

OIL STATES INTERNATIONAL, INC  
Form 10-Q  
November 01, 2013

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 September 30, 2013

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 "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 55,153,548 shares of common stock, par value \$0.01, outstanding and 3,979,910 shares of treasury stock as of October 30, 2013.

OIL STATES INTERNATIONAL, INC.

INDEX

	<u>Page No.</u>
Part I -- FINANCIAL INFORMATION	
Item 1. Financial Statements:	
Condensed Consolidated Financial Statements	
Unaudited Condensed Consolidated Statements of Income for the Three and Nine Month Periods Ended September 30, 2013 and 2012	3
Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Month Periods Ended September 30, 2013 and 2012	4
Consolidated Balance Sheets – September 30, 2013 (unaudited) and December 31, 2012	5
Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012	6
Notes to Unaudited Condensed Consolidated Financial Statements	7 – 26
Cautionary Statement Regarding Forward-Looking Statements	27
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	27 – 41
Item 3. Quantitative and Qualitative Disclosures About Market Risk	41
Item 4. Controls and Procedures	41– 42
Part II -- OTHER INFORMATION	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 6. Exhibits	43
(a) Index of Exhibits	43– 44
Signature Page	45



**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)

	<b>THREE MONTHS ENDED SEPTEMBER 30, 2013</b>		<b>NINE MONTHS ENDED SEPTEMBER 30, 2012</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenues	\$684,456	\$644,512	\$1,994,985	\$1,944,151
Costs and expenses:				
Cost of sales and services	433,786	393,644	1,250,596	1,174,164
Selling, general and administrative expenses	54,130	46,284	156,697	133,648
Depreciation and amortization expense	70,217	58,871	204,545	162,610
Other operating expense	4,346	1,566	3,485	1,703
	562,479	500,365	1,615,323	1,472,125
Operating income	121,977	144,147	379,662	472,026
Interest expense, net of capitalized interest	(18,678 )	(15,736 )	(58,426 )	(51,617 )
Interest income	506	440	1,708	979
Loss on extinguishment of debt	(3,265 )	--	(3,265 )	--
Equity in earnings (losses) of unconsolidated affiliates	72	(103 )	(758 )	150
Other income	3,854	2,243	5,603	7,781
Income from continuing operations before income taxes	104,466	130,991	324,524	429,319
Income tax provision	(27,059 )	(33,635 )	(86,429 )	(113,878 )
Net income from continuing operations	77,407	97,356	238,095	315,441
Net income from discontinued operations, net of tax (including a net gain on disposal of \$84,209 in the third quarter of 2013)	90,679	6,753	109,445	35,616
Net income	168,086	104,109	347,540	351,057
Less: Net income attributable to noncontrolling interest	346	317	1,086	967
Net income attributable to Oil States International, Inc.	\$167,740	\$103,792	\$346,454	\$350,090

Edgar Filing: OIL STATES INTERNATIONAL, INC - Form 10-Q

Net income attributable to Oil States International, Inc.:				
Continuing operations	\$77,061	\$97,039	\$237,009	\$314,474
Discontinued operations	90,679	6,753	109,445	35,616
Net income attributable to Oil States International, Inc.	\$167,740	\$103,792	\$346,454	\$350,090

Basic net income per share attributable to Oil States International, Inc. common stockholders from:

Continuing operations	\$1.40	\$1.80	\$4.31	\$6.01
Discontinued operations	1.64	0.12	1.99	0.68
Net income	\$3.04	\$1.92	\$6.30	\$6.69

Diluted net income per share attributable to Oil States International, Inc. common stockholders from:

Continuing operations	\$1.38	\$1.75	\$4.27	\$5.68
Discontinued operations	1.63	0.12	1.97	0.64
Net income	\$3.01	\$1.87	\$6.24	\$6.32

Weighted average number of common shares outstanding:

