

OIL STATES INTERNATIONAL, INC

Form 10-Q

April 30, 2012

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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: 001-16337

OIL STATES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

76-0476605
(I.R.S. Employer

incorporation or organization)

Identification No.)

Three Allen Center, 333 Clay Street, Suite 4620,

Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

(713) 652-0582

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) YES NO

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

The Registrant had 51,639,172 shares of common stock, par value \$0.01, outstanding and 3,555,441 shares of treasury stock as of April 25, 2012.

Table of Contents

OIL STATES INTERNATIONAL, INC.

INDEX

	Page No.
<u>Part I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements:</u>	
Condensed Consolidated Financial Statements	
<u>Unaudited Condensed Consolidated Statements of Income for the Three Month Periods Ended March 31, 2012 and 2011</u>	3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three Month Periods Ended March 31, 2012 and 2011</u>	4
<u>Consolidated Balance Sheets March 31, 2012 (unaudited) and December 31, 2011</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7 21
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	22
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22 31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	31
<u>Item 4. Controls and Procedures</u>	31 32
<u>Part II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	32
<u>Item 6. Exhibits</u>	33
<u>(a) Index of Exhibits</u>	33
<u>Signature Page</u>	34

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements**

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

	THREE MONTHS ENDED MARCH 31,	
	2012	2011
Revenues	\$ 1,098,992	\$ 760,441
Costs and expenses:		
Cost of sales and services	795,797	574,398
Selling, general and administrative expenses	47,739	43,708
Depreciation and amortization expense	50,665	45,151
Other operating expense	544	2,408
	894,745	665,665
Operating income	204,247	94,776
Interest expense, net of capitalized interest	(17,944)	(10,249)
Interest income	297	1,013
Equity in earnings of unconsolidated affiliates	420	51
Other income	1,735	143
Income before income taxes	188,755	85,734
Income tax expense	(53,283)	(23,383)
Net income	135,472	62,351
Less: Net income attributable to noncontrolling interest	407	274
Net income attributable to Oil States International, Inc.	\$ 135,065	\$ 62,077
Net income per share attributable to Oil States International, Inc. common stockholders		
Basic	\$ 2.63	\$ 1.22
Diluted	\$ 2.43	\$ 1.13
Weighted average number of common shares outstanding:		
Basic	51,430	50,936
Diluted	55,557	54,852

The accompanying notes are an integral part of

these financial statements.

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	THREE MONTHS ENDED	
	MARCH 31,	
	2012	2011
Net income	\$ 135,472	\$ 62,351
Other comprehensive income:		
Foreign currency translation adjustment	25,246	30,663
Total other comprehensive income	25,246	30,663
Comprehensive income	160,718	93,014
Comprehensive income attributable to noncontrolling interest	(425)	(298)
Comprehensive income attributable to Oil States International, Inc.	\$ 160,293	\$ 92,716

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands)

	MARCH 31, 2012 (UNAUDITED)	DECEMBER 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,651	\$ 71,721
Accounts receivable, net	842,970	732,240
Inventories, net	727,824	653,698
Prepaid expenses and other current assets	23,681	32,000
Total current assets	1,665,126	1,489,659
Property, plant, and equipment, net	1,624,072	1,557,088
Goodwill, net	470,990	467,450
Other intangible assets, net	125,507	127,602
Other noncurrent assets	62,070	61,842
Total assets	\$ 3,947,765	\$ 3,703,641
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 372,789	\$ 348,957
Income taxes	32,398	10,395
Current portion of long-term debt and capitalized leases	32,549	34,435
Deferred revenue	69,620	75,497
Other current liabilities	6,567	5,665
Total current liabilities	513,923	474,949
Long-term debt and capitalized leases	1,169,012	1,142,505
Deferred income taxes	101,211	97,377
Other noncurrent liabilities	26,672	25,538
Total liabilities	1,810,818	1,740,369
Stockholders' equity:		
Oil States International, Inc. stockholders' equity:		
Common stock, \$.01 par value, 200,000,000 shares authorized, 55,189,013 shares and 54,803,539 shares issued, respectively, and 51,633,572 shares and 51,288,750 shares outstanding, respectively	552	548
Additional paid-in capital	562,075	545,730
Retained earnings	1,585,651	1,450,586
Accumulated other comprehensive income	99,617	74,371
Treasury stock, at cost, 3,555,441 and 3,514,789 shares, respectively	(112,489)	(109,079)
Total Oil States International, Inc. stockholders' equity	2,135,406	1,962,156
Noncontrolling interest	1,541	1,116

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Total stockholders' equity	2,136,947	1,963,272
Total liabilities and stockholders' equity	\$ 3,947,765	\$ 3,703,641

