

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

OIL STATES INTERNATIONAL INC
Form 10-K405
March 04, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

COMMISSION FILE NO. 1-16337

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 3460, HOUSTON, TEXAS 77002
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (713) 652-0582

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS -----	NAME OF EXCHANGE ON WHICH REGISTERED -----
------------------------------	-----------------------------------------------

Common Stock, par value \$.01 per share	New York Stock Exchange
-----------------------------------------	-------------------------

Securities registered pursuant to Section 12(g) of the Act:
NONE

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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. [X]

State the aggregate market value of the voting and non-voting common equity

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

held by non-affiliates of the registrant:

Voting common stock (as of February 28, 2002)..... \$158,424,440

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

As of February 28, 2002 Common Stock, par value \$.01 per share 48,332,207 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders, which the Registrants intends to file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I.....	1
Item 1. Business.....	1
Item 2. Properties.....	17
Item 3. Legal Proceedings.....	18
Item 4. Submission of Matters to a Vote of Security Holders.....	18
PART II.....	18
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.....	18
Item 6. Selected Financial Data.....	19
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	21
Item 7A. Quantitative and Qualitative Disclosures about Market Risk.....	34
Item 8. Financial Statements and Supplementary Data.....	34
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	34
PART III.....	35
Item 10. Directors and Executive Officers of Registrant.....	35
Item 11. Executive Compensation.....	35
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	35
Item 13. Certain Relationships and Related Transactions.....	35
PART IV.....	35
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	35
SIGNATURES.....	38
INDEX TO COMBINED, PRO FORMA COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS.....	39

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

This Annual Report on Form 10-K 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 the Business section below, including Risk Factors, and the financial statement line item discussions set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 1. BUSINESS

OUR COMPANY

We are a leading provider of specialty products and services to oil and gas drilling and production companies throughout the world. We focus our business and operations in a substantial number of the world's active oil and gas producing regions, including the Gulf of Mexico, Canada, West Africa, the Middle East, South America and Southeast Asia. Our customers include major and independent oil and gas companies and other oilfield service companies. We operate in three principal business segments, offshore products, tubular services and well site services, and have established a leadership position in each.

OUR BACKGROUND

Oil States International, Inc. (Oil States or the Company) was originally incorporated in July 1995 as CE Holdings, Inc. On August 1, 1995, CE Holdings, Inc. acquired Continental Emsco Company, an operator of oilfield supply stores, including its then wholly owned subsidiary Oil States Industries, Inc. Oil States Industries is a manufacturer of offshore products.

In May 1996, Oil States Industries purchased the construction division of Hunting Oilfield Services, Ltd., which provided a variety of construction products and services to the offshore oil and gas industry as well as certain connector manufacturing technology. In November 1996, CE Holdings, Inc. changed its name to CONEMSCO, Inc. (Conemsco).

In July 1997, Conemsco purchased HydroTech Systems, Inc., a full service provider of engineered products to the offshore pipeline industry, and SMATCO Industries Inc., a manufacturer of marine winches for the offshore service boat industry. In December 1997, Conemsco purchased Gregory Rig Service & Sales Inc., a provider of drilling equipment and services.

In February 1998, Conemsco acquired Subsea Ventures, Inc. (SVI). SVI designs, manufactures and services auxiliary structures for subsea blowout preventors and subsea production systems. In April 1998, Conemsco acquired the assets of Klaper (UK) Limited, a provider of repair and maintenance services for blowout preventors and drilling risers used in offshore drilling.

In July 2000, Conemsco changed its name to Oil States. In July 2000, Oil States, HWC Energy Services, Inc. (HWC), PTI Group Inc. (PTI) and Sooner Inc. (Sooner) entered into a Combination Agreement (the Combination Agreement) providing that, concurrently with the closing of our initial public offering, HWC, PTI and Sooner would merge with wholly owned subsidiaries of Oil States (the Combination). As a result, HWC, PTI and Sooner became wholly owned subsidiaries of Oil States in February 2001.

OUR INDUSTRY

We operate in the oilfield service industry, which provides products and

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

services to oil and gas exploration and production companies for use in the drilling for and production of oil and gas. 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 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. See Note 17 to Consolidated and Combined Financial Statements for financial information by segment and a geographical breakout of revenues and long-lived assets.

