

OIL STATES INTERNATIONAL, INC
Form 10-Q
July 28, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0476605
(I.R.S. Employer
Identification No.)

Three Allen Center, 333 Clay Street, Suite 4620, 77002
Houston, Texas

(Zip Code)

(Address of principal executive offices)

(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 "large accelerated filer", "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 51,343,160 shares of common stock, par value \$0.01, outstanding and 10,920,525 shares of treasury stock as of July 25, 2016.

OIL STATES INTERNATIONAL, INC.

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PART I -- FINANCIAL INFORMATION**ITEM 1. Financial Statements**

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
Revenues	\$175,849	\$269,258	\$345,504	\$606,617
Costs and expenses:				
Cost of sales and services	136,400	194,664	265,215	432,386
Selling, general and administrative expenses	30,486	32,002	60,466	67,607
Depreciation and amortization expense	29,415	32,432	59,817	65,011
Other operating (income) expense	(3,291)	1,436	(2,728)	(871)
	193,010	260,534	382,770	564,133
Operating (loss) income	(17,161)	8,724	(37,266)	42,484
Interest expense	(1,315)	(1,627)	(2,760)	(3,335)
Interest income	110	138	202	275
Other income	224	355	430	821
(Loss) income from continuing operations before income taxes	(18,142)	7,590	(39,394)	40,245
Income tax benefit (expense)	6,437	(1,442)	14,453	(14,694)
Net (loss) income from continuing operations	(11,705)	6,148	(24,941)	25,551
Net (loss) income from discontinued operations, net of tax	(1)	35	(4)	201
Net (loss) income attributable to Oil States International, Inc.	\$(11,706)	\$6,183	\$(24,945)	\$25,752
Net (loss) income attributable to Oil States International, Inc.:				
Continuing operations	\$(11,705)	\$6,148	\$(24,941)	\$25,551
Discontinued operations	(1)	35	(4)	201
Net (loss) income attributable to Oil States International, Inc.	\$(11,706)	\$6,183	\$(24,945)	\$25,752
Basic net (loss) income per share attributable to Oil States International, Inc. common stockholders from:				

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Continuing operations	\$ (0.23)	\$ 0.12	\$ (0.50)	\$ 0.50
Discontinued operations	--	--	--	--
Net (loss) income	\$ (0.23)	\$ 0.12	\$ (0.50)	\$ 0.50
Diluted net (loss) income per share attributable to Oil States International, Inc. common stockholders from:				
Continuing operations	\$ (0.23)	\$ 0.12	\$ (0.50)	\$ 0.50
Discontinued operations	--	--	--	--
Net (loss) income	\$ (0.23)	\$ 0.12	\$ (0.50)	\$ 0.50
Weighted average number of common shares outstanding:				
Basic	50,210	50,427	50,126	50,627
Diluted	50,210	50,515	50,126	50,725

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In Thousands)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
Net (loss) income	\$ (11,706)	\$ 6,183	\$ (24,945)	\$ 25,752
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(8,870)	9,773	(7,317)	(4,718)
Unrealized gain on forward contracts, net of tax	--	124	--	72
Total other comprehensive (loss) income	(8,870)	9,897	(7,317)	(4,646)
Comprehensive (loss) income attributable to Oil States International, Inc.	\$ (20,576)	\$ 16,080	\$ (32,262)	\$ 21,106

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Per Share Amounts)

	JUNE 30, 2016 (UNAUDITED)	DECEMBER 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 51,957	\$ 35,973
Accounts receivable, net	264,101	333,494
Inventories, net	202,269	212,882
Prepaid expenses and other current assets	18,785	29,124
Total current assets	537,112	611,473
Property, plant, and equipment, net	601,228	638,725
Goodwill, net	264,050	263,787
Other intangible assets, net	56,889	59,385
Other noncurrent assets	23,557	23,101
Total assets	\$ 1,482,836	\$ 1,596,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 48,392	\$ 59,116
Accrued liabilities	42,805	49,300
Income taxes	5,948	8,303
Current portion of long-term debt and capitalized leases	520	533
Deferred revenue	29,427	36,655
Other current liabilities	291	293
Total current liabilities	127,383	154,200
Long-term debt and capitalized leases	83,604	125,887
Deferred income taxes	22,983	40,497
Other noncurrent liabilities	21,273	20,215
Total liabilities	255,243	340,799
Stockholders' equity:		