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	THREE MONTHS ENDED MARCH 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 135,472	\$ 62,351
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,665	45,151
Deferred income tax provision	1,727	4,883
Excess tax benefits from share-based payment arrangements	(5,175)	(4,439)
Gains on disposals of assets	(1,326)	(315)
Non-cash compensation charge	4,399	3,424
Accretion of debt discount	2,035	1,895
Amortization of deferred financing costs	1,800	1,390
Other, net	(18)	201
Changes in operating assets and liabilities, net of effect from acquired businesses:		
Accounts receivable	(105,007)	(35,798)
Inventories	(71,062)	(28,499)
Accounts payable and accrued liabilities	21,445	(10,948)
Taxes payable	33,731	4,010
Other current assets and liabilities, net	(1,469)	(7,094)
Net cash flows provided by operating activities	67,217	36,212
Cash flows from investing activities:		
Capital expenditures, including capitalized interest	(101,402)	(92,609)
Acquisitions of businesses, net of cash acquired		(212)
Proceeds from sale of equipment	1,636	625
Other, net	(1,189)	(1,241)
Net cash flows used in investing activities	(100,955)	(93,437)
Cash flows from financing activities:		
Revolving credit borrowings and (repayments), net	29,941	50,757
Term loan repayments	(7,526)	(3,785)
Debt and capital lease repayments	(2,183)	(298)
Issuance of common stock from share-based payment arrangements	6,775	6,377
Excess tax benefits from share-based payment arrangements	5,175	4,439
Other, net	(3,425)	(2,741)
Net cash flows provided by financing activities	28,757	54,749
Effect of exchange rate changes on cash	3,966	3,177
Net increase (decrease) in cash and cash equivalents from continuing operations	(1,015)	701
Net cash used in discontinued operations operating activities	(55)	(78)
Cash and cash equivalents, beginning of period	71,721	96,350
Cash and cash equivalents, end of period	\$ 70,651	\$ 96,973

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Oil States International, Inc. and its wholly-owned subsidiaries (referred to in this report as we or the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission) pertaining to interim financial information. Certain information in footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to these rules and regulations. The unaudited financial statements included in this report reflect all the adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair presentation of the results of operations for the interim periods covered and for the financial condition of the Company at the date of the interim balance sheet. Results for the interim periods are not necessarily indicative of results for the full year.

The preparation of consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. If the underlying estimates and assumptions, upon which the financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying condensed consolidated financial statements.

The financial statements included in this report should be read in conjunction with the Company's audited financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K).

2. RECENT ACCOUNTING PRONOUNCEMENTS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the FASB), which are adopted by the Company as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

In June 2011, the FASB issued amendments to disclosure requirements for the presentation of comprehensive income. This guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments should be applied retrospectively. For public entities, the amendments were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments do not require any transition disclosures. In December 2011, the FASB issued an amendment deferring the effective date of the requirement to present reclassification adjustments out of accumulated other comprehensive income on the face of the consolidated statement of income. We adopted this standard in this Quarterly Report on Form 10-Q for the three month period ended March 31, 2012 and the adoption of this standard did not have a material effect on our consolidated financial statements.

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****3. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS**

Additional information regarding selected balance sheet accounts is presented below (in thousands):

	MARCH 31, 2012	DECEMBER 31, 2011
Accounts receivable, net:		
Trade	\$ 604,229	\$ 553,481
Unbilled revenue	240,410	180,273
Other	2,521	2,449
Total accounts receivable	847,160	736,203
Allowance for doubtful accounts	(4,190)	(3,963)
	\$ 842,970	\$ 732,240

	MARCH 31, 2012	DECEMBER 31, 2011
Inventories, net:		
Tubular goods	\$ 473,070	\$ 420,519
Other finished goods and purchased products	97,190	80,184
Work in process	68,896	76,353
Raw materials	99,581	86,672
Total inventories	738,737	663,728
Allowance for obsolescence	(10,913)	(10,030)
	\$ 727,824	\$ 653,698

	ESTIMATED USEFUL LIFE	MARCH 31, 2012	DECEMBER 31, 2011
Property, plant and equipment, net:			
Land		\$ 49,420	\$ 48,989
Buildings and leasehold improvements (1)	1-40 years	166,003	154,233
Machinery and equipment	1-29 years	352,627	355,798
Accommodations assets (1)	2-15 years	1,196,411	1,160,661
Rental tools	4-10 years	220,369	199,084

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Office furniture and equipment	1-10 years	49,186	48,081
Vehicles	2-10 years	103,130	100,554
Construction in progress		213,153	166,371
Total property, plant and equipment		2,350,299	2,233,771
Accumulated depreciation		(726,227)	(676,683)
		\$ 1,624,072	\$ 1,557,088

	MARCH 31, 2012	DECEMBER 31, 2011
Accounts payable and accrued liabilities:		
Trade accounts payable	\$ 283,865	\$ 252,209
Accrued compensation	36,307	61,394
Accrued interest	14,578	6,035
Insurance liabilities	12,753	12,396
Accrued taxes, other than income taxes	12,924	5,889
Liabilities related to discontinued operations	2,070	2,125
Other	10,292	8,909
	\$ 372,789	\$ 348,957

- (1) As of December 31, 2011, we have reclassified \$54.7 million in buildings and leasehold improvements to accommodations assets for comparability purposes.

