24	$ 2.21
Three months ended September 30, 2011	$ 1,114,552	$ 111,083	$ 0.72	$ 0.71
Nine months ended September 30, 2011	$ 3,003,020	$ 249,724	$ 1.62	$ 1.60

The Company has no off-balance sheet financing arrangements other than potential additional consideration that may be payable as a result of the future operating performance of certain acquired businesses. At September 30, 2012, the maximum additional consideration payable was approximately $14.0 million, of which $3.0 million is attributable to an acquisition that occurred before the Company adopted the revised authoritative guidance for business combinations. Therefore, this $3.0 million is not classified as a liability and is not reflected in the Company s condensed consolidated financial statements until this amount is fixed and determinable. When this amount is determined, it will be capitalized as part of the purchase price of the related acquisition.

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(3) Dispositions

On February 15, 2012, the Company sold one of its derrick barges and received proceeds of approximately $44.5 million, inclusive of selling costs. The Company recorded a pre-tax loss of approximately $3.1 million, inclusive of approximately $9.7 million of goodwill, during the nine months ended September 30, 2012 in connection with this sale. This business was previously reported in the subsea and well enhancement segment. The operations and loss on the sale of this disposal group have been reported within income (loss) from discontinued operations in the condensed consolidated statement of operations for all periods presented.

On March 30, 2012, the Company sold 18 liftboats and related assets comprising its marine segment. The Company received cash proceeds of approximately $138.6 million, inclusive of working capital and selling costs. In connection with the sale, the Company repaid approximately $12.5 million in U.S. Government guaranteed long-term financing (see note 9). Additionally, the Company paid approximately $4.0 million of make-whole premiums and wrote off approximately $0.7 million of unamortized loan costs as a result of this repayment. The Company s total pre-tax loss on the disposal of this segment was approximately $56.1 million, which includes a $46.1 million write off of long-lived assets and goodwill that was recorded in the fourth quarter of 2011 in order to approximate the segment s indicated fair value and an additional loss of $10.0 million recorded in the first quarter of 2012, comprised of an approximate $3.6 million loss on sale of assets and approximately $6.4 million of additional costs related to the disposition. During the nine months ended September 30, 2011, the Company sold seven liftboats from the marine segment for approximately $22.3 million, net of sales commissions, and recorded a pre-tax gain of approximately $8.6 million. The operations and loss on the sale of this disposal group have been reported within income (loss) from discontinued operations in the condensed consolidated statement of operations for all periods presented.

The following table summarizes the components of income (loss) from discontinued operations, net of tax for the three months ended September 30, 2011 and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months	Nine Months	
	2011	2012	2011
Revenues	$ 28,300	$ 16,231	$ 88,198
Income (loss) from discontinued operations before income tax	7,492	(8,249)	18,291
Income tax expense (benefit)	2,711	(1,771)	6,605
Gain (loss) on disposition, net of tax (benefit) expense of ($2,391) for the nine months ended September 30, 2012, and $3,103 for the nine months ended September 30, 2011, respectively		(10,729)	5,455
Income (loss) from discontinued operations, net of tax	$ 4,781	$ (17,207)	$ 17,141

The following table presents the assets and liabilities of these disposal groups at December 31, 2011 (in thousands):

Accounts receivable, net	$ 16,342
Prepaid expenses	1,900
Inventory and other current assets	2,371
Current assets of discontinued operations	$ 20,613
Property, plant and equipment, net	170,222
Goodwill	9,740
Intangible and other long-term assets, net	3,875
Long-term assets of discontinued operations	$ 183,837
Accounts payable	$ 1,231
Accrued expenses	13,421

Current maturities of long-term debt	810
Current liabilities of discontinued operations	$ 15,462
Long-term debt	$ 11,736

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(4) Stock-Based Compensation and Retirement 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 incentive plans, the Company may grant incentive stock options, non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-based awards or any combination thereof to Eligible Participants.

Stock Options

The Company has issued non-qualified stock options under its stock incentive plans. The options generally vest in equal installments over three years and expire in ten years. Non-vested options are generally forfeited upon termination of employment. The Company s compensation expense related to stock options for the nine months ended September 30, 2012 and 2011 was approximately $3.8 million and $2.5 million, respectively, which is reflected in general and administrative expenses.

Restricted Stock

The Company has issued shares of restricted stock under its stock incentive plans. Shares of restricted stock generally vest in equal annual installments over three years. Non-vested shares are generally forfeited upon the termination of employment. With the exception of the non-vested shares of restricted stock issued as a result of the Complete acquisition, holders of shares of restricted stock are entitled to all rights of a stockholder of the Company with respect to the restricted stock, including the right to vote the shares and receive any dividends or other distributions. The Company s compensation expense related to restricted stock for the nine months ended September 30, 2012 and 2011 was approximately $13.1 million and $4.3 million, respectively, which is reflected in general and administrative expenses and cost of services.

Restricted Stock Units

The Company has issued restricted stock units (RSUs) to its non-employee directors under its stock incentive plans. Annually, each non-employee director is issued a number of RSUs having an aggregate dollar value determined by the Company s Board of Directors. An RSU represents the right to receive from the Company, within 30 days of the date the director ceases to serve on the Board, one share of the Company s common stock. The Company s expense related to RSUs for the nine months ended September 30, 2012 and 2011 was approximately $1.9 million and $0.9 million, respectively, which is reflected in general and administrative expenses.

Performance Share Units

The Company has issued performance share units (PSUs) to its employees as part of the Company s long-term incentive program. There is a three-year performance period associated with each PSU grant. The two performance measures applicable to all participants are the Company s return on invested capital and total stockholder return relative to those of the Company s pre-defined peer group. If the participant has met specified continued service requirements, the PSUs will settle in cash or a combination of cash and up to 50% of equivalent value in the Company s common stock, at the discretion of the compensation committee. The Company s compensation expense related to all outstanding PSUs for the nine months ended September 30, 2012 and 2011 was approximately $8.6 million and $2.3 million, respectively, which is reflected in general and administrative expenses. The Company has recorded both current and long-term liabilities for this liability-based compensation award. During the nine month period ended September 30, 2012, the Company issued approximately 43,300 shares of its common stock and paid approximately $2.7 million in cash to its employees to settle PSUs for the three year performance period ended December 31, 2011. During the nine month period ended September 30, 2011, the Company issued approximately 67,300 shares of its common stock and paid approximately $2.8 million in cash to its employees to settle PSUs for the three year performance period ended December 31, 2010.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan under which an aggregate of 1,000,000 shares of common stock were reserved for issuance. Under this stock purchase plan, eligible employees can purchase shares of the Company s common stock at a discount. The Company received approximately $2.2 million and $1.7 million related to shares issued under this plan for the nine months ended September 30, 2012 and 2011, respectively. For the nine month periods ended September 30, 2012 and 2011, the Company recorded compensation expense of approximately $0.4 million and $0.3 million, respectively, which is reflected in general and administrative expenses. Additionally, the Company issued approximately 109,000 shares and 57,000 shares in the nine months ended September 30, 2012 and 2011, respectively, related to this stock purchase plan.

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Deferred Compensation Plans

The Company has a non-qualified deferred compensation plan which allows certain highly compensated employees to defer up to 75% of their base salary, up to 100% of their bonus, and up to 100% of the cash portion of their PSU compensation to the plan. The Company also has a non-qualified deferred compensation plan for its non-employee directors which allows each director to defer up to 100% of their cash compensation paid by the Company to the plan. Additionally, participating directors may defer up to 100% of the shares of common stock they are entitled to receive in connection with the payout of RSUs. Under each plan, payments are made to participants based on their annual enrollment elections and plan balance. Participants earn a return on their deferred compensation that is based on hypothetical investments in certain mutual funds. Changes in market value of these hypothetical participant investments are reflected as an adjustment to the deferred compensation liability of the Company with an offset to compensation expense (see note 15).

Supplemental Executive Retirement Plan

The Company has a supplemental executive retirement plan (SERP). The SERP provides retirement benefits to the Company s executive officers and certain other designated key employees. The SERP is an unfunded, non-qualified defined contribution retirement plan, and all contributions under the plan are unfunded credits to a notional account maintained for each participant. Under the SERP, the Company will generally make annual contributions to a retirement account based on age and years of service. The Company may also make discretionary contributions to a participant s account. The Company recorded compensation expense of approximately $2.1 million and $1.4 million in general and administrative expenses for the nine months ended September 30, 2012 and 2011, respectively.

(5) Inventory and Other Current Assets

Inventory and other current assets includes approximately $132.1 million and $83.1 million of inventory at September 30, 2012 and December 31, 2011, respectively. The Company s inventory balance at September 30, 2012 consisted of approximately $51.0 million of finished goods, $5.3 million of work-in-process, $4.7 million of raw materials and $71.1 million of supplies and consumables. The Company s inventory balance at December 31, 2011 consisted of approximately $39.0 million of finished goods, $2.3 million of work-in-process, $5.4 million of raw materials and $36.4 million of supplies and consumables. 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.

Additionally, inventory and other current assets include approximately $10.7 million and $133.4 million of costs incurred and estimated earnings in excess of billings on uncompleted contracts at September 30, 2012 and December 31, 2011, respectively. The Company follows the percentage-of-completion method of accounting for applicable contracts.

