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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013

OR

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

For the transition period from _________________________ to _________________________

Commission file number: 001-16337

OIL STATES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large Accelerated Filer [X]	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 [X]

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

OIL STATES INTERNATIONAL, INC.

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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)

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

Net income attributable to Oil States International, Inc.:				
Continuing operations	$77,061	$97,039	$237,009	$314,474
Discontinued operations	90,679	6,753	109,445	35,616
Net income attributable to Oil States International, Inc.	$167,740	$103,792	$346,454	$350,090
Basic net income per share attributable to Oil States International, Inc. common stockholders from:				
Continuing operations	$1.40	$1.80	$4.31	$6.01
Discontinued operations	1.64	0.12	1.99	0.68
Net income	$3.04	$1.92	$6.30	$6.69
Diluted net income per share attributable to Oil States International, Inc. common stockholders from:				
Continuing operations	$1.38	$1.75	$4.27	$5.68
Discontinued operations	1.63	0.12	1.97	0.64
Net income	$3.01	$1.87	$6.24	$6.32
Weighted average number of common shares outstanding:				
Basic	55,092	53,975	54,987	52,347
Diluted	55,672	55,365	55,542	55,391

The accompanying notes are an integral part of

these financial statements.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

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

The accompanying notes are an integral part of

these financial statements.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands)

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

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

The accompanying notes are an integral part of

these financial statements.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

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

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

The accompanying notes are an integral part of these

financial statements.

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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 condensed consolidated financial statements of Oil States International, Inc. and its wholly-owned subsidiaries (referred to in this report as we or the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission) pertaining to interim financial information. Certain information in footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to these rules and regulations. The unaudited financial statements included in this report reflect all the adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair presentation of the results of operations for the interim periods covered and for the financial condition of the Company at the date of the interim balance sheet. Results for the interim periods are not necessarily indicative of results for the full year.

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

The preparation of condensed consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. If the underlying estimates and assumptions, upon which the financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying condensed consolidated financial statements.

The financial statements included in this report should be read in conjunction with the Company’s audited financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K).

2. RECENT ACCOUNTING PRONOUNCEMENTS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the FASB), which are adopted by the Company as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company’s consolidated financial statements upon adoption.

3. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS

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

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

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

	Estimated Useful Life (years)			September 30, 2013	**December 31, 2012**
Property, plant and equipment, net:					
Land				$ 69,505	$ 55,340
Accommodations assets	3	-	15	1,563,124	1,481,830
Buildings and leasehold improvements	3	-	40	197,108	183,017
Machinery and equipment	2	-	29	426,949	390,432
Completion services equipment	4	-	10	306,218	264,225
Office furniture and equipment	1	-	10	53,684	46,461
Vehicles	2	-	10	137,354	122,246
Construction in progress				181,436	149,657
Total property, plant and equipment				2,935,378	2,693,208
Accumulated depreciation				(1,021,290)	(865,966)
				$ 1,914,088	$ 1,827,242

	September 30, 2013	**December 31, 2012**
Accrued liabilities:		
Accrued compensation	$ 54,171	$ 67,144
Insurance liabilities	13,596	11,412
Accrued taxes, other than income taxes	10,561	5,254

Accrued interest	17,357	4,042
Accrued commissions	3,316	3,763
Other	16,910	12,185
	$ 115,911	$ 103,800

4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income decreased from $107.1 million at December 31, 2012 to an accumulated other comprehensive loss of $18.4 million at September 30, 2013, a net change of $125.5 million, primarily as a result of decreases in the Canadian and Australian dollar exchange rates compared to the U.S. dollar. The Canadian dollar was valued at an exchange rate of U.S. $0.97 at September 30, 2013 compared to U.S. $1.01 at December 31, 2012, a decrease of 4%. The Australian dollar was valued at an exchange rate of U.S. $0.93 at September 30, 2013 compared to U.S. $1.04 at December 31, 2012, a decrease of 11%. Excluding intercompany balances, our Canadian dollar and Australian dollar functional currency net assets total approximately C$926 million and A$941 million, respectively, at September 30, 2013.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

5. EARNINGS PER SHARE

The calculation of earnings per share attributable to the Company is presented below (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net income attributable to Oil States International, Inc.:				
Net income from continuing operations	$77,061	$97,039	$237,009	$314,474
Net income from discontinued operations	90,679	6,753	109,445	35,616
Net income attributable to Oil States International, Inc.	$167,740	$103,792	$346,454	$350,090
Denominator:				
Denominator for basic earnings per share – weighted average shares outstanding during the period	55,092	53,975	54,987	52,347
Effect of dilutive securities:				
Options on common stock	323	477	351	513
2 3/8% Contingent Convertible Senior Subordinated Notes	--	782	--	2,391
Restricted stock awards and other	257	131	204	140
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	55,672	55,365	55,542	55,391
Basic earnings per share:				
Continuing operations	$1.40	$1.80	$4.31	$6.01
Discontinued operations	1.64	0.12	1.99	0.68
Net income attributable to Oil States International, Inc.	$3.04	$1.92	$6.30	$6.69
Diluted earnings per share:				

Continuing operations	$1.38	$1.75	$4.27	$5.68
Discontinued operations	1.63	0.12	1.97	0.64
Net income attributable to Oil States International, Inc.	$3.01	$1.87	$6.24	$6.32

Our calculation of diluted earnings per share for the three and nine months ended September 30, 2013 excludes 247,432 shares and 344,251 shares, respectively, issuable pursuant to outstanding stock options and restricted stock awards, due to their antidilutive effect. Our calculation of diluted earnings per share for the three and nine months ended September 30, 2012 excludes 303,833 shares and 424,299 shares, respectively, issuable pursuant to outstanding stock options and restricted stock awards, due to their antidilutive effect.

