

OIL STATES INTERNATIONAL, INC

Form 10-Q

May 02, 2007

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**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, 2007**

**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: 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  NO

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  Accelerated Filer  Non-Accelerated Filer

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 49,238,957 shares of common stock outstanding and 2,085,452 shares of treasury stock as of April 20, 2007.



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

|   | <b>THREE MONTHS<br/>ENDED<br/>MARCH 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                                 | <b>2006</b> |
| Revenues  | \$ 480,516                                  | \$ 496,231  |
| Costs and expenses:                                   |   |             |
| Cost of sales   | 355,803                                     | 378,233     |
| Selling, general and administrative expenses          | 27,324                                      | 25,444      |
| Depreciation and amortization expense                 | 14,419                                      | 12,886      |
| Other operating expense                               | 79  | 465         |
|   | 397,625                                     | 417,028     |
| Operating income                                      | 82,891                                      | 79,203      |
| Interest expense                                      | (4,842)                                     | (4,796)     |
| Interest income                                       | 926   | 273         |
| Equity in earnings of unconsolidated affiliates       | 542   | 684         |
| Sale of workover services business                    |   | 11,494      |
| Other income  | 114   | 246         |
| Income before income taxes                            | 79,631                                      | 87,104      |
| Income tax expense                                    | (27,170)                                    | (34,188)    |
| Net income  | \$ 52,461                                   | \$ 52,916   |
| Net income per share:                                 |   |             |
| Basic   | \$ 1.06                                     | \$ 1.08     |
| Diluted   | \$ 1.05                                     | \$ 1.04     |
| Weighted average number of common shares outstanding: |   |             |
| Basic   | 49,268                                      | 49,208      |
| Diluted   | 49,994                                      | 51,022      |

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

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

|  | <b>MARCH 31,<br/>2007<br/>(UNAUDITED)</b> | <b>DECEMBER<br/>31,<br/>2006</b> |
|--|---|----------------------------------|
| <b>ASSETS</b>                              |   |                                  |
| Current assets:                            |   |                                  |
| Cash and cash equivalents                  | \$ 22,461                                 | \$ 28,396                        |
| Accounts receivable, net                   | 361,663                                   | 351,701                          |
| Inventories, net                           | 383,209                                   | 386,182                          |
| Prepaid expenses and other current assets  | 23,190                                    | 17,710                           |
| <b>Total current assets</b>                | <b>790,523</b>                            | <b>783,989</b>                   |
| Property, plant, and equipment, net        | 383,567                                   | 358,716                          |
| Goodwill, net                              | 332,718                                   | 331,804                          |
| Investments in unconsolidated affiliates   | 38,641                                    | 38,079                           |
| Other non-current assets                   | 58,157                                    | 58,506                           |
| <b>Total assets</b>                        | <b>\$ 1,603,606</b>                       | <b>\$ 1,571,094</b>              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |   |                                  |
| Current liabilities:                       |   |                                  |
| Accounts payable and accrued liabilities   | \$ 184,686                                | \$ 199,842                       |
| Income taxes                               | 15,491                                    | 11,376                           |
| Current portion of long-term debt          | 6,487                                     | 6,873                            |
| Deferred revenue                           | 53,024                                    | 58,645                           |
| Other current liabilities                  | 5,427                                     | 3,680                            |
| <b>Total current liabilities</b>           | <b>265,115</b>                            | <b>280,416</b>                   |
| Long-term debt                             | 382,567                                   | 391,729                          |
| Deferred income taxes                      | 39,233                                    | 38,020                           |
| Other liabilities                          | 24,898                                    | 21,093                           |
| <b>Total liabilities</b>                   | <b>711,813</b>                            | <b>731,258</b>                   |
| Stockholders equity:                       |   |                                  |
| Common stock                               | 513                                       | 511                              |
| Additional paid-in capital                 | 376,249                                   | 372,043                          |
| Retained earnings                          | 539,801                                   | 487,627                          |
| Accumulated other comprehensive income     | 33,245                                    | 30,183                           |
| Treasury stock                             | (58,015)                                  | (50,528)                         |

|  |              |              |
|--|--------------|--------------|
| Total stockholders' equity                 | 891,793      | 839,836      |
| Total liabilities and stockholders' equity | \$ 1,603,606 | \$ 1,571,094 |

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

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In Thousands)

|  | <b>THREE MONTHS<br/>ENDED MARCH 31,</b> |               |
|--|---|---------------|
|  | <b>2007</b>                             | <b>2006</b>   |
| Cash flows from operating activities:                                      |   |               |
| Net income   | \$ 52,461                               | \$ 52,916     |
| Adjustments to reconcile net income to net cash from operating activities: |   |               |
| Depreciation and amortization  | 14,419                                  | 12,886        |
| Deferred income tax provision  | 3,702                                   | 2,788         |
| Excess tax benefits from share-based payment arrangements                  | (545)                                   | (1,791)       |
| Non-cash gain on sale of workover services business                        |   | (11,494)      |
| Equity in earnings of unconsolidated subsidiaries                          | (542)                                   | (684)         |
| Non-cash compensation charge   | 1,920                                   | 1,688         |
| Gain on disposal of assets   | (265)                                   | (23)          |
| Other, net   | 502                                     | 790           |
| Changes in working capital   | (20,317)                                | (38,418)      |
| <br>Net cash flows provided by operating activities                        | <br>51,335                              | <br>18,658    |
| Cash flows from investing activities:                                      |   |               |
| Acquisitions of businesses, net of cash acquired                           |   | (49)          |
| Cash balances of workover services business sold                           |   | (4,366)       |
| Capital expenditures   | (36,900)                                | (26,542)      |
| Proceeds from sale of equipment  | 428                                     | 792           |
| Other, net   | (862)                                   | (30)          |
| <br>Net cash flows used in investing activities                            | <br>(37,334)                            | <br>(30,195)  |
| Cash flows from financing activities:                                      |   |               |
| Revolving credit borrowings (repayments)                                   | (9,625)                                 | 5,300         |
| Debt repayments  | (448)                                   | (1,854)       |
| Issuance of common stock   | 1,743                                   | 3,297         |
| Purchase of treasury stock   | (12,211)                                |               |
| Excess tax benefits from share-based payment arrangements                  | 545                                     | 1,791         |
| Other, net   | (212)                                   | (101)         |
| <br>Net cash flows provided by (used in) financing activities              | <br>(20,208)                            | <br>8,433     |
| <br>Effect of exchange rate changes on cash                                | <br>315                                 | <br>(178)     |
| <br>Net decrease in cash and cash equivalents from continuing operations   | <br>(5,892)                             | <br>(3,282)   |
| Net cash used in discontinued operations operating activities              | (43)                                    | (17)          |
| Cash and cash equivalents, beginning of period                             | 28,396                                  | 15,298        |
| <br>Cash and cash equivalents, end of period                               | <br>\$ 22,461                           | <br>\$ 11,999 |

Non-cash investing activities:

|  |    |           |
|--|----|-----------|
| Receipt of stock and notes for hydraulic workover services business in merger transaction, net of unrecognized gain of \$9.6 million (See Note 11) | \$ | \$ 50,349 |
|--|----|-----------|

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

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**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, 2006.

