OIL STATES INTERNATIONAL, INC
Form 10-Q
November 03, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

o **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: 1-16337

OIL STATES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	76-0476605
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Three Allen Center, 333 Clay Street, Suite 4620, Houston, Texas	77002
(Address of principal executive offices)	(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 þ NO o

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

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

YES o NO þ

The Registrant had 49,581,940 shares of common stock outstanding and 1,538,903 shares of treasury stock as of October 20, 2006.

OIL STATES INTERNATIONAL, INC.
INDEX

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	**2005**	**2006**	**2005**
Revenues	$ 479,463	$ 394,140	$ 1,439,053	$ 1,084,555
Costs and expenses:				
Cost of sales	363,007	308,267	1,094,926	853,631
Selling, general and administrative expenses	27,414	22,441	79,611	62,165
Depreciation and amortization expense	13,880	12,253	39,762	33,697
Other operating expense (income)	(330)	(87)	56	(394)
	403,971	342,874	1,214,355	949,099
Operating income	75,492	51,266	224,698	135,456
Interest expense	(4,797)	(3,857)	(14,531)	(9,313)
Interest income	714	77	1,670	313
Equity in earnings of unconsolidated affiliates	2,637	473	4,624	806
Sale of workover services business			11,250	
Other income	1,866	72	2,111	231
Income before income taxes	75,912	48,031	229,822	127,493
Income tax expense	(25,860)	(17,723)	(81,549)	(47,045)
Net income	$ 50,052	$ 30,308	$ 148,273	$ 80,448
Net income per share:				
Basic	$ 1.01	$ 0.62	$ 2.99	$ 1.63
Diluted	$ 0.99	$ 0.60	$ 2.91	$ 1.59
Weighted average number of common shares outstanding:				
Basic	49,736	48,925	49,514	49,436
Diluted	50,475	50,108	50,909	50,442

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	SEPTEMBER 30, 2006 (UNAUDITED)	DECEMBER 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,198	$ 15,298
Accounts receivable, net	315,266	274,070
Inventories, net	401,537	360,926
Prepaid expenses and other current assets	9,408	13,450
Total current assets	739,409	663,744
Property, plant, and equipment, net	360,212	310,452
Goodwill, net	333,699	339,703
Investments in unconsolidated affiliates	35,891	2,265
Other non-current assets	58,526	26,708
Total assets	$ 1,527,737	$ 1,342,872
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 203,772	$ 214,504
Income taxes	5,072	7,023
Current portion of long-term debt	6,861	3,901
Deferred revenue	48,095	34,046
Other current liabilities	3,678	3,223
Total current liabilities	267,478	262,697
Long-term debt	398,015	402,109
Deferred income taxes	37,746	35,259
Other liabilities	20,915	8,823
Total liabilities	724,154	708,888
Stockholders equity:		
Common stock	511	504
Additional paid-in capital	369,988	350,667
Retained earnings	438,266	289,993
Accumulated other comprehensive income	35,459	23,137
Treasury stock	(40,641)	(30,317)

Total stockholders equity		803,583		633,984
Total liabilities and stockholders equity	$	1,527,737	$	1,342,872

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)

	NINE MONTHS ENDED SEPTEMBER 30, 2006	NINE MONTHS ENDED SEPTEMBER 30, 2005
Cash flows from operating activities:		
Net income	$ 148,273	$ 80,448
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	39,762	33,697
Deferred income tax provision	1,411	1,101
Excess tax benefits from share-based payment arrangements	(4,966)	
Tax benefit of option exercises		2,919
Non-cash gain on sale of workover services business	(11,250)	
Equity in earnings of unconsolidated subsidiaries	(4,624)	(806)
Non-cash compensation charge	5,815	362
Loss (gain) on disposal of assets	(3,102)	548
Other, net	1,895	1,541
Changes in working capital	(73,359)	(119,536)
Net cash flows provided by operating activities	99,855	274
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(99)	(146,568)
Cash balances of workover services business sold	(4,366)	
Capital expenditures	(104,114)	(49,445)
Proceeds from sale of equipment	8,069	2,034
Other, net	(1,068)	(554)
Net cash flows used in investing activities	(101,578)	(194,533)
Cash flows from financing activities:		
Revolving credit borrowings (repayments)	(1,563)	50,673
Contingent convertible notes issued		175,000
Bridge loan and other borrowings		25,000
Debt repayments	(2,236)	(25,469)
Issuance of common stock	8,275	6,112
Payment of financing costs		(6,460)
Purchase of treasury stock	(10,083)	(30,000)
Excess tax benefits from share-based payment arrangements	4,966	
Other, net	(194)	
Net cash flows provided by (used in) financing activities	(835)	194,856
Effect of exchange rate changes on cash	570	(2,455)
Net decrease in cash and cash equivalents from continuing operations	(1,988)	(1,858)
Net cash used in discontinued operations operating activities	(112)	(553)