Basic	55,092	53,975	54,987	52,347
Diluted	55,672	55,365	55,542	55,391

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

## OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
	<b>SEPTEMBER 30, 2013</b>	<b>2012</b>	<b>SEPTEMBER 30, 2013</b>	<b>2012</b>
Net income	\$168,086	\$104,109	\$347,540	\$351,057
Other comprehensive income (loss):				
Foreign currency translation adjustment	44,693	43,564	(125,407)	40,527
Unrealized loss on forward contracts, net of tax	(190 )	(434 )	(74 )	(434 )
Total other comprehensive income (loss)	44,503	43,130	(125,481)	40,093
Comprehensive income	212,589	147,239	222,059	391,150
Comprehensive income attributable to noncontrolling interest	(380 )	(357 )	(1,045 )	(996 )
Comprehensive income attributable to Oil States International, Inc.	\$212,209	\$146,882	\$221,014	\$390,154

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



## OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In Thousands)

	<b>SEPTEMBER 30, 2013</b>	<b>DECEMBER 31, 2012</b>
	<b>(UNAUDITED)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 775,979	\$ 253,172
Accounts receivable, net	616,170	647,933
Inventories, net	256,665	253,994
Current assets held for sale	--	632,496
Prepaid expenses and other current assets	34,228	38,497
Total current assets	1,683,042	1,826,092
Property, plant, and equipment, net	1,914,088	1,827,242
Goodwill, net	499,830	520,818
Other intangible assets, net	127,605	146,103
Noncurrent assets held for sale	--	31,605
Other noncurrent assets	48,907	88,102
Total assets	\$ 4,273,472	\$ 4,439,962
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 144,555	\$ 167,642
Accrued liabilities	115,911	103,800
Income taxes	66,494	29,588
Current portion of long-term debt and capitalized leases	492	30,480
Deferred revenue	65,924	43,022
Current liabilities held for sale	--	139,686
Other current liabilities	10,168	4,314
Total current liabilities	403,544	518,532
Long-term debt and capitalized leases	1,006,844	1,279,805
Deferred income taxes	128,343	123,958
Noncurrent liabilities held for sale	--	5,277
Other noncurrent liabilities	24,163	46,590
Total liabilities	1,562,894	1,974,162

Stockholders' equity:

Oil States International, Inc. stockholders' equity:

Common stock, \$.01 par value, 200,000,000 shares authorized, 59,118,683 shares and 58,488,299 shares issued, respectively, and 55,139,418 shares and 54,695,473 shares outstanding, respectively	591	585
Additional paid-in capital	625,752	586,070
Retained earnings	2,245,649	1,899,195
Accumulated other comprehensive income (loss)	(18,384	) 107,097
Common stock held in treasury at cost, 3,979,265 and 3,792,826 shares, respectively	(144,589	) (128,542 )
Total Oil States International, Inc. stockholders' equity	2,709,019	2,464,405
Noncontrolling interest	1,559	1,395
Total stockholders' equity	2,710,578	2,465,800
Total liabilities and stockholders' equity	\$ 4,273,472	\$ 4,439,962

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)

	<b>NINE MONTHS ENDED SEPTEMBER 30, 2013          2012</b>	
Cash flows from operating activities:		
Net income	\$347,540	\$351,057
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	206,155	164,323
Deferred income tax provision	(707 )	5,122
Excess tax benefits from share-based payment arrangements	(5,447 )	(7,739 )
Gain on sale of business	(84,209 )	--
Gains on disposals of assets	(3,871 )	(7,131 )
Non-cash compensation charge	22,938	13,934
Accretion of debt discount	--	4,106
Amortization of deferred financing costs	5,937	5,249
Loss on extinguishment of debt	3,265	--
Other, net	640	(9 )
Changes in operating assets and liabilities, net of effect from acquired businesses:		
Accounts receivable	53,386	(62,688 )
Inventories	34,028	(140,408)
Accounts payable and accrued liabilities	(24,449 )	84,020
Taxes payable	16,603	38,035
Other current assets and liabilities, net	10,868	(2,337 )
Net cash flows provided by operating activities	582,677	445,534
Cash flows from investing activities:		
Capital expenditures, including capitalized interest	(355,639)	(331,750)
Acquisitions of businesses, net of cash acquired	(1,771 )	(48,000 )
Proceeds from sale of business	600,000	--
Proceeds from disposition of property, plant and equipment	8,535	9,609
Other, net	81	(1,668 )
Net cash flows provided by (used in) investing activities	251,206	(371,809)
Cash flows from financing activities:		
Revolving credit borrowings and (repayments), net	(47,901 )	201,837
Payment of principal on 2 3/8% Notes conversion	--	(174,990)
Term loan repayments	(252,762)	(22,510 )