**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.

See also Note 9 Income Taxes and Change in Accounting Principle.

**3. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS**

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

|                                  | <b>MARCH<br/>31,<br/>2007</b> | <b>DECEMBER<br/>31,<br/>2006</b> |
|----------------------------------|-------------------------------|----------------------------------|
| <b>Accounts receivable, net:</b> |                               |                                  |
| Trade                            | \$ 294,906                    | \$ 269,136                       |
| Unbilled revenue                 | 65,443                        | 83,782                           |
| Other                            | 4,316                         | 1,726                            |
| Allowance for doubtful accounts  | (3,002)                       | (2,943)                          |
|                                  | <b>\$ 361,663</b>             | <b>\$ 351,701</b>                |



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|  |                                      | <b>MARCH<br/>31,<br/>2007</b> | <b>DECEMBER<br/>31,<br/>2006</b> |
|--|--------------------------------------|-------------------------------|----------------------------------|
| <b>Inventories, net:</b>                         |                                      |                               |                                  |
| Tubular goods                                    |                                      | \$ 251,449                    | \$ 261,785                       |
| Other finished goods and purchased products      |                                      | 54,327                        | 50,095                           |
| Work in process                                  |                                      | 41,169                        | 45,848                           |
| Raw materials                                    |                                      | 43,435                        | 35,642                           |
| <br>   |                                      |                               |                                  |
| Total inventories                                |                                      | 390,380                       | 393,370                          |
| Inventory reserves                               |                                      | (7,171)                       | (7,188)                          |
|  |                                      | <br>                          |                                  |
|  |                                      | \$ 383,209                    | \$ 386,182                       |
| <br>   |                                      |                               |                                  |
|  | <b>ESTIMATED<br/>USEFUL<br/>LIFE</b> | <b>MARCH<br/>31,<br/>2007</b> | <b>DECEMBER<br/>31,<br/>2006</b> |
| <b>Property, plant and equipment, net:</b>       |                                      |                               |                                  |
| Land   |                                      | \$ 9,746                      | \$ 9,112                         |
| Buildings and leasehold improvements             | 5-50 years                           | 79,606                        | 77,853                           |
| Machinery and equipment                          | 2-20 years                           | 337,573                       | 326,977                          |
| Rental tools                                     | 1-10 years                           | 65,990                        | 64,178                           |
| Office furniture and equipment                   | 1-10 years                           | 19,961                        | 18,832                           |
| Vehicles   | 4-10 years                           | 35,347                        | 31,541                           |
| Construction in progress                         |                                      | 36,946                        | 18,811                           |
| <br>   |                                      |                               |                                  |
| Total property, plant and equipment              |                                      | 585,169                       | 547,304                          |
| Less: Accumulated depreciation                   |                                      | (201,602)                     | (188,588)                        |
|  |                                      | <br>                          |                                  |
|  |                                      | \$ 383,567                    | \$ 358,716                       |
| <br>   |                                      |                               |                                  |
|  |                                      | <b>MARCH<br/>31,<br/>2007</b> | <b>DECEMBER<br/>31,<br/>2006</b> |
| <b>Accounts payable and accrued liabilities:</b> |                                      |                               |                                  |
| Trade accounts payable                           |                                      | \$ 148,766                    | \$ 142,204                       |
| Accrued compensation                             |                                      | 12,375                        | 29,058                           |
| Accrued insurance                                |                                      | 6,249                         | 5,836                            |
| Accrued taxes, other than income taxes           |                                      | 4,720                         | 3,317                            |
| Reserves related to discontinued operations      |                                      | 3,313                         | 3,357                            |
| Other  |                                      | 9,263                         | 16,070                           |
|  |                                      | <br>                          |                                  |
|  |                                      | \$ 184,686                    | \$ 199,842                       |

**4. EARNINGS PER SHARE**

|   | <b>THREE MONTHS ENDED<br/>MARCH 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                             | <b>2006</b> |
|   | (In thousands, except per share data)   |             |
| Basic earnings per share:                     |   |             |
| Net income                                    | \$ 52,461                               | \$ 52,916   |
| Weighted average number of shares outstanding | 49,268                                  | 49,208      |
| Basic earnings per share                      | \$ 1.06                                 | \$ 1.08     |
| Diluted earnings per share:                   |   |             |
| Net income                                    | \$ 52,461                               | \$ 52,916   |
| Weighted average number of shares outstanding | 49,268                                  | 49,208      |
| Effect of dilutive securities:                |   |             |
| Options on common stock                       | 655                                     | 1,028       |
| 2 3/8% Contingent Convertible Notes           |   | 724         |
| Restricted stock awards and other             | 71                                      | 62          |
| Total shares and dilutive securities          | 49,994                                  | 51,022      |
| Diluted earnings per share                    | \$ 1.05                                 | \$ 1.04     |

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Changes in the carrying amount of goodwill for the three month period ended March 31, 2007 is as follows (in thousands):

|                   | Balance as<br>of<br>January 1,<br>2007 | Acquisitions<br>and<br>adjustments | Foreign<br>currency<br>translation<br>and<br>other<br>changes | Balance as<br>of<br>March 31,<br>2007 |
|-------------------|--|------------------------------------|---|---------------------------------------|
| Offshore Products | \$ 75,716                              | \$                                 | \$ 33   | \$ 75,749                             |
| Tubular Services  | 62,453                                 | 364                                |   | 62,817                                |
| Wellsite Services | 193,635                                |                                    | 517   | 194,152                               |
| Total             | \$ 331,804                             | \$ 364                             | \$ 550  | \$ 332,718                            |

**6. DEBT**

As of March 31, 2007 and December 31, 2006, long-term debt consisted of the following (in thousands):

|  | March 31,<br>2007<br>(Unaudited) | December<br>31,<br>2006 |
|--|----------------------------------|-------------------------|
| U.S. revolving credit facility, with available commitments up to \$300 million and with an average interest rate of 6.3% for the three month period ended March 31, 2007     | \$ 167,300                       | \$ 186,200              |
| Canadian revolving credit facility, with available commitments up to \$100 million and with an average interest rate of 5.3% for the three month period ended March 31, 2007 | 39,032                           | 29,177                  |
| 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  | 5,435                            | 6,689                   |
| Capital lease obligations and other debt   | 2,287                            | 1,536                   |
| Total debt   | 389,054                          | 398,602                 |
| Less: current maturities   | (6,487)                          | (6,873)                 |
| Total long-term debt   | \$ 382,567                       | \$ 391,729              |

**7. COMPREHENSIVE INCOME AND CHANGES IN COMMON STOCK OUTSTANDING:**

Comprehensive income for the three months ended March 31, 2007 and 2006 was as follows (in thousands):

|                                   | THREE MONTHS<br>ENDED MARCH 31<br>2007 | 2006      |
|-----------------------------------|--|-----------|
| Comprehensive income:             |  |           |
| Net income                        | \$ 52,461                              | \$ 52,916 |
| Other comprehensive income:       |  |           |
| Cumulative translation adjustment | 3,062                                  | 24        |

|   |                 |            |
|---|-----------------|------------|
| Foreign currency hedge  |                 | 41         |
| Total comprehensive income  | \$ 55,523       | \$ 52,981  |
| Shares of common stock outstanding  | January 1, 2007 | 49,296,740 |
| Shares issued upon exercise of stock options and vesting of stock awards                    |                 | 171,016    |
| Shares withheld for taxes on vesting of restricted stock awards and transferred to treasury |                 | (6,549)    |
| Repurchase of shares held in treasury   |                 | (240,000)  |
| Shares of common stock outstanding  | March 31, 2007  | 49,221,207 |

### 8. STOCK BASED COMPENSATION

During the first three months of 2007, we granted restricted stock awards totaling 143,000 shares valued at a total of \$4.1 million. A total of 138,200 of these awards vest in four equal annual installments, 3,800 of these awards vest in two equal annual installments and the remaining 1,000 awards vest after one year.