See Note 8 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of the conversion of our 2 3/8% Contingent Convertible Senior Subordinated Notes (2 3/8% Notes).

6. BUSINESS ACQUISITIONS AND GOODWILL

On August 29, 2013, we acquired the 51% majority interest in a venture we had previously accounted for under the equity method. The acquired business provides design, manufacturing, sales and aftermarket services for newly manufactured cranes in India. Consideration paid for the majority interest was $1.45 million in cash. The operations of this business have been included in the offshore products segment since the acquisition date.

On December 14, 2012, we acquired all of the equity of Tempress Technologies, Inc. (Tempress) for purchase price consideration of $49.5 million consisting of $32.5 million in cash plus contingent consideration with an estimated fair market value of $17.0 million at closing. During the second quarter of 2013, the estimated fair market value of the contingent liability was increased to $20.0 million due to favorable developments related to a patent application by Tempress, resulting in a $3.0 million, or $0.05 per diluted share after tax, charge to other operating expense. The patent was granted in the third quarter of 2013 and the $20.0 million in contingent consideration was paid to the former shareholders of Tempress. The Company’s current escrowed deposits of $5.3 million include other consideration for seller transaction indemnities, are considered restricted cash and are classified as “Other current assets” in our September 30, 2013 Consolidated Balance Sheet and “Other noncurrent assets” in our December 31, 2012 Consolidated Balance Sheet. Liabilities for escrowed amounts expected to be paid to the seller also totaled $5.3 million and are classified as “Other current liabilities” in our September 30, 2013 Consolidated Balance Sheet and “Other noncurrent liabilities” in our December 31, 2012 Consolidated Balance Sheet. Headquartered in Kent, Washington, Tempress designs, develops and markets a suite of highly specialized, hydraulically-activated tools utilized during downhole completion activities. The operations of Tempress have been included in our well site services segment since the acquisition date.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

On July 2, 2012, we acquired all of the operating assets of Piper Valve Systems, Ltd (Piper). Headquartered in Oklahoma City, Oklahoma, Piper designs and manufactures high pressure valves and manifold components for oil and gas industry projects offshore (surface and subsea) and onshore. Piper's valve technology complements our offshore products segment, allowing us to integrate their valve products and services into our existing subsea products such as pipeline end manifolds and terminals, increasing our suite of global deepwater product and service offerings. Cash consideration paid for the acquisition totaled $48.0 million. The operations of Piper have been included in our offshore products segment since the acquisition date.

In December 2010, we also acquired all of the operating assets of Mountain West Oilfield Service and Supplies, Inc. and Ufford Leasing LLC (Mountain West) for total consideration of $47.1 million including estimated contingent consideration of $4.0 million. During the first quarter of 2013, the liability for the estimated contingent consideration recorded in connection with this transaction was adjusted to its estimated fair value of zero resulting in the recording of other operating income of $4.0 million. Contingent consideration for the Mountain West acquisition was estimated based upon the amount of earnings before interest, depreciation, amortization and taxes expected to be earned by the acquired business during the three-year period ended December 31, 2013, subject to adjustment for capital spending levels.

Changes in the carrying amount of goodwill for the nine month period ended September 30, 2013 are as follows (in thousands):

	Well Site Services					
	Completion Services	Drilling Services	Subtotal	Accommodations	Offshore Products	Total
Balance as of December 31, 2011						
Goodwill	$169,711	$22,767	$192,478	$ 291,323	$100,944	$584,745
Accumulated Impairment Losses	(94,528)	(22,767)	(117,295)	--	--	(117,295)
	75,183	--	75,183	291,323	100,944	467,450
	31,254	--	31,254	--	17,757	49,011

Goodwill acquired and purchase price adjustments						
Foreign currency translation and other changes	316	--	316	3,809	232	4,357
	106,753	--	106,753	295,132	118,933	520,818
Balance as of December 31, 2012						
Goodwill	201,281	22,767	224,048	295,132	118,933	638,113
Accumulated Impairment Losses	(94,528)	(22,767)	(117,295)	--	--	(117,295)
	106,753	--	106,753	295,132	118,933	520,818
Goodwill acquired and purchase price adjustments	1,576	--	1,576	--	1,954	3,530
Foreign currency translation and other changes	(479)	--	(479)	(24,015)	(24)	(24,518)
	107,850	--	107,850	271,117	120,863	499,830
Balance as of September 30, 2013						
Goodwill	202,378	22,767	225,145	271,117	120,863	617,125
Accumulated Impairment Losses	(94,528)	(22,767)	(117,295)	--	--	(117,295)
	$ 107,850	$ --	$ 107,850	$ 271,117	$ 120,863	$ 499,830

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

7. DISCONTINUED OPERATIONS

On September 6, 2013, the Company entered into a Stock Purchase Agreement with Marubeni-Itochu for the sale of Sooner, which comprised the entirety of the Company's tubular services segment. Total consideration received by the Company was $600 million, which remains subject to customary post-closing adjustments, including final working capital determination. We recognized a net gain on disposal of $128.6 million ($84.2 million after-tax) during the third quarter of 2013, which is included within "Net income from discontinued operations, net of tax" in the Unaudited Condensed Consolidated Statements of Income.