(6) Available-for-Sale Securities

On April 17, 2012, SandRidge Energy Inc. (NYSE: SD) (SandRidge) completed its acquisition of Dynamic Offshore, at which time the Company received approximately $34.1 million in cash and approximately $51.6 million in shares of SandRidge stock (approximately 7.0 million shares valued at $7.33 per share) in consideration for its 10% interest in Dynamic Offshore. In accordance with authoritative guidance related to equity securities, the Company is accounting for the shares received through this transaction as available-for-sale securities. The changes in fair values, net of applicable taxes, on available-for-sale securities are recorded as unrealized holding gains (losses) on securities as a component of accumulated other comprehensive loss in shareholders equity. During the three months ended September 30, 2012, the Company sold approximately 4.1 million shares for approximately $31.1 million, resulting in a realized gain of approximately $0.9 million. In connection with these sales, the Company reversed approximately $3.1 million of previously recorded unrealized losses, of which approximately $2.0 million was reclassified out of accumulated other comprehensive loss.

The fair value of the remaining 2.9 million shares at September 30, 2012 was approximately $20.3 million. During the three months ended September 30, 2012, the Company recorded an unrealized gain related to the fair value of these securities of $3.5 million, of which $2.2 million was reported within accumulated other comprehensive loss, net of tax expense of $1.3 million. During the nine months ended September 30, 2012, the Company recorded an unrealized loss on these securities of approximately $1.0 million, of which approximately $0.6 million was reported within accumulated other comprehensive loss, net of tax benefit of approximately $0.4 million. The Company evaluates whether unrealized losses on investments in securities are other-than-temporary, and if it is believed the unrealized losses are other-than-temporary, an impairment charge is recorded. There were no other-than-temporary impairment losses recognized during the nine months ended September 30, 2012.

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(7) Equity-Method Investments

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

Prior to March 2011, the Company had separate equity-method investments in SPN Resources, LLC (SPN Resources) and DBH, LLC (DBH). In March 2011, the Company contributed all of its equity interests in SPN Resources and DBH to Dynamic Offshore, the majority owner of both SPN Resources and DBH, in exchange for a 10% interest in Dynamic Offshore. In April 2012, SandRidge acquired Dynamic Offshore (see note 6). The Company recorded a gain in the second quarter of 2012 of approximately $17.9 million as a result of this transaction.

The Company s equity interest in Dynamic Offshore was accounted for as an equity-method investment with a balance of approximately $70.6 million at December 31, 2011. The Company recorded losses from its equity-method investment in Dynamic Offshore of approximately $0.3 million and income of approximately $12.4 million for the nine and seven months ended September 30, 2012 and 2011, respectively.

The Company, where possible and at competitive rates, provides its products and services to assist Dynamic Offshore in producing and developing its oil and gas properties. The Company had a receivable from Dynamic Offshore of approximately $9.8 million at December 31, 2011. The Company also recorded revenue from Dynamic Offshore of approximately $15.5 million and $31.4 million for the nine and seven months ended September 30, 2012 and 2011, respectively. Additionally, the Company had a receivable from Dynamic Offshore of approximately $14.0 million as of December 31, 2011 related to its share of oil and natural gas commodity sales and production handling arrangement fees.

The Company recorded earnings from its equity-method investment in SPN Resources of approximately $0.2 million and recorded earnings from its equity-method investment in DBH of approximately $0.9 million for the two months ended February 28, 2011. The Company also recorded revenue from SPN Resources of approximately $0.3 million and from DBH of approximately $0.9 million for the two months ended February 28, 2011.

(8) Long-Term Contracts

In 2010, the Company s wholly owned subsidiary, Wild Well Control, Inc. (Wild Well), acquired 100% ownership of Shell Offshore, Inc. s Gulf of Mexico Bullwinkle platform and its related assets, and assumed the related decommissioning obligations. In accordance with the asset purchase agreement with Shell Offshore, Inc., Wild Well obtained a $50.0 million performance bond and funded $50.0 million into an escrow account. Included in intangible and other long-term assets, net is escrowed cash of $50.4 million and $50.2 million at September 30, 2012 and December 31, 2011, respectively.

In December 2007, Wild Well entered into contractual arrangements pursuant to which it decommissioned seven downed oil and gas platforms and related well facilities located in the Gulf of Mexico for a fixed sum of $750 million. The contract contained certain covenants primarily related to Wild Well s performance of the work. As of September 30, 2012, the work on this project was complete, and all amounts to be collected are included in accounts receivable in the consolidated balance sheet. At December 31, 2011, there were approximately $129.7 million of costs and estimated earnings in excess of billings related to this contract included in other current assets.

(9) Debt

On February 7, 2012, in connection with the Complete acquisition, the Company amended its bank credit facility to increase the revolving borrowing capacity to $600.0 million from $400.0 million, and to include a $400.0 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. Any amounts outstanding on the revolving credit facility and the term loan are due on February 7, 2017. Costs associated with the bank credit facility totaled approximately $24.7 million. These costs have been capitalized and will be amortized over the term of the credit facility.

At September 30, 2012, the Company had approximately $90.0 million outstanding under the revolving credit facility. The Company also had approximately $49.3 million of letters of credit outstanding, which reduce the Company s borrowing availability under this portion of the credit facility. 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. The credit facility contains customary events of default and requires that the Company satisfy various financial covenants. It also limits the Company s ability to pay dividends or make other distributions, make acquisitions, make changes to the Company s capital structure, create liens or incur additional indebtedness. At September 30, 2012, the Company was in compliance with all such covenants.

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In August 2012, the Company redeemed $150 million, or 50%, of the principal amount of its $300 million 6 7/8% unsecured senior notes due 2014 at 100% of face value. This redemption resulted in a loss on early extinguishment of debt of approximately $2.3 million related to the writeoff of debt acquisition costs and note discount. The indenture governing the remaining $150 million 6 7/8% senior notes outstanding requires semi-annual interest payments on June 1st and December 1st of each year through the maturity date of June 1, 2014. The indenture contains certain covenants that, among other things, limit the Company from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions. At September 30, 2012, the Company was in compliance with all such covenants.

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 indenture contains certain covenants that, among other things, limit the Company from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions. At September 30, 2012, the Company was in compliance with all such covenants.

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. The indenture contains certain covenants that, among other things, limit the Company from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions. At September 30, 2012, the Company was in compliance with all such covenants.

In connection with the sale of the marine segment in March 2012, the Company repaid $12.5 million of U.S. Government guaranteed long-term financing (see note 3). The Company also paid approximately $4.0 million of make-whole premiums and wrote off approximately $0.7 million of unamortized loan costs as a result of this repayment. These expenses have been reported in discontinued operations, net of income tax in the condensed consolidated statement of operations.

(10) 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. The weighted average number of common shares outstanding excludes the shares of non-vested restricted stock that were assumed by the Company as a result of the Complete acquisition. 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, conversion of restricted stock units and the vesting of outstanding restricted stock issued in the acquisition of Complete.

Stock options for approximately 2,600,000 shares and 470,000 shares for the three months ended September 30, 2012 and 2011, respectively, and approximately 1,800,000 shares and 190,000 shares for the nine months ended September 30, 2012 and 2011, respectively, were excluded in the computation of diluted earnings per share for the three and nine months ended September 30, 2012 and 2011, as the effect would have been anti-dilutive.

(11) Decommissioning Liabilities

The Company records estimated future decommissioning liabilities in accordance with the authoritative guidance related to asset retirement obligations (decommissioning liabilities), 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 s decommissioning liabilities associated with the Bullwinkle platform and its related assets 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 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 Company reviews its estimates for the timing of these expenditures on a quarterly basis. As a result of continuing development activities, the Company revised its estimates during the second quarter of 2012 relating to the timing of decommissioning work on its Bullwinkle assets, including a 10 year postponement of the platform decommissioning. This change in estimate resulted in a significant reduction in the present value of decommissioning liabilities.

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In connection with the acquisition of Complete in February 2012, the Company assumed approximately $3.6 million of estimated decommissioning liabilities associated with costs to plug and abandon disposal wells at the end of the service lives of the assets.

The following table summarizes the activity for the Company s decommissioning liabilities for the nine month periods ended September 30, 2012 and 2011 (in thousands):

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Decommissioning liabilities, December 31, 2011 and 2010, respectively	$ 123,176	$ 117,716
Liabilities acquired and incurred	3,573	
Liabilities settled	(4,624)	
Accretion	3,260	5,038
Revision in estimated liabilities	(34,373)	(292)
Total decommissioning liabilities, September 30, 2012 and 2011, respectively	91,012	122,462
Less: current portion of decommissioning liabilities at September 30, 2012 and 2011, respectively		17,090
Long-term decommissioning liabilities, September 30, 2012 and 2011, respectively	$ 91,012	$ 105,372

(12) Notes Receivable

Notes receivable consist of a commitment from the seller of oil and gas properties towards 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 totaled $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 the platform s removal. During the second quarter of 2012, the Company revised its timing estimate for the Bullwinkle platform removal, resulting in a significant reduction of the present value of the notes receivable (see note 11). The Company recorded interest income related to notes receivable of $2.1 million and $3.4 million for nine months ended September 30, 2012 and 2011, respectively.

(13) Segment Information

Business Segments

On March 30, 2012, the Company sold 18 liftboats and related assets that comprised its marine segment. Additionally, on February 15, 2012 the Company sold a derrick barge that was formerly reported within the subsea and well enhancement segment. The operating results from these businesses have been included in discontinued operations on the condensed consolidated statement of operations. The prior year segment presentation has been revised to reflect these changes. The Company s reportable segments are now as follows: (1) subsea and well enhancement and (2) drilling products and services. The subsea and well enhancement segment provides completion and production-related services used to enhance, extend and maintain oil and gas production, which include horizontal well fracturing, fluids management, well service rigs, integrated subsea services and engineering services, mechanical wireline, hydraulic workover and snubbing, well control, coiled tubing, electric line, pumping and stimulation and wellbore evaluation services; well plug and abandonment services; stimulation and sand control equipment and services; and other oilfield services used to support drilling and production operations. The subsea and well enhancement segment also includes production handling arrangements, as well as the production and sale of oil and gas. The drilling products and services segment rents and sells stabilizers, drill pipe, tubulars and specialized equipment for use with onshore and offshore oil and gas well drilling, completion, production and workover activities. It also provides on-site accommodations and bolting and machining services.