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Stock based compensation pre-tax expense recognized under SFAS 123R in the three months ended March 31, 2007 and 2006 totaled \$1.9 million and \$1.7 million, or \$0.04 and \$0.03 per diluted share, respectively. At March 31, 2007, \$17.3 million of compensation cost related to unvested stock options and restricted stock awards attributable to future performance had not yet been recognized. The total fair value of restricted stock awards vested during the three month ended March 31, 2007 was \$0.9 million.

**9. INCOME TAXES AND CHANGE IN ACCOUNTING PRINCIPLE**

The Company's income tax provision for the three months ended March 31, 2007 totaled \$27.2 million, or 34.1%, of pretax income compared to \$34.2 million, or 39.2% of pretax income, for the three months ended March 31, 2006. The effective rate was higher in the quarter ended March 31, 2006 principally because of the higher effective tax rate applicable to the gain on the sale of the workover services business.

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), which became effective for the Company on January 1, 2007. The Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The adoption of FIN 48 has resulted in a transition adjustment reducing beginning retained earnings by \$0.3 million; \$0.2 million in taxes and \$0.1 million in interest. Had the transition adjustment not been recognized as an adjustment of beginning retained earnings, it would have affected the effective tax rate. Interest costs and penalties related to income taxes are classified as income tax expense.

The total amount of unrecognized tax benefits as of March 31, 2007 was \$4.3 million, including \$0.6 million of accrued interest. Currently, the Company's consolidated U.S. federal return for the year 2004 is undergoing an examination by the Internal Revenue Service. Tax years subsequent to 2003 remain open to U.S. federal tax audit and, because of net operating losses (NOL's) utilized by the Company, years from 1994 to 2002 remain subject to federal tax audit with respect to NOL's available for tax carryforward. Our Canadian subsidiaries' federal tax returns since 2003 are subject to audit by Canada Revenue Agency.

**10. SEGMENT AND RELATED INFORMATION**

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has identified the following reportable segments: well site services, offshore products and tubular services. The Company's reportable segments are 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 our Canadian business related to the provision of work force accommodations, catering and logistics services are seasonal with significant activity occurring in the peak winter drilling season. We sold our workover services, business, effective March 1, 2006, in exchange for an equity interest in Boots & Coots International Well Control, Inc. (AMEX:WEL) (Boots & Coots) and a note receivable See Note 11.

Financial information by business segment for each of the three months ended March 31, 2007 and 2006 is summarized in the following table (in thousands):

|  | <b>Revenues<br/>from<br/>unaffiliated<br/>customers</b> | <b>Depreciation<br/>and<br/>amortization</b> | <b>Operating<br/>income<br/>(loss)</b> | <b>Capital<br/>expenditures</b> | <b>Total<br/>assets</b> |
|--|---|--|--|---------------------------------|-------------------------|
| <b>Three months ended March 31,<br/>2007</b> |   |  |  |                                 |                         |
| Well Site Services                           |   |  |  |                                 |                         |

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|                        |    |        |    |       |    |        |    |        |    |         |
|------------------------|----|--------|----|-------|----|--------|----|--------|----|---------|
| Accommodations         | \$ | 93,553 | \$ | 3,828 | \$ | 34,992 | \$ | 17,642 | \$ | 329,353 |
| Rental tools           |    | 53,639 |    | 4,739 |    | 17,482 |    | 8,425  |    | 269,814 |
| Drilling and other (1) |    | 30,918 |    | 2,651 |    | 9,994  |    | 7,390  |    | 168,072 |

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|                            | <b>Revenues<br/>from<br/>unaffiliated<br/>customers</b> | <b>Depreciation<br/>and<br/>amortization</b> | <b>Operating<br/>income<br/>(loss)</b> | <b>Capital<br/>expenditures</b> | <b>Total<br/>assets</b> |
|----------------------------|---|--|--|---------------------------------|-------------------------|
| Total Well Site Services   | 178,110   | 11,218                                       | 62,468                                 | 33,457                          | 767,239                 |
| Offshore Products          | 119,039   | 2,830  | 17,608                                 | 3,244                           | 410,637                 |
| Tubular Services           | 183,367   | 323  | 7,734                                  | 133                             | 401,727                 |
| Corporate and Eliminations |   | 48   | (4,919)                                | 66                              | 21,473                  |
| <b>Total</b>               | <b>\$ 480,516</b>                                       | <b>\$ 14,419</b>                             | <b>\$ 82,891</b>                       | <b>\$ 36,900</b>                | <b>\$ 1,601,076</b>     |

**Three months ended March 31,  
2006**

|  |                   |                  |                  |                  |                     |
|--|-------------------|------------------|------------------|------------------|---------------------|
| Well Site Services -<br>Accommodations | \$ 104,589        | \$ 3,578         | \$ 25,359        | \$ 11,536        | \$ 296,005          |
| Rental tools                           | 49,588            | 4,005            | 16,893           | 5,542            | 253,423             |
| Drilling and other (1)                 | 28,018            | 1,704            | 11,781           | 6,332            | 133,600             |
| Workover services (1)                  | 8,544             | 700              | 1,789            | 263              |                     |
| <b>Total Well Site Services</b>        | <b>190,739</b>    | <b>9,987</b>     | <b>55,822</b>    | <b>23,673</b>    | <b>683,028</b>      |
| Offshore Products                      | 78,272            | 2,609            | 10,065           | 2,560            | 305,159             |
| Tubular Services                       | 227,220           | 263              | 17,818           | 286              | 404,077             |
| Corporate and Eliminations             |                   | 27               | (4,502)          | 23               | 19,957              |
|  | <b>\$ 496,231</b> | <b>\$ 12,886</b> | <b>\$ 79,203</b> | <b>\$ 26,542</b> | <b>\$ 1,412,221</b> |

(1) Subsequent to the March 1, 2006, the effective date of the sale of our workover services business (See Note 11), we have classified our equity interest in Boots & Coots and the notes receivable acquired in the transaction as Drilling and other .