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Oil States International, Inc. stockholders' equity:

Common stock, \$.01 par value, 200,000,000 shares authorized, 62,279,956 shares and 61,712,805 shares issued, respectively, and 51,360,090 shares and 50,953,149 shares outstanding, respectively	623	617
Additional paid-in capital	721,082	712,980
Retained earnings	1,154,918	1,179,863
Accumulated other comprehensive loss	(58,015) (50,698)
Common stock held in treasury at cost, 10,919,866 and 10,759,656 shares, respectively	(591,015) (587,090)
Total stockholders' equity	1,227,593	1,255,672
Total liabilities and stockholders' equity	\$ 1,482,836	\$ 1,596,471

The accompanying notes are an integral part of

these financial statements.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	SIX MONTHS	
	ENDED JUNE 30,	
	2016	2015
Cash flows from operating activities:		
Net (loss) income	\$(24,945)	\$25,752
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss (income) from discontinued operations	4	(201)
Depreciation and amortization	59,817	65,011
Deferred income tax (benefit) expense	(20,206)	(2,331)
Tax impact of share-based payment arrangements	--	(215)
Provision for bad debt	784	(1,134)
Gain on disposals of assets	(372)	(628)
Non-cash compensation charge	10,569	10,697
Amortization of deferred financing costs	390	390
Other, net	665	(136)
Changes in operating assets and liabilities, net of effect from acquired businesses:		
Accounts receivable	62,321	206,706
Inventories	7,677	(6,939)
Accounts payable and accrued liabilities	(14,798)	(70,666)
Taxes payable	5,908	5,005
Other operating assets and liabilities, net	(5,688)	(9,816)
Net cash flows provided by continuing operating activities	82,126	221,495
Net cash flows (used in) provided by discontinued operating activities	(6)	314
Net cash flows provided by operating activities	82,120	221,809
Cash flows from investing activities:		
Capital expenditures	(18,398)	(68,740)
Acquisitions of businesses, net of cash acquired	--	(33,427)
Proceeds from disposition of property, plant and equipment	546	1,061
Other, net	(1,551)	(392)
Net cash flows used in continuing investing activities	(19,403)	(101,498)
Cash flows from financing activities:		
Revolving credit (repayments) borrowings, net	(42,422)	10,224
Debt and capital lease repayments	(263)	(273)
Issuance of common stock from share-based payment arrangements	367	2,209

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Purchase of treasury stock	--	(90,659)
Tax impact of share-based payment arrangements	--	215
Shares added to treasury stock as a result of net share settlements due to vesting of restricted stock	(3,924)	(6,750)
Other, net	(1)	--
Net cash flows used in continuing financing activities	(46,243)	(85,034)
Effect of exchange rate changes on cash	(490)	892
Net change in cash and cash equivalents	15,984	36,169
Cash and cash equivalents, beginning of period	35,973	53,263
Cash and cash equivalents, end of period	\$51,957	\$89,432

The accompanying notes are an integral part of these

financial statements.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2015	\$ 617	\$ 712,980	\$ 1,179,863	\$ (50,698)	\$ (587,090)	\$ 1,255,672
Net loss			(24,945)			(24,945)
Currency translation adjustment (excluding intercompany notes)				(10,890)		(10,890)
Currency translation adjustment on intercompany notes				3,573		3,573
Exercise of stock options, including tax impact		(2,395)				(2,395)
Amortization of restricted stock compensation		9,148				9,148
Stock option expense		1,355				1,355
Restricted stock awards granted	6	(6)				--
Surrender of stock to pay taxes on restricted stock awards					(3,924)	(3,924)
Other					(1)	(1)
Balance, June 30, 2016	\$ 623	\$ 721,082	\$ 1,154,918	\$ (58,015)	\$ (591,015)	\$ 1,227,593