Cash and cash equivalents, beginning of period		15,298		19,740
Cash and cash equivalents, end of period	$	13,198	$	17,329
Non-cash investing activities:				
Receipt of stock and notes for hydraulic workover services business in merger transaction, net of unrecognized gain of $9.4 million (See Note 11)	$	50,105	$	
Non-cash financing activities:				
Borrowings and assumption of liabilities for business and asset acquisition and related intangibles	$	514	$	6,553

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Oil States International, Inc. and its wholly-owned subsidiaries (the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange 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 year.

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amounts of contingent assets and liabilities and the reported amounts of revenues and expenses. 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 consolidated condensed financial statements.

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 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.

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, 2005.

2. RECENT ACCOUNTING PRONOUNCEMENT

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company is currently evaluating the impact of SFAS 157, but does not expect the adoption of SFAS 157 to have a material impact on its results from operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN #48), which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact this interpretation will have on its results from operations or financial position.

3. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS

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

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
Accounts receivable, net:		
Trade	$ 263,126	$ 236,936
Unbilled revenue	52,755	36,789
Other	1,412	2,514
Allowance for doubtful accounts	(2,027)	(2,169)
	$ 315,266	$ 274,070

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
Inventories, net:		
Tubular goods	$ 279,851	$ 274,232
Other finished goods and purchased products	52,313	35,716
Work in process	37,033	30,288
Raw materials	38,786	26,412
Total inventories	407,983	366,648
Inventory reserves	(6,446)	(5,722)
	$ 401,537	$ 360,926

	ESTIMATED	SEPTEMBER 30, 2006	DECEMBER 31, 2005

	USEFUL LIFE				
Property, plant and equipment, net:					
Land		$	9,259	$	9,576
Buildings and leasehold improvements	5-40 years		67,843		60,049
Machinery and equipment	2-20 years		311,091		292,713
Rental tools	2-10 years		61,154		72,327
Office furniture and equipment	1-15 years		17,859		16,231
Vehicles	2-10 years		29,473		26,035
Construction in progress			48,004		22,283
Total property, plant and equipment			544,683		499,214
Less: Accumulated depreciation			(184,471)		(188,762)
		$	360,212	$	310,452

On August 23, 2006, the Company acquired the drilling assets of Eagle Rock Drilling, L.L.C. (Eagle Rock) for total consideration of $14.0 million which consisted of a cash payment and a note payable to the former owner of $13.5 million and $0.5 million, respectively. Eagle Rock owned and operated three rigs in the Permian Basin area of West Texas. These rigs are now included in our drilling services business in our well site services segment.

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 152,937	$ 168,445
Accrued compensation	23,778	22,529
Accrued insurance	5,439	4,820
Accrued taxes, other than income taxes	7,863	4,354
Reserves related to discontinued operations	3,415	3,527
Other	10,340	10,829
	$ 203,772	$ 214,504