**11. WORKOVER SERVICES BUSINESS TRANSACTION**

Effective March 1, 2006, we completed a transaction to combine our workover services business with Boots & Coots in exchange for 26.5 million shares of Boots & Coots common stock valued at \$1.45 per share at closing and senior subordinated promissory notes totaling \$21.2 million.

As a result of the closing of the transaction, we initially owned 45.6% of Boots & Coots. The senior subordinated promissory notes received in the transaction bear a fixed annual interest rate of 10% and mature four and one half years from the closing of the transaction. In connection with this transaction, we also entered into a Registration Rights Agreement requiring Boots & Coots to file a shelf registration statement within 30 days for all of the Boots & Coots shares we received in the transaction and also allowing us certain rights to include our shares of common stock of Boots & Coots in a registration statement filed by Boots & Coots. A shelf registration statement was filed by Boots and Coots and it was finalized and effective in the fourth quarter of 2006. We sold 14,950,000 shares of Boots & Coots stock in April 2007; see Note 13 Subsequent Event concerning the details of the sale of Boots & Coots shares. The transaction terms also allowed us to designate three additional members to Boots & Coots existing five-member Board of Directors, which we have done.

The closing of the transaction resulted in a non-cash pretax gain of \$20.7 million which, in accordance with the guidance in Emerging Issues Task Force Issue No. 01-2 covering gain recognition involving non-cash transactions and retained equity interests, \$9.4 million (\$9.6 million as of March 31, 2006) has not been recognized. After the gain adjustment and income taxes, the transaction had a \$5.9 million, or \$0.12 per diluted share, impact on net income and earnings per share, respectively, in the first quarter of 2006. We account for our investment in Boots & Coots utilizing the equity method of accounting. Differences between Boots & Coots total book equity after the transaction, net to the Company's interest, and the carrying value of our investment in Boots & Coots are principally attributable to the unrecognized gain on the sale of the workover services business and to goodwill.

## **12. COMMITMENTS AND CONTINGENCIES**

We are a party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters, including occasional claims by individuals alleging exposure to hazardous materials as a result of our products or operations. Some of these claims relate to matters occurring prior to our acquisition of businesses, and some relate to businesses we have sold. In certain cases, we are entitled to indemnification from the sellers of businesses and in other cases, we have indemnified the buyers that purchased businesses from us. Although we can give no assurance about the outcome of pending legal and administrative proceedings and the effect such outcomes may have on us, we believe that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for

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or covered by indemnity or insurance, will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

On February 18, 2005, we announced that we had conducted an internal investigation prompted by the discovery of over billings totaling approximately \$400,000 by one of our subsidiaries (the Subsidiary) to a government owned oil company in South America. The over billings were detected by the Company during routine financial review procedures, and appropriate financial statement adjustments were included in our previously reported fourth quarter 2004 results. We and independent counsel retained by our Audit Committee conducted separate investigations consisting of interviews and a thorough examination of the facts and circumstances in this matter. We voluntarily reported the results of our investigation to the Securities and Exchange Commission (the SEC) and fully cooperated with requests for information received from the SEC. On October 31, 2005, our counsel received a Wells Notice from the SEC staff indicating that it made a preliminary decision to recommend that the SEC bring a civil action against the Company alleging violations of provisions of the Securities and Exchange Act of 1934 (the Act) relating to the maintenance of books, records and internal accounting controls and procedures as set forth in Sections 13(b)(2)(A) and (B) of the Act. The Company reached a settlement agreement with the SEC on April 27, 2006. The Company consented to an Order by the SEC (the Order), without admitting or denying the findings in the Order, that required the Company to cease and desist from committing or causing violations of the books and records and internal control provisions of the Act. The settlement did not require the Company to pay a monetary penalty.

**13. SUBSEQUENT EVENT**

In April 2007, the Company sold 14,950,000 shares of Boots & Coots stock that it owned for net proceeds of \$29.4 million and, as a result, we expect to recognize a net after tax gain of \$8.4 million, or approximately \$0.17 per diluted share in the second quarter of 2007. After the sale of Boots & Coots shares by the Company and considering the sale of primary shares of stock directly by Boots & Coots in April 2007, the Company's ownership interest in Boots & Coots will be approximately 15%. The equity method of accounting will be continued for the Company's investment in the remaining 11.5 million shares of Boots & Coots common stock still owned after the sale considering the Company's continuing interests in Boots & Coots. Following the sale of stock, the carrying value of the Company's remaining investment in Boots & Coots stock totals \$18.2 million. See also Note 11 Workover Services Business Transaction above.

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*This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of important factors. For a discussion of important factors that could affect our results, please refer to Item Part I, Item 1.A. Risk Factors and the financial statement line item discussions set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K Annual Report for the year ended December 31, 2006 filed with the Securities and Exchange Commission on February 28, 2007 and Item 2 of this Form 10-Q, which follows. Should one or more of these risks or uncertainties materialize, or should the assumptions prove incorrect, actual results may differ materially from those expected, estimated or projected. Our management believes these forward-looking statements are reasonable. However, you should not place undue reliance on these forward-looking statements, which are based only on our current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update or revise any of them in light of new information, future events or otherwise.*

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis together with our financial statements and the notes to those statements included elsewhere in this quarterly report on Form 10-Q.

**Overview**

We provide a broad range of products and services to the oil and gas industry through our offshore products, tubular services and well site services business segments. Demand for our products and services is cyclical and substantially dependent upon activity levels in the oil and gas industry, particularly our customers' willingness to spend capital on the exploration for and development of oil and gas reserves. Demand for our products and services by our customers is highly sensitive to current and expected oil and natural gas prices. Generally, our tubular services and well site services segments respond more rapidly to shorter-term movements in oil and natural gas prices than our offshore products segment. Our offshore products segment provides highly engineered and technically designed products for offshore oil and gas development and production systems and facilities. Sales of our offshore products and services depend upon the development of offshore production systems and pipelines, repairs and upgrades of existing offshore drilling rigs and construction of new offshore drilling rigs. In this segment, we are particularly influenced by deepwater drilling and production activities, which are driven largely by our customers' longer-term outlook for oil prices. Through our tubular services segment, we distribute a broad range of casing and tubing. Sales and gross margins of our tubular services segment depend upon the overall level of drilling activity, the types of wells being drilled (for example, deepwater wells usually require higher priced seamless alloy tubulars) and the level of oil country tubular goods (OCTG) inventory and pricing. Historically, tubular services' gross margin expands during periods of rising OCTG prices and contracts during periods of decreasing OCTG prices. In our well site services business segment, we provide land drilling services, work force accommodations, catering and logistics services and rental tools. Demand for our drilling services is driven by land drilling activity in Texas, New Mexico, Ohio and in the Rocky Mountains area in the U.S. Our rental tools and services depend primarily upon the level of drilling, completion and workover activity in the U.S. and Canada. Our accommodations business is conducted primarily in Canada and its activity levels are driven by oil sands development in Northern Alberta, oil and gas drilling activity, and to a lesser extent mining activities.

We have a diversified product and service offering which has exposure to activities conducted throughout the oil and gas cycle. Demand for our tubular services and well site services segments are highly correlated to changes in the drilling rig count in the United States and Canada. The table below sets forth a summary of North American rig activity, as measured by Baker Hughes Incorporated, for the periods indicated.