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

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 condensed 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 condensed 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. Our industry is cyclical and this cyclicity impacts our estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows including our determination of whether a decline in value of our long-lived assets and related fair values of our reporting units have occurred. A longer term continuation of the current down cycle will likely result in changes in our estimates of forward cash flow timing and amounts and may result in impairment losses.

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, 2015 (the 2015 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 March 2016, the FASB issued guidance on employee share-based payment accounting which makes several modifications to the current guidance related to the accounting for forfeitures, employer tax withholding on stock-based compensation and the financial statement presentation of excess tax benefits or deficiencies. This guidance also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. We are evaluating the impact of the future adoption of this standard on our consolidated financial position, results of operations and related disclosures.

In February 2016, the FASB issued guidance on leases which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The guidance will be effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. We are evaluating the impact of the future adoption of this standard on our consolidated financial position, results of operations, cash flows and related disclosures.

In April 2015, the FASB issued guidance on the presentation of debt issuance costs which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued additional guidance on this topic which adds comments from the Commission addressing the guidance issued in April 2015 and debt issuance costs related to line-of-credit arrangements. The Commission commented it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The recognition and measurement guidance for debt issuance costs are not affected by this guidance. This new guidance requires retrospective application and represents a change in accounting principle. For public business entities, this guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company adopted this new guidance during the first quarter of 2016. The adoption of this new guidance did not affect the Company's results of operations or cash flows, but it resulted in the Company reclassifying its deferred financing costs associated with its revolving credit agreement from other noncurrent assets to long-term debt on a retrospective basis. The Company's consolidated balance sheets included deferred financing costs of \$2.7 million as of December 31, 2015 that were reclassified from other noncurrent assets to long-term debt. See Note 7, "Debt."

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced

disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued guidance deferring the effective date by one year to December 15, 2017 for fiscal years, and interim periods within those years, beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and continue to evaluate the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

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 at June 30, 2016 and December 31, 2015 is presented below (in thousands):

	JUNE 30, 2016	DECEMBER 31, 2015
Accounts receivable, net:		
Trade	\$ 163,500	\$ 210,313
Unbilled revenue	105,396	124,331
Other	2,531	5,738
Total accounts receivable	271,427	340,382
Allowance for doubtful accounts	(7,326)	(6,888)
	\$264,101	\$ 333,494

	JUNE 30, 2016	DECEMBER 31, 2015
Inventories, net:		
Finished goods and purchased products	\$95,043	\$ 97,362
Work in process	40,886	42,182
Raw materials	78,894	86,236
Total inventories	214,823	225,780
Allowance for excess, damaged, or obsolete inventory	(12,554)	(12,898)
	\$202,269	\$ 212,882

	JUNE 30, 2016	DECEMBER 31, 2015
Prepaid expenses and other current assets:		

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Prepayments to vendors	\$5,864	\$ 5,266
Prepaid insurance	3,592	4,827
Income tax asset	2,722	11,519
Prepaid non-income taxes	2,105	1,680
Prepaid rent/leases	909	1,108
Other prepaid expenses and current assets	3,593	4,724
	\$18,785	\$ 29,124

	Estimated Useful Life	JUNE 30, 2016	DECEMBER 31, 2015
Property, plant and equipment, net:			
Land		\$28,029	\$ 26,334
Buildings and leasehold improvements	3 - 40 years	188,833	185,274
Machinery and equipment	2 - 28 years	447,465	462,054
Completion services equipment	2 - 10 years	441,190	421,386
Office furniture and equipment	3 - 10 years	41,031	32,200
Vehicles	2 - 10 years	123,263	125,211
Construction in progress		84,871	92,800
Total property, plant and equipment		1,354,682	1,345,259
Accumulated depreciation		(753,454)	(706,534)
		\$601,228	\$ 638,725