1

The year 2001 was characterized by high rig counts and utilization in the first half of the year. However, industry activity weakened in the latter half of 2001 due to reductions in oil and natural gas pricing. This weakness has continued into 2002. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

OFFSHORE PRODUCTS

Overview

During the year ended December 31, 2001, we generated approximately 18% of our revenue and 10% of our operating income from our offshore products segment. Through this segment, we design and manufacture cost-effective, technologically advanced products for the offshore energy industry. Our products are used in both shallow and deepwater producing regions and include flex-element technology, advanced connector systems, blow-out preventor stack integration and repair services, deepwater mooring systems, offshore equipment and installation services and subsea pipeline products. We have facilities in Arlington, Houston and Lampasas, Texas; Houma, Louisiana; Scotland; Brazil; England and Singapore.

Offshore Products Market

The market for our offshore products and services depends primarily upon drilling rig refurbishments and upgrades, new rig construction and development of infrastructure for offshore production activities. As demand for oil and gas increase and related drilling and production increases in offshore areas throughout the world, particularly in deeper water, we expect spending on these activities to increase.

The upgrade of existing rigs to equip them with the capability to drill in deeper water, the construction of new deepwater-capable rigs, and the installation of floating production systems require specialized products and services like the ones we provide.

Products and Services

Our offshore products segment provides a broad range of products and services for use in offshore drilling and development activities. In addition, this segment provides onshore oil and gas, defense and general industrial products and services. Our offshore products segment is dependent on continuing innovation and creative applications of existing technologies.

We design and build manufacturing and testing systems for many of our new products and services. These testing and manufacturing facilities enable us to provide reliable, technologically advanced products and services. Our Aberdeen facility provides structural testing including full-scale product simulations.

Offshore Development and Drilling Activities. We design, manufacture, fabricate, inspect, assemble, repair, test and market subsea equipment and

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

offshore vessel and rig equipment. Our products are components of equipment used on marine vessels, floating rigs and jack-ups, and for the drilling and production of oil and gas wells on offshore fixed platforms and mobile production units including floating platforms and FPSO vessels. We believe that sales of our equipment for new rig building and offshore infrastructure development will be important sources of future revenues. Our products and services include:

- flexible bearings and connector products;
- subsea pipeline products;
- marine winches, mooring systems and rig equipment;
- blowout preventor stack assembly, integration, testing and repair services; and
- fixed platform products and services.

FLEXIBLE BEARINGS AND CONNECTOR PRODUCTS. We are the principal supplier of flexible bearings, or FlexJoints(TM), to the offshore oil and gas industry. We also supply connections and fittings that join lengths of large diameter conductor or casing used in offshore drilling operations. FlexJoints(TM) are flexible bearings that

2

permit movement of riser pipes or tension leg platform tethers under high tension and pressure. They are used on drilling, production and export risers and are used increasingly as offshore production moves to deeper water areas. Drilling riser systems provide the vertical conduit between the floating drilling vessel and the subsea wellhead. Through the drilling riser, equipment is guided into the well and drilling fluids are returned to the surface. Production riser systems provide the vertical conduit from the subsea wellhead to the floating production platform. Oil and gas flows to the surface for processing through the production riser. Export risers provide the vertical conduit from the floating production platform to the subsea export pipelines. FlexJoints(TM) are a critical element in the construction and operation of production and export risers on floating production systems in deepwater.

Floating production systems, including tension leg platforms, Spars and FPSO systems, are a significant means of producing oil and gas, particularly in deepwater environments. We provide many important products for the construction of these systems. A tension leg platform is a floating platform that is moored by vertical pipes, or tethers, attached to both the platform and the sea floor. Our FlexJoint(TM) tether bearings are used at the top and bottom connections of each of the tethers, and our Merlin connectors are used to join shorter pipe segments to form long pipes offshore. A Spar is a floating vertical cylindrical structure which is approximately six to seven times longer than its diameter and is anchored in place.

SUBSEA PIPELINE PRODUCTS. We design and manufacture a variety of fittings and connectors used in offshore oil and gas pipelines. Our products are used for new construction, maintenance and repair applications. New construction fittings include:

- forged steel Y-shaped connectors for joining two pipelines into one;
- pressure-balanced safety joints for protecting pipelines from anchor snags or a shifting sea-bottom;

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

- electrical isolation joints; and
- hot tap clamps that allow new pipelines to be joined into existing lines without interrupting the flow of petroleum product.

