ENSCO PLC

FORM 10-QT
(Quarterly Transition Report)

Filed 05/04/94 for the Period Ending 03/31/94

Telephone	4402076594660
CIK	0000314808
Symbol	ESV
SIC Code	1381 - Drilling Oil and Gas Wells
Industry	Oil Well Services & Equipment
Sector	Energy
Fiscal Year	12/31

ENSCO INTERNATIONAL INC

FORM 10-QT
(Quarterly Transition Report)

Filed 5/4/1994 For Period Ending 3/31/1994

Address	500 NORTH AKARD STREET SUITE 4300
	DALLAS, Texas 75201-3331
Telephone	214-397-3000
CIK	0000314808
Industry	Oil Well Services & Equipment
Sector	Energy
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended March 31, 1994

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from [ ] to [ ]

Commission File Number 1-8097

ENERGY SERVICE COMPANY, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	76-0232579
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2700 Fountain Place 1445 Ross Avenue, Dallas Texas	75202 - 2792
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:(214) 922-1500

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 twelve 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 [ ]

There were 224,066,380 shares of Common Stock, $.10 par value, of the registrant outstanding as of May 3, 1994.

Page 1 of 17 sequentially numbered pages.

ENERGY SERVICE COMPANY, INC.

INDEX TO FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 1994

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ENERGY SERVICE COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	MARCH 31, 1994 (Unaudited)	DECEMBER 31, 1993
ASSETS	(In thousands)	
CURRENT ASSETS		
Cash and Cash Equivalents	$ 88,778	$128,060
Accounts Receivable, net	49,289	51,232
Inventory	3,531	3,350
Net Assets of Discontinued Operations	-	399
Prepaid Expenses and Other	9,578	9,950
Total Current Assets	151,176	192,991
INVESTMENTS	8,520	8,276
PROPERTY AND EQUIPMENT, AT COST	652,725	580,730
Less Accumulated Depreciation	136,423	124,713
Property and Equipment, net	516,302	456,017
OTHER ASSETS		
Goodwill	28,217	28,636
Other	4,506	5,492
Total Other Assets	32,723	34,128
	$708,721	$691,412
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 4,721	$ 3,448
Accrued Liabilities	38,615	35,240
Current Maturities of Long-Term Debt	31,327	27,198
Total Current Liabilities	74,663	65,886
LONG-TERM DEBT	123,417	125,983
DEFERRED INCOME TAXES	27,596	26,856
OTHER LIABILITIES	17,477	17,785
PREFERRED STOCK		
$1.50 Cumulative Convertible Exchangeable Preferred Stock, $25.00 stated, liquidation and redemption value	70,977	70,977
STOCKHOLDERS' EQUITY		
Common Stock, $.10 par value, 500.0 million shares authorized, 245.1 million and 245.0 million shares issued	24,509	24,500
Additional Paid-in Capital	520,978	520,775
Accumulated Deficit, since January 1, 1984	(96,361)	(106,693)
Restricted Stock (Unearned Compensation)	(5,362)	(5,614)
Cumulative Translation Adjustment	(1,284)	(1,230)
Treasury Stock at Cost, 21.0 million shares	(47,889)	(47,813)
Total Stockholders' Equity	394,591	383,925
	$708,721	$691,412

The accompanying notes are an integral part of these financial statements.

ENERGY SERVICE COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	THREE MONTHS ENDED MARCH 31, 1994	THREE MONTHS ENDED MARCH 31, 1993
OPERATING REVENUES	$ 65,365	$ 51,837
OPERATING EXPENSES		
Operating Costs	35,740	37,731
Depreciation and Amortization	12,702	9,711
General and Administrative	2,151	3,133
	50,593	50,575
OPERATING INCOME	14,772	1,262
OTHER INCOME (EXPENSE)		
Interest Income	1,064	580
Interest Expense	(2,706)	(1,999)
Income from Equity Affiliates, net	244	-
Other, net	36	246
	(1,362)	(1,173)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	13,410	89
PROVISION FOR INCOME TAXES	1,175	1,279
INCOME (LOSS) BEFORE MINORITY INTEREST	12,235	(1,190)
MINORITY INTEREST	838	1,136
INCOME (LOSS) FROM CONTINUING OPERATIONS	11,397	(2,326)
INCOME FROM DISCONTINUED OPERATIONS	-	240
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	11,397	(2,086)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF MINORITY INTEREST	-	(2,542)
NET INCOME (LOSS)	11,397	(4,628)
PREFERRED STOCK DIVIDEND REQUIREMENT	1,065	1,065
INCOME (LOSS) APPLICABLE TO COMMON STOCK	$ 10,332	$ (5,693)
INCOME (LOSS) PER COMMON SHARE		
Continuing Operations	$ 0.05	$ (0.03)
Discontinued Operations	-	0.00
Cumulative Effect	-	(0.02)
Income (Loss)	$ 0.05	$ (0.05)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	224,009	121,335