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

	JUNE 30, 2016	DECEMBER 31, 2015
Accrued liabilities:		
Accrued compensation	\$17,836	\$ 19,402
Insurance liabilities	7,416	9,855
Accrued taxes, other than income taxes	5,215	3,619
Accrued leasehold restoration liability	2,846	3,389
Accrued product warranty reserves	2,113	2,638
Accrued commissions	1,223	2,033
Accrued claims	1,038	896
Other	5,118	7,468
	\$42,805	\$ 49,300

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

Our accumulated other comprehensive loss, reported as a component of stockholders' equity, increased from \$50.7 million at December 31, 2015 to \$58.0 million at June 30, 2016, primarily as a result of foreign currency exchange rate differences. Our accumulated other comprehensive loss is primarily related to fluctuations in the foreign currency exchange rates compared to the U.S. dollar which are used to translate the foreign operations of our reportable segments (primarily in the United Kingdom, Canada, Brazil, and Argentina). The exchange rates of the Canadian dollar and the Brazilian real compared to the U.S. dollar strengthened by 7% and 19%, respectively, in the first half of 2016 compared to the exchange rates at December 31, 2015, while the exchange rates of the British pound and the Argentine peso compared to the U.S. dollar weakened by 10% and 13%, respectively, during the same period.

5. EARNINGS PER SHARE

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The numerator (loss/income) and denominator (shares) used for the computation of basic and diluted (loss) earnings per share were as follows (in thousands):

	THREE MONTHS ENDED JUNE			
	30,			
	2016		2015	
	Income	Shares	Income	Shares
	(Loss)		(Loss)	
<u>Basic:</u>				
Net (loss) income attributable to Oil States International, Inc.	\$(11,706)		\$6,183	
Less: Undistributed net income allocable to participating securities	--		(130)	
Undistributed net (loss) income applicable to common stockholders	(11,706)		6,053	
Less: Loss (income) from discontinued operations, net of tax	1		(35)	
Add: Undistributed net income from discontinued operations allocable to participating securities	--		1	
(Loss) income from continuing operations applicable to Oil States International, Inc. common stockholders – Basic	\$(11,705)	50,210	\$6,019	50,427
<u>Diluted:</u>				
(Loss) income from continuing operations applicable to Oil States International, Inc. common stockholders – Basic	\$(11,705)	50,210	\$6,019	50,427
Effect of dilutive securities:				
Options on common stock	--	--	--	79
Restricted stock awards and other	--	--	--	9
(Loss) income from continuing operations applicable to Oil States International, Inc. common stockholders – Diluted	(11,705)	50,210	6,019	50,515
(Loss) income from discontinued operations, net of tax, applicable to Oil States International, Inc. common stockholders	(1)		34	
Net (loss) income attributable to Oil States International, Inc. common stockholders – Diluted	\$(11,706)	50,210	\$6,053	50,515

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

	SIX MONTHS ENDED JUNE 30,			
	2016		2015	
	Income	Shares	Income	Shares
	(Loss)		(Loss)	
<u>Basic:</u>				
Net (loss) income attributable to Oil States International, Inc.	\$(24,945)		\$25,752	
Less: Undistributed net income allocable to participating securities	--		(539)	
Undistributed net (loss) income applicable to common stockholders	(24,945)		25,213	
Less: Loss (income) from discontinued operations, net of tax	4		(201)	
Add: Undistributed net income from discontinued operations allocable to participating securities	--		4	
(Loss) income from continuing operations applicable to Oil States International, Inc. common stockholders – Basic	\$(24,941)	50,126	\$25,016	50,627
<u>Diluted:</u>				
(Loss) income from continuing operations applicable to Oil States International, Inc. common stockholders – Basic	\$(24,941)	50,126	\$25,016	50,627
Effect of dilutive securities:				