In connection with this transaction, the parties have entered into a transition services agreement for the Company to provide certain information technology applications and infrastructure and various administrative services to Sooner during the transition period ranging from one to three months from the closing date depending on the nature of the service provided in exchange for monthly service fees. Either party has the option to terminate such transition services with notice at any time and Sooner may elect to extend such services for up to one month. The future continuing cash flows from the disposed business to the Company resulting from the transition services agreement are not significant and do not constitute a material continuing financial interest in Sooner.

Sooner, which had previously been presented as a separate reporting unit, meets the criteria for being reported as a discontinued operation and has been reclassified from continuing operations. The amounts in the table below reflect the operating results of Sooner reported as discontinued operations (in thousands). The $128.6 million ($84.2 after-tax) net gain related to the disposal of Sooner is excluded.

	Two Months	Three Months	Eight Months	Nine Months

	Ended August 31, 2013	Ended September 30, 2012	Ended August 31, 2013	Ended September 30, 2012
Revenues	$273,637	$436,160	$1,073,096	$1,326,601
Income from discontinued operations before income taxes	10,463	10,555	40,964	57,075
Income tax provision	(3,993)	(3,802)	(15,728)	(21,459)
Net income from discontinued operations, net of tax	$6,470	$6,753	$25,236	$35,616

The following table summarizes the major classes of assets and liabilities held for sale in the Company's Consolidated Balance Sheet related to Sooner (in thousands):

	December 31, 2012
Assets	
Accounts receivable, net	$184,852
Inventories, net	447,503
Prepaid expenses and other current assets	141
Total current assets held for sale	$632,496
Property, plant and equipment, net	$24,884
Other noncurrent assets	6,721
Total noncurrent assets held for sale	$31,605
Liabilities	
Accounts payable	$112,291
Accrued liabilities	4,106
Deferred revenue	23,289
Total current liabilities held for sale	$139,686
Deferred income taxes	$5,277
Total noncurrent liabilities held for sale	$5,277

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

8. DEBT

As of September 30, 2013 and December 31, 2012, long-term debt consisted of the following (in thousands):

	September 30, 2013	**December 31, 2012**
U.S. revolving credit facility, which matures December 10, 2015, with available commitments up to $500 million; no borrowings outstanding during the nine month period ended September 30, 2013	$--	$--
U.S. term loan of $200 million, which was repaid in full in 2013; weighted average interest rate of 2.3% for the nine month period ended September 30, 2013	--	170,000
Canadian revolving credit facility, which matures on December 10, 2015, with available commitments up to $250 million; no borrowings outstanding during the nine month period ended September 30, 2013	--	--
Canadian term loan of $100 million, which was repaid in full in 2013; weighted average interest rate of 3.3% for the nine month period ended September 30, 2013	--	85,786
Australian revolving credit facility, which matures December 10, 2015, with available commitments up to A$300 million and with a weighted average interest rate of 5.1% for the nine month period ended September 30, 2013	--	47,803
6 1/2% senior unsecured notes - due June 2019	600,000	600,000
5 1/8% senior unsecured notes - due January 2023	400,000	400,000
Capital lease obligations and other debt	7,336	6,696
Total debt	1,007,336	1,310,285

Less: Current portion	492	30,480
Total long-term debt and capitalized leases	$1,006,844	$1,279,805

5 1/8% Senior Unsecured Notes

On December 21, 2012, the Company sold $400 million aggregate principal amount of 5 1/8% Senior Notes due 2023 (5 1/8% Notes) through a private placement to qualified institutional buyers. The 5 1/8% Notes are senior unsecured obligations of the Company, are guaranteed by our material U.S. subsidiaries (the Guarantors), bear interest at a rate of 5 1/8% per annum and mature on January 1, 2023. At any time prior to January 15, 2016, the Company may redeem up to 35% of the 5 1/8% Notes at a redemption price of 105.125% of the principal amount, plus accrued and unpaid interest to the redemption date, with the proceeds of certain equity offerings. Prior to January 15, 2018, the Company may redeem some or all of the 5 1/8% Notes for cash at a redemption price equal to 100% of their principal amount plus an applicable make-whole premium and accrued and unpaid interest to the redemption date. On and after January 15, 2018, the Company may redeem some or all of the 5 1/8% Notes at redemption prices (expressed as percentages of principal amount), plus accrued and unpaid interest to the redemption date. The optional redemption prices as a percentage of principal amount are as follows:

Twelve Month Period Beginning January 15,	**% of Principal Amount**
2018	102.563%
2019	101.708%
2020	100.854%
2021 and thereafter	100.000%

The Company utilized approximately $334 million of the net proceeds of the 5 1/8% Notes to repay borrowings under its U.S. revolving credit facility. The remaining net proceeds of approximately $61 million were utilized for general corporate purposes.

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6 1/2% Senior Unsecured Notes

On June 1, 2011, the Company sold $600 million aggregate principal amount of 6 1/2% senior unsecured notes (6 1/2% Notes) due 2019 through a private placement to qualified institutional buyers. The 6 1/2% Notes are senior unsecured obligations of the Company, are guaranteed by our material U.S. subsidiaries (the Guarantors), bear interest at a rate of 6 1/2% per annum and mature on June 1, 2019. At any time prior to June 1, 2014, the Company may redeem up to 35% of the 6 1/2% Notes at a redemption price of 106.5% of the principal amount, plus accrued and unpaid interest to the redemption date, with the proceeds of certain equity offerings. Prior to June 1, 2014, the Company may redeem some or all of the 6 1/2% Notes for cash at a redemption price equal to 100% of their principal amount plus an applicable make-whole premium and accrued and unpaid interest to the redemption date. On and after June 1, 2014, the Company may redeem some or all of the 6 1/2% Notes at redemption prices (expressed as percentages of principal amount), plus accrued and unpaid interest to the redemption date. The optional redemption prices as a percentage of principal amount are as follows:

Twelve Month Period Beginning June 1,	% of Principal Amount
2014	104.875%
2015	103.250%
2016	101.625%
2017 and thereafter	100.000%

The Company utilized approximately $515 million of the net proceeds of the 6 1/2% Notes to repay borrowings outstanding under its U.S. and Canadian credit facilities. The remaining net proceeds of approximately $75 million were utilized for general corporate purposes.