The accompanying notes are an integral part of these financial statements.

ENERGY SERVICE COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(In Thousands)

	THREE MONTHS ENDED MARCH 31, 1994	1993
OPERATING ACTIVITIES		
Net Income (Loss)	$ 11,397	$ (4,628)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Net Cash Provided by Discontinued Operations	-	423
Depreciation and Amortization	12,702	3,901
Provision for Deferred Income Taxes	740	305
Amortization of Debt Discount and Other Assets	694	472
Provision for Compensatory Stock Grants	252	245
Losses or Undistributed Income from Equity Affiliates	(244)	(376)
Cumulative Effect of Change in Accounting Principle	-	2,542
Other Adjustments	(57)	(278)
Changes in Operating Assets and Liabilities:		
Decrease in Accounts Receivable	1,943	4,548
Increase in Inventory	(181)	(449)
(Increase) Decrease in Prepaid Expenses and Other	326	(330)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	4,060	(2,289)
Net Cash Provided By Operating Activities	31,632	4,086
INVESTING ACTIVITIES		
Additions to Property and Equipment	(73,174)	(16,628)
Net Proceeds from Sales of Discontinued Operations	399	845
Proceeds from Disposition of Assets	690	166
Property and Equipment Additions Related to Discontinued Operations	-	(13)
Other	472	(1,247)
Net Cash Used by Investing Activities	(71,613)	(16,877)
FINANCING ACTIVITIES		
Long-Term Borrowings	10,448	16,301
Reduction of Long-Term Borrowings	(8,876)	(1,403)
Exercise of Stock Options	192	-
Preferred Stock Dividends	(1,065)	(1,065)
Net Cash Provided By Financing Activities	699	13,833
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(39,282)	1,042
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	128,060	25,503
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 88,778	$ 26,545

The accompanying notes are an integral part of these financial statements.

ENERGY SERVICE COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Unaudited Financial Statements

The consolidated financial statements included herein have been prepared by Energy Service Company, Inc. (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with generally accepted accounting principles and, in the opinion of management, reflect all adjustments (which consist of normal recurring adjustments) which are necessary for a fair statement of the results of operations for the interim periods presented.

In August 1993, the Company completed the acquisition (the "Penrod Acquisition") of the remaining 63.7% of the outstanding common stock of Penrod Holding Corporation ("Penrod") that was not then beneficially owned by the Company. The Company has included the income from continuing operations of Penrod in its consolidated results of operations beginning January 1, 1993 and has presented the preacquisition earnings attributable to the 63.7% of Penrod that the Company did not own prior to the acquisition as "Minority Interest" in calculating the Company's net income for the three months ended March 31, 1993.

The Company's consolidated statement of cash flows for the three months ended March 31, 1993 does not include the cash provided by operating activities of Penrod or the cash flows from investing and financing activities of Penrod.

Certain previously reported amounts have been reclassified to conform to the 1994 presentation.

It is recommended that these statements be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 1993 included in the Company's Annual Report to the Securities and Exchange Commission on Form 10-K.

Note 2 - Acquisitions

On February 14, 1994, the Company purchased two jackup rigs located in the North Sea and simultaneously entered into a bareboat charter agreement with the seller for an initial twelve month period, with the seller having the option to extend the charter for an additional twelve months under the same terms as the original agreement. The purchase price consisted of $50.0 million paid at closing and an additional $6.0 million to be credited against the bareboat charter payments during the last four months of the initial twelve month bareboat charter agreement.