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

4. EARNINGS PER SHARE

The calculation of earnings per share attributable to the Company is presented below (in thousands, except per share amounts):

	THREE MONTHS ENDED MARCH 31	
	2012	2011
<u>Basic earnings per share:</u>		
Net income attributable to Oil States International, Inc.	\$ 135,065	\$ 62,077
Weighted average number of shares outstanding	51,430	50,936
Basic earnings per share	\$ 2.63	\$ 1.22
<u>Diluted earnings per share:</u>		
Net income attributable to Oil States International, Inc.	\$ 135,065	\$ 62,077
Weighted average number of shares outstanding	51,430	50,936
Effect of dilutive securities:		
Options on common stock	578	727
2 3/8% Convertible Senior Subordinated Notes	3,361	2,988
Restricted stock awards and other	188	201
Total shares and dilutive securities	55,557	54,852
Diluted earnings per share	\$ 2.43	\$ 1.13

Our calculation of diluted earnings per share for the three months ended March 31, 2012 and 2011 excludes 343,500 shares and 176,548 shares, respectively, issuable pursuant to outstanding stock options and restricted stock awards, due to their antidilutive effect.

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****5. GOODWILL**

Changes in the carrying amount of goodwill for the three month period ended March 31, 2012 are as follows (in thousands):

	Well Site Services						
	Rental Tools and Services	Drilling Services	Subtotal	Accommodations	Offshore Products	Tubular Services	Total
Balance as of December 31, 2010							
Goodwill	\$ 170,034	\$ 22,767	\$ 192,801	\$ 299,062	\$ 100,654	\$ 62,863	\$ 655,380
Accumulated Impairment Losses	(94,528)	(22,767)	(117,295)			(62,863)	(180,158)
	75,506		75,506	299,062	100,654		475,222
Goodwill acquired and purchase price adjustments				(9,826)	315		(9,511)
Foreign currency translation and other changes	(323)		(323)	2,087	(25)		1,739
	75,183		75,183	291,323	100,944		467,450
Balance as of December 31, 2011							
Goodwill	169,711	22,767	192,478	291,323	100,944	62,863	647,608
Accumulated Impairment Losses	(94,528)	(22,767)	(117,295)			(62,863)	(180,158)
	75,183		75,183	291,323	100,944		467,450
Foreign currency translation and other changes	256		256		158		3,540
	75,439		75,439	294,449	101,102		470,990
Balance as of March 31, 2012							
Goodwill	169,967	22,767	192,734	294,449	101,102	62,863	651,148
Accumulated Impairment Losses	(94,528)	(22,767)	(117,295)			(62,863)	(180,158)
	\$ 75,439	\$	\$ 75,439	\$ 294,449	\$ 101,102	\$	\$ 470,990

6. DEBT

As of March 31, 2012 and December 31, 2011, long-term debt consisted of the following (in thousands):

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	March 31, 2012 (Unaudited)	December 31, 2011
U.S. revolving credit facility, which matures December 10, 2015, with available commitments up to \$500 million and with a weighted average interest rate of 3.4% for the three month period ended March 31, 2012	\$ 105,428	\$ 68,065
U.S. term loan, which matures December 10, 2015, of \$200 million; 2.5% of aggregate principal repayable per quarter; weighted average interest rate of 2.6% for the three month period ended March 31, 2012	185,000	190,000
Canadian revolving credit facility, which matures on December 10, 2015, with available commitments up to \$250 million and with a weighted average interest rate of 4.3% for the three month period ended March 31, 2012		
Canadian term loan, which matures December 10, 2015, of \$100 million; 2.5% of aggregate principal repayable per quarter; weighted average interest rate of 3.5% for the three month period ended March 31, 2012	92,963	93,795
Australian revolving credit facility, which matures November 30, 2013, with available commitments up to A\$150 million and with a weighted average interest rate of 6.5% for the three month period ended March 31, 2012	36,284	43,050
6 1/2% senior unsecured notes due June 2019	600,000	600,000
2 3/8% contingent convertible senior subordinated notes, net due 2025	172,919	170,884
Subordinated unsecured notes payable to sellers of businesses, fixed interest rate of 6%, which mature in December 2012	2,000	4,000
Capital lease obligations and other debt	6,967	7,146
Total debt	1,201,561	1,176,940
Less: Current portion	32,549	34,435
 Total long-term debt and capitalized leases	 \$ 1,169,012	 \$ 1,142,505

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)**

On June 1, 2011, the Company sold \$600 million aggregate principal amount of 6 1/2% senior unsecured notes (6 1/2% Notes) due 2019 through a private placement to qualified institutional buyers.