We provide diverless connection systems for subsea flowlines and pipelines. Our HydroTech collet connectors provide a high-integrity, proprietary metal-to-metal sealing system for the final hook-up of deep offshore pipelines and production systems. They also are used in diverless pipeline repair systems and in future pipeline tie-in systems. Our lateral tie-in sled, which is installed with the original pipeline, allows a subsea tie-in to be made quickly and efficiently using proven HydroTech connectors without costly offshore equipment mobilization and without shutting off product flow.

We provide pipeline repair hardware, including deepwater applications beyond the depth of diver intervention. Our products include:

- repair clamps used to seal leaks and restore the structural integrity of a pipeline;
- mechanical connectors used in repairing subsea pipelines without having to weld;
- flanges used to correct misalignment and swivel ring flanges; and
- pipe recovery tools for recovering dropped or damaged pipelines.

MARINE WINCHES, MOORING SYSTEMS AND RIG EQUIPMENT. We design, engineer and manufacture marine winches, mooring systems and rig equipment. Our Skagit winches are specifically designed for mooring floating and semi-submersible drilling rigs and positioning pipelay and derrick barges, anchor handling boats and jack-ups. We also design and fabricate rig equipment such as automatic pipe racking and blow-out preventor handling equipment. Our engineering teams, manufacturing capability and service technicians who install and service our products, provide our customers with a broad range of equipment and services to support their operations. Aftermarket service and support of our installed base of equipment to our customers is also an important source of revenues to us.

3

BOP STACK ASSEMBLY, INTEGRATION, TESTING AND REPAIR SERVICES. We design and fabricate lifting and protection frames and offer system integration of blow-out preventor stacks and subsea production trees. We can provide complete turnkey and design fabrication services. We also design and manufacture a variety of custom subsea equipment, such as riser flotation tank systems, guide bases, running tools, and manifolds. We also offer blow-out preventor and drilling riser testing and repair services.

FIXED PLATFORM PRODUCTS AND SERVICES. We provide equipment for securing subsea structures and offshore platform jackets, including our Hydra-Lok hydraulic system. The Hydra-Lok tool, which has been successfully used at depths of 3,000 feet, does not require diver intervention or guidelines.

We also provide cost-effective, standardized leveling systems for offshore structures that are anchored by foundation piles, including subsea templates, subsea manifolds and platform jackets.

OTHER PRODUCTS AND SERVICES. Our offshore products segment also produces a variety of products for use in applications beyond the offshore oil and gas industry. For example, we provide:

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

- downhole products for onshore drilling and production;
- elastomer products for use in both offshore and onshore oilfield activities;
- metal-elastomeric FlexJoints(TM) used in a variety of military, marine and aircraft applications; and
- technology used in drum-clutches and brakes for heavy-duty power transmission in the mining, paper, logging and marine industries.

Backlog. Backlog in our offshore products segment at December 31, 2001 was \$72.4 million compared to a backlog of \$38.1 million at December 31, 2000. Our backlog consists of firm customer purchase orders for which satisfactory credit or financing arrangements exist and delivery is scheduled. Our backlog has increased \$34.3 million, or 90%, from December 31, 2000. The majority of this backlog increase has occurred in our flexible bearings and connectors, subsea pipeline products and marine winches. Approximately 96% of the backlog at December 31, 2001 is expected to be completed in 2002.

Regions of Operations

Our offshore products segment provides products and services to customers in the major offshore oil and gas producing regions of the world, including the Gulf of Mexico, West Africa, the North Sea, Brazil and Southeast Asia.

Customers and Competitors

We market our products and services to a broad customer base, including the direct end users, engineering and design companies, prime contractors, and at times, our competitors through outsourcing arrangements.

Our three largest customers in the offshore products markets in 2001 were General Dynamics, Shell Oil Company, Inc. and FMC Technologies, Inc. None of these customers accounted for greater than 5% of our revenues. Our main competitors include AmClyde Engineered Products Company, Inc., Cooper Cameron Corporation, ABB Vetco-Gray and FMC Technologies, Inc.

TUBULAR SERVICES

On February 14, 2001, the Company completed its acquisition of Sooner. Sooner's business is reported as our tubular services segment.