Note 3 - Debt

In December 1993, a subsidiary of the Company entered into a financing arrangement with a subsidiary of a Japanese corporation in connection with the construction of four barge drilling rigs to be completed in 1994. As of March 31, 1994, the subsidiary had borrowed $13.8 million under the financing arrangement. The construction loans carry a floating interest rate, which was 5.19% at March 31, 1994. The construction loans are secured by the four barge drilling rigs under construction, which had a combined net book value of $22.8 million at March 31, 1994. Upon completion of construction of the barge drilling rigs, the interim construction loans are expected to be repaid from the proceeds of separate secured term loans made by the Japanese corporation to a subsidiary of ENSCO Drilling (Caribbean), Inc. ("Caribbean"). Each loan is expected to be secured by a specific barge drilling rig and the related charter contract. The aggregate amount of the secured term loans is anticipated to be approximately $78.0 million upon completion. The interest rate on the secured term loans will be fixed when the rigs are placed into service. Upon completion of construction the secured term loans are expected to be without recourse to the Company.

In March 1994, the Company redeemed its convertible subordinated debentures consisting of $5.1 million principal amount of 8.25% convertible subordinated debentures which were originally due July 1, 1995.

Note 4 - Stockholders' Equity

In February 1994, the Board of Directors authorized the Company to seek approval of a one-for-four reverse stock split at its Annual Meeting of Stockholders scheduled for May 24, 1994.

Note 5 - Provision for Income Taxes

The provision for income taxes for the three months ended March 31, 1994 includes a provision for U.S. alternative minimum taxes and provisions for deferred foreign taxes, primarily for operations in Venezuela and the United Kingdom. No provision for regular U.S. federal income taxes has been recorded for the three months ended March 31, 1994 due to the utilization of net operating loss carryforwards to offset taxes currently payable.

At March 31, 1994, the Company had regular and alternative minimum tax net operating loss and investment tax credit carryforwards of approximately $334.8 million, $199.9 million, and $3.6 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS ENVIRONMENT

The Company conducts its business in three primary operating segments serving the oil and gas industry: contract drilling, marine transportation, and technical services. The demand for services provided by the Company and, thus, the operating results of the Company are significantly affected by worldwide expenditures of the energy industry for oil and gas drilling, particularly in the Gulf of Mexico where the Company has a large concentration of its rigs and vessels. Expenditures for oil and gas drilling activities have been generally depressed since the early 1980's when a sharp decline in oil and natural gas prices led to reduced exploration and development activities. Generally, oil and gas companies' expenditures for exploration and development have not substantially increased since the early 1980's due to the continuing depressed level, as well as volatility, of oil and natural gas prices. The general increase in oil and natural gas prices in the second half of 1992 resulted in increased exploration and development activity, particularly in the Gulf of Mexico, which continued throughout 1993. This increased activity resulted in higher average day rates and utilization levels being achieved throughout 1993 which caused the Company's revenues and operating margins to improve. However, exploration and development activity has declined modestly in the first three months of 1994 from the levels prevalent in the last three months of 1993. Based on current conditions and outlook for the remainder of 1994, the Company anticipates that its results of operations for the first half of 1994 will be comparable with the results achieved in the second half of 1993, with a slight decline in the second half of 1994 as compared to the second half of 1993.

Offshore rig and oilfield supply vessel industry utilization for the three months ended March 31, 1994 and 1993 is summarized below:

INDUSTRY WIDE AVERAGES *

	1994	1993
Offshore Rigs		
Gulf of Mexico:		
All Rigs:		
Rigs Under Contract	126	105
Total Rigs Available	167	146
% Utilization	75.4%	71.9%
Jackup Rigs:		
Rigs Under Contract	99	85
Total Rigs Available	127	112
% Utilization	78.0%	75.9%
Worldwide:		
All Rigs:		
Rigs Under Contract	543	536
Total Rigs Available	658	671
% Utilization	82.5%	79.9%
Jackup Rigs:		
Rigs Under Contract	326	328
Total Rigs Available	391	395
% Utilization	83.4%	83.0%

INDUSTRY WIDE AVERAGES *

	1994	1993
Oilfield Supply Vessels:		
Gulf of Mexico:		
Vessels Under Contract	220	190
Total Vessels Available	249	242
% Utilization	88.4%	78.5%

* Industry utilization based on data published by Offshore Data Services, Inc.

Worldwide utilization for oilfield supply vessels is not readily obtainable. The demand for oilfield supply vessels is closely related to the level of drilling activity, particularly in the Gulf of Mexico.