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Certain previously reported segment information has been adjusted due to the disposal of the marine segment and the derrick barge from the subsea and well enhancement segment. Summarized financial information for the Company s segments for the three and nine months ended September 30, 2012 and 2011 is shown in the following tables (in thousands):

Three Months Ended September 30, 2012

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 984,783	$ 194,882	$	$ 1,179,665
Cost of services (exclusive of items shown separately below)	646,649	61,959		708,608
Depreciation, depletion, amortization and accretion	90,376	37,784		128,160
General and administrative expenses	131,078	32,380		163,458
Income from operations	116,680	62,759		179,439
Interest income (expense), net	697		(28,815)	(28,118)
Loss on early extinguishment of debt			(2,294)	(2,294)
Income (loss) from continuing operations before income taxes	$ 117,377	$ 62,759	$ (31,109)	$ 149,027

Three Months Ended September 30, 2011

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 373,586	$ 163,456	$	$ 537,042
Cost of services (exclusive of items shown separately below)	226,586	58,538		285,124
Depreciation, depletion, amortization and accretion	28,592	33,215		61,807
General and administrative expenses	64,950	28,863		93,813
Income from operations	53,458	42,840		96,298
Interest income (expense), net	1,248		(20,142)	(18,894)
Earnings from equity-method investments, net			8,198	8,198
Income (loss) from continuing operations before income taxes	$ 54,706	$ 42,840	$ (11,944)	$ 85,602

Nine Months Ended September 30, 2012

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 2,807,432	$ 582,389	$	$ 3,389,821
Cost of services (exclusive of items shown separately below)	1,775,649	191,010		1,966,659
Depreciation, depletion, amortization and accretion	255,072	111,200		366,272
General and administrative expenses	396,123	100,875		496,998
Income from operations	380,588	179,304		559,892
Interest income (expense), net	2,106		(90,207)	(88,101)
Loss on early extinguishment of debt			(2,294)	(2,294)

Losses from equity-method investments, net			(287)	(287)
Gain on sale of equity-method investment			17,880	17,880
Income (loss) from continuing operations before income taxes	$ 382,694	$ 179,304	$ (74,908)	$ 487,090

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Nine Months Ended September 30, 2011

	Subsea and Well Enhancement	Drilling Products and Services	Unallocated	Consolidated Total
Revenues	$ 961,039	$ 440,893	$	$ 1,401,932
Cost of services (exclusive of items shown separately below)	590,951	161,862		752,813
Depreciation, depletion, amortization and accretion	81,424	96,227		177,651
General and administrative expenses	183,040	89,203		272,243
Income from operations	105,624	93,601		199,225
Interest income (expense), net	3,483		(50,792)	(47,309)
Earnings from equity-method investments, net			13,724	13,724
Income (loss) from continuing operations before income taxes	$ 109,107	$ 93,601	$ (37,068)	$ 165,640

Identifiable Assets

	Subsea and Well Enhancement	Drilling Products and Services	Marine	Unallocated	Consolidated Total
September 30, 2012	$ 6,718,059	$ 1,051,235	$	$ 20,324	$ 7,789,618
December 31, 2011	$ 2,863,550	$ 947,679	$ 164,444	$ 72,472	$ 4,048,145

Geographic Segments

The Company attributes revenue to various countries based on the location 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. The Company s information by geographic area is as follows (in thousands):

Revenues:

	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
United States	$ 976,984	$ 397,718	$ 2,826,544	$ 1,035,759
Other Countries	202,681	139,324	563,277	366,173
Total	$ 1,179,665	$ 537,042	$ 3,389,821	$ 1,401,932

Long-Lived Assets:

	September 30, 2012	December 31, 2011
United States	$ 2,623,401	$ 1,060,483
Other Countries	539,872	446,885

Total, net	$ 3,163,273	$ 1,507,368

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(14) Guarantee

In accordance with authoritative guidance related to guarantees, the Company has assigned an estimated value of $2.6 million at September 30, 2012 and December 31, 2011, which is reflected in other long-term liabilities, related to decommissioning activities in connection with oil and gas properties acquired by SPN Resources prior to its sale to Dynamic Offshore. The Company believes that the likelihood of being required to perform these guarantees is remote. In the unlikely event of default on any remaining decommissioning liabilities, the total maximum potential obligation under these guarantees is estimated to be approximately $115.9 million, net of the contractual right to receive payments from third parties, which is approximately $24.6 million, as of September 30, 2012. The total maximum potential obligation will decrease over time as the underlying obligations are fulfilled.

(15) 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.

The following tables provide a summary of the financial assets and liabilities measured at fair value on a recurring basis at September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Available-for-sale securities	$ 20,321	$ 20,321		
Intangible and other long-term assets				
Non-qualified deferred compensation assets	$ 11,265	$ 825	$ 10,440	
Interest rate swap	$ 1,039		$ 1,039	
Accounts payable				
Non-qualified deferred compensation liabilities	$ 2,425		$ 2,425	
Contingent consideration	$ 10,815			$ 10,815
Other long-term liabilities				
Non-qualified deferred compensation liabilities	$ 13,230		$ 13,230	

	December 31, 2011	Level 1	Level 2	Level 3
Intangible and other long-term assets				
Non-qualified deferred compensation assets	$ 10,597	$ 815	$ 9,782	
Interest rate swap	$ 1,904		$ 1,904	
Accounts payable				
Non-qualified deferred compensation liabilities	$ 2,790		$ 2,790	
Other long-term liabilities				
Non-qualified deferred compensation liabilities	$ 12,975		$ 12,975	

Available-for-sale securities is comprised of approximately 2.9 million shares of SandRidge common stock that the Company received as partial consideration for its 10% interest in Dynamic Offshore (see note 6). The securities are reported at fair value based on the stock s closing price as reported on the New York Stock Exchange.

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 (see note 4). 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.

In April 2012, the Company entered into an interest rate swap agreement related to its fixed rate debt maturing in 2021 for a notional amount of $100 million, 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 a floating rate, which is adjusted every 90 days, based on LIBOR plus a fixed margin. The swap agreement, scheduled to terminate on December 15, 2021, is designated as a fair value hedge of a portion of the 7 1/8% unsecured senior notes, as the derivative has been tested to be highly effective in offsetting changes in the fair value of the underlying note. As this derivative is classified as a fair value hedge, the changes in the fair value of the derivative are offset against the changes in the fair value of the underlying note in interest expense, net (see note 16). The Company previously had an interest rate swap agreement for a notional amount of $150 million related to its fixed rate debt maturing in June 2014 that was designated as a fair value hedge. In February 2012, the Company sold this interest rate swap to the counterparty for approximately $1.2 million.

Included in current liabilities is $10.8 million of contingent consideration related to the acquisitions of a hydraulic fracturing and cementing company in 2011 and the acquisition of a wireline and well testing company in 2012. The fair value of the contingent consideration was determined using a probability-weighted discounted cash flow approach at the acquisition and reporting date. The approach is based on significant inputs that are not observable in the market, which are referred to as Level 3 inputs. The fair value is based on the acquired companies reaching specific performance metrics.

In accordance with authoritative guidance, non-financial assets and non-financial liabilities are remeasured at fair value on a non-recurring basis. In determining estimated fair value of acquired goodwill, we use various sources and types of information, including, but not limited to, quoted market prices, replacement cost estimates, accepted valuation techniques such as discounted cash flows, and existing carrying value of acquired assets. As necessary, we utilize third-party appraisal firms to assist us in determining fair value of inventory, identifiable intangible assets, and any other significant assets or liabilities. During the measurement period and as necessary, we adjust the preliminary purchase price allocation if we obtain more information regarding asset valuations and liabilities assumed.

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 $2,048.3 million and $1,749.8 million at September 30, 2012 and December 31, 2011, respectively. The fair value of these debt instruments is determined by reference to the market value of the instrument as quoted in an over-the-counter market.

(16) Derivative Financial Instruments

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

In April 2012, the Company entered into an interest rate swap for a notional amount of $100 million related to its fixed rate debt maturing in December 2021. This transaction is designated as a fair value hedge since the swap hedges against the change in fair value of fixed rate debt resulting from changes in interest rates. The Company recorded a derivative asset of $1.0 million within intangible and other long term assets in the consolidated balance sheet at September 30, 2012. The change in fair value of the interest rate swap is included in the adjustments to reconcile net income to net cash provided by operating activities in the consolidated statement of cash flows.

The Company had an interest rate swap agreement for a notional amount of $150 million related to its fixed rate debt maturing in June 2014. This transaction was designated as a fair value hedge since the swap hedged against the change in fair value of fixed rate debt resulting from changes in interest rates. The Company recorded a derivative asset of $1.9 million within intangible and other long-term assets in the consolidated balance sheet as of December 31, 2011. In February 2012, the Company sold this interest rate swap to the counterparty for $1.2 million.