Overview

During the year ended December 31, 2001, we generated approximately 49% of our revenue and 19% of our operating income from our tubular services segment. Through this segment, we distribute oil country tubular goods, or OCTG, and are a provider of associated OCTG finishing and logistics services to the oil and

4

gas industry. Oil country tubular goods consist of casing, production tubing and line pipe. Through our tubular services segment, we:

- distribute premium tubing and casing;
- provide threading, remediation, logistical and inventory services; and
- offer e-commerce pricing, ordering and tracking capabilities.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

In 1999, Sooner acquired the tubular divisions of Continental Emsco, Wilson Supply and National-Oilwell, Inc. These transactions expanded its presence in key market segments and increased its coverage of the diversified marketplace for OCTG. We serve a customer base ranging from major oil companies to small independents. Through our key relationships with more than 20 manufacturers of oilfield specialty pipe, we deliver tubular products and ancillary services to oil and gas companies, drilling contractors and consultants around the world. The OCTG distribution market is highly fragmented and competitive, and is predominately focused in the United States. Despite being a leading distributor of OCTG, we estimate that our U.S. market share is approximately 15%.

OCTG Market

Our tubular services segment primarily provides casing and tubing. Casing forms the structural wall in oil and gas wells to provide support and prevent caving during drilling operations. Casing is used to protect water-bearing formations during the drilling of a well. Casing is generally not removed after it has been installed in a well. Production tubing, which is used to bring oil and gas to the surface, may be replaced during the life of a producing well.

A key indicator of domestic demand for OCTG is the average number of drilling rigs operating in the United States. The OCTG market at any point in time is also affected by the level of inventories maintained by manufacturers, distributors and end users. In addition, in recent years the focus of drilling activity has been shifting towards less explored, deeper geological formations and deepwater locations which offer potentially prolific reserves. Demand for tubular products is positively impacted by increased drilling of deeper, horizontal and offshore wells. Deeper wells require incremental tubular footage and enhanced mechanical capabilities to ensure the integrity of the well. Premium tubulars are used in horizontal drilling to withstand the increased bending and compression loading associated with a horizontal well. Since the cost of a pipe failure is typically higher in an offshore well than in a land well, offshore operators typically specify premium tubulars for the completion of offshore wells.

Products and Services

Tubular Products and Services. We distribute various types of OCTG produced by both domestic and foreign manufacturers to major and independent oil and gas exploration and production companies and other OCTG distributors. We do not manufacture any of the tubular goods that we distribute. As a result, gross margins in this segment are generally lower than those reported by our other segments. We operate our tubular services segment from a total of 11 facilities and have offices located near areas of oil and gas exploration and development activity predominately in the United States, and to a lesser extent, in Scotland and Nigeria. Our business in Scotland and Nigeria is expected to change and likely to decline as a result of the completion of a contract with a major customer in these areas. We currently have interim inventory management contracts that extend to March 31, 2002 in Nigeria and June 30, 2002 in Scotland. There can be no assurance that such interim contracts will be extended beyond these dates. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

In this business, inventory management is critical to our success. We maintain on-the-ground inventory in more than 75 yards located in the United States, giving us the flexibility to fill our customers' orders from our own stock or directly from the manufacturer. We have a proprietary inventory management system, designed specifically for the OCTG industry, that enables us to track our product shipments down to the individual pipe stem.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

As a large distributor of tubular goods, we believe that we are able to negotiate more favorable supply contracts with manufacturers. We have distribution relationships with most major domestic and international steel mills.

A-Z Terminal. Our A-Z Terminal pipe maintenance and storage facility in Crosby, Texas is equipped to provide a full range of tubular services, giving us strong customer service capabilities. The A-Z Terminal is on 109 acres and is an ISO 9002-certified facility. A-Z Terminal has more than 1,400 pipe racks and two double-ended thread lines. We have exclusive use of a permanent third-party inspection center within the facility. The facility also includes indoor chrome storage capability and patented pipe cleaning machines.

We offer services at our A-Z Terminal facility typically outsourced by other distributors, including the following: threading, inspection, cleaning, cutting, logistics, rig returns, installation of float equipment and non-destructive testing.

Tubular Products and Services Sales Arrangements. We provide our tubular products and logistics services through a variety of arrangements, including spot market sales and alliances. The spot market accounted for a majority of our sales of tubular products and logistics services in the past three years. We also provide our tubular products and services to independent and major oil and gas companies under alliance arrangements. Although our alliances are not as profitable as the spot market, they provide us with more stable and predictable revenues and an improved ability to forecast required inventory levels, which allows us to manage our inventory more efficiently.