2 3/8% Contingent Convertible Senior Notes

On May 17, 2012, the Company gave notice of the redemption of all of its outstanding 2 3/8% Notes due 2025 (2 3/8% Notes), totaling $174,990,000 at a redemption price equal to 100% of the principal amount thereof plus accrued interest. In July 2012, rather than having their 2 3/8% Notes redeemed, on or prior to July 5, 2012, holders of $174,990,000 aggregate principal amount of the 2 3/8% Notes converted their 2 3/8% Notes and received cash up to the principal amount and, in the aggregate, 3,012,380 shares of the Company's common stock valued at $220.6 million.

An effective interest rate of 7.17% was applied as of the issuance date for our 2 3/8% Notes in accordance with ASC 470-20 – Debt with Conversion and Other Options. Interest expense on the 2 3/8% Notes, excluding amortization of debt issue costs, was as follows (in thousands):

	Three months ended September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
Interest expense	$ --	$ --	$--	$6,185

As of September 30, 2013, the Company had approximately $776.0 million of cash and cash equivalents and $716.8 million of the Company's U.S. and Canadian credit facilities available for future financing needs. The Company also had availability totaling A$300 million under its Australian credit facility. As of September 30, 2013, the Company had $33.2 million of outstanding letters of credit which reduced amounts available under its credit facilities.

Interest expense on the condensed consolidated statements of income is net of capitalized interest of $0.2 million and $0.8 million, respectively, for the three and nine months ended September 30, 2013 and $0.7 million and $3.2 million, respectively, for the same periods in 2012.

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9. FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash and cash equivalents, investments, receivables, payables, bank debt and foreign currency forward contracts. The Company believes that the carrying values of these instruments on the accompanying consolidated balance sheets approximate their fair values.

The fair values of the Company's 6 1/2% Notes and 5 1/8% Notes are estimated based on quoted prices and analysis of similar instruments (Level 2 fair value measurements). The carrying values and fair values of these notes are as follows for the periods indicated (in thousands):

	September 30, 2013		**December 31, 2012**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
5 1/8% Notes				
Principal amount due 2023	$400,000	$440,500	$400,000	$405,752
6 1/2% Notes				
Principal amount due 2019	$600,000	$638,622	$600,000	$641,628

10. CHANGES IN COMMON STOCK OUTSTANDING

Shares of common stock outstanding – January 1, 2013	54,695,473
Shares issued upon exercise of stock options and vesting of restricted stock awards	630,384
Repurchase of shares – transferred to treasury	(135,379)
Shares withheld for taxes on vesting of restricted stock awards and transferred to treasury	(51,060)

Shares of common stock outstanding – September 30, 2013	55,139,418

11. STOCK BASED COMPENSATION

During the first nine months of 2013, we granted restricted stock awards totaling 311,410 shares valued at a total of $25.3 million. Of the restricted stock awards granted in the first nine months of 2013, a total of 264,557 awards vest in four equal annual installments beginning in February 2014, 30,314 awards are performance based awards that may vest in February 2016 in an amount that will depend on the Company's achievement of specified performance objectives, 9,880 awards vest 100% in May 2014, 3,500 awards vest 100% in February 2014 and 2,750 awards vest 100% in March 2014. The 2013 performance based awards have a performance criteria that will be measured based upon the Company's achievement levels of average after-tax annual return on invested capital for the three year period commencing January 1, 2013 and ending December 31, 2015. During the nine months ended September 30, 2013, the Company also granted 71,500 units of phantom shares under the Canadian Long-Term Incentive Plan, which provides for the granting of units of phantom shares to key Canadian employees. These awards vest in three equal annual installments beginning in February 2014 and are accounted for as a liability until paid. Participants granted units of phantom shares are entitled to a lump sum cash payment equal to the fair market value of a share of the Company's common stock on the vesting date. A total of 149,402 stock options with a ten-year term were awarded in the nine months ended September 30, 2013 with an average exercise price of $80.25, a fair value of $4.2 million and that will vest in four equal annual installments starting in February 2014.

Stock based compensation pre-tax expense from continuing operations recognized in the nine month periods ended September 30, 2013 and 2012 totaled $21.7 million and $13.5 million, or $0.31 and $0.19 per diluted share after tax, respectively. Stock based compensation pre-tax expense from continuing operations recognized in the three month periods ended September 30, 2013 and 2012 totaled $7.8 million and $4.7 million, or $0.11 and $0.07 per diluted share after tax, respectively. The total fair value of restricted stock awards that vested during the nine months ended September 30, 2013 and 2012 was $13.4 million and $14.2 million, respectively. At September 30, 2013, $46.2 million of compensation cost related to unvested stock options and restricted stock awards attributable to future performance had not yet been recognized.