The 6 1/2% Notes are senior unsecured obligations of the Company, are guaranteed by our material U.S. subsidiaries (the Guarantors), bear interest at a rate of 6 1/2% per annum and mature on June 1, 2019. At any time prior to June 1, 2014, the Company may redeem up to 35% of the 6 1/2% Notes at a redemption price of 106.500% of the principal amount, plus accrued and unpaid interest to the redemption date, with the proceeds of certain equity offerings. Prior to June 1, 2014, the Company may redeem some or all of the 6 1/2% Notes for cash at a redemption price equal to 100% of their principal amount plus an applicable make-whole premium and accrued and unpaid interest to the redemption date. On and after June 1, 2014, the Company may redeem some or all of the 6 1/2% Notes at redemption prices (expressed as percentages of principal amount), plus accrued and unpaid interest to the redemption date. The optional redemption prices as a percentage of principal amount are as follows:

Twelve Month Period Beginning	% of Principal
June 1,	Amount
2014	104.875%
2015	103.250%
2016	101.625%
2017	100.000%

The Company utilized approximately \$515 million of the net proceeds of the 6 1/2% Note offering in June 2011 to repay borrowings outstanding under its senior secured credit facilities. The remaining net proceeds of approximately \$75 million were utilized for general corporate purposes.

As of March 31, 2012, we classified the \$175.0 million principal amount of our 2 3/8% Contingent Convertible Senior Subordinated Notes (2 3/8% Notes), net of unamortized discount, as a noncurrent liability based on our ability and intent to refinance the 2 3/8% Notes utilizing borrowings available under our senior secured credit facilities. As of March 31, 2012, the contingent conversion thresholds were met and, as a result, 2 3/8% Note holders could present their notes for conversion during the quarter following the March 31, 2012 measurement date. As of March 31, 2012, the recent trading prices of the 2 3/8% Notes exceeded their conversion value due to the remaining imbedded conversion option of the holder. Should a 2 3/8% Note holder convert their notes, we would utilize our existing credit facilities to fund the cash portion of the conversion value.

The following table presents the carrying amount of our 2 3/8% Notes in our condensed consolidated balance sheets (in thousands):

	March 31, 2012	December 31, 2011
Carrying amount of the equity component in additional paid-in capital	\$ 28,434	\$ 28,434
Principal amount of the liability component	\$ 174,990	\$ 174,990
Less: Unamortized discount	2,071	4,106
Net carrying amount of the liability component	\$ 172,919	\$ 170,884

Unamortized Discount 2 3/8% Notes

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The effective interest rate of 7.17% has been applied as of the issuance date for our 2 3/8% Notes in accordance with ASC 470-20 Debt with Conversion and Other Options. Interest expense on the 2 3/8% Notes, excluding amortization of debt issue costs, was as follows (in thousands):

	Three months ended	
	March 31,	
	2012	2011
Interest expense	\$ 3,074	\$ 2,934

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)**

	March 31, 2012
Remaining period over which discount will be amortized	3 months
Conversion price	\$ 31.75
Number of shares to be delivered upon conversion (1)	3,269,759
Conversion value in excess of principal amount (in thousands) (1)	\$ 255,237
Derivative transactions entered into in connection with the convertible notes	None

(1) Calculation is based on the Company's March 30, 2012 closing stock price of \$78.06.

On July 13, 2011, The MAC Services Group Limited (The MAC) entered into a A\$150 million revolving loan facility governed by a Facility Agreement (the Facility Agreement) between The MAC and National Australia Bank Limited, which is guaranteed by the Company. The Facility Agreement amended The MAC's existing A\$75 million revolving loan facility on substantially the same terms, including the maturity date of the Facility Agreement of November 30, 2013. As of March 31, 2012, we had A\$35 million outstanding under the Australian facility leaving A\$115 million available to be drawn under this facility.

The Company's financial instruments consist of cash and cash equivalents, investments, receivables, payables, and debt instruments. The Company believes that the carrying values of these instruments, other than our 2 3/8% Notes and our 6 1/2% Notes, on the accompanying consolidated balance sheets approximate their fair values.