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|                     | <b>Average Rig Count for the<br/>Three Months Ended</b> |                                  |                               |
|---------------------|---|----------------------------------|-------------------------------|
|                     | <b>March<br/>31,<br/>2007</b>                           | <b>December<br/>31,<br/>2006</b> | <b>March<br/>31,<br/>2006</b> |
| U.S. Land           | 1,650   | 1,632                            | 1,438                         |
| U.S. Offshore       | 83  | 87                               | 81                            |
| Total U.S.          | 1,733   | 1,719                            | 1,519                         |
| Canada (1)          | 532   | 440                              | 665                           |
| Total North America | 2,265   | 2,159                            | 2,184                         |

(1) Canadian rig count typically increases during the peak winter drilling season (December through March).

The average North American rig count for the quarter ended March 31, 2007 increased by 81 rigs, or 3.7%, compared to the quarter ended March 31, 2006. The increases in U.S. land rig counts have contributed to increased well site services revenues, particularly in our land drilling and rental tool businesses. The decreased Canadian rig counts, compared to the first quarter of 2006, have adversely impacted our rental tools and accommodations, catering and logistical services serving Canadian oil and gas drilling operations. These decreases were more than offset by growth in accommodations, catering and logistical services in support of oil sands development. Our well site services segment results for the first quarter of 2007 also benefited from capital spending, which aggregated \$127 million in the twelve months ended March 31, 2007 in that segment, and the impact of increased activity levels and pricing gains in certain business lines.

Our 2007 capital expenditures are estimated to total \$224 million and include \$198 million for well site services \$23 million for offshore products and \$3 million for tubular services. We continue to increase our capital commitments for the expansion of large accommodations facilities in support of oil sands development activities in Canada. In March 2007, we announced the latest expansion of our Wapasu Creek Lodge where we have committed an additional \$18.4 million to expand that facility to 905 rooms from 589 rooms. Of our total approved capital expenditures for 2007 of approximately \$224 million, approximately \$89 million is expected to be spent on Canadian oil sands accommodations related projects. Our accommodations capacity in support of oil sands development increased 461 rooms, or 25%, as of March 31, 2007 compared to March 31, 2006.

Management believes that, based on the current economic environment, oil and gas producers will continue to explore for and develop oil and gas reserves at an active pace in spite of continued volatility in current U.S. domestic natural gas and crude oil prices, given their longer term views of supply and demand fundamentals. Management estimates that approximately 60% of the Company's revenues are dependent on North American natural gas drilling and completion activity with a significant amount of such revenues being derived from lower margin OCTG sales. As such, we estimate that our profitability is more evenly impacted by oil price driven activity and natural gas price driven activity. Our customers have increased their spending and commitments for deepwater offshore exploration and development which has benefited our offshore products segment. Our customers have also announced significant levels of expenditures for oil sands related projects in Canada. However, there can be no assurance that these trends will continue and there is a risk that lower energy prices for sustained periods could negatively impact drilling and

completion activity and, correspondingly, reduce oil and gas expenditures. Such a decline would be adverse to our business. In addition, particularly in our well site services segment, we must continue to monitor industry capacity additions in relationship to our own capital expenditures and expected returns, considering project risks and expected cash flows from such investments. In tubular services, we continue to monitor industry wide OCTG inventory levels, mill shipments, OCTG pricing and our inventory turnover levels.

**Table of Contents****Consolidated Results of Operations**

|                                       | <b>THREE MONTHS ENDED</b> |                 |                      |              |
|---------------------------------------|---------------------------|-----------------|----------------------|--------------|
|                                       | <b>March 31,</b>          |                 |                      |              |
|                                       |                           |                 | <b>Variance</b>      |              |
|                                       | <b>2007</b>               | <b>2006</b>     | <b>2007 vs. 2006</b> |              |
|                                       |                           |                 | <b>\$</b>            | <b>%</b>     |
| Revenues                              |                           |                 |                      |              |
| Well site services                    |                           |                 |                      |              |
| Accommodations                        | \$ 93.6                   | \$ 104.6        | \$ (11.0)            | (11%)        |
| Rental Tools                          | 53.6                      | 49.6            | 4.0                  | 8%           |
| Drilling and Other                    | 30.9                      | 28.0            | 2.9                  | 10%          |
| Workover Services                     |                           | 8.5             | (8.5)                | (100%)       |
| <b>Total Well Site Services</b>       | <b>178.1</b>              | <b>190.7</b>    | <b>(12.6)</b>        | <b>(7%)</b>  |
| Offshore Products                     | 119.0                     | 78.3            | 40.7                 | 52%          |
| Tubular services                      | 183.4                     | 227.2           | (43.8)               | (19%)        |
| <b>Total</b>                          | <b>\$ 480.5</b>           | <b>\$ 496.2</b> | <b>\$ (15.7)</b>     | <b>(3%)</b>  |
| Cost of sales                         |                           |                 |                      |              |
| Well site services                    |                           |                 |                      |              |
| Accommodations                        | \$ 49.7                   | \$ 71.3         | \$ (21.6)            | (30%)        |
| Rental Tools                          | 25.4                      | 23.1            | 2.3                  | 10%          |
| Drilling and Other                    | 17.5                      | 14.0            | 3.5                  | 25%          |
| Workover Services                     |                           | 5.3             | (5.3)                | (100%)       |
| <b>Total Well Site Services</b>       | <b>92.6</b>               | <b>113.7</b>    | <b>(21.1)</b>        | <b>(19%)</b> |
| Offshore Products                     | 90.9                      | 58.4            | 32.5                 | 56%          |
| Tubular services                      | 172.3                     | 206.1           | (33.8)               | (16%)        |
| <b>Total</b>                          | <b>\$ 355.8</b>           | <b>\$ 378.2</b> | <b>\$ (22.4)</b>     | <b>(6%)</b>  |
| Gross margin                          |                           |                 |                      |              |
| Well site services                    |                           |                 |                      |              |
| Accommodations                        | \$ 43.8                   | \$ 33.3         | \$ 10.5              | 32%          |
| Rental Tools                          | 28.2                      | 26.5            | 1.7                  | 6%           |
| Drilling and Other                    | 13.5                      | 14.0            | (0.5)                | (4%)         |
| Workover Services                     |                           | 3.2             | (3.2)                | (100%)       |
| <b>Total Well Site Services</b>       | <b>85.5</b>               | <b>77.0</b>     | <b>8.5</b>           | <b>11%</b>   |
| Offshore Products                     | 28.1                      | 19.9            | 8.2                  | 41%          |
| Tubular services                      | 11.1                      | 21.1            | (10.0)               | (47%)        |
| <b>Total</b>                          | <b>\$ 124.7</b>           | <b>\$ 118.0</b> | <b>\$ 6.7</b>        | <b>6%</b>    |
| Gross margin as a percent of revenues |                           |                 |                      |              |
| Well site services                    |                           |                 |                      |              |
| Accommodations                        | 47%                       | 32%             |                      |              |

|                          |     |     |
|--------------------------|-----|-----|
| Rental Tools             | 53% | 53% |
| Drilling and Other       | 44% | 50% |
| Workover Services        | %   | 38% |
| Total Well Site Services | 48% | 40% |
| Offshore Products        | 24% | 25% |
| Tubular services         | 6%  | 9%  |
| Total                    | 26% | 24% |

We reported net income for the quarter ended March 31, 2007 of \$52.5 million, or \$1.05 per diluted share. These results compare to \$52.9 million, or \$1.04 per diluted share, reported for the quarter ended March 31, 2006, which included a non-cash pre-tax gain of \$11.5 million, or an after tax gain of \$0.12 per diluted share, associated with the sale of our workover services business to Boots & Coots.