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In connection with the September 2013 sale of Sooner, modifications were made to outstanding equity options and awards for Sooner employees which resulted in $4.7 million in expense. This expense is included in “Net income from discontinued operations, net of tax” on the Unaudited Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013 and is included in the transaction costs considered in the calculation of the $128.6 million pre-tax gain on the disposal of Sooner.

12. INCOME TAXES

Income tax expense for interim periods is based on estimates of the effective tax rate for the entire fiscal year. The Company’s income tax provision for the three and nine months ended September 30, 2013 totaled $27.1 million, or 25.9% of pretax income, and $86.4 million, or 26.6% of pretax income, respectively, compared to income tax expense of $33.6 million, or 25.7% of pretax income, and $113.9 million, or 26.5% of pretax income, respectively, for the three and nine months ended September 30, 2012. The effective tax rates for the three and nine months ended September 30, 2013 and 2012 are comparable, and are both lower than U.S. statutory rates because of lower foreign tax rates.

13. SEGMENT AND RELATED INFORMATION

In accordance with current accounting standards regarding disclosures about segments of an enterprise and related information, the Company has identified the following reportable segments: well site services, accommodations and offshore products. The Company’s reportable segments represent strategic business units that offer different products and services. They are managed separately because each business requires different technologies 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. Separate business lines within the well site services segment have been disclosed to provide additional detail for that segment. Results of a portion of our accommodations segment supporting Steam-Assisted Gravity Drainage (SAGD) and traditional oil and natural gas drilling activities are impacted by seasonally higher activity during the Canadian winter drilling season occurring in the first calendar quarter, typically followed by lower activity during Spring break-up in the second quarter.

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Financial information by business segment for continuing operations for each of the three and nine months ended September 30, 2013 and 2012 is summarized in the following table (in thousands):

	Revenues from unaffiliated customers	**Depreciation and amortization**	**Operating income (loss)**	**Equity in earnings (loss) of unconsolidated affiliates**	**Capital expenditures**	**Total assets**
Three months ended September 30, 2013						
Well site services –						
Completion services	$ 151,857	$ 17,173	$ 35,302	$ -	$ 25,689	$ 593,773
Drilling services	44,046	6,414	4,856	-	6,410	140,096
Total well site services	195,903	23,587	40,158	-	32,099	733,869
Accommodations	246,280	42,011	56,809	(1)	74,188	2,092,415
Offshore products	242,273	4,396	40,951	73	8,335	889,619
Corporate and eliminations	-	223	(15,941)	-	388	557,569
Total	$ 684,456	$ 70,217	$ 121,977	$ 72	$ 115,010	$ 4,273,472

	Revenues from unaffiliated customers	**Depreciation and amortization**	**Operating income (loss)**	**Equity in earnings (loss) of unconsolidated affiliates**	**Capital expenditures**	**Total assets**
Three months ended September 30, 2012						
Well site services –						
Completion services	$ 130,752	$ 12,746	$ 32,218	$ -	$ 27,251	$ 521,756
Drilling services	50,995	5,793	9,943	-	10,102	136,278
Total well site services	181,747	18,539	42,161	-	37,353	658,034
Accommodations	273,315	36,246	85,132	-	82,046	2,055,964
Offshore products	189,450	3,807	28,026	(103)	9,846	781,483
Corporate and eliminations	-	279	(11,172)	-	98	37,708

Total	$ 644,512	$ 58,871	$ 144,147	$ (103)	$ 129,343	$ 3,533,189

	Revenues from unaffiliated customers	Depreciation and amortization	Operating income (loss)	Equity in earnings (loss) of unconsolidated affiliates	Capital expenditures	Total assets
Nine months ended September 30, 2013						
Well site services –						
Completion services	$ 431,394	$ 48,293	$ 91,451	$ -	$ 72,664	$ 593,773
Drilling services	128,462	18,330	16,069	-	20,262	140,096
Total well site services	559,856	66,623	107,520	-	92,926	733,869
Accommodations	787,161	124,510	206,603	-	234,794	2,092,415
Offshore products	647,968	12,728	110,416	(758)	25,957	889,619
Corporate and eliminations	-	684	(44,877)	-	1,036	557,569
Total	$ 1,994,985	$ 204,545	$ 379,662	$ (758)	$ 354,713	$ 4,273,472

	Revenues from unaffiliated customers	Depreciation and amortization	Operating income (loss)	Equity in earnings (loss) of unconsolidated affiliates	Capital expenditures	Total assets
Nine months ended September 30, 2012						
Well site services –						
Completion services	$ 391,385	$ 36,619	$ 94,986	$ -	$ 65,125	$ 521,756
Drilling services	149,857	16,814	25,760	-	23,626	136,278
Total well site services	541,242	53,433	120,746	-	88,751	658,034
Accommodations	836,101	97,805	287,364	-	208,171	2,055,964
Offshore products	566,808	10,659	97,116	150	30,809	781,483
Corporate and eliminations	-	713	(33,200)	-	1,299	37,708
Total	$ 1,944,151	$ 162,610	$ 472,026	$ 150	$ 329,030	$ 3,533,189

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14. COMMITMENTS AND CONTINGENCIES

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

15. PLANNED SPIN-OFF OF ACCOMMODATIONS BUSINESS

On July 30, 2013, we announced that our board of directors has approved pursuing the spin-off of our accommodations business into a stand-alone, publicly traded corporation through a tax-free distribution of the accommodations business to the Company's shareholders. The objective of the spin-off is to more effectively focus on two distinct businesses, achieve lower cost of capital for our accommodations business, to pursue more tailored and aggressive growth strategies and optimize operating efficiencies among other objectives. The spin-off is subject to market conditions, the receipt of an affirmative IRS ruling or independent tax opinion, the completion of a review by the Commission of a Form 10 to be filed by the accommodations business, the execution of separation and intercompany agreements and final approval of our board of directors and is expected to be completed in or before the summer of 2014. The Accommodations business will initially be spun-off as a C-Corporation, which offers a faster path to separation. The Accommodations business will continue to assess the feasibility and advisability of a potential future conversion into a real estate investment trust (REIT). In connection with this announced spin-off, we anticipate the need to separately capitalize the accommodations business and to refinance the Company's existing debt.

16. CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Certain wholly-owned subsidiaries, as detailed below (the Guarantor Subsidiaries), have guaranteed all of the 6 1/2% Notes and all of the 5 1/8% Notes. These guarantees are full and unconditional, subject to the following release provisions:

in connection with any sale, exchange or transfer (by merger, consolidation or otherwise) of the capital stock of that guarantor after which that guarantor is no longer a restricted subsidiary;

upon proper designation of a guarantor by the Company as an unrestricted subsidiary;

upon the release or discharge of all outstanding guarantees by a guarantor of indebtedness of the Company and its restricted subsidiaries under any credit facility;

upon legal or covenant defeasance or satisfaction and discharge of the indenture; or

upon the dissolution of a guarantor, provided no event of default has occurred under the indentures and is continuing.

The following condensed consolidating financial information is included so that separate financial statements of the Guarantor Subsidiaries are not required to be filed with the Commission. The condensed consolidating financial information presents investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

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The following condensed consolidating financial information presents: condensed consolidating statements of income for each of the three and nine month periods ended September 30, 2013 and 2012, condensed consolidating balance sheets as of September 30, 2013 and December 31, 2012 and the statements of cash flows for each of the nine months ended September 30, 2013 and 2012 of (a) the Company, parent/guarantor, (b) Acute Technological Services, Inc., Capstar Holding, L.L.C., Capstar Drilling, Inc., General Marine Leasing, LLC, Oil States Energy Services L.L.C., Oil States Energy Services Holding, Inc., OSES International Holding, L.L.C., Oil States Management, Inc., Oil States Industries, Inc., Oil States Skagit SMATCO, LLC, PTI Group USA LLC, PTI Mars Holdco 1, LLC and Tempress Technologies, Inc. (the Guarantor Subsidiaries), (c) the non-guarantor subsidiaries, (d) consolidating adjustments necessary to consolidate the Company and its subsidiaries and (e) the Company on a consolidated basis.

With our sale of Sooner, Inc. on September 6, 2013, it is no longer a Guarantor Subsidiary. The Condensed Consolidated Statements of Income and Balance Sheets have been reclassified for all periods presented to reflect only the Company’s continuing operations.

We have revised the presentation of our condensed consolidating statement of cash flows for the nine month period ended September 30, 2012 to reflect equity contributions by the Parent Guarantor to Guarantor Subsidiaries of $14 million and by Guarantor Subsidiaries to Non-Guarantor Subsidiaries of $10 million between investing and financing activities in accordance with SEC Regulation S-X, which were previously presented as net amounts in investing activities as “proceeds from (funding of) accounts and notes with affiliates.” These changes had no impact on consolidated results, as previously reported.

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Condensed Consolidating Statements of Income and Comprehensive Income

	Three Months Ended September 30, 2013				
	Oil States International, Inc. (Parent/ Guarantor)	**Guarantor** Subsidiaries	**Other** Subsidiaries (Non-Guarantors)	**Consolidating** Adjustments	**Consolidated Oil** States International, Inc.
	(In thousands)				
REVENUES					
Operating revenues	$—	$ 362,810	$ 321,646	$ —	$ 684,456
Intercompany revenues	—	7,282	5,433	(12,715)	—
Total revenues	—	370,092	327,079	(12,715)	684,456
OPERATING EXPENSES					
Cost of sales and services	—	251,712	184,505	(2,431)	433,786
Intercompany cost of sales and services	—	4,813	5,069	(9,882)	—
Selling, general and administrative expenses	487	33,434	20,209	—	54,130
Depreciation and amortization expense	223	29,397	40,641	(44)	70,217
Other operating (income) expense	(312)	2,845	1,813	—	4,346
Operating income (loss)	(398)	47,891	74,842	(358)	121,977
Interest expense, net of capitalized interest	(17,866)	(146)	(13,473)	12,807	(18,678)
Interest income	4,724	45	8,544	(12,807)	506
Loss on extinguishment of debt	(3,265)	—	—	—	(3,265)
Equity in earnings (loss) of unconsolidated affiliates	51,231	55,737	72	(106,968)	72
Other income (expense)	—	(204)	4,058	—	3,854
	34,426	103,323	74,043	(107,326)	104,466

Income from continuing operations before income taxes					
Income tax provision	44,345	(53,563)	(17,841)	—	(27,059)
Net income from continuing operations	78,771	49,760	56,202	(107,326)	77,407
Net income from discontinued operations, net of tax (including a net gain on disposal of $84,209)	88,969	1,710	—	—	90,679
Net income	167,740	51,470	56,202	(107,326)	168,086
Other comprehensive income (loss):					
Foreign currency translation adjustment	44,693	36,635	36,957	(73,592)	44,693
Unrealized loss on forward contracts, net of tax	—	(190)	—	—	(190)
Total other comprehensive income	44,693	36,445	36,957	(73,592)	44,503
Comprehensive income	212,433	87,915	93,159	(180,918)	212,589
Comprehensive income attributable to noncontrolling interest	—	—	(387)	7	(380)
Comprehensive income attributable to Oil States International, Inc.	$212,433	$ 87,915	$ 92,772	$ (180,911)	$ 212,209