RESULTS OF OPERATIONS

In August 1993, the Company completed the acquisition (the "Penrod Acquisition") of the remaining 63.7% of the outstanding common stock of Penrod Holding Corporation ("Penrod") that was not then beneficially owned by the Company. The Company has included the operating results of Penrod in its consolidated results of operations beginning January 1, 1993. The preacquisition earnings attributable to the 63.7% of Penrod that the Company did not own prior to the acquisition has been deducted as "Minority Interest" in calculating the Company's net income for the three months ended March 31, 1993.

The following analysis highlights the Company's operating results for the three months ended March 31, 1994 and 1993 (in thousands).

	1994	1993
Operating Results		
Operating Revenues	$ 65,365	$ 51,837
Operating Margin	29,625	14,106
Operating Income	14,772	1,262
Other Expense, Net	(1,362)	(1,173)
Provision for Income Tax	(1,175)	(1,279)
Minority Interest	(838)	(1,136)
Income (Loss) from Continuing Operations	11,397	(2,326)
Income from Discontinued Operations	-	240
Cumulative Effect of Accounting Change, Net of Minority Interest	-	(2,542)
Net Income (Loss)	11,397	(4,628)
Preferred Stock Dividend Requirements	1,065	1,065
Income (Loss) Applicable to Common Stock	10,332	(5,693)
Operating Revenues		
Contract Drilling	$ 52,015	$ 40,281
Marine Transportation	8,504	7,577
Technical Services	4,846	3,979
Total	$ 65,365	$ 51,837
Operating Margin		
Contract Drilling	$ 24,719	$ 12,526
Marine Transportation	3,104	1,110
Technical Services	1,802	470
Total	$ 29,625	$ 14,106

The Company's consolidated revenues and operating margins (defined as operating revenues less operating expenses, exclusive of depreciation and general and administrative expenses) for the first three months of 1994 increased substantially, as shown in the above table, compared to the same period in 1993. The 1994 increase is primarily attributable to higher day rates for the Company's contract drilling and marine transportation segments and increased activity in the Company's technical services segment.

The Company reported a significant increase in operating income to $14.8 million for the first three months of 1994 compared to $1.3 million in the same period in 1993. The increase in operating income was primarily attributable to the reasons stated above with respect to the increases in revenues and operating margin over the prior year period and was also positively impacted by a reduction in general and administrative costs of $1.0 million from the prior year period. Operating income was negatively impacted by additional depreciation and amortization being recorded in the first three months of 1994 as compared to the same period in 1993 related to the depreciation on the four barge drilling rigs delivered to Venezuela in March through June of 1993, depreciation on the two jackup rigs acquired in mid-February 1994, as well as increased depreciation and amortization of the additional value assigned to the assets acquired in the Penrod Acquisition resulting from the application of purchase accounting.

Contract Drilling Operations

Certain financial information regarding the Company's contract drilling operations for the three months ended March 31, 1994 and 1993 is summarized below (in thousands, except utilization rates and average day rates):

	1994	1993
Revenues		
Jackup Rigs:		
United States	$ 26,756	$ 17,965
International	9,511	13,914
	36,267	31,879
Barge Drilling Rigs - Venezuela	9,303	2,836
Total Offshore Rigs	45,570	34,715
Land Rigs:		
United States	5,595	4,181
International	850	1,385
Total Land Rigs	6,445	5,566
Total	$ 52,015	$ 40,281
Operating Margin		
Jackup Rigs:		
United States	$ 13,597	$ 6,182
International	4,072	4,395
	17,669	10,577
Barge Drilling Rigs - Venezuela	6,355	1,654
Total Offshore Rigs	24,024	12,231
Land Rigs:		
United States	869	403
International	(174)	(108)
Total Land Rigs	695	295
Total	$ 24,719	$ 12,526

Utilization Rates		
Jackup Rigs:		
United States	81.9%	99.4%
International	67.7%	67.0%
	77.8%	85.6%
Barge Drilling Rigs - Venezuela	100.0%	100.0%
Total Offshore Rigs	82.7%	86.9%
Land Rigs: *		
United States	88.0%	87.0%
International	9.2%	35.0%
Total Land Rigs	65.5%	72.1%
Total	76.8%	81.4%
Average Day Rates		
Jackup Rigs:		
United States	$ 24,214	$ 16,712
International	25,321	25,611
	$ 24,489	$ 19,701
Barge Drilling Rigs - Venezuela	$ 15,815	$ 11,075
Land Rigs: *		
United States	$ 6,223	$ 5,342
International	15,741	9,951
Total Land Rigs	$ 6,604	$ 6,659

* Excludes land rigs that are not being marketed.