**Revenues.** Consolidated revenues decreased \$15.7 million, or 3%, in the first quarter of 2007 compared to the first quarter of 2006.

Tubular services revenues decreased \$43.8 million, or 19%, in the first quarter of 2007 compared to the first quarter of 2006 as a result of 19% fewer tons shipped. OCTG prices were flat year over year.

Our well site services revenues decreased \$12.6 million, or 7%, in the first quarter of 2007 compared to the first quarter of 2006.

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Rental tools revenues increased \$4.0 million, or 8%, in the first quarter of 2007 compared to the first quarter of 2006 as a result of increased prices realized and capital additions made since the first quarter of 2006, which were only partially offset by decreased Canadian rental tool revenues in the first quarter of 2007 caused by lower Canadian drilling and completion activity when compared to the first quarter of 2006. Our drilling revenues increased \$2.9 million, or 10%, in the first quarter of 2007 compared to the first quarter of 2006 as a result of an increased rig fleet size (five additional rigs) and higher rates, partially offset by lower utilization in the first quarter of 2007. The sale of our workover services business in March 2006 caused an \$8.5 million decrease in revenues in the first quarter of 2007 compared to the first quarter of 2006.

Our accommodations business revenues decreased \$11.0 million, or 11%, as a result of decreased oil and gas drilling related accommodations revenues due to lower drilling activity levels in Canada and lower third party accommodations manufacturing revenues, which were only partially offset by higher revenues driven by increased activity in support of the oil sands developments in Canada and the increased accommodations capacity we have placed in service since the first quarter of 2006.

Our offshore products revenues increased \$40.7 million, or 52%, due to increased deepwater development spending and capital equipment upgrades by our customers. Our offshore products backlog increased to \$373.4 million at March 31, 2007 compared to \$349.3 million at December 31, 2006 and \$220.8 million at March 31, 2006.

**Cost of Sales.** Our consolidated cost of sales decreased \$22.4 million, or 6%, in the first quarter of 2007 compared to the first quarter of 2006 primarily as a result of decreases at well site services of \$21.1 million, or 19%, and at tubular services of \$33.8 million, or 16%, which were partially offset by an increase at offshore products of \$32.5 million or 56%. Our overall gross margin as a percent of revenues improved from 24% in the first quarter of 2006 to 26% in the first quarter of 2007.

Tubular services cost of sales decreased as a result of decreased tonnage shipped. Our tubular services gross margin as a percentage of revenues decreased from 9% to 6% in the first quarter of 2007 as a result of lower demand for our OCTG and a greater mix of relatively low margin carbon grade OCTG sales in 2007.

Our well site services gross margins as a percent of revenue improved from 40% in the first quarter of 2006 to 48% in the first quarter of 2007. Our accommodations cost of sales decrease was driven by lower costs associated with fewer third party manufacturing projects in 2007 compared to 2006 and by lower activity in support of Canadian drilling operations in 2007. Our accommodations gross margin as a percentage of revenues improved from 32% in the first quarter of 2006 to 47% in the first quarter of 2007 because of lower manufacturing revenues, which generally earn lower margins than accommodations or catering work.

Our drilling services cost of sales have increased \$3.5 million, or 25%, in the first quarter of 2007 compared to the first quarter of 2006 as a result of an increase in the number of rigs that we operate, increased wages paid to our employees and the impact of price increases for repairs, supplies and other expenses to operate our rigs. Increased costs and lower utilization in our areas of operations adversely affected our drilling services gross margin as a percentage of revenues which declined from 50% in the first quarter of 2006 to 44% in the first quarter of 2007. Workover services cost of sales were eliminated in the first quarter of 2007 as a result of the sale of that business in March 2006.

Our offshore products cost of sales increased approximately in line with the increase in offshore products revenues.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses (SG&A) increased \$1.9 million, or 7%, in the first quarter of 2007 compared to the first quarter of 2006. The increase is primarily attributable to increased salaries, wages and benefits and an increase in headcount. SG&A was 5.7% of revenues in the quarter ended March 31, 2007 compared to 5.1% of revenues in the quarter ended March 31, 2006.

**Depreciation and Amortization.** Depreciation and amortization expense increased \$1.5 million, or 12%, in the first quarter of 2007 compared to the same period in 2006. Depreciation and amortization expense increased in 2007 due primarily to capital expenditures made during the previous twelve months.

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**Operating Income.** Consolidated operating income increased \$3.7 million, or 5%, in the first quarter of 2007 compared to the first quarter of 2006 as a result of increases at well site services of \$6.6 million, or 12%, and at offshore products of \$7.5 million, or 75%, which were partially offset by decreased tubular services operating income of \$10.1 million, or 57% and the absence of \$1.9 million of workover services operating income because that business was sold in March 2006.

**Interest Expense and Interest Income.** Interest expense increased by less than 1% in the first quarter of 2007 compared to the first quarter of 2006. Interest expense increased slightly due to the impact of higher interest rates levels which were partially offset by lower debt levels. The weighted average interest rate on the Company's revolving credit facility was 6.1% in the first quarter of 2007 compared to 5.8% in the first quarter of 2006. Interest income increased in 2007 primarily because of the subordinated notes receivable obtained in consideration for the sale of our hydraulic workover business (see Note 11 to the Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q).

**Equity in Earnings of Unconsolidated Affiliates.** Our equity in earnings of unconsolidated affiliates is higher in the first quarter of 2007 than in the first quarter of 2006 primarily because of the sale of our workover services business and resultant interest in Boots & Coots common stock, which we account for under the equity method (see Note 11 to the Unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q).

**Income Tax Expense.** Our income tax provision for the first quarter of 2007 totaled \$27.2 million, or 34.1% of pretax income, compared to \$34.2 million, or 39.2% of pretax income, for the first quarter of 2006. The effective tax rate was higher in the quarter ended March 31, 2006 principally because of the higher effective tax rate applicable to the gain on the sale of the workover services business.

***Liquidity and Capital Resources***

Our primary liquidity needs are to fund capital expenditures, such as expanding our accommodations facilities, expanding and upgrading our manufacturing facilities and equipment, adding drilling rigs and increasing and replacing rental tool assets, funding new product development and funding general working capital needs. In addition, capital is needed to fund strategic business acquisitions. Our primary sources of funds have been cash flow from operations, proceeds from borrowings under our bank facilities and proceeds from our \$175 million convertible note offering in 2005.