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

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Condensed Consolidating Statements of Income and Comprehensive Income

	Three Months Ended September 30, 2012				
	Oil States International, Inc. (Parent/ Guarantor)	Guarantor Subsidiaries	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Oil States International, Inc.
	(In thousands)				
REVENUES					
Operating revenues	$—	$ 294,820	$ 349,692	$ —	$ 644,512
Intercompany revenues	—	6,849	5,799	(12,648)	—
Total revenues	—	301,669	355,491	(12,648)	644,512
OPERATING EXPENSES					
Cost of sales and services	—	201,342	194,234	(1,932)	393,644
Intercompany cost of sales and services	—	4,864	5,515	(10,379)	—
Selling, general and administrative expenses	461	27,993	17,830	—	46,284
Depreciation and amortization expense	279	23,109	35,488	(5)	58,871
Other operating (income)expense	(478)	828	1,216	—	1,566
Operating income (loss)	(262)	43,533	101,208	(332)	144,147
Interest expense, net of capitalized interest	(14,143)	(210)	(18,375)	16,992	(15,736)
Interest income	5,166	22	12,244	(16,992)	440
Equity in earnings (loss) of unconsolidated affiliates	113,030	73,415	(103)	(186,445)	(103)
Other income	—	333	1,910	—	2,243
Income from continuing operations before income taxes	103,791	117,093	96,884	(186,777)	130,991
Income tax provision	—	(10,708)	(22,927)	—	(33,635)
Net income from continuing operations	103,791	106,385	73,957	(186,777)	97,356
	—	6,753	—	—	6,753

Net income from discontinued operations, net of tax					
Net income	103,791	113,138	73,957	(186,777)	104,109
Other comprehensive income (loss):					
Foreign currency translation adjustment	43,564	30,976	30,976	(61,952)	43,564
Unrealized loss on forward contracts, net of tax	—	(434)	—	—	(434)
Total other comprehensive income (loss)	43,564	30,542	30,976	(61,952)	43,130
Comprehensive income	147,355	143,680	104,933	(248,729)	147,239
Comprehensive income attributable to noncontrolling interest	—	—	(353)	(4)	(357)
Comprehensive income attributable to Oil States International, Inc.	$ 147,355	$ 143,680	$ 104,580	$ (248,733)	$ 146,882

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

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Condensed Consolidating Statements of Income and Comprehensive Income

	Nine Months Ended September 30, 2013				
	Oil States International, Inc. (Parent/ Guarantor) (In thousands)	Guarantor Subsidiaries	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Oil States International, Inc.
REVENUES					
Operating revenues	$ —	$ 994,365	$ 1,000,620	$ —	$ 1,994,985
Intercompany revenues	—	23,071	18,664	(41,735)	—
Total revenues	—	1,017,436	1,019,284	(41,735)	1,994,985
OPERATING EXPENSES					
Cost of sales and services	—	685,336	571,406	(6,146)	1,250,596
Intercompany cost of sales and services	—	16,786	17,114	(33,900)	—
Selling, general and administrative expenses	1,271	99,439	55,987	—	156,697
Depreciation and amortization expense	683	83,551	120,436	(125)	204,545
Other operating (income) expense	(177)	3,031	631	—	3,485
Operating income (loss)	(1,777)	129,293	253,710	(1,564)	379,662
Interest expense, net of capitalized interest	(54,214)	(462)	(45,983)	42,233	(58,426)
Interest income	14,315	136	29,490	(42,233)	1,708
Loss on extinguishment of debt	(3,265)	—	—	—	(3,265)
	258,081	179,776	(758)	(437,857)	(758)

Equity in earnings (loss) of unconsolidated affiliates					
Other income	—	812	4,791	—	5,603
Income from continuing operations before income taxes	213,140	309,555	241,250	(439,421)	324,524
Income tax provision	44,345	(70,774)	(60,000)	—	(86,429)
Net income from continuing operations	257,485	238,781	181,250	(439,421)	238,095
Net income from discontinued operations, net of tax (including a net gain on disposal of $84,209)	88,969	20,476	—	—	109,445
Net income	346,454	259,257	181,250	(439,421)	347,540
Other comprehensive income (loss):					
Foreign currency translation adjustment	(125,407)	(109,868)	(113,634)	223,502	(125,407)
Unrealized loss on forward contracts	—	(74)	—	—	(74)
Total other comprehensive income (loss)	(125,407)	(109,942)	(113,634)	223,502	(125,481)
Comprehensive income	221,047	149,315	67,616	(215,919)	222,059
Comprehensive income attributable to noncontrolling interest	—	—	(1,023)	(22)	(1,045)
Comprehensive income attributable to Oil States International, Inc.	$ 221,047	$ 149,315	$ 66,593	$ (215,941)	$ 221,014