Regions of Operations

Our tubular services segment provides tubular products and services to customers in the United States, the Gulf of Mexico, Canada, Nigeria, Venezuela, Ecuador, Colombia, Guatemala and the United Kingdom. However, the majority of our sales are made in the United States, both for land and offshore applications.

Customers, Suppliers and Competitors

Our three largest customers in the tubular distribution market in 2001 were El Paso Corporation, Exxon Mobil Corporation and Phillips Petroleum Company. Our largest customer in this segment accounted for 6.4% of our revenues in 2001. No other customers accounted for greater than 5% of our revenues during 2001. Our three largest suppliers were U.S. Steel Group, Maverick Tube Corporation and Lone Star Technologies, Inc. The tubular services distribution market is fragmented, and our main competitors are Vinson Supply Co., Red Man Pipe & Supply Co., Inc. and Total Premier.

WELL SITE SERVICES

Overview

During the year ended December 31, 2001, we generated approximately 33% of our revenue and 71% of our operating income from our well site services segment. Our well site services segment provides a broad range of products and services that are used to establish and maintain the flow of oil and gas from a well throughout its lifecycle. Our services include workover services, drilling services, rental equipment, remote site accommodations, catering and logistics services and modular building construction services. We use our fleet of workover and drilling rigs, rental equipment, remote site accommodation facilities and related equipment to service well sites for oil and natural gas companies. Our products and services are used in both onshore and offshore

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

applications through the exploration, development, production and abandonment phases of a well's life. Additionally, our remote site accommodations, catering and logistics services are employed in a variety of mining and related natural resource applications as well as forest fire fighting.

Well Site Services Market

Demand for our workover and drilling rigs, rental equipment and remote site accommodations, catering and logistics services has historically been tied to the level of cash flow of oil and gas producers which is a

6

function of prices they receive for oil and gas. We expect activity levels to continue to be highly correlated to oil and gas prices received by producers.

Demand for our workover services is impacted significantly by offshore activity both in the United States and international areas. Our hydraulic workover units compete with jackup rigs and conventional workover rigs for shallow water workover projects. Our hydraulic workover units can be operated at a lower cost for most applications than alternatives such as jack-up rigs. Costs to mobilize and set up our hydraulic workover units, for example, are lower than alternative equipment. Some operations on oil and gas wells under pressure situations require the use of a hydraulic workover unit. On the other hand, when activity levels in the oil and gas business decline, our hydraulic units face more competition from larger equipment offered at lower prices which can become more competitive with our equipment.

Our rental equipment fleet is more production oriented. As a result, demand for our rental services benefits from increased development and workover activities in the U.S. Gulf Coast area and the Gulf of Mexico. We face competition from many smaller companies in our rental services business in the U.S. Gulf market.

We expect a large portion of incremental spending by oil and gas producers to be directed toward oil and gas development in the remote locations of Western Canada and the deepwater areas of the Gulf of Mexico. Our remote accommodations, catering and logistics business supplies products and services to companies engaged in operations in these frontier areas.

Products and Services

Workover Services. We provide our workover products and services primarily to customers in the U.S., Venezuela, the Middle East and West Africa, for both onshore and offshore applications. Workover products and services are used in operations on a producing well to restore or increase production. Workover services are typically used during the development, production and abandonment stages of the well. Our hydraulic workover units are used for workover operations and snubbing operations in pressure situations. Our hydraulic drilling and workover rigs are also capable of providing underbalanced drilling and workover services. Underbalanced drilling and workover can lead to increased rates of penetration, longer drill bit life and reduced risk of damage to the formation. In recent years, oil and gas operators have increasingly utilized underbalanced services, a trend which we believe will continue in the future.

A hydraulic workover unit is a specially designed rig used for vertically moving tubulars in and out of a wellbore using hydraulic pressure. This unit is used for servicing wells with no pressure at the surface and also has the unique ability of working safely on wells under pressure. This feature allows these units to be used for underbalanced drilling and workover and also in well control applications. When the unit is snubbing, it is pushing pipe or tubulars

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

into the well bore against well bore pressures. Because of their small size and ability to work on wells under pressure, hydraulic workover units offer some advantages over larger workover rigs and conventional drilling rigs.