The fair values of our 2 3/8% and 6 1/2% Notes are estimated based on quoted prices in active markets (Level 1 fair value measurements). The carrying values and fair values of these notes were as follows (in thousands):

	Interest Rate	March 31, 2012		December 31, 2011	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<u>6 1/2% Notes</u>					
Principal amount due 2019	6 1/2%	\$ 600,000	\$ 634,500	\$ 600,000	\$ 625,128
<u>2 3/8% Notes</u>					
Principal amount due 2025	2 3/8%	\$ 174,990	\$ 430,794	\$ 174,990	\$ 411,396
Less: unamortized discount		2,071		4,106	
Net value		\$ 172,919	\$ 430,794	\$ 170,884	\$ 411,396

As of March 31, 2012, the estimated fair value of the Company's debt outstanding under its credit facilities was estimated to be at fair value.

As March 31, 2012, the Company had approximately \$70.7 million of cash and cash equivalents and \$618.8 million of the Company's U.S. and Canadian credit facilities available for future financing needs. The Company also had availability totaling A\$115 million under its Australian credit facility. As of March 31, 2012, we had \$29.8 million of outstanding letters of credit.

Interest expense on the condensed consolidated statements of income is net of capitalized interest of \$1.2 million for the three months ended March 31, 2012 and \$1.1 million for the same period in 2011.

7. CHANGES IN COMMON STOCK OUTSTANDING

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Shares of common stock outstanding	January 1, 2012	51,288,750
Shares issued upon exercise of stock options and vesting of stock awards		385,474
Shares withheld for taxes on vesting of restricted stock awards and transferred to treasury		(40,652)
Shares of common stock outstanding	March 31, 2012	51,633,572

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

8. STOCK BASED COMPENSATION

During the first three months of 2012, we granted restricted stock awards totaling 274,378 shares valued at a total of \$23.2 million. Of the restricted stock awards granted in the first quarter of 2012, a total of 203,000 awards vest in four equal annual installments beginning in February 2013, 47,625 awards are performance shares that may vest in February 2015 in an amount that will depend on the Company's achievement of specified performance objectives and 23,625 awards vest 100% in February 2016. The performance based awards have a performance criteria that will be measured based upon the Company's achievement levels of average after-tax annual return on invested capital for the three year period 2012 to 2014. During the three months ended March 31, 2012, the Company also granted 54,950 units of phantom shares under the newly created Canadian Long-Term Incentive Plan, which provides for the granting of units of phantom shares to key Canadian employees. These awards vest in three equal annual installments beginning in February 2013 and are accounted for as a liability. Participants granted units of phantom shares are entitled to a lump sum cash payment equal to the fair market value of a share of the Company's common stock on the vesting date. A total of 155,250 stock options with a ten-year term were awarded in the three months ended March 31, 2012 with an average exercise price of \$84.52 that will vest in four equal annual installments starting in February 2013.

Stock based compensation pre-tax expense recognized in the three month periods ended March 31, 2012 and 2011 totaled \$4.4 million and \$3.4 million, or \$0.06 and \$0.05 per diluted share after tax, respectively. The total fair value of restricted stock awards that vested during the three months ended March 31, 2012 and 2011 was \$12.8 million and \$10.6 million, respectively. At March 31, 2012, \$48.6 million of compensation cost related to unvested stock options and restricted stock awards attributable to future performance had not yet been recognized.

9. INCOME TAXES

Income tax expense for interim periods is based on estimates of the effective tax rate for the entire fiscal year. The Company's income tax provision for the three months ended March 31, 2012 totaled \$53.3 million, or 28.2% of pretax income, compared to \$23.4 million, or 27.3% of pretax income, for the three months ended March 31, 2011. The increase in the effective tax rate from the prior year was largely the result of a higher foreign effective tax rate in 2012 compared to 2011.

10. SEGMENT AND RELATED INFORMATION

In accordance with current accounting standards regarding disclosures about segments of an enterprise and related information, the Company has identified the following reportable segments: well site services, accommodations, offshore products and tubular services. The Company's reportable segments represent strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were initially acquired as a unit, and the management at the time of the acquisition was retained. Subsequent acquisitions have been direct extensions to our business segments. The separate business lines within the well site services segment have been disclosed to provide additional detail for that segment. Results of a portion of our accommodations segment supporting traditional oil and natural gas drilling activities are impacted by seasonally higher activity during the Canadian winter drilling season occurring in the first calendar quarter.