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

Condensed Consolidating Statements of Income and Comprehensive Income

	Nine Months Ended September 30, 2012				
	Oil States International, Inc. (Parent/ Guarantor) (In thousands)	Guarantor Subsidiaries	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Oil States International, Inc.
REVENUES					
Operating revenues	$ —	$ 931,918	$ 1,012,233	$ —	$ 1,944,151
Intercompany revenues	—	19,403	9,242	(28,645)	—
Total revenues	—	951,321	1,021,475	(28,645)	1,944,151
OPERATING EXPENSES					
Cost of sales and services	—	623,446	556,602	(5,884)	1,174,164
Intercompany cost of sales and services	—	13,393	8,644	(22,037)	—
Selling, general and administrative expenses	1,287	81,179	51,182	—	133,648
Depreciation and amortization expense	713	66,132	95,779	(14)	162,610
Other operating (income) expense	(503)	182	2,024	—	1,703
Operating income (loss)	(1,497)	166,989	307,244	(710)	472,026
Interest expense, net of capitalized interest	(47,782)	(645)	(54,489)	51,299	(51,617)
Interest income	15,271	100	36,907	(51,299)	979
Equity in earnings (loss) of unconsolidated affiliates	382,702	221,987	149	(604,688)	150
Other income	—	5,426	2,355	—	7,781
	348,694	393,857	292,166	(605,398)	429,319

Income from continuing operations before income taxes					
Income tax provision	1,396	(46,244)	(69,030)	—	(113,878)
Net income from continuing operations	350,090	347,613	223,136	(605,398)	315,441
Net income from discontinued operations, net of tax	—	35,616	—	—	35,616
Net income	350,090	383,229	223,136	(605,398)	351,057
Other comprehensive income (loss):					
Foreign currency translation adjustment	40,527	28,282	28,293	(56,575)	40,527
Unrealized loss on forward contracts	—	(434)	—	—	(434)
Total other comprehensive income (loss)	40,527	27,848	28,293	(56,575)	40,093
Comprehensive income	390,617	411,077	251,429	(661,973)	391,150
Comprehensive income attributable to noncontrolling interest	—	—	(988)	(8)	(996)
Comprehensive income attributable to Oil States International, Inc.	$ 390,617	$ 411,077	$ 250,441	$ (661,981)	$ 390,154

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

Consolidating Balance Sheets

	September 30, 2013				
	Oil States International, Inc. (Parent/ Guarantor)	**Guarantor Subsidiaries**	**Other Subsidiaries (Non- Guarantors)**	**Consolidating Adjustments**	**Consolidated Oil States International, Inc.**
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$512,090	$18,435	$245,454	$—	$775,979
Accounts receivable, net	993	320,949	294,228	—	616,170
Inventories, net	—	138,980	117,685	—	256,665
Prepaid expenses and other current assets	10,762	12,230	11,236	—	34,228
Total current assets	523,845	490,594	668,603	—	1,683,042
Property, plant and equipment, net	2,391	605,736	1,309,455	(3,494)	1,914,088
Goodwill, net	—	222,236	277,594	—	499,830
Other intangible assets, net	—	55,211	72,394	—	127,605
Investments in unconsolidated affiliates	2,552,624	1,687,320	2,443	(4,239,944)	2,443
Long-term intercompany receivables (payables)	559,278	(164,173)	(395,107)	2	—
Other noncurrent assets	35,444	980	10,040	—	46,464
Total assets	$3,673,582	$2,897,904	$1,945,422	$(4,243,436)	$4,273,472
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$1,445	$66,805	$76,305	$—	$144,555
Accrued liabilities	35,624	46,264	34,021	2	115,911
Income taxes	(93,494)	145,737	14,251	—	66,494
Current portion of long-term debt and capitalized leases	22	438	32	—	492

Deferred revenue	—	30,666	35,258	—	65,924
Other current liabilities	—	9,910	258	—	10,168
Total current liabilities	(56,403)	299,820	160,125	2	403,544
Long-term debt and capitalized leases	1,000,008	6,779	57	—	1,006,844
Deferred income taxes	5,268	64,078	58,997	—	128,343
Other noncurrent liabilities	15,690	1,742	7,180	(449)	24,163
Total liabilities	964,563	372,419	226,359	(447)	1,562,894
Stockholders' equity	2,709,019	2,525,485	1,717,673	(4,243,158)	2,709,019
Non-controlling interest	—	—	1,390	169	1,559
Total stockholders' equity	2,709,019	2,525,485	1,719,063	(4,242,989)	2,710,578
Total liabilities and stockholders' equity	$ 3,673,582	$ 2,897,904	$ 1,945,422	$ (4,243,436)	$ 4,273,472

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(Continued)

Condensed Consolidating Balance Sheets

	December 31, 2012 Oil States International, Inc. (Parent/ Guarantor) (In thousands)	Guarantor Subsidiaries	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Oil States International, Inc.
ASSETS					
Current assets:					
Cash and cash equivalents	$3,222	$57,205	$192,745	$—	$253,172
Accounts receivable, net	431	302,123	345,379	—	647,933
Inventories, net	—	135,500	118,494	—	253,994
Current assets held for sale	—	632,496	—	—	632,496
Prepaid expenses and other current assets	4,592	20,628	13,277	—	38,497
Total current assets	8,245	1,147,952	669,895	—	1,826,092
Property, plant and equipment, net	1,922	553,145	1,274,106	(1,931)	1,827,242
Goodwill, net	—	221,610	299,208	—	520,818
Other intangible assets, net	—	58,269	87,834	—	146,103
Investments in unconsolidated affiliates	2,658,946	1,614,822	3,000	(4,273,768)	3,000
Long-term intercompany receivables (payables)	855,354	(495,655)	(359,697)	(2)	—
Noncurrent assets held for sale	—	31,605	—	—	31,605
Other noncurrent assets	40,989	25,977	18,136	—	85,102
Total assets	$3,565,456	$3,157,725	$1,992,482	$(4,275,701)	$4,439,962
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$1,847	$68,558	$97,237	$—	