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The location and effect of the derivative instrument on the condensed consolidated statement of operations for the three and nine months ended September 30, 2012 and 2011, presented on a pre-tax basis, is as follows (in thousands):

	Location of (gain) loss recognized	Amount of (gain) loss recognized Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Interest rate swap	Interest expense, net	$ (1,079)	$ 350
Hedged item debt	Interest expense, net	682	(788)
		$ (397)	$ (438)

	Location of (gain) loss recognized	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest rate swap	Interest expense, net	$ (4,235)	$ 230
Hedged item debt	Interest expense, net	3,196	(1,409)
		$ (1,039)	$ (1,179)

For the nine months ended September 30, 2012 and 2011, approximately $1.0 million and $1.2 million, respectively, of interest income 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.

(17) Income Taxes

The Company follows authoritative guidance surrounding 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 $25.5 million and $21.7 million of unrecorded tax benefits at September 30, 2012 and December 31, 2011, respectively, all of which would impact the Company s effective tax rate if recognized.

In addition to its U.S. federal tax return, the Company files income tax returns in various state and foreign jurisdictions. The number of years that are open under the statute of limitations and subject to audit varies depending on the tax jurisdiction. The Company remains subject to U.S. federal tax examinations for years after 2008.

(18) Commitments and Contingencies

The Company s wholly owned subsidiary, Hallin Marine, is the lessee of a dynamically positioned subsea vessel under a capital lease expiring in 2019 with a two year renewal option. Hallin Marine owns a 5% equity interest in the entity that owns this leased asset. The lessor s debt is non-recourse to the Company. The amount of the asset and liability under this capital lease is 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, 2012 and December 31, 2011 was approximately $11.2 million and $8.0 million, respectively. At September 30, 2012 and December 31, 2011, the Company had approximately $26.6 million and $29.5 million, respectively, included in other long-term liabilities, and approximately $3.5 million and $3.6 million, respectively, included in accounts payable related to the obligations under this capital lease. The future minimum lease payments under this capital lease are approximately $0.9 million, $3.9 million, $4.2 million, $4.6 million, $5.0 million and $5.4 million for the three months ending December 31, 2012 and the years ending December 31, 2013, 2014, 2015, 2016 and 2017, respectively, exclusive of interest at an annual rate of 8.5%. For the nine months ended September 30, 2012 and 2011, the Company recorded interest expense of approximately $2.0 million and $2.2 million, respectively, in connection with this capital lease.

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.

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(19) Related Party Disclosures

The Company believes all transactions with related parties have terms and conditions no less favorable than transactions with unaffiliated parties. Subsequent to the acquisition of Complete, the Company purchases services, products and equipment from companies affiliated with an officer of one of its subsidiaries. For the three and nine months ended September 30, 2012, these purchases totaled approximately $54.8 million and $188.0 million, respectively. For the three months ended September 30, 2012, approximately $27.1 million was purchased from ORTEQ Energy Services, a heavy equipment construction company which also manufactures pressure pumping equipment, approximately $1.9 million was purchased from Ortowski Construction, primarily related to the manufacture of pressure pumping units, approximately $3.0 million was purchased from Resource Transport, approximately $18.0 million was purchased from Texas Specialty Sands, LLC primarily for the purchase of sand used for pressure pumping activities, approximately $3.7 million was purchased from ProFuel, LLC, and approximately $1.1 million was related to facilities leased from Timber Creek Real Estate Partners. For the nine months ended September 30, 2012, approximately $90.9 million was purchased from ORTEQ Energy Services, approximately $4.0 million was purchased from Ortowski Construction, approximately $8.0 million was purchased from Resource Transport, approximately $70.6 million was purchased from Texas Specialty Sands, LLC, approximately $13.4 million was purchased from ProFuel, LLC, and approximately $1.1 million was related to facilities leased from Timber Creek Real Estate Partners. As of September 30, 2012, the Company s trade accounts payable includes amounts due to these companies totaling approximately $16.8 million, of which approximately $6.1 million was due ORTEQ Energy Services, approximately $1.9 million was due Ortowski Construction, approximately $1.1 million was due Resource Transport, approximately $5.9 million was due Texas Specialty Sands, approximately $1.5 million was due ProFuel, LLC, and approximately $0.3 million was due Timber Creek Real Estate Partners.

In May 2012, the Company s President and Chief Executive Officer was appointed as an independent director of the board of Linn Energy, LLC (Linn), an independent oil and natural gas development company with focus areas in the mid-continent, including the Permian Basin, the Hugoton Basin, the Powder River Basin, the Williston Basin, Michigan, as well as California. The Company recorded revenues from Linn of approximately $6.0 million and approximately $14.7 million for the three and nine month periods ended September 30, 2012, respectively. The Company had trade receivables from Linn of approximately $3.5 million as of September 30, 2012.

(20) Subsequent Events

In accordance with authoritative guidance, the Company has evaluated and disclosed all material subsequent events that occurred after the balance sheet date, but before financial statements were issued.

(21) Financial Information Related to Guarantor Subsidiaries

SESI, L.L.C. (Issuer), a 100% owned subsidiary of Superior Energy Services, Inc. (Parent), has $500 million of unsecured 6 3/8% senior notes due 2019 and $800 million of unsecured 7 1/8% senior notes due 2021. The Parent, along with certain of its 100% owned domestic subsidiaries, fully and unconditionally guaranteed the senior notes, and such guarantees are joint and several. Domestic income taxes are paid by the Parent through a consolidated tax return and are accounted for by the Parent. The Company has revised the comparative condensed consolidating financial information to reflect the Parent s and Issuer s investments in subsidiaries using the equity-method. The following tables present the condensed consolidating balance sheets as of September 30, 2012 and December 31, 2011, and the condensed consolidating statements of operations and cash flows for the three and nine months ended September 30, 2012 and 2011.

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Balance Sheets

September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$ 5,347	$ 20,707	$ 53,032	$	$ 79,086
Accounts receivable, net		703	957,210	232,004	(60,203)	1,129,714
Deferred Income Taxes	31,306					31,306
Income taxes receivable				1,802	(1,802)	
Prepaid expenses	85	8,905	47,710	45,506		102,206
Inventory and other current assets		1,675	153,994	24,528		180,197
Available-for-sale securities		20,321				20,321
Total current assets	31,391	36,951	1,179,621	356,872	(62,005)	1,542,830
Property, plant and equipment, net		6,603	2,526,831	629,839		3,163,273
Goodwill			2,119,477	408,835		2,528,312
Notes receivable			44,129			44,129
Investments in subsidiaries	2,108,911	4,776,411	577,825		(7,463,147)	
Intangible and other long-term assets, net		59,511	372,614	78,949		511,074
Total assets	$ 2,140,302	$ 4,879,476	$ 6,820,497	$ 1,474,495	$ (7,525,152)	$ 7,789,618
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	$	$ 5,487	$ 207,140	$ 111,032	$ (54,847)	$ 268,812
Accrued expenses	139	72,792	212,310	80,839	(5,433)	360,647
Income taxes payable	150,659				(1,802)	148,857
Current maturities of long-term debt		20,000				20,000
Total current liabilities	150,798	98,279	419,450	191,871	(62,082)	798,316
Deferred income taxes	709,077			17,957		727,034
Decommissioning liabilities			88,797	2,215		91,012
Long-term debt, net		1,909,416				1,909,416
Intercompany payables/(receivables)	(2,874,432)	730,801	2,706,197	(42,265)	(520,301)	
Other long-term liabilities	5,790	32,069	24,811	52,101		114,771
Stockholders equity:						
Preferred stock of $.01 par value						
Common stock of $.001 par value	157		782	4,212	(4,994)	157
Additional paid in capital	2,846,236	124,271	687,939	1,118,727	(1,930,937)	2,846,236
Accumulated other comprehensive income (loss), net	(20,432)	(20,432)	1,073	(19,790)	39,149	(20,432)
Retained earnings (accumulated deficit)	1,323,108	2,005,072	2,891,448	149,467	(5,045,987)	1,323,108

Total stockholders equity (deficit)	4,149,069	2,108,911	3,581,242	1,252,616	(6,942,769)	4,149,069
Total liabilities and stockholders equity	$ 2,140,302	$ 4,879,476	$ 6,820,497	$ 1,474,495	$ (7,525,152)	$ 7,789,618

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2011

(in thousands)

(audited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$ 29,057	$ 6,272	$ 44,945	$	$ 80,274
Accounts receivable, net		531	437,963	143,444	(41,336)	540,602
Income taxes receivable				698	(698)	
Prepaid expenses	34	3,893	9,796	20,314		34,037
Inventory and other current assets		1,796	214,381	12,132		228,309
Total current assets	34	35,277	668,412	221,533	(42,034)	883,222
Property, plant and equipment, net		2,758	1,096,036	408,574		1,507,368
Goodwill			437,614	143,765		581,379
Notes receivable			73,568			73,568
Investments in subsidiaries	1,650,049	2,833,659	20,062		(4,503,770)	
Equity-method investments		70,614		1,858		72,472
Intangible and other long-term assets, net		828,447	71,625	30,064		930,136
Total assets	1,650,083	3,770,755	2,367,317	805,794	(4,545,804)	4,048,145
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities:						
Accounts payable	$	$ 4,307	$ 128,996	$ 86,723	$ (41,381)	$ 178,645
Accrued expenses	164	54,000	105,512	38,503	(605)	197,574
Income taxes payable	1,415				(698)	717
Deferred income taxes	831					831
Current portion of decommissioning liabilities			14,956			14,956
Current maturities of long-term debt				810		810
Total current liabilities	2,410	58,307	249,464	126,036	(42,684)	393,533
Deferred income taxes	285,871			11,587		297,458
Decommissioning liabilities			108,220			108,220
Long-term debt, net		1,673,351		11,736		1,685,087
Intercompany payables/(receivables)	(96,989)	356,668	(253,053)	(7,276)	650	
Other long-term liabilities	5,192	32,380	26,704	45,972		110,248
Stockholders equity:						
Preferred stock of $.01 par value						
Common stock of $.001 par value	80			4,212	(4,212)	80
Additional paid in capital	447,007	124,271		517,209	(641,480)	447,007
Accumulated other comprehensive income (loss), net	(26,936)	(26,936)		(26,936)	53,872	(26,936)
Retained earnings (accumulated deficit)	1,033,448	1,552,714	2,235,982	123,254	(3,911,950)	1,033,448