Revenues and operating margins for the Company's jackup rigs operating in the U.S. increased substantially for the three months ended March 31, 1994 compared to the same period in the prior year primarily due to improved market conditions in the Gulf of Mexico and to the relocation of three additional rigs to the Gulf of Mexico in the second, third and fourth quarters of 1993. For the three months ended March 31, 1994, average day rates for the Company's rigs in the Gulf of Mexico increased by 44.9% with results offset partially by a 17.6% decrease in utilization from the prior year's same period. The decreased utilization was partially attributable to two of the Company's Gulf of Mexico jackup rigs being upgraded in the first three months of 1994. Both of the upgraded rigs are now under contract with a major oil company in the Gulf of Mexico. The Company's Gulf of Mexico rigs generally operate under relatively short-term agreements with contract durations normally not exceeding six months. Day rates on new rig contracts in the Gulf of Mexico softened over the course of the first three months of 1994 and it is anticipated that average day rates for the Company's Gulf of Mexico rigs will be slightly lower during the second quarter of 1994.

Revenues and operating margins for the Company's international jackup rigs for the three months ended March 31, 1994 decreased by 31.6% and 7.3%, respectively, from the prior year's same period. The revenue and operating margin decreases are attributable to the mobilization in the second, third and fourth quarters of 1993 of three of the Company's rigs located in the North Sea to the Gulf of Mexico, which rigs were included in the international jackup rig results for the three months ended March 31, 1993. The revenue and operating margin decreases were offset partially by the addition of the two rigs acquired in mid-February 1994 which contributed approximately $1.8 million to the operating margin for the first three months of 1994.

The Company's barge drilling rigs are all located on Lake Maracaibo, Venezuela. Revenues and operating margins from the Company's barges in Venezuela improved substantially for the first three months of 1994 compared to the same period of 1993 primarily due to the addition of four new barge drilling rigs which operate under separate five-year contracts with Lagoven, S.A. ("Lagoven"), a subsidiary of the Venezuelan national oil company. Two of the barge drilling rigs commenced drilling operations in March and May 1993 with the other two barges commencing operations in June 1993. The Company has entered into contracts with Lagoven for four new barge drilling rigs which are expected to operate on Lake Maracaibo, Venezuela pursuant to five year firm contracts. The first barge is scheduled to commence operations by July 1994, with the other three barges following in approximately one month intervals thereafter.

Revenues and operating margins for the land rig operations for the three months ended March 31, 1994 increased by $879,000 and $400,000, respectively, from the prior year's same period. The increases are primarily attributable to increased day rates and utilization of the Company's U.S. land rigs, offset in part by decreased utilization of the Company's international land rigs.

Marine Transportation Operations

Certain financial information regarding the Company's marine transportation operations for the three months ended March 31, 1994 and 1993 is summarized below (in thousands, except utilization rates and average day rates):

	1994	1993
Revenues		
United States	$ 8,113	$ 6,122
International	391	1,455
Total	$ 8,504	$ 7,577
Operating Margin		
United States	$ 3,105	$ 1,718
International	(1)	(608)
Total	$ 3,104	$ 1,110
Utilization Rates		
United States	72.6%	82.9%
International	32.3%	35.7%
Total	72.2%	73.4%
Average Day Rates		
United States	$ 3,485	$ 2,370
International	11,795	5,664
Total	$ 3,521	$ 2,695

The Company's marine transportation division currently operates 40 vessels of which 36 are owned by the Company and four are leased under long-term agreements.

The Company's marine transportation revenue increased 12.2% for the three months ended March 31, 1994, compared to the same period in 1993, with an increase in operating margin of 179.6% from the same period in 1993. The increases are primarily attributable to the increase in day rates from the prior year period, offset in part by reduced utilization rates.

Drilling activity steadily increased in the Gulf of Mexico during 1993, causing utilization and day rates for the Company's marine transportation vessels to increase throughout 1993. However, day rates on new contracts in the Gulf of Mexico softened over the course of the first three months of 1994 and it is anticipated that average day rates will be slightly lower in the second quarter of 1994.