Cash totaling \$51.3 million was provided by operations during the first quarter of 2007 compared to cash totaling \$18.7 million provided by operations during the first quarter of 2006. During 2007, \$20.3 million was utilized to fund working capital for liquidation of relatively high year end payables levels in our OCTG business and for the build of receivables in Canada caused by our growth in that region. During 2006, \$38.4 million was used to fund working capital due in part to increases in receivables and inventories in our offshore products segment given the growth in activity compared to 2005.

Cash was used in investing activities during the three months ended March 31, 2007 and 2006 in the amount of \$37.3 million and \$30.2 million, respectively. Capital expenditures, including capitalized interest, totaled \$36.9 million and \$26.5 million during the three months ended March 31, 2007 and 2006, respectively. Capital expenditures in both years consisted principally of purchases of assets for our well site services segment.

We currently expect to spend a total of approximately \$224 million for capital expenditures during 2007 to expand our Canadian oil sands related accommodations facilities, to fund our other product and service offerings, and for maintenance and upgrade of our equipment and facilities. We expect to fund these capital expenditures with internally generated funds and proceeds from borrowings under our revolving credit facilities.

Net cash of \$20.2 million was used in financing activities during the three months ended March 31, 2007, primarily as a result of treasury stock purchases and debt repayments partially offset by proceeds from stock option exercises. A total of \$8.4 million was provided by financing activities during the three months ended March 31, 2006, primarily as a result of borrowings under our credit line and exercises of stock options.

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During the first quarter of 2005, our Board of Directors authorized the repurchase of up to \$50 million of our common stock, par value \$.01 per share, over a two year period. On August 25, 2006, an additional \$50 million was approved and the duration of the program was extended to August 31, 2008. Through March 31, 2007, a total of \$57.3 million of our stock (2,064,432 shares), has been repurchased under this program, leaving a total of up to approximately \$42.7 million remaining available under the program.

On December 5, 2006, we amended our existing credit agreement dated as of October 30, 2003 (the Credit Agreement). The amendment to the Credit Agreement increased the total commitments under the Credit Agreement from \$325 million to \$400 million and extended the maturity of the Credit Agreement to December 5, 2011. The Credit Agreement permits the Company incremental borrowings of up to \$100 million under the Credit Agreement, subject to lender approval, on the same terms and conditions.

As of March 31, 2007, we had \$206.3 million outstanding under the Credit Facility and an additional \$10.6 million of outstanding letters of credit, leaving \$183.1 million available to be drawn under the facility. In addition, we have other floating rate bank credit facilities in the U.S. and the U.K. that provide for an aggregate borrowing capacity of \$8.9 million. As of March 31, 2007, we had \$0.9 million outstanding under these other facilities and an additional \$0.6 million of outstanding letters of credit leaving \$7.4 million available to be drawn under these facilities. Our total debt represented 30.4% of the total of debt and shareholder's equity at March 31, 2007 compared to 32.2% at December 31, 2006 and 37.1% at March 31, 2006.

We believe that cash from operations and available borrowings under our credit facilities will be sufficient to meet our liquidity needs in the coming twelve months. If our plans or assumptions change or are inaccurate, or if we make further acquisitions, we may need to raise additional capital. However, there is no assurance that we will be able to raise additional funds or be able to raise such funds on favorable terms.

***Critical Accounting Policies***

In our selection of critical accounting policies, our objective is to properly reflect our financial position and results of operations in each reporting period in a manner that will be understood by those who utilize our financial statements. Often we must use our judgment about uncertainties.

There are several critical accounting policies that we have put into practice that have an important effect on our reported financial results.

We have contingent liabilities and future claims for which we have made estimates of the amount of the eventual cost to liquidate these liabilities or claims. These liabilities and claims sometimes involve threatened or actual litigation where damages have been quantified and we have made an assessment of our exposure and recorded a provision in our accounts to cover an expected loss. Other claims or liabilities have been estimated based on our experience in these matters and, when appropriate, the advice of outside counsel or other outside experts. Upon the ultimate resolution of these uncertainties, our future reported financial results will be impacted by the difference between our estimates and the actual amounts paid to settle a liability. Examples of areas where we have made important estimates of future liabilities include litigation, taxes, interest, insurance claims, warranty claims, contract claims and discontinued operations.

The assessment of impairment on long-lived assets, including goodwill and investments in unconsolidated subsidiaries, is conducted whenever changes in the facts and circumstances indicate a loss in value has occurred. The determination of the amount of impairment, which is other than a temporary decline in value, would be based on quoted market prices, if available, or upon our judgments as to the future operating cash flows to be generated from these assets throughout their estimated useful lives. Our industry is highly cyclical and our estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows and our determination of whether an other than temporary decline in value of our investment has occurred, can have a significant impact on the carrying value of these assets and, in periods of prolonged down cycles, may result in impairment charges.

We recognize revenue and profit as work progresses on long-term, fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. We follow this

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method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income or expense in the period in which the facts and circumstances that give rise to the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period in which losses are determined.

Our valuation allowances, especially related to potential bad debts in accounts receivable and to obsolescence or market value declines of inventory, involve reviews of underlying details of these assets, known trends in the marketplace and the application of historical factors that provide us with a basis for recording these allowances. If market conditions are less favorable than those projected by management, or if our historical experience is materially different from future experience, additional allowances may be required.

The selection of the useful lives of many of our assets requires the judgments of our operating personnel as to the length of these useful lives. Should our estimates be too long or short, we might eventually report a disproportionate number of losses or gains upon disposition or retirement of our long-lived assets. We believe our estimates of useful lives are appropriate.

Since the adoption of SFAS No. 123R, we are required to estimate the fair value of stock compensation made pursuant to awards under our 2001 Equity Participation Plan (Plan). An initial estimate of fair value of each stock option or restricted stock award determines the amount of stock compensation expense we will recognize in the future. To estimate the value of stock option awards under the Plan, we have selected a fair value calculation model. We have chosen the Black Scholes closed form model to value stock options awarded under the Plan. We have chosen this model because our option awards have been made under straightforward and consistent vesting terms, option prices and option lives. Utilizing the Black Scholes model requires us to estimate the length of time options will remain outstanding, a risk free interest rate for the estimated period options are assumed to be outstanding, forfeiture rates, future dividends and the volatility of our common stock. All of these assumptions affect the amount and timing of future stock compensation expense recognition. We will continually monitor our actual experience and change future assumptions for awards as we consider appropriate.

**ITEM 3. *Quantitative and Qualitative Disclosures about Market Risk***

*Interest Rate Risk.* We have long-term debt and revolving lines of credit that are subject to the risk of loss associated with movements in interest rates. As of March 31, 2007, we had floating rate obligations totaling approximately \$207.2 million for amounts borrowed under our revolving credit facilities. These floating-rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating interest rate were to increase by 1% from March 31, 2007 levels, our consolidated interest expense would increase by a total of approximately \$2.1 million annually.