4. EARNINGS PER SHARE

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
	(In thousands, except per share data)		(In thousands, except per share data)	
Basic earnings per share:				
Net income	$ 50,052	$ 30,308	$ 148,273	$ 80,448
Weighted average number of shares outstanding	49,736	48,925	49,514	49,436
Basic earnings per share	$ 1.01	$ 0.62	$ 2.99	$ 1.63
Diluted earnings per share:				
Net income	$ 50,052	$ 30,308	$ 148,273	$ 80,448
Weighted average number of shares outstanding	49,736	48,925	49,514	49,436
Effect of dilutive securities:				
Options on common stock	670	1,095	852	936
2 3/8% Contingent Convertible Notes	23		489	
Restricted stock awards and other	46	88	54	70
Total shares and dilutive securities	50,475	50,108	50,909	50,442
Diluted earnings per share	$ 0.99	$ 0.60	$ 2.91	$ 1.59

5. BUSINESS ACQUISITIONS AND GOODWILL

On February 1, 2005, the Company completed the acquisition of Elenburg Exploration Company, Inc. (Elenburg), a Wyoming based land drilling company for total consideration of $22.1 million, including transaction costs and a note payable to the former owners of $0.8 million. At the date of acquisition, Elenburg owned and operated seven rigs that provided shallow land drilling services in Montana, Wyoming, Colorado, and Utah. The Elenburg acquisition allowed the Company to expand its drilling business into different geographic areas. The operations of Elenburg have been included in the drilling and other business within the well site services segment.

Effective May 1, 2005 and June 1, 2005, the Company acquired Stinger Wellhead Protection, Inc., certain affiliated companies and related intellectual property, (collectively, Stinger) for total consideration of $96.1 million, including transaction costs and a note payable to the former owners of $5.0 million. Stinger provides wellhead isolation equipment and services through its 30 locations in the United States, Canada, Central and South America. Stinger s patented equipment is utilized during pressure pumping operations and isolates the customers blow-out preventers or wellheads from the pressure and abrasion experienced during the fracturing process of an oil or gas well. The Stinger acquisition expanded the Company s rental tool and services capabilities, especially in the pressure pumping market. The operations of Stinger have been included in the rental tools business within the well site services segment.

On June 2, 2005, the Company purchased Phillips Casing and Tubing, L.P. (Phillips) for total consideration of $31.2 million, including transaction costs. Phillips distributes oil country tubular goods (OCTG), primarily carbon ERW (electronic resistance welded) pipe, from its facilities in Midland and Godley, Texas. The operations of Phillips have been combined within the tubular services segment.

On June 6, 2005, the Company acquired Noble Structures, Inc. (Noble) for total consideration of $8.7 million, including transaction costs and a note payable of $0.8 million. The acquisition expanded the Company s accommodation manufacturing capabilities in Canada in order to meet increased demand for remote site facilities, principally in the oil sands region. The operations of Noble have been combined with our accommodations business within the well site services segment.

Changes in the carrying amount of goodwill for the nine month period ended September 30, 2006 are as follows (in thousands):

	Balance as of January 1, 2006	Acquisitions and adjustments	Foreign currency translation and other changes	Balance as of September 30, 2006
Offshore Products	$ 74,922	$	$ 508	$ 75,430
Tubular Services	62,015	437		62,452
Wellsite Services	202,766	218	(7,167) (1)	195,817
Total	$ 339,703	$ 655	$ (6,659)	$ 333,699

(1) Effective March 1, 2006, the Company sold its workover services business See Note 11. A total of $9,340 of goodwill was associated with the workover services business sold. The remainder of this change for well site services relates to foreign currency and other changes.

6. DEBT

As of September 30, 2006 and December 31, 2005, long-term debt consisted of the following (in thousands):

	September 30, 2006 (Unaudited)	December 31, 2005
	$ 189,600	$ 179,600

U.S. revolving credit facility, with available commitments up to $280 million and with an average interest rate of 6.3% for the nine month period ended September 30, 2006		
Canadian revolving credit facility, with available commitments up to $45 million and with an average interest rate of 5.3% for the nine month period ended September 30, 2006	33,175	42,885
2 3/8% contingent convertible senior notes due 2025	175,000	175,000
Subordinated unsecured notes payable to sellers of businesses, interest ranging from 5% to 6%, maturing in 2007	5,823	7,493
Capital lease obligations and other notes payable in monthly installments of principal and interest at various interest rates	1,278	1,032
Total debt	404,876	406,010