During most of 1993 the Company operated two vessels offshore Brazil. One vessel returned to the Gulf of Mexico in the fourth quarter of 1993 and the other vessel returned to the Gulf of Mexico in February 1994.

Technical Services Operations

Certain financial and operational information regarding the Company's technical services operations for the three months ended March 31, 1994 and 1993 is summarized below (dollars in thousands):

	1994	1993
Revenues	$ 4,846	$ 3,979
Operating margin	$ 1,802	$ 470
Operating statistics:		
Jobs:		
Horizontal wells drilled	26	29
MWD wells serviced	48	19
Wireline services	3	6
Total	77	54
Average days per job:		
Horizontal wells	22.0	19.2
MWD wells	12.7	14.1
Wireline services	18.3	16.8
Total	16.1	17.1
Average revenue per job:		
Horizontal wells	$ 105.0	$ 102.8
MWD wells	41.4	43.8
Wireline services	42.0	27.5
Total	$ 62.9	$ 73.7

The Company's technical services operations primarily serve the horizontal drilling business. Horizontal drilling activity in the Austin Chalk trend of Texas, where the Company's technical services activities are concentrated, improved in the first three months of 1994 from the levels achieved in the same period of 1993. Average job margins in the first three months of 1994 also improved as a result of the increased demand for the Company's services coupled with the results of cost cutting programs implemented in the latter part of 1992 and continuing into 1993. The Company will primarily focus on opportunities in the U.S. and Canada for its technical services segment in 1994.

Depreciation and Amortization

Depreciation and Amortization expense for the first three months of 1994 increased by $3.0 million compared to the same period in 1993. The increase is primarily attributable to depreciation on the four barge drilling rigs delivered to Venezuela in March through June of 1993, depreciation on the two jackup rigs acquired in mid-February 1994, as well as increased depreciation and amortization related to the step-up in basis of the assets acquired in the Penrod Acquisition.

General and Administrative

General and Administrative expense for the first three months of 1994 decreased by $1.0 million compared to the same period in 1993. The decrease is primarily attributable to the consolidation of Penrod's general and administrative functions with the Company's in 1993 following the Penrod Acquisition.

Interest Income

Interest income increased in the first three months of 1994 by $484,000, or 83.4%, compared to the same period in 1993 due to higher average cash levels which were partially offset by lower interest rates.

Interest Expense

Interest expense increased in the first three months of 1994 by $707,000, or 35.4%, compared to the same period in 1993 due to a higher average level of debt outstanding which was partially offset by lower average interest rates.

Income from Equity Affiliates, net

Income from Equity Affiliates, net for the first three months of 1994 consists of the Company's 50% share of the earnings (loss) of a Mexican joint venture formed in June 1993 to operate a jackup rig in the Gulf of Mexico and a joint venture in Singapore formed in August 1993 to operate marine vessels in Southeast Asia.

Other, Net

Other, net for the three months ended March 31, 1994 consists primarily of net gains on the sale of equipment and net gains related to equipment lost downhole for which the customer reimbursement exceeded the net book value of the equipment lost, offset by foreign currency translation losses.

Provision for Income Taxes

The Company recorded a provision for income taxes of $1.2 million and $1.3 million for the three months ended March 31, 1994 and 1993, respectively. The 1994 provision includes U.S. alternative minimum taxes and deferred foreign taxes primarily related to the Company's operations in Venezuela and the United Kingdom. The provision for the three months ended March 31, 1993 primarily related to deferred foreign taxes in Venezuela and the United Kingdom.

At March 31, 1994, the Company had regular and alternative minimum tax net operating loss and investment tax credit carryforwards of approximately $334.8 million, $199.9 million, and $3.6 million, respectively.

Minority Interest

Minority Interest for the first three months of 1994 decreased by $298,000 compared to the same period in 1993. The minority interest charge for the first three months of 1994 relates to the minority shareholder's interest in the net income of ENSCO Drilling (Caribbean), Inc. ("Caribbean"). The first three months of 1993 charge includes the minority shareholders interest in the net income of Caribbean of $94,000 and $1.0 million for the preacquisition earnings related to the 63.7% of Penrod which the Company did not own prior to the Penrod Acquisition.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated statement of cash flows for the three months ended March 31, 1993 does not include the cash provided by operating activities of Penrod nor the cash flows from investing and financing activities of Penrod.