*Foreign Currency Exchange Rate Risk.* Our operations are conducted in various countries around the world and we receive revenue from these operations in a number of different currencies. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in currencies other than the U.S. dollar, which is our functional currency or the functional currency of our subsidiaries, which is not necessarily the U.S. dollar. In order to mitigate the effects of exchange rate risks, we generally pay a portion of our expenses in local currencies and a substantial portion of our contracts provide for collections from customers in U.S. dollars. In the past, we have hedged U.S. dollar balances and cash flows in our U.K. subsidiary; however, no active hedges exist as of March 31, 2007. Results of operations have not been materially affected by foreign currency hedging activity.

**ITEM 4. *Controls and Procedures***

*Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2007 in ensuring that material

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information was accumulated and communicated to management, and made known to our Chief Executive Officer and Chief Financial Officer, on a timely basis to allow disclosure as required in this Quarterly Report on Form 10-Q.

*Changes in Internal Control over Financial Reporting.* During the three months ended March 31, 2007, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) or in other factors which have materially affected our internal control over financial reporting, or are reasonably likely to materially affect our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

We are a party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters, including occasional claims by individuals alleging exposure to hazardous materials as a result of our products or operations. Some of these claims relate to matters occurring prior to our acquisition of businesses, and some relate to businesses we have sold. In certain cases, we are entitled to indemnification from the sellers of businesses and in other cases, we have indemnified the buyers that purchased businesses from us. Although we can give no assurance about the outcome of pending legal and administrative proceedings and the effect such outcomes may have on us, we believe that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by indemnity or insurance, will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

On February 18, 2005, we announced that we had conducted an internal investigation prompted by the discovery of over billings totaling approximately \$400,000 by one of our subsidiaries (the *Subsidiary*) to a government owned oil company in South America. The over billings were detected by the Company during routine financial review procedures, and appropriate financial statement adjustments were included in our previously reported fourth quarter 2004 results. We and independent counsel retained by our Audit Committee conducted separate investigations consisting of interviews and a thorough examination of the facts and circumstances in this matter. We voluntarily reported the results of our investigation to the Securities and Exchange Commission (the SEC) and fully cooperated with requests for information received from the SEC. On October 31, 2005, our counsel received a *Wells Notice* from the SEC staff indicating that it made a preliminary decision to recommend that the SEC bring a civil action against the Company alleging violations of provisions of the Securities and Exchange Act of 1934 (the *Act*) relating to the maintenance of books, records and internal accounting controls and procedures as set forth in Sections 13(b)(2)(A) and (B) of the Act. The Company reached a settlement agreement with the SEC on April 27, 2006. The Company consented to an Order by the SEC (the *Order*), without admitting or denying the findings in the Order, that required the Company to cease and desist from committing or causing violations of the *books and records* and *internal control* provisions of the laws of the Act. The settlement did not require the Company to pay a monetary penalty.

**ITEM 1A. Risk Factors**

Item 1A. *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K) includes a detailed discussion of our risk factors. There have been no significant changes to our risk factors as set forth in our 2006 Form 10-K.

**Table of Contents****ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Purchases of Equity Securities**  
**Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Purchases of Equity Securities by the Issuer and Affiliated Purchases**

|                  |                   |   |   | <b>Total Number<br/>of<br/>Shares<br/>Purchased<br/>as Part of the<br/>Share<br/>Repurchase<br/>Program</b> | <b>Approximate<br/>Dollar Value of<br/>Shares<br/>Remaining to be<br/>Purchased<br/>Under the Share<br/>Repurchase<br/>Program</b> |
|------------------|-------------------|---|---|---|--|
|                  | <b>Period</b>     | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> |   |  |
| January 1, 2007  | January 31, 2007  |   |   | 1,824,432   | \$ 50,030,463  |
| February 1, 2007 | February 28, 2007 |   |   | 1,824,432   | \$ 50,030,463  |
| March 1, 2007 -  | March 31, 2007    | 240,000   | \$ 30.40  | 2,064,432   | \$ 42,733,264 <sup>(1)</sup>   |
| Total            |                   | 240,000   | \$ 30.40  | 2,064,432   | \$ 42,733,264  |

(1) On March 2, 2005, we announced a share repurchase program of up to \$50,000,000 over a two year period. On August 25, 2006, we announced the authorization of an additional \$50,000,000 and the extension of the program to August 31, 2008.

**ITEM 3. Defaults Upon Senior Securities**

None

**ITEM 4. Submission of Matters to a Vote of Security Holders**

None

**ITEM 5. Other Information**

None

**ITEM 6. Exhibits**

(a) INDEX OF EXHIBITS

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1                | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Oil States International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the SEC on March 30, 2001 (File No. 001-16337)).   |
| 3.2                | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Oil States International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the SEC on March 30, 2001 (File No. 001-16337)).   |
| 3.3                | Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to Oil States International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the SEC on March 30, 2001 (File No. 001-16337)). |

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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 4.1                | Form of common stock certificate (incorporated by reference to Exhibit 4.1 to Oil States International, Inc. s Registration Statement on Form S-1 (File No. 333-43400)).  |
| 4.2                | Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 4.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the SEC on March 30, 2001 (File No. 001-16337)).   |
| 4.3                | First Amendment to the Amended and Restated Registration Rights Agreement dated May 17, 2002 (incorporated by reference to Exhibit 4.3 to Oil States International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the SEC on March 13, 2003 (File No. 001-16337)).  |
| 4.4                | Registration Rights Agreement dated as of June 21, 2005 by and between Oil States International, Inc. and RBC Capital Markets Corporation (incorporated by reference to Oil States International, Inc. s Current Report on Form 8-K filed with the SEC on June 23, 2005 (File No. 001-16337)).  |
| 4.5                | Indenture dated as of June 21, 2005 by and between Oil States International, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Oil States International, Inc. s Current Report on Form 8-K filed with the SEC on June 23, 2005 (File No. 001-16337)).   |
| 4.6                | Global Note representing \$175,000,000 aggregate principal amount of 2 3/8% Contingent Convertible Senior Notes due 2025 (incorporated by reference to Section 2.2 of Exhibit 4.5 hereof) (incorporated by reference to Oil States International, Inc. s Current Reports on Form 8-K filed with the SEC on June 23, 2005 and July 13, 2005, respectively (File No. 001-16337)). |
| 31.1*              | Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.  |
| 31.2*              | Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.  |
| 32.1***            | Certification of Chief Executive Officer of Oil States International, Inc. pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.   |
| 32.2***            | Certification of Chief Financial Officer of Oil States International, Inc. pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.   |

\* Filed herewith

\*\*\* Furnished  
herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OIL STATES INTERNATIONAL, INC.

Date: May 2, 2007 By /s/ BRADLEY J. DODSON

Bradley J. Dodson  
Vice President, Chief Financial Officer and  
Treasurer (Duly Authorized Officer and Principal  
Financial Officer)

Date: May 2, 2007 By /s/ ROBERT W. HAMPTON

Robert W. Hampton  
Senior Vice President Accounting and  
Secretary (Duly Authorized Officer and Chief  
Accounting Officer)

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EXHIBIT INDEX

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herewith.