

OIL STATES INTERNATIONAL, INC  
Form 10-Q  
April 30, 2015  
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, 2015

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

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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 51,592,033 shares of common stock, par value \$0.01, outstanding and 9,899,002 shares of treasury stock as of April 28, 2015.



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 INCOME

(In Thousands, Except Per Share Amounts)

	<b>THREE MONTHS ENDED</b>	
	<b>MARCH 31,</b>	
	<b>2015</b>	<b>2014</b>
Revenues	\$337,358	\$405,237
Costs and expenses:		
Cost of sales and services	237,722	272,371
Selling, general and administrative expenses	35,605	41,409
Depreciation and amortization expense	32,579	30,787
Other operating (income) expense	(2,308 )	1,404
	303,598	345,971
Operating income	33,760	59,266
Interest expense	(1,708 )	(8,046 )
Interest income	136	116
Other income	466	1,527
Income from continuing operations before income taxes	32,654	52,863
Income tax provision	(13,252 )	(18,142 )
Net income from continuing operations	19,402	34,721
Net income from discontinued operations, net of tax	166	36,795
Net income	19,568	71,516
Less: Net income attributable to noncontrolling interest	--	12
Net income attributable to Oil States International, Inc.	\$19,568	\$71,504
Net income attributable to Oil States International, Inc.:		
Continuing operations	\$19,402	\$34,709

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Discontinued operations	166	36,795
Net income attributable to Oil States International, Inc.	\$19,568	\$71,504

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

Continuing operations	\$0.38	\$0.65
Discontinued operations	--	0.68
Net income	\$0.38	\$1.33

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

Continuing operations	\$0.38	\$0.64
Discontinued operations	--	0.68
Net income	\$0.38	\$1.32

Weighted average number of common shares outstanding:

Basic	50,826	53,288
Diluted	50,936	53,588

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

## OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)

	<b>THREE MONTHS ENDED MARCH 31, 2015      2014</b>	
Net income	\$19,568	\$71,516
Other comprehensive loss:		
Foreign currency translation adjustment	(14,490)	(20 )
Unrealized loss on forward contracts, net of tax	(52 )	--
Total other comprehensive loss	(14,542)	(20 )
Comprehensive income	5,026	71,496
Less: Comprehensive loss attributable to noncontrolling interest	--	(53 )
Comprehensive income attributable to Oil States International, Inc.	\$5,026	\$71,549

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



## OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In Thousands)

	<b>MARCH 31, 2015 (UNAUDITED)</b>	<b>DECEMBER 31, 2014</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 72,049	\$ 53,263
Accounts receivable, net	377,132	497,124
Inventories, net	237,862	232,490
Prepaid expenses and other current assets	39,226	43,789
Total current assets	726,269	826,666
Property, plant, and equipment, net	659,605	649,846
Goodwill, net	265,295	252,201
Other intangible assets, net	64,128	52,935
Other noncurrent assets	30,091	27,964
Total assets	\$ 1,745,388	\$ 1,809,612
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 79,519	\$ 108,949
Accrued liabilities	60,811	96,130
Income taxes	10,881	9,195
Current portion of long-term debt and capitalized leases	523	530
Deferred revenue	46,923	48,948
Other current liabilities	13,268	7,660
Total current liabilities	211,925	271,412
Long-term debt and capitalized leases	205,740	146,835
Deferred income taxes	40,287	33,913
Other noncurrent liabilities	19,597	16,795
Total liabilities	477,549	468,955
Stockholders' equity:		

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Oil States International, Inc. stockholders' equity:

Common stock, \$.01 par value, 200,000,000 shares authorized, 61,490,615 shares and 60,940,734 shares issued, respectively, and 51,591,765 shares and 53,017,359 shares outstanding, respectively	615	610
Additional paid-in capital	691,852	685,232
Retained earnings	1,170,834	1,151,266
Accumulated other comprehensive loss	(36,642)	(22,100)
Common stock held in treasury at cost, 9,898,850 and 7,923,375 shares, respectively	(558,820)	(474,351)
Total Oil States International, Inc. stockholders' equity	1,267,839	1,340,657
Noncontrolling interest	--	--
Total stockholders' equity	1,267,839	1,340,657
Total liabilities and stockholders' equity	\$ 1,745,388	\$ 1,809,612