As of December 31, 2001 we had 27 "stand alone" hydraulic workover units. Of these 27 units, 15 were located in the U.S., three were located in the Middle East, five were located in Venezuela and four were located in West Africa. Typically, our hydraulic workover units are contracted on a short-term dayrate basis. As a result, utilization of our hydraulic workover units varies from period to period. As of December 31, 2001, six of our hydraulic workover units were working or under contract. The length of time to complete a job depends on many factors, including the number of wells and the type of workover or pressure control situation involved. Usage of our hydraulic workover units is also affected by the availability of trained personnel. With our current level of trained personnel, we estimate that we have the capability to crew and operate 13 to 14 simultaneous jobs involving our hydraulic workover units.

Our three largest customers in workover services in 2001 were Petroleos de Venezuela S.A., Chevron Corporation, and TotalFinaElf S.A. None of these customers accounted for greater than 5% of our revenues. Our main competitors in workover services are Halliburton Company, Cudd Pressure Control, Inc. and Superior Energy Services.

7

Drilling Services. Our drilling services business is located in Odessa, Texas and Wooster, Ohio and provides drilling services for shallow to medium depths ranging from 2,000 to 9,000 feet. Drilling services are typically used during the exploration and development stages of a field. We have a total of 12 semi-automatic drilling rigs with hydraulic pipe handling booms and lift capacities ranging from 200,000 to 300,000 pounds. Nine of these drilling rigs are located in Odessa, Texas and three are located in Wooster, Ohio. As of February 28, 2002, 8 rigs were working or under contract. This level of utilization is down from activity in 2001 when our rigs were 92.1% utilized.

We market our drilling services directly to a diverse customer base, consisting of both major and independent oil companies. Our largest customers in drilling services in 2001 included Oxy Permian LTD., Texland, Inc. and Conoco, Inc. None of these customers accounted for greater than 5% of our revenues. Our main competitors are Patterson-UTI Energy Inc., Key Energy Services, Inc. and RodRic Drilling, Inc. The land drilling business is highly fragmented and consists of a small number of large companies and many smaller companies.

Rental Services. Our rental services business provides a wide range of products for use in the offshore and onshore oil and gas industry, including:

- wireline and coiled tubing pressure control equipment;
- pipe recovery systems; and
- surface-based pressure control equipment used in production operations.

Our rental services are used during the exploration, development, production and abandonment stages. We provide rental services at 15 U.S. distribution points in Texas, Louisiana, Oklahoma, Mississippi and New Mexico, an increase of three locations since December 31, 2000. We provide rental services on a day rental basis with rates varying depending on the type of equipment and the length of time rented.

Our three largest customers in rental services in 2001 were Schlumberger Ltd., Baker Hughes, Inc. and Halliburton Company. None of these customers

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

accounted for greater than 5% of our revenues.

Remote Site Accommodations, Catering and Logistics and Modular Building Construction. We are a leading provider of fully integrated products and services required to support a workforce at a remote location, including workforce accommodations, food services, remote site management services and modular building construction. We provide complete design, manufacture, installation, operation and redeployment logistics services for oil and gas drilling, oil sands mining, diamond mining, pipeline construction, offshore construction, disaster relief services or any other industry that requires remote site logistics projects. Our remote site products and services operations are primarily focused in Canada and the Gulf of Mexico. During the peak of our operating season, we typically provide logistics services in over 200 separate locations throughout the world to remote sites with populations ranging from 20 to 2,000 persons.

Remote Site Accommodations, Catering and Logistics Services. We sell and lease portable living quarters, galleys, diners and offices and provide portable generators, water sewage systems and catering services as part of our remote site logistics services. We provide various client-specific building configurations to customers for use in both onshore and offshore applications. We provide our integrated remote site logistics services to customers under long-term and short-term contractual arrangements.

Modular Building Construction. We design, construct and install a variety of portable modular buildings, including housing, kitchens, recreational units and offices for lease or sale to the Canadian and Gulf of Mexico markets. Our designers work closely with our clients to build structures that best serve their needs.

In 2001, our three largest customers in remote site accommodations, catering and logistics and modular building construction were Syncrude Canada, Ltd., G.E. Capital Corporation and Precision Drilling Corporation. None of these customers accounted for greater than 5% of our revenues. Our main competitors are Atco Structures Limited, Eurest, Ltd. and Abbeyville Offshore Inc.

8

EMPLOYEES

As of December 31, 2001, we had 3,216 full-time employees, 962 of whom are in our offshore products segment, 91 of whom are in our tubular services segment and 2,149 of whom are in our well site services segment. In addition, we are party to collective bargaining agreements covering 452 employees located in Canada as of December 31, 2001. We believe relations with our employees are good.