Total stockholders equity (deficit)	1,453,599	1,650,049	2,235,982	617,739	(4,503,770)	1,453,599
Total liabilities and stockholders equity	$ 1,650,083	$ 3,770,755	$ 2,367,317	$ 805,794	$ (4,545,804)	$ 4,048,145

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Three Months Ended September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 1,003,373	$ 198,277	$ (21,985)	$ 1,179,665
Cost of services (exclusive of items shown separately below)			597,931	132,617	(21,940)	708,608
Depreciation, depletion, amortization and accretion		158	103,838	24,164		128,160
General and administrative expenses	83	31,229	102,073	30,118	(45)	163,458
Income (loss) from operations	(83)	(31,387)	199,531	11,378		179,439
Other income (expense):						
Interest expense, net		(28,592)	1,253	(779)		(28,118)
Loss on early extinguishment of debt		(2,294)				(2,294)
Earnings (losses) from consolidated subsidiaries	146,257	208,530	8,110		(362,897)	
Income (loss) from continuing operations before income taxes	146,174	146,257	208,894	10,599	(362,897)	149,027
Income taxes	52,288			2,852		55,140
Net income (loss) from continuing operations	93,886	146,257	208,894	7,747	(362,897)	93,887
Discontinued operations, net of income tax						
Net income (loss)	$ 93,886	$ 146,257	$ 208,894	$ 7,747	$ (362,897)	$ 93,887

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Comprehensive Income

Three Months Ended September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ 93,886	$ 146,257	$ 208,894	$ 7,747	$ (362,897)	$ 93,887
Unrealized net loss on investment securities, net of tax	2,198	2,198			(2,198)	2,198
Change in cumulative translation adjustment	7,216	7,216	1,529	7,216	(15,961)	7,216

Comprehensive income (loss)	$ 103,300	$ 155,671	$ 210,423	$ 14,963	$ (381,056)	$ 103,301

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Three Months Ended September 30, 2011 *

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 450,186	$ 104,476	$ (17,620)	$ 537,042
Cost of services (exclusive of items shown separately below)			222,930	79,716	(17,522)	285,124
Depreciation, depletion, amortization and accretion		131	51,634	10,042		61,807
General and administrative expenses	81	17,880	58,426	17,524	(98)	93,813
Income (loss) from operations	(81)	(18,011)	117,196	(2,806)		96,298
Other income (expense):						
Interest expense, net		(20,631)	1,253	484		(18,894)
Intercompany interest income (expense)		6,822		(6,822)		
Earnings (losses) from consolidated subsidiaries	94,682	118,768	881		(214,331)	
Earnings (losses) from equity-method investments, net		8,198				8,198
Income (loss) from continuing operations before income taxes	94,601	95,146	119,330	(9,144)	(214,331)	85,602
Income taxes	32,268			(1,465)		30,803
Net income (loss) from continuing operations	62,333	95,146	119,330	(7,679)	(214,331)	54,799
Discontinued operations, net of income tax	(2,753)	(464)	8,073	(75)		4,781
Net income (loss)	$ 59,580	$ 94,682	$ 127,403	$ (7,754)	$ (214,331)	$ 59,580

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Comprehensive Income

Three Months Ended September 30, 2011 *

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ 59,580	$ 94,682	$ 127,403	$ (7,754)	$ (214,331)	$ 59,580
Change in cumulative translation adjustment	(6,027)	(6,027)		(6,027)	12,054	(6,027)
Comprehensive income (loss)	$ 53,553	$ 88,655	$ 127,403	$ (13,781)	$ (202,277)	$ 53,553

* As adjusted for discontinued operations

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Nine Months Ended September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 2,933,132	$ 562,010	$ (105,321)	$ 3,389,821
Cost of services (exclusive of items shown separately below)			1,693,002	378,848	(105,191)	1,966,659
Depreciation, depletion, amortization and accretion		527	306,161	59,584		366,272
General and administrative expenses	311	117,485	302,567	76,765	(130)	496,998
Income (loss) from operations	(311)	(118,012)	631,402	46,813		559,892
Other income (expense):						
Interest expense, net		(88,322)	2,446	(2,225)		(88,101)
Loss on early extinguishment of debt		(2,294)				(2,294)
Earnings (losses) from consolidated subsidiaries	452,358	645,368	36,311		(1,134,037)	
Earnings (losses) from equity-method investments, net		(287)				(287)
Gain on sale of equity-method investment		17,880				17,880
Income (loss) from continuing operations before income taxes	452,047	454,333	670,159	44,588	(1,134,037)	487,090
Income taxes	164,857			15,366		180,223
Net income (loss) from continuing operations	287,190	454,333	670,159	29,222	(1,134,037)	306,867
Discontinued operations, net of income tax	2,470	(1,975)	(14,693)	(3,009)		(17,207)
Net income (loss)	$ 289,660	$ 452,358	$ 655,466	$ 26,213	$ (1,134,037)	$ 289,660

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Comprehensive Income

Nine Months Ended September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated

Net income (loss)	$ 289,660	$ 452,358	$ 655,466	$ 26,213	$ (1,134,037)	$ 289,660
Unrealized net loss on investment securities, net of tax	(642)	(642)			642	(642)
Change in cumulative translation adjustment	7,146	7,146	1,073	7,146	(15,365)	7,146
Comprehensive income (loss)	$ 296,164	$ 458,862	$ 656,539	$ 33,359	$ (1,148,760)	$ 296,164

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Nine Months Ended September 30, 2011 *

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$	$	$ 1,176,163	$ 279,475	$ (53,706)	$ 1,401,932
Cost of services (exclusive of items shown separately below)			600,340	205,954	(53,481)	752,813
Depreciation, depletion, amortization and accretion		388	145,731	31,532		177,651
General and administrative expenses	611	56,360	162,817	52,680	(225)	272,243
Income (loss) from operations	(611)	(56,748)	267,275	(10,691)		199,225
Other income (expense):						
Interest expense, net		(50,691)	3,523	(141)		(47,309)
Intercompany interest income (expense)		19,633		(19,633)		
Earnings (losses) from consolidated subsidiaries	190,643	267,082	2,062		(459,787)	
Earnings (losses) from equity-method investments, net		12,598		1,126		13,724
Income (loss) from continuing operations before income taxes	190,032	191,874	272,860	(29,339)	(459,787)	165,640
Income taxes	57,057			2,532		59,589
Net income (loss) from continuing operations	132,975	191,874	272,860	(31,871)	(459,787)	106,051
Discontinued operations, net of income tax	(9,783)	(1,231)	28,289	(134)		17,141
Net income (loss)	$ 123,192	$ 190,643	$ 301,149	$ (32,005)	$ (459,787)	$ 123,192

SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Consolidating Statements of Comprehensive Income

Nine Months Ended September 30, 2011 *

(in thousands)

(unaudited)

Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated

Net income (loss)	$ 123,192	$ 190,643	$ 301,149	$ (32,005)	$ (459,787)	$ 123,192
Change in cumulative translation adjustment	2,539	2,539		2,539	(5,078)	2,539
Comprehensive income (loss)	$ 125,731	$ 193,182	$ 301,149	$ (29,466)	$ (464,865)	$ 125,731

* As adjusted for discontinued operations

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2012

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 289,660	$ 452,358	$ 655,466	$ 26,213	$ (1,134,037)	$ 289,660
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation, depletion, amortization and accretion		527	307,270	59,721		367,518
Deferred income taxes	(18,204)			3,459		(14,745)
Excess tax benefit from stock-based compensation	(1,537)					(1,537)
Gain on sale of equity-method investment		(17,880)				(17,880)
Stock-based and performance share unit compensation expense		27,845				27,845
Retirement and deferred compensation plan expense		1,455				1,455
(Earnings) losses from consolidated subsidiaries	(452,358)	(645,368)	(36,311)		1,134,037	
(Earnings) losses from equity-method investments, net of cash received		2,787		553		3,340
Amortization of debt acquisition costs and note discount		7,439				7,439
Loss on sale of businesses			6,649			6,649
Write-off of debt acquisition costs and discount		2,714		746		3,460
Other reconciling items, net		3,139	(1,780)	223		1,582
Changes in operating assets and liabilities, net of acquisitions and dispositions:						
Accounts receivable		(172)	(126,960)	(17,184)		(144,316)
Inventory and other current assets		121	90,221	(5,223)		85,119
Accounts payable		1,180	(8,524)	6,587		(757)
Accrued expenses	(24)	9,049	(52,395)	13,535		(29,835)
Decommissioning liabilities			(4,566)	(58)		(4,624)
Income taxes	145,424			(3,508)		141,916
Other, net	(51)	(4,087)	(6,379)	(15,184)		(25,701)
Net cash provided by (used in) operating activities	(37,090)	(158,893)	822,691	69,880		696,588
Cash flows from investing activities:						
Payments for capital expenditures		(5,041)	(799,330)	(113,822)		(918,193)
Sale of available-for-sale securities		31,150				31,150
Acquisitions of businesses, net of cash acquired		(1,229,327)	106,952	49,843		(1,072,532)
Change in restricted cash held for acquisition of business		785,280				785,280
Cash proceeds from sale of businesses		183,094				183,094
Cash proceeds from the sale of equity-method investment		34,087				34,087
Other			25,022	3,416		28,438
Intercompany receivables/payables	19,834	108,725	(140,900)	12,341		
Net cash provided by (used in) investing activities	19,834	(92,032)	(808,256)	(48,222)		(928,676)
Cash flows from financing activities:						
Net payments on revolving line of credit		15,000				15,000
Proceeds from long-term debt		400,000				400,000
Principal payments on long-term debt		(160,000)		(12,546)		(172,546)
Payment of debt acquisition costs		(25,266)				(25,266)
Proceeds from exercise of stock options	13,915					13,915
Excess tax benefit from stock-based compensation	1,537					1,537