Financial information by business segment for each of the three months ended March 31, 2012 and 2011 is summarized in the following table (in thousands):

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS**

(Continued)

	Revenues from unaffiliated customers	Depreciation and amortization	Operating income (loss)	Equity in earnings of unconsolidated affiliates	Capital expenditures	Total assets
Three months ended March 31, 2012						
Well site services						
Rental tools and services	\$ 135,554	\$ 11,439	\$ 33,794	\$	\$ 18,526	\$ 493,458
Drilling services	47,407	5,071	7,459		8,563	129,973
Total well site services	182,961	16,510	41,253		27,089	623,431
Accommodations	301,820	29,951	119,025		63,908	1,889,393
Offshore products	185,720	3,418	32,501	185	9,986	684,271
Tubular services	428,491	571	22,421	235	15	702,983
Corporate and eliminations		215	(10,953)		404	47,687
Total	\$ 1,098,992	\$ 50,665	\$ 204,247	\$ 420	\$ 101,402	\$ 3,947,765

	Revenues from unaffiliated customers	Depreciation and amortization	Operating income (loss)	Equity in earnings of unconsolidated affiliates	Capital expenditures	Total assets
Three months ended March 31, 2011						
Well site services						
Rental tools and services	\$ 107,531	\$ 9,796	\$ 24,389	\$	\$ 16,841	\$ 394,884
Drilling services	33,105	4,933	2,235		7,168	111,689
Total well site services	140,636	14,729	26,624		24,009	506,573
Accommodations	197,099	26,553	48,973	2	62,041	1,565,719
Offshore products	128,441	3,334	16,750		4,055	568,602
Tubular services	294,265	351	13,046	49	2,372	475,362
Corporate and eliminations		184	(10,617)		132	50,500
Total	\$ 760,441	\$ 45,151	\$ 94,776	\$ 51	\$ 92,609	\$ 3,166,756

11. COMMITMENTS AND CONTINGENCIES

The Company is a party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, products, employees and other matters, including warranty and product liability claims and occasional claims by individuals alleging exposure to hazardous materials as a result of its products or operations. Some of these claims relate to matters occurring prior to its acquisition of businesses, and some relate to businesses it has sold. In certain cases, the Company is entitled to

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indemnification from the sellers of businesses, and in other cases, it has indemnified the buyers of businesses from it. Although the Company can give no assurance about the outcome of pending legal and administrative proceedings and the effect such outcomes may have on it, management believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Certain wholly-owned subsidiaries, as detailed below (the Guarantor Subsidiaries), have fully and unconditionally guaranteed all of the 6 1/2% Notes issued in 2011 and all of the 2 3/8% Notes issued in 2005.

The following condensed consolidating financial information is included so that separate financial statements of the Guarantor Subsidiaries are not required to be filed with the Commission. The condensed consolidating financial information presents investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

The following condensed consolidating financial information presents: consolidating statements of income and comprehensive income for each of the three month periods ended March 31, 2012 and 2011, condensed consolidating balance sheets as March 31, 2012 and December 31, 2011 and the statements of cash flows for each of

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

the three months ended March 31, 2012 and 2011 of (a) the Company, parent/guarantor, (b) Acute Technological Services, Inc., Capstar Holding, L.L.C., Capstar Drilling, Inc., General Marine Leasing, L.L.C., Oil States Energy Services L.L.C., Oil States Energy Services Holding, Inc., Oil States Energy Services International Holding, L.L.C., Oil States Management, Inc., Oil States Industries, Inc., Oil States Skagit SMATCO, L.L.C., PTI Group USA L.L.C., PTI Mars Holdco 1, L.L.C., Sooner Inc., Sooner Pipe, L.L.C., Sooner Holding Company, Specialty Rental Tools & Supply, L.L.C., Stinger Wellhead Protection, Incorporated, and Well Testing, Inc., (the Guarantor Subsidiaries), (c) the non-guarantor subsidiaries, (d) consolidating adjustments necessary to consolidate the Company and its subsidiaries and (e) the Company on a consolidated basis. Note: As of January 1, 2012, Specialty Rental Tools & Supply, L.L.C., Stinger Wellhead Protection, Incorporated, and Well Testing, Inc. were combined to form Oil States Energy Services L.L.C.

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****Condensed Consolidating Statements of Income and Comprehensive Income**