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>THREE MONTHS ENDED MARCH 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income	\$ 19,568	\$ 71,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(166 )	(36,795 )
Depreciation and amortization	32,579	30,787
Deferred income tax expense (benefit)	5,923	(6,261 )
Tax impact of share-based payment arrangements	40	(1,660 )
Provision for bad debt	(617 )	1,829
Gain on disposals of assets	(313 )	(1,242 )
Non-cash compensation charge	5,660	5,760
Amortization of deferred financing costs	195	823
Other, net	(253)	(58 )
Changes in operating assets and liabilities, net of effect from acquired businesses:		
Accounts receivable	117,900	(9,195 )
Inventories	(6,235 )	(11,766 )
Accounts payable and accrued liabilities	(65,124 )	(25,199 )
Taxes payable	2,889	1,577
Other operating assets and liabilities, net	2,345	1,833
Net cash flows provided by continuing operating activities	114,391	21,949
Net cash flows provided by discontinued operating activities	260	83,362
Net cash flows provided by operating activities	114,651	105,311
Cash flows from investing activities:		
Capital expenditures	(38,282 )	(39,901 )
Acquisitions of businesses, net of cash acquired	(33,948 )	--
Proceeds from disposition of property, plant and equipment	437	1,980
Other, net	193	(386 )
Net cash flows used in continuing investing activities	(71,600 )	(38,307 )
Net cash flows used in discontinued investing activities	--	(63,295 )
Net cash flows used in investing activities	(71,600 )	(101,602)
Cash flows from financing activities:		
Revolving credit borrowings, net	59,030	--

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Debt and capital lease repayments	(131 )	(129 )
Issuance of common stock from share-based payment arrangements	1,008	3,346
Purchase of treasury stock	(77,401 )	(141,043)
Tax impact of share-based payment arrangements	(40 )	1,660
Shares added to treasury stock as a result of net share settlements due to vesting of restricted stock	(6,084 )	(4,915 )
Other, net	1	(1 )
Net cash flows used in continuing financing activities	(23,617 )	(141,082)
Net cash flows used in discontinued financing activities	--	(1 )
Net cash flows used in financing activities	(23,617 )	(141,083)
Effect of exchange rate changes on cash	(648 )	(7,059 )
Net change in cash and cash equivalents	18,786	(144,433)
Cash and cash equivalents, beginning of period	53,263	599,306
Cash and cash equivalents, end of period	\$72,049	\$454,873

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

## OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
<b>Balance, December 31, 2014</b>	\$ 610	\$ 685,232	\$ 1,151,266	\$ (22,100)	\$(474,351)	\$ 1,340,657
Net income.			19,568			19,568
Currency translation adjustment (excluding intercompany notes)				(13,819)		(13,819)
Currency translation adjustment on intercompany notes				(671)		(671)
Unrealized loss on forward contracts, net of tax				(52)		(52)
Exercise of stock options, including tax impact	1	967				968
Amortization of restricted stock compensation		4,665				4,665
Stock option expense		995				995
Restricted stock awards granted	4	(4)				--
Surrender of stock to pay taxes on restricted stock awards					(6,084)	(6,084)
OIS common stock withdrawn from deferred compensation plan		(3)			3	--
Stock repurchases					(78,388)	(78,388)
<b>Balance, March 31, 2015</b>	\$ 615	\$ 691,852	\$ 1,170,834	\$ (36,642)	\$(558,820)	\$ 1,267,839

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.