Proceeds from issuance of stock through employee benefit plans	2,193					2,193
Other	(389)	(2,519)		(2,935)		(5,843)
Net cash provided by (used in) financing activities	17,256	227,215		(15,481)		228,990
Effect of exchange rate changes on cash				1,910		1,910
Net increase (decrease) in cash and cash equivalents		(23,710)	14,435	8,087		(1,188)
Cash and cash equivalents at beginning of period		29,057	6,272	44,945		80,274
Cash and cash equivalents at end of period	$	$ 5,347	$ 20,707	$ 53,032	$	$ 79,086

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SUPERIOR ENERGY SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2011

(in thousands)

(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 123,192	$ 190,643	$ 301,149	$ (32,005)	$ (459,787)	$ 123,192
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation, depletion, amortization and accretion		388	154,827	32,337		187,552
Deferred income taxes	39,503			(603)		38,900
Excess tax benefit from stock-based compensation	(10,262)					(10,262)
Stock-based and performance share unit compensation expense		10,273				10,273
Retirement and deferred compensation plan expense		1,994				1,994
(Earnings) losses from consolidated subsidiaries	(190,643)	(267,082)	(2,062)		459,787	
(Earnings) losses from equity-method investments, net of cash received		(11,061)		(1,126)		(12,187)
Amortization of debt acquisition costs and note discount		19,321		12		19,333
Gain on sale of businesses			(8,558)			(8,558)
Other reconciling items, net		(1,279)	(3,380)			(4,659)
Changes in operating assets and liabilities, net of acquisitions and dispositions:						
Accounts receivable		(1,072)	(23,515)	(4,012)		(28,599)
Inventory and other current assets		99	14,281	(2,965)		11,415
Accounts payable		(2,956)	2,830	3,190		3,064
Accrued expenses	(13)	9,810	11,034	6,376		27,207
Income taxes	5,444			(4,667)		777
Other, net	(44)	(4,798)	8,395	(870)		2,683
Net cash provided by (used in) operating activities	(32,823)	(55,720)	455,001	(4,333)		362,125
Cash flows from investing activities:						
Payments for capital expenditures		(70)	(263,983)	(65,176)		(329,229)
Purchases of short-term investments, net		(223,491)				(223,491)
Acquisitions of businesses, net of cash acquired			(200)	(548)		(748)
Cash proceeds from sale of businesses			22,349			22,349
Other			(720)			(720)
Intercompany receivables/payables	10,648	123,465	(212,895)	78,782		
Net cash provided by (used in) investing activities	10,648	(100,096)	(455,449)	13,058		(531,839)
Cash flows from financing activities:						
Net payments on revolving line of credit		(175,000)				(175,000)
Proceeds from issuance of long-term debt		500,000				500,000
Principal payments on long-term debt				(405)		(405)
Payment of debt acquisition costs		(9,558)				(9,558)
Proceeds from exercise of stock options	10,211					10,211
Excess tax benefit from stock-based compensation	10,262					10,262
Proceeds from issuance of stock through employee benefit plans	1,702					1,702
Other		(6,100)		(2,353)		(8,453)

Net cash provided by (used in) financing activities	22,175	309,342		(2,758)		328,759
Effect of exchange rate changes on cash				409		409
Net increase (decrease) in cash and cash equivalents		153,526	(448)	6,376		159,454
Cash and cash equivalents at beginning of period			5,493	45,234		50,727
Cash and cash equivalents at end of period	$	$ 153,526	$ 5,045	$ 51,610	$	$ 210,181

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

Forward-Looking Statements

Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements which involve risks and uncertainties. All statements other than statements of historical fact included in this section regarding our financial position and liquidity, strategic alternatives, future capital needs, business strategies and other plans and objectives of our management for future operations and activities are forward-looking statements. These statements are based on certain assumptions and analyses made by our management in light of its experience and its perception of historical trends, current market and industry conditions, expected future developments and other factors it believes are appropriate under the circumstances. Such forward-looking statements are subject to uncertainties that could cause our actual results to differ materially from such statements. Such uncertainties include, but are not limited to: risks inherent in acquiring businesses, including the ability to successfully integrate Complete s operations into our legacy operations and the costs incurred in doing so; the effect of regulatory programs and environmental matters on our performance, including the risk that future changes in the regulation of hydraulic fracturing could reduce or eliminate demand for our pressure pumping services; risks associated with business growth outpacing the capabilities of our infrastructure and workforce; risks associated with the uncertainty of macroeconomic and business conditions worldwide; the cyclical nature and volatility of the oil and gas industry, including the level of offshore exploration, production and development activity and the volatility of oil and gas prices; changes in competitive factors affecting our operations; political, economic and other risks and uncertainties associated with international operations; the lingering impact on exploration and production activities in the U.S. coastal waters following the Deepwater Horizon incident; the impact that unfavorable or unusual weather conditions could have on our operations; the potential shortage of skilled workers; our dependence on certain customers; the risks inherent in long-term fixed-price contracts; and, operating hazards, including the significant possibility of accidents resulting in personal injury or death, property damage or environmental damage. These risks and other uncertainties related to our business are described in detail in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Investors are cautioned that many of the assumptions on which our forward-looking statements are based are likely to change after our forward-looking statements are made, including for example the market prices of oil and natural gas and regulations affecting oil and gas operations, which we cannot control or anticipate. Further, we may make changes to our business plans that could or will affect our results. We undertake no obligation to update any of our forward-looking statements and we do not intend to update our forward-looking statements more frequently than quarterly, notwithstanding any changes in our assumptions, changes in our business plans, our actual experience, or other changes. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Executive Summary

On February 7, 2012, we closed our acquisition of Complete Production Services, Inc. (Complete). Our third quarter includes results from the legacy Complete businesses for the entire quarter. Given the substantial nature of this acquisition and its impact on our financial performance, comparisons between our results for three and nine months ended September 30, 2012 and 2011 may not be meaningful.

For the quarter ended September 30, 2012, revenue was $1,179.7 million, net income from continuing operations was $93.9 million and diluted earnings per share from continuing operations was $0.59. These results include a $2.3 million pre-tax loss on early extinguishment of debt.

In the subsea and well enhancement segment, U.S. land revenue was $702.6 million, which represents an 11% sequential decrease due primarily to contraction in the market for completion and intervention services. As a result, we experienced lower utilization of pressure pumping, coiled tubing and fluid management assets. Gulf of Mexico revenue, although adversely impacted by downtime associated with Hurricane Isaac, increased 16% to approximately $127.8 million primarily due to an increase in end of life services and sand control completion tools and services. International revenue increased 9% to approximately $154.4 million as a result of an acquisition of a business that provides wireline and well testing services in South America, coupled with an increase in sales of completion tools in the Asia Pacific region.

Third quarter 2012 revenue for the drilling products and services segment was $194.9 million, as compared with $163.5 million in the third quarter of 2011, a 19% year-over-year improvement, and $198.2 million in the second quarter of 2012, a 2% sequential decline. Gulf of Mexico revenue increased 1% sequentially to approximately $61.6 million primarily due to increased rentals of bottom hole assemblies. U.S. land market area revenue decreased sequentially to $85.0 million due to decrease in demand for bottom hole assemblies and premium drill pipe. International revenue was essentially unchanged sequentially at approximately $48.3 million.

Our third quarter 2012 income from continuing operations as a percentage of revenue (operating margin) declined 20% sequentially to 15% due to lower revenue associated with a decline in utilization for completion and intervention services in the U.S. land market area, downtime associated with Hurricane Isaac in the Gulf of Mexico and delays on the completion of a spill containment system for a customer in Alaska. We expect this spill containment system to be completed and working for our customer during the 2013 arctic drilling season.

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Comparison of the Results of Operations for the Three Months Ended September 30, 2012 and 2011

For the three months ended September 30, 2012, our revenues were $1,179.7 million, resulting in net income from continuing operations of $93.9 million, or $0.59 diluted earnings per share from continuing operations. These results include a $2.3 million pretax loss on early extinguishment of debt. For the three months ended September 30, 2011, revenues were $537.0 million and net income from continuing operations was $54.8 million, or $0.67 diluted earnings per share from continuing operations. Revenues for the three months ended September 30, 2012 were substantially higher in the subsea and well enhancement segment primarily due to the contribution of $582.2 million from the legacy Complete businesses, coupled with increases related to well control projects, platform decommissioning and sales of completion tools in our legacy product service lines. Revenue also increased in the drilling products and services segment primarily due to increased rentals of bottom hole assemblies and premium drill pipe.

The following table compares our operating results for the three months ended September 30, 2012 and 2011 (in thousands, except percentages). Cost of services excludes depreciation, depletion, amortization and accretion.