Cash Flow and Capital Expenditures

The Company's cash flow from operations and capital expenditures for the three months ended March 31, 1994 and 1993 are as follows (in thousands):

	1994	1993
Cash Flow from Operations	$ 31,632	$ 4,086
Capital Expenditures	73,174	16,628

Cash flow from operations increased $27.5 million in the first three months of 1994 compared to the same period in 1993. The improved cash flow is primarily a result of improved operations and the contribution from the cash flow of Penrod's operations.

The Company's capital expenditures for the three months ended March 31, 1994 consisted principally of $55.7 million for the purchase of the two jackup rigs located in the North Sea, $11.7 million for the new barge drilling rigs currently under construction for delivery to Venezuela in 1994, $5.3 million for contract drilling equipment, $259,000 for equipment used in the Company's technical services operations and $148,000 for other equipment primarily for marine transportation vessels. Management anticipates that capital expenditures in 1994 will total approximately $37.4 million for existing operations, $64.2 million towards the construction of barge drilling rigs and $55.7 million for the purchase of the two jackup rigs located in the North Sea.

Financing and Capital Resources

The Company's long-term debt, total capital and debt to capital ratios at March 31, 1994 and December 31, 1993 are summarized below (in thousands, except percentages):

	1994	1993
Long-term Debt	$123,417	$125,983
Total Capital	588,985	580,885
Long-term Debt to Total Capital	21.0%	21.7%

In March 1994, the Company redeemed its convertible subordinated debentures consisting of $5.1 million principal amount of 8.25% convertible subordinated debentures which were originally due July 1, 1995. The Company's cash reserves were used to redeem the convertible subordinated debentures.

In November 1993, Caribbean signed four separate five-year contracts with Lagoven, a subsidiary of the Venezuelan national oil company, to operate four barge drilling rigs on Lake Maracaibo in Venezuela. The first of the four barge drilling rigs is expected to commence operations by July 1994, with the other three barges following in approximately one month intervals thereafter. In December 1993, a subsidiary of Caribbean entered into a financing arrangement with a subsidiary of a Japanese corporation in connection with the construction of the four barge drilling rigs to be completed in 1994. As of March 31, 1994, the subsidiary had borrowed $13.8 million under the financing arrangement. The construction loans carry a floating interest rate, which was 5.19% at March 31, 1994. The construction loans are secured by the four barge drilling rigs under construction, which had a combined net book value of $22.8 million at March 31, 1994. Upon completion of construction, the construction loans are expected to be repaid from the proceeds of separate secured term loans made by the Japanese corporation to a subsidiary of Caribbean. Each loan is expected to be secured by a specific barge drilling rig and the related charter contract. The aggregate amount of the secured term loans is anticipated to be approximately $78.0 million upon completion. The interest rate on the secured term loans will be fixed when the rigs are placed into service. Upon completion of construction the secured term loans are expected to be without recourse to the Company. Under the terms of the Lagoven contracts, the barges will earn day rates which the Company believes will be sufficient to fully amortize the loans.

In December 1993, a subsidiary of the Company entered into a $100.0 million loan arrangement with a group of international banks. The facility consists of a $60.0 million secured term loan and a $40.0 million revolving line of credit. Proceeds of the secured term loan were used to repay a revolving credit agreement and existing term loans of Penrod. The revolver will be reduced semi-annually by $1.0 million over five years with the final $30.0 million line expiring at the end of the five year term. The facility carries a floating interest rate, which was 5.94% at March 31, 1994. The revolver portion of the facility was undrawn at March 31, 1994.

The Company's liquidity position at March 31, 1994 and December 31, 1993 is summarized in the table below (in thousands, except ratios):

	1994	1993
Cash	$ 88,778	$128,060
Working Capital	76,513	127,105
Current Ratio	2.0	2.9

Based on current energy industry conditions, management believes cash flow from operations, the Company's existing credit facilities and the Company's working capital should be sufficient to fund the Company's debt and preferred stock dividend requirements and to fund the capital additions of the Company for the next twelve months.

SIGNATURES

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.

ENERGY SERVICE COMPANY, INC.

Date: [May 4, 1994] *[/s/ H. E. Malone]*
H. E. Malone, Corporate Controller
and Chief Accounting Officer