On May 30, 2014, we completed the spin-off of our accommodations business into a stand-alone, publicly traded corporation (Civeo Corporation, or Civeo) (the Spin-Off). The results of operations for our accommodations business have been classified as discontinued operations for all periods presented. Unless indicated otherwise, the information in the Notes to the Consolidated Financial Statements relates to our 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, 2014 (the 2014 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 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. The recognition and measurement guidance for debt issuance costs are not affected by this guidance. 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. We do not expect that the adoption of this standard will have a material effect on our consolidated financial statements.

**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 March 31, 2015 and December 31, 2014 is presented below (in thousands):

	<b>MARCH 31, 2015</b>	<b>DECEMBER 31, 2014</b>
<b>Accounts receivable, net:</b>		
Trade	\$253,517	\$ 348,115
Unbilled revenue	125,220	148,371
Other	4,686	7,763
Total accounts receivable	383,423	504,249
Allowance for doubtful accounts	(6,291 )	(7,125 )
	\$377,132	\$ 497,124

	<b>MARCH 31, 2015</b>	<b>DECEMBER 31, 2014</b>
<b>Inventories, net:</b>		
Finished goods and purchased products	\$106,041	\$ 94,955
Work in process	48,958	49,631
Raw materials	93,367	97,780
Total inventories	248,366	242,366
Allowance for excess, damaged, or obsolete inventory	(10,504 )	(9,876 )
	\$237,862	\$ 232,490

<b>Estimated Useful Life</b>	<b>MARCH 31, 2015</b>	<b>DECEMBER 31, 2014</b>
--------------------------------------	-------------------------------	----------------------------------



		(years)	
<b>Property, plant and equipment, net:</b>			
Land		\$28,051	\$ 29,850
Buildings and leasehold improvements	3-40	179,579	175,421
Machinery and equipment	2-28	446,555	438,980
Completion services equipment	2-10	399,959	387,165
Office furniture and equipment	1-10	31,252	30,647
Vehicles	1-10	130,569	129,922
Construction in progress		81,425	74,088
Total property, plant and equipment		1,297,390	1,266,073
Accumulated depreciation		(637,785 )	(616,227 )
		\$659,605	\$ 649,846

	<b>MARCH 31, 2015</b>	<b>DECEMBER 31, 2014</b>
<b>Accrued liabilities:</b>		
Accrued compensation	\$ 21,669	\$ 58,979
Insurance liabilities	11,788	11,300
Accrued taxes, other than income taxes	6,777	4,851
Accrued commissions	2,977	3,622
Accrued product warranty reserves	2,806	2,810
Other	14,794	14,568
	\$ 60,811	\$ 96,130

#### 4. ACCUMULATED OTHER COMPREHENSIVE LOSS

Our accumulated other comprehensive loss increased from \$22.1 million at December 31, 2014 to \$36.6 million at March 31, 2015 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 for the foreign operations of our reportable segments (primarily in the United Kingdom, Brazil, Thailand and Canada.) During the first quarter of 2015, the U.S. dollar strengthened significantly relative to the majority of key foreign currencies, and, as a result, our accumulated other comprehensive loss increased.

**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED****FINANCIAL STATEMENTS****(Continued)****5. EARNINGS PER SHARE**

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

	<b>THREE MONTHS ENDED</b>			
	<b>MARCH 31,</b>			
	<b>2015</b>		<b>2014</b>	
	Income	Shares	Income	Shares
<u>Basic:</u>				
Net income attributable to Oil States International, Inc.	\$19,568		\$71,504	
Less: Undistributed net income allocable to participating securities	(409 )		(781 )	
Undistributed net income applicable to common stockholders	19,159		70,723	
Less: Income from discontinued operations, net of tax	(166 )		(36,795)	
Add: Undistributed net income from discontinued operations allocable to participating securities	3		402	
Income from continuing operations applicable to Oil States International, Inc. common stockholders – Basic	\$18,996	50,826	\$34,330	53,288
<u>Diluted:</u>				
Income from continuing operations applicable to Oil States International, Inc. common stockholders – Basic	\$18,996	50,826	\$34,330	53,288
Effect of dilutive securities:				
Undistributed net income reallocated to participating securities	1	--	2	--
Options on common stock	--			