Edgar Filing: OIL STATES INTERNATIONAL, INC - Form 10-Q

Debt and capital lease repayments	(2,180 )	(2,453 )
Issuance of common stock from share-based payment arrangements	14,172	13,108
Purchase of treasury stock	(11,889 )	--
Excess tax benefits from share-based payment arrangements	5,447	7,739
Payment of financing costs	(203 )	(3,264 )
Shares added to treasury stock as a result of net share settlements due to vesting of restricted stock	(4,161 )	(4,167 )
Other, net	(1 )	3
Net cash flows provided by (used in) financing activities	(299,478)	15,303
Effect of exchange rate changes on cash	(11,598 )	2,802
Net change in cash and cash equivalents	522,807	91,830
Cash and cash equivalents, beginning of period	253,172	71,721
Cash and cash equivalents, end of period	\$775,979	\$163,551
Non-cash financing activities:		
Value of common stock issued in payment of 2 3/8% Notes conversion	\$--	\$220,597

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.

In September 2013, the Company entered into a Stock Purchase Agreement with Marubeni-Itochu Tubulars America, Inc. (Marubeni-Itochu) for the sale of Sooner, Inc. and its subsidiaries (Sooner), which comprised the entirety of the Company's tubular services segment. The applicable assets and liabilities of this business have been classified as held for sale in the Consolidated Balance Sheet as of December 31, 2012. The unaudited Condensed Consolidated Statements of Income for all periods presented have been reclassified to reflect the presentation of discontinued operations. Unless otherwise indicated, all disclosures and amounts in the Notes to Unaudited Condensed Consolidated Financial Statements relate to the Company's continuing operations.

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 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, 2012 (the 2012 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.

## 3. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS

Additional information regarding selected balance sheet accounts at September 30, 2013 and December 31, 2012 is presented below (in thousands):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>Accounts receivable, net:</b>		
Trade	\$ 421,623	\$ 455,031
Unbilled revenue	196,312	194,133
Other	4,557	3,691
Total accounts receivable	622,492	652,855
Allowance for doubtful accounts	(6,322 )	(4,922 )
	<b>\$ 616,170</b>	<b>\$ 647,933</b>

## OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED

## FINANCIAL STATEMENTS

(Continued)

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>Inventories, net:</b>		
Finished goods and purchased products	\$ 96,023	\$ 90,974
Work in process	62,460	64,267
Raw materials	108,333	107,356
Total inventories	266,816	262,597
Allowance for excess, damaged, or obsolete inventory	(10,151 )	(8,603 )
	<b>\$ 256,665</b>	<b>\$ 253,994</b>

	<b>Estimated</b>		September 30,	<b>December 31,</b>
	Useful Life (years)		2013	<b>2012</b>
<b>Property, plant and equipment, net:</b>				
Land			\$ 69,505	\$ 55,340
Accommodations assets	3	-	15	1,481,830
Buildings and leasehold improvements	3	-	40	183,017
Machinery and equipment	2	-	29	390,432
Completion services equipment	4	-	10	264,225
Office furniture and equipment	1	-	10	46,461
Vehicles	2	-	10	122,246
Construction in progress			181,436	149,657
Total property, plant and equipment			2,935,378	2,693,208
Accumulated depreciation			(1,021,290 )	(865,966 )