	Revenue			Cost of Services				
	2012	2011	Change	2012	%	2011	%	Change
Subsea and Well Enhancement	$ 984,783	$ 373,586	$ 611,197	$ 646,649	66%	$ 226,586	61%	$ 420,063
Drilling Products and Services	194,882	163,456	31,426	61,959	32%	58,538	36%	3,421
Total	$ 1,179,665	$ 537,042	$ 642,623	$ 708,608	60%	$ 285,124	53%	$ 423,484

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

Subsea and Well Enhancement

Revenue from our subsea and well enhancement segment was $984.8 million for the three months ended September 30, 2012, as compared with $373.6 million for the same period in 2011. This segment s revenue increase is attributable to the contribution of $582.2 million from the legacy Complete businesses, along with increases related to well control projects, platform decommissioning and sales of completion tools in our legacy product service lines. The cost of services percentage increased to 66% of segment revenue for the three months ended September 30, 2012 from 61% for the same period in 2011 due to changes in business mix as a result of the Complete acquisition. Revenue from our U.S. land market area attributable to our legacy businesses was essentially unchanged. We experienced a decrease in demand for our coiled tubing services that was offset with an increase in demand for our pressure control tools. Revenue from our international market areas increased approximately 68% due to the addition of Complete s coiled tubing operations in Mexico, our recent acquisition of a wireline and well testing company in Argentina, increases in sales of sand control completion tools and demand for well control services. Revenue from our Gulf of Mexico market area was essentially unchanged.

Drilling Products and Services Segment

Revenue from our drilling products and services segment for the three months ended September 30, 2012 was $194.9 million, as compared to $163.5 million for the same period in 2011. Cost of rentals and sales decreased to 32% of segment revenue for the three months ended September 30, 2012 as compared to 36% for the same period in 2011 as a result of revenue growth and business mix. Revenue in our U.S. land market area increased approximately 13% for the three month period ended September 30, 2012 over the same period in 2011 primarily due to increased demand for premium drill pipe. Revenue generated in our international market areas increased 2% during the quarter ended September 30, 2012 over the same period in 2011 primarily due to increases in rentals of premium drill pipe and bottom hole assemblies. Revenue from our Gulf of Mexico market area increased approximately 50% due to substantial increases in rentals of bottom hole assemblies and premium drill pipe as a result of the ongoing recovery of the deepwater market.

Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion increased to $128.2 million in the three months ended September 30, 2012 from $61.8 million for the same period in 2011. Depreciation, depletion, amortization and accretion expense related to our subsea and well enhancement segment for the three months ended September 30, 2012 increased approximately $61.8 million from the same period in 2011. This increase is primarily due to the Complete acquisition, along with 2011 and 2012 capital expenditures. Depreciation and amortization expense increased within our drilling products and services segment by $4.6 million, or 14%, from the same period in 2011 due to 2011 and 2012 capital expenditures.

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General and Administrative Expenses

General and administrative expenses were $163.5 million for the three months ended September 30, 2012 compared to $93.8 million for the same period in 2011. The change is primarily related to our 2012 acquisitions, coupled with additional infrastructure to support our growth strategy.

Comparison of the Results of Operations for the Nine Months Ended September 30, 2012 and 2011

For the nine months ended September 30, 2012, our revenues were $3,389.8 million, resulting in net income from continuing operations of $306.9 million, or $2.07 diluted earnings per share from continuing operations. Included in the results for the nine months ended September 30, 2012 were approximately $30.6 million of acquisition related costs, $3.1 million in unrealized pre-tax hedging losses from our equity-method investment in Dynamic Offshore, a pre-tax gain of approximately $17.9 million from the sale of that equity-method investment and a $2.3 million pre-tax loss on early extinguishment of debt. For the nine months ended September 30, 2011, revenues were $1,401.9 million and net income from continuing operations was $106.1 million, or $1.31 diluted earnings per share from continuing operations. Revenues for the nine months ended September 30, 2012 were substantially higher in the subsea and well enhancement segment primarily due to the contribution of $1,637.6 million from the legacy Complete businesses, coupled with increases in our legacy well control, decommissioning, hydraulic workover and snubbing, subsea inspection, repair and maintenance, remedial pumping service lines. Revenue also increased in the drilling products and services segment primarily due to increased rentals of accommodation units, bottom hole assemblies and premium drill pipe.

The following table compares our operating results for the nine months ended September 30, 2012 and 2011 (in thousands, except percentages). Cost of services excludes depreciation, depletion, amortization and accretion.

	Revenue			Cost of Services				
	2012	2011	Change	2012	%	2011	%	Change
Subsea and Well Enhancement	$ 2,807,432	$ 961,039	$ 1,846,393	$ 1,775,649	63%	$ 590,951	61%	$ 1,184,698
Drilling Products and Services	582,389	440,893	141,496	191,010	33%	161,862	37%	29,148
Total	$ 3,389,821	$ 1,401,932	$ 1,987,889	$ 1,966,659	58%	$ 752,813	54%	$ 1,213,846

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

Subsea and Well Enhancement Segment

Revenue from our subsea and well enhancement segment was $2,807.4 million for the nine months ended September 30, 2012, as compared with $961.0 million for the same period in 2011. Cost of services increased slightly to 63% of segment revenue for the nine months ended September 30, 2012 as compared to 61% in the same period in 2011 primarily due to changes in business mix resulting from the Complete acquisition. This segment s revenue increase is attributable to the $1,637.6 million contribution from the legacy Complete businesses, and to increases in our legacy well control, coiled tubing, hydraulic workover and snubbing, and completion tools product service lines. Revenue from our U.S. land market area attributable to our legacy businesses increased approximately 24%, primarily related to increases in demand for pressure control tools and remedial pumping services. Revenue from our international market areas increased approximately 77% due to the addition of Complete s coiled tubing services in Mexico, our recent acquisition of a wireline and well testing company in Argentina, and increases in demand for hydraulic workover and snubbing, subsea inspection, repair and maintenance and emergency well control services. Revenue from our Gulf of Mexico market area increased approximately 5% primarily due to increases in demand for end of life services, marine engineering projects, and hydraulic workover and snubbing services.

Drilling Products and Services Segment

Revenue from our drilling products and services segment for the nine months ended September 30, 2012 was $582.4 million, as compared to $440.9 million for the same period in 2011. Cost of rentals and sales as a percentage of revenue decreased to 33% of segment revenue for the six months ended September 30, 2012 from 37% in the same period in 2011 as a result of revenue growth and business mix. Revenue in our U.S. land market area increased approximately 29% for the nine month period ended September 30, 2012 over the same period in 2011. The increase in revenue for this geographic market area is attributable to overall growth in most of our product lines within this segment despite recent contraction in demand for products and services in the U.S. land market. Revenue generated from our international market areas increased approximately 11% for the nine months ended September 30, 2012 as compared to the same period in 2011 due primarily to an increase in demand for premium drill pipe in Brazil. Revenue from our Gulf of Mexico market area increased approximately 64% due to a substantial increase in rentals of bottom hole assemblies and premium drill pipe as a result of the ongoing recovery of the deepwater market.

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Depreciation, Depletion, Amortization and Accretion

Depreciation, depletion, amortization and accretion increased to $366.3 million in the nine months ended September 30, 2012 from $177.7 million for the same period in 2011. Depreciation, depletion, amortization and accretion expense related to our subsea and well enhancement segment for the nine months ended September 30, 2012 increased approximately $173.7 million from the same period in 2011, which is primarily attributable to the acquisition of Complete, along with 2011 and 2012 capital expenditures. Depreciation and amortization expense for the nine months ended September 30, 2012 increased within our drilling products and services segment by $15.0 million, or 16%, from the same period in 2011 due to 2011 and 2012 capital expenditures.

General and Administrative Expenses

General and administrative expenses were $497.0 million for the nine months ended September 30, 2012 compared to $272.2 million for the same period in 2011. The change is primarily related to our 2012 acquisitions, including acquisition related expenses of approximately $30.6 million, coupled with additional infrastructure to support our growth strategy.

Liquidity and Capital Resources

In the nine months ended September 30, 2012, we generated net cash from operating activities of $697.6 million as compared to $362.1 million in the same period of 2011. Our primary liquidity needs are for working capital and to fund capital expenditures, debt service and acquisitions. Our primary sources of liquidity are cash flows from operations and available borrowings under the revolving portion of our bank credit facility. We had cash and cash equivalents of $79.1 million at September 30, 2012 compared to $80.3 million at December 31, 2011. At September 30, 2012, approximately $52.4 million of our cash balance was held outside the U.S. Cash balances held in foreign jurisdictions can be repatriated to the U.S.; however, they would be subject to federal income taxes, less applicable foreign tax credits. The Company has not provided U.S. income tax expense on earnings of its foreign subsidiaries, other than foreign subsidiaries acquired in the Complete acquisition, because it expects to reinvest the undistributed earnings indefinitely.