	Three Months Ended March 31, 2012				Consolidated Oil States International, Inc.
	Oil States International, Inc. (Parent/ Guarantor)	Guarantor Subsidiaries	Other Subsidiaries (Non- Guarantors) (In thousands)	Consolidating Adjustments	
REVENUES					
Operating revenues	\$	\$ 753,261	\$ 345,731	\$	\$ 1,098,992
Intercompany revenues		5,038	30	(5,068)	
Total revenues		758,299	345,761	(5,068)	1,098,992
OPERATING EXPENSES					
Cost of sales and services		611,413	186,167	(1,783)	795,797
Intercompany cost of sales and services		3,222	45	(3,267)	
Selling, general and administrative expenses	10,898	20,564	16,277		47,739
Depreciation and amortization expense	215	21,086	29,369	(5)	50,665
Other operating (income) expense	(159)	(583)	1,286		544
Operating income (loss)	(10,954)	102,597	112,617	(13)	204,247
Interest expense, net of capitalized interest	(16,837)	(218)	(18,446)	17,557	(17,944)
Interest income	5,072	22	12,760	(17,557)	297
Equity in earnings (loss) of unconsolidated affiliates	157,092	14,615	178	(171,465)	420
Other income		1,628	107		1,735
Income before income taxes	134,373	118,644	107,216	(171,478)	188,755
Income tax provision	692	(28,581)	(25,394)		(53,283)
Net income	135,065	90,063	81,822	(171,478)	135,472
Other comprehensive income:					
Foreign currency translation adjustment	25,246	18,232	18,964	(37,196)	25,246
Total other comprehensive income	25,246	18,232	18,964	(37,196)	25,246
Comprehensive income	160,311	108,295	100,786	(208,674)	160,718
Comprehensive income attributable to noncontrolling interest			(420)	(5)	(425)
Comprehensive income attributable to Oil States International, Inc.	\$ 160,311	\$ 108,295	\$ 100,366	\$ (208,679)	\$ 160,293

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****Condensed Consolidating Statements of Income and Comprehensive Income**

	Three Months Ended March 31, 2011				Consolidated Oil States International, Inc.
	Oil States International, Inc. (Parent/ Guarantor)	Guarantor Subsidiaries	Other Subsidiaries (Non- Guarantors) (In thousands)	Consolidating Adjustments	
REVENUES					
Operating revenues	\$	\$ 523,284	\$ 237,157	\$	\$ 760,441
Intercompany revenues		1,656	316	(1,972)	
Total revenues		524,940	237,473	(1,972)	760,441
OPERATING EXPENSES					
Cost of sales and services		433,196	141,926	(724)	574,398
Intercompany cost of sales and services		1,074	174	(1,248)	
Selling, general and administrative expenses	9,400	19,644	14,664		43,708
Depreciation and amortization expense	184	21,506	23,463	(2)	45,151
Other operating (income)expense	1,033	(117)	1,490	2	2,408
Operating income (loss)	(10,617)	49,637	55,756		94,776
Interest expense	(8,411)	(346)	(22,457)	20,965	(10,249)
Interest income	2,569	5,783	13,625	(20,964)	1,013
Equity in earnings of unconsolidated affiliates	77,894	7,186	2	(85,031)	51
Other income (expense)		151	(8)		143
Income before income taxes	61,435	62,411	46,918	(85,030)	85,734
Income tax provision	642	(14,206)	(9,819)		(23,383)
Net income	62,077	48,205	37,099	(85,030)	62,351
Other comprehensive income:					
Foreign currency translation adjustment	30,663	8,491	21,618	(30,109)	30,663
Total other comprehensive income	30,663	8,491	21,618	(30,109)	30,663
Comprehensive income	92,740	56,696	58,717	(115,139)	93,014
Comprehensive income attributable to noncontrolling interest			(292)	(6)	(298)
Comprehensive income attributable to Oil States International, Inc.	\$ 92,740	\$ 56,696	\$ 58,425	\$ (115,145)	\$ 92,716

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****Condensed Consolidating Balance Sheets**

	March 31, 2012				
	Oil States International, Inc. (Parent/ Guarantor)	Guarantor Subsidiaries	Other Subsidiaries (Non- Guarantors) (In thousands)	Consolidating Adjustments	Consolidated Oil States International, Inc.
ASSETS					
Current assets:					
Cash and cash equivalents	\$ (398)	\$ 1,281	\$ 69,768	\$	\$ 70,651
Accounts receivable, net	10	501,575	341,385		842,970
Inventories, net		598,405	129,629	(210)	727,824
Prepaid expenses and other current assets	8,491	4,214	10,976		23,681
Total current assets	8,103	1,105,475	551,758	(210)	1,665,126
Property, plant and equipment, net	1,719	481,534	1,140,981	(162)	1,624,072
Goodwill, net		172,598	298,392		470,990
Other intangible assets, net		30,607	94,900		125,507
Investments in unconsolidated affiliates	2,286,171	571,595	3,110	(2,851,472)	9,404
Long-term intercompany receivables (payables)	844,557	(469,002)	(382,516)	6,961	
Other noncurrent assets	40,399	479	11,788		52,666
Total assets	\$ 3,180,949	\$ 1,893,286	\$ 1,718,413	\$ (2,844,883)	\$ 3,947,765
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 42,283	\$ 216,192	\$ 114,317	\$ (3)	\$ 372,789
Income taxes	(60,972)	80,088	13,282		32,398
Current portion of long-term debt and capitalized leases	20,018	2,393	10,138		32,549
Deferred revenue		45,014	24,606		69,620
Other current liabilities		6,281	286		6,567
Total current liabilities	1,329	349,968	162,629	(3)	513,923
Long-term debt and capitalized leases	1,043,362	6,339	119,311		1,169,012
Deferred income taxes	(10,731)	66,626	45,316		101,211
Other noncurrent liabilities	11,583	8,707	6,831	(449)	26,672
Total liabilities	1,045,543	431,640	334,087	(452)	1,810,818
Stockholders' equity	2,135,406	1,461,646	1,382,999	(2,844,645)	2,135,406
Non-controlling interest			1,327	214	1,541