On February 15, 2012, we sold a derrick barge for approximately $44.5 million, inclusive of selling costs. On March 30, 2012, we sold 18 liftboats and related assets comprising our marine segment for approximately $138.6 million, inclusive of working capital and selling costs. In connection with the sale, we repaid $12.5 million in U.S. Government guaranteed long-term financing. We also paid approximately $4.0 million of make-whole premiums as a result of this repayment. A portion of the proceeds from these dispositions was used to repay the balance on the revolving portion of our credit facility. In April 2012, we received approximately $34.1 million in cash as partial consideration for our 10% interest in Dynamic Offshore. As a result of these dispositions, the deferred tax liabilities previously recorded to reflect financial accounting and tax accounting differences have reversed and resulted in current tax payable. We estimate that the tax due on these transactions will be approximately $74.0 million. Additionally, we sold approximately 5.6 million shares of SandRidge stock that we received as partial consideration for our 10% interest in Dynamic Offshore for approximately $41.9 million. We also expect to collect approximately $100.0 million during the remainder of 2012 in connection with the large-scale platform decommissioning project in the Gulf of Mexico. Because these amounts were billed in the third quarter of 2012, approximately $38.0 million of deferred tax previously recorded to reflect financial accounting and tax accounting differences have reversed and resulted in a current tax payable. As such, we estimate that we will pay approximately $160.0 million in U.S. income tax in the first quarter of 2013, most of which was delayed due to the extension granted to areas affected by Hurricane Isaac.

We spent $918.2 million of cash on capital expenditures during the nine months ended September 30, 2012. Approximately $727.1 million was used to expand and maintain the asset base of our subsea and well enhancement segment and approximately $191.1 million was used to expand and maintain our drilling products and services equipment inventory.

On February 7, 2012, in connection with the Complete acquisition, we amended our bank credit facility to increase the revolving borrowing capacity to $600 million from $400 million, and to include 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. Any amounts outstanding on the bank revolving credit facility and the term loan are due on February 7, 2017. At September 30, 2012, we had $90.0 million outstanding under the revolving credit facility with a weighted average interest rate of 2.67% per annum. The average amount outstanding during third quarter was approximately $131.6 million with a weighted average interest rate of 2.83% per annum. The maximum amount outstanding during the third quarter was $150.0 million, as this amount was borrowed for the partial redemption of our $300 million 6 7/8% unsecured notes due 2014. As of November 2, 2012, we had approximately $105.0 million outstanding under the revolving credit facility along with $49.0 million of letters of credit outstanding at November 2, 2012, which reduces our borrowing capacity under this credit facility. Borrowings under the bank credit facility bear interest at LIBOR plus margins that depend on our leverage ratio. Indebtedness under the bank credit facility is secured by substantially all of our assets, including the pledge of the stock of our principal domestic subsidiaries. The bank credit facility contains customary events of default and requires that we satisfy various financial covenants. It also limits our ability to pay dividends or make other distributions, make acquisitions, create liens or incur additional indebtedness. At September 30, 2012, we were in compliance with all such covenants.

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In August 2012, we redeemed $150 million, or 50%, of the principal amount of our $300 million 6 7/8% unsecured senior notes due 2014 at 100% of face value. This redemption resulted in a loss on early extinguishment of debt of approximately $2.3 million related to the writeoff of a portion of debt acquisition costs and note discount. The indenture governing the remaining $150 million 6 7/8% senior notes outstanding requires semi-annual interest payments on June 1st and December 1st of each year through the maturity date of June 1, 2014. The indenture contains certain covenants that, among other things, limit us from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions. At September 30, 2012, we were in compliance with all such covenants.

We have outstanding $500 million of 6 3/8% unsecured senior notes due 2019. The indenture governing the 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 indenture contains certain covenants that, among other things, limit us from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions. At September 30, 2012, we were in compliance with all such covenants.

We also have 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. The indenture contains certain covenants that, among other things, limit us from incurring additional debt, repurchasing capital stock, paying dividends or making other distributions, incurring liens, selling assets or entering into certain mergers or acquisitions. At September 30, 2012, we were in compliance with all such covenants.

Our current long-term issuer credit rating is BBB- by Standard and Poor s and Ba1 by Moody s. Moody s upgraded our corporate credit rating from Ba2 to Ba1 with a stable outlook on October 10, 2012.

The following table summarizes our projected contractual cash obligations and commercial commitments at September 30, 2012 (amounts in thousands). We do not have any other material obligations or commitments.

Description	Remaining Three Months 2012	2013	2014	2015	2016	Thereafter
Long-term debt, including estimated interest payments	59,168	139,056	283,050	127,044	126,194	2,061,593
Capital lease obligations, including estimated interest payments	1,556	6,225	6,225	6,225	6,225	12,969
Decommissioning liabilities, undiscounted		3,898	33,138	3,517	3,517	128,617
Operating leases	16,586	50,950	35,184	21,613	15,223	37,791
Vessel construction	29,833	14,917				
Other long-term liabilities		16,633	16,488	14,315	6,466	34,253
Total	$ 107,143	$ 231,679	$ 374,085	$ 172,714	$ 157,625	$ 2,275,223

We currently believe that we will spend approximately $200 million to $250 million on capital expenditures, excluding acquisitions, during the remaining three months of 2012. We believe that our current working capital, cash generated from our operations and availability under the revolving portion of our credit facility will provide sufficient funds for our identified capital projects.

We are currently constructing a compact semi-submersible vessel. This vessel is designed for both shallow and deepwater conditions and will be capable of performing subsea construction, inspection, repairs and maintenance work, as well as subsea light well intervention and abandonment work. This vessel is expected to be delivered during the first half of 2013.

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 under 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 credit facility.

Off-Balance Sheet Financing Arrangements

We have no off-balance sheet financing arrangements other than potential additional consideration that may be payable as a result of the future operating performance of certain acquired businesses. At September 30, 2012, the maximum additional consideration payable was approximately $14.0 million, of which $3.0 million is attributable to an acquisition that occurred before we adopted the revised authoritative guidance for business combinations. Therefore, this $3.0 million is not classified as a liability and is not reflected in our condensed consolidated financial statements until this amount is fixed and determinable. When this amount is determined, it will be capitalized as part of the purchase price of the related acquisition.

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In accordance with authoritative guidance related to guarantees, we have assigned an estimated value of $2.6 million at September 30, 2012 and December 31, 2011, which is reflected in other long-term liabilities, related to decommissioning activities in connection with oil and gas properties acquired by SPN Resources prior to its sale to Dynamic Offshore. The Company believes that the likelihood of being required to perform these guarantees is remote. In the unlikely event of default on any remaining decommissioning liabilities, the total maximum potential obligation under these guarantees is estimated to be approximately $115.9 million, net of the contractual right to receive payments from third parties, which is approximately $24.6 million, as of September 30, 2012. The total maximum potential obligation will decrease over time as the underlying obligations are fulfilled.

Hedging Activities

In April 2012, we entered into an interest rate swap related to our debt maturing in December 2021 for a notional amount of $100 million, whereby we are entitled to receive semi-annual interest payments at a fixed rate of 7 1/8% per annum and are obligated to make semi-annual interest payments at a variable rate. The variable interest rate, which is adjusted every 90 days, is based on LIBOR plus a fixed margin and is scheduled to terminate on December 15, 2021.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in currency exchange rates, interest rates, equity prices, and oil and gas prices as discussed below.

Foreign Currency Exchange Rates

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

We do not hold derivatives for trading purposes or use derivatives with complex features. Assets and liabilities of our subsidiaries whose functional currency is not the U.S. dollar are translated at end of period exchange rates, while income and expense are translated at average rates for the period. Translation gains and losses are reported as the foreign currency translation component of accumulated other comprehensive loss in stockholders equity.

Interest Rate Risk

At September 30, 2012, our debt was comprised of the following (in thousands):

	Fixed Rate Debt	Variable Rate Debt
Bank credit facility term loan due 2017	$	$ 390,000
Revolving credit facility due 2017		90,000
6 7/8 % Senior notes due 2014	150,000	
6 3/8 % Senior notes due 2019	500,000	
7 1/8 % Senior notes due 2021	700,000	100,000
Total Debt	$ 1,350,000	$ 580,000

Based on the amount of this debt outstanding at September 30, 2012, a 10% increase in the variable interest rate would increase our interest expense for the nine months ended September 30, 2012 by approximately $1.2 million, while a 10% decrease would decrease our interest expense by approximately $1.2 million.

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Commodity Price Risk

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

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

Item 4. Controls and Procedures

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

b. Changes in internal control. There has been no change in our internal control over financial reporting that occurred during the three months ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. On February 7, 2012, we acquired Complete. For purposes of determining the effectiveness of our disclosure controls and procedures and any change in our internal control over financial reporting for the period covered by this quarterly report on Form 10-Q, management has excluded Complete from its evaluation of these matters. The acquired business represented approximately 46% of our consolidated total assets at September 30, 2012. Management will continue to evaluate our internal controls over financial reporting

PART II. OTHER INFORMATION

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	
July 1 31, 2012	739	$	21.79
August 1 31, 2012	423	$	20.68
September 1 30, 2012	1,409	$	22.34
Total	2,571	$	21.91

(1) Through our stock incentive plans, 2,571 shares were delivered to us by our employees to satisfy their tax withholding requirements upon vesting of restricted stock.

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Item 6. Exhibits

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

2.1	Agreement and Plan of Merger Agreement and Plan of Merger, dated October 9, 2011, by and among Superior Energy Services, Inc., SPN Fairway Acquisition, Inc. and Complete Production Services, Inc. (incorporated herein by reference to the Company s Current Report on Form 8-K filed October 12, 2011).
3.1	Composite Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company s Form 10-K filed on February 28, 2012).
3.2	Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company s Form 8-K filed on March 12, 2012).
10.1^*	Superior Energy Services, Inc. Amended and Restated Legacy CPX 2008 Incentive Award Plan.
31.1*	Officer s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Officer s certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Officer s certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Officer s certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed with this Form 10-Q
^ Management contract or compensatory plan or arrangement

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SIGNATURE

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

SUPERIOR ENERGY SERVICES, INC.

Date: November 8, 2012

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

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