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Total stockholders' equity	2,135,406	1,461,646	1,384,326	(2,844,431)	2,136,947
Total liabilities and stockholders' equity	\$ 3,180,949	\$ 1,893,286	\$ 1,718,413	\$ (2,844,883)	\$ 3,947,765

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****Condensed Consolidating Balance Sheets**

	December 31, 2011				
	Oil States International, Inc. (Parent/ Guarantor)	Guarantor Subsidiaries	Other Subsidiaries (Non- Guarantors) (In thousands)	Consolidating Adjustments	Consolidated Oil States International, Inc.
ASSETS					
Current assets:					
Cash and cash equivalents	\$ (274)	\$ 1,900	\$ 70,095	\$	\$ 71,721
Accounts receivable, net	974	461,033	270,233		732,240
Inventories, net		539,066	114,824	(192)	653,698
Prepaid expenses and other current assets	10,780	7,902	13,318		32,000
Total current assets	11,480	1,009,901	468,470	(192)	1,489,659
Property, plant and equipment, net	1,530	464,399	1,091,325	(166)	1,557,088
Goodwill, net		172,598	294,852		467,450
Other intangible assets, net		31,372	96,230		127,602
Investments in unconsolidated affiliates	2,096,505	235,617	23,517	(2,347,878)	7,761
Long-term intercompany receivables (payables)	831,477	(459,735)	(378,706)	6,964	
Other noncurrent assets	41,234	458	12,389		54,081
Total assets	\$ 2,982,226	\$ 1,454,610	\$ 1,608,077	\$ (2,341,272)	\$ 3,703,641
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 42,693	\$ 206,125	\$ 100,140	\$ (1)	\$ 348,957
Income taxes	(49,069)	51,986	7,478		10,395
Current portion of long-term debt and capitalized leases	20,018	4,404	10,013		34,435
Deferred revenue		47,227	28,270		75,497
Other current liabilities		5,382	283		5,665
Total current liabilities	13,642	315,124	146,184	(1)	474,949
Long-term debt and capitalized leases	1,008,969	6,437	127,099		1,142,505
Deferred income taxes	(13,146)	69,751	40,772		97,377
Other noncurrent liabilities	10,605	8,634	6,748	(449)	25,538
Total liabilities	1,020,070	399,946	320,803	(450)	1,740,369
Stockholders' equity	1,962,156	1,054,664	1,286,368	(2,341,032)	1,962,156
Non-controlling interest			906	210	1,116

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Total stockholders' equity	1,962,156	1,054,664	1,287,274	(2,340,822)	1,963,272
Total liabilities and stockholders' equity	\$ 2,982,226	\$ 1,454,610	\$ 1,608,077	\$ (2,341,272)	\$ 3,703,641

Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****Condensed Consolidating Statements of Cash Flows**

	Three Months Ended March 31, 2012				Consolidated Oil States International, Inc.
	Oil States International, Inc. (Parent/ Guarantor)	Guarantor Subsidiaries	Other Subsidiaries (Non- Guarantors) (In thousands)	Consolidating Adjustments	
NET CASH PROVIDED BY (USED IN)					
OPERATING ACTIVITIES:	\$ (31,273)	\$ 45,008	\$ 53,482	\$	\$ 67,217
CASH FLOWS FROM INVESTING ACTIVITIES:					
Capital expenditures, including capitalized interest	(405)	(37,532)	(63,465)		(101,402)
Proceeds from sale of equipment		1,316	320		1,636
Other, net	(2)	(194)	(993)		(1,189)
Net cash provided by (used in) investing activities	(407)	(36,410)	(64,138)		(100,955)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Revolving credit borrowings (repayments), net	37,362		(7,421)		29,941
Term loan repayments	(5,000)		(2,526)		(7,526)
Debt and capital lease payments	(4)	(2,108)	(71)		(2,183)
Issuance of common stock from share-based payment arrangements	6,775				6,775
Excess tax benefits from share-based payment arrangements	5,175				5,175
Proceeds from (funding of) accounts and notes with affiliates, net	(9,327)	(7,054)	16,391	(10)	