GOVERNMENT REGULATION

Our business is significantly affected by foreign, federal, state and local laws and regulations relating to the oil and natural gas industry, worker safety and environmental protection. Changes in these laws, including more stringent administrative regulations and increased levels of enforcement of these laws and regulations, could significantly affect our business. We cannot predict changes in the level of enforcement of existing laws and regulations or how these laws and regulations may be interpreted or the effect changes in these laws and regulations may have on us or our future operations or earnings. We also are not able to predict whether additional laws and regulations will be adopted.

We depend on the demand for our products and services from oil and natural gas companies. This demand is affected by changing taxes, price controls and

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

other laws and regulations relating to the oil and gas industry generally, including those specifically directed to oilfield and offshore operations. The adoption of laws and regulations curtailing exploration and development drilling for oil and natural gas in our areas of operation could also adversely affect our operations by limiting demand for our products and services. We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations or enforcement.

Some of our employees who perform services on offshore platforms and vessels are covered by the provisions of the Jones Act, the Death on the High Seas Act and general maritime law. These laws operate to make the liability limits established under states' workers' compensation laws inapplicable to these employees and permit them or their representatives generally to pursue actions against us for damages or job-related injuries with no limitations on our potential liability.

Our operations are subject to numerous foreign, federal, state and local environmental laws and regulations governing the manufacture, management and/or disposal of materials and wastes in the environment and otherwise relating to environmental protection. Numerous governmental agencies issue regulations to implement and enforce these laws, for which compliance is often costly and difficult. The violation of these laws may result in the denial or revocation of permits, issuance of corrective action orders, assessment of administrative and civil penalties and even criminal prosecution. We believe that we are in compliance in all material respects with applicable environmental laws and regulations. Further, we do not anticipate that compliance with existing laws and regulations will have a material effect on our consolidated financial statements.

We generate wastes, including hazardous wastes, that are subject to the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. The United States Environmental Protection Agency, or EPA, and state agencies have limited the approved methods of disposal for some types of hazardous and nonhazardous wastes. Some wastes handled by us in our field service activities that currently are exempt from treatment as hazardous wastes may in the future be designated as "hazardous wastes" under RCRA or other applicable statutes. This would subject us to more rigorous and costly operating and disposal requirements.

The federal Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA or the "Superfund" law, and comparable state statutes impose liability, without regard to fault or legality of the original conduct, on classes of persons that are considered to have contributed to the release of a hazardous substance into the environment. These persons include the owner or operator of the disposal site or the site where the release occurred and companies that disposed of or arranged for the disposal of the hazardous substances at the site where the release occurred. Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the

environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We currently have operations on properties where activities involving the handling of hazardous substances or wastes may have been conducted by third parties not under our control. These properties may be subject to CERCLA, RCRA and analogous state laws. Under these laws and related regulations, we could be required to remove or remediate previously discarded

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

hazardous substances and wastes or property contamination that was caused by these third parties. These laws and regulations may also expose us to liability for our acts that were in compliance with applicable laws at the time the acts were performed.

Our operations may result in discharges of pollutants to waters. The Federal Water Pollution Control Act and analogous state laws impose restrictions and strict controls regarding the discharge of pollutants into state waters or waters of the United States. The discharge of pollutants is prohibited unless permitted by the EPA or applicable state agencies. In addition, the Oil Pollution Act of 1990 imposes a variety of requirements on responsible parties related to the prevention of oil spills and liability for damages, including natural resource damages, resulting from such spills in waters of the United States. A responsible party includes the owner or operator of a facility or vessel, or the lessee or permittee of the area in which an offshore facility is located. The Federal Water Pollution Control Act and analogous state laws provide for administrative, civil and criminal penalties for unauthorized discharges and, together with the Oil Pollution Act, impose rigorous requirements for spill prevention and response planning, as well as substantial potential liability for the costs of removal, remediation, and damages in connection with any unauthorized discharges.

Although we believe that we are in substantial compliance with existing laws and regulations, there can be no assurance that substantial costs for compliance will not be incurred in the future. Moreover, it is possible that other developments, such as the adoption of stricter environmental laws, regulations and enforcement policies, could result in additional costs or liabilities that we cannot currently quantify.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

We include the following cautionary statement to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statement made by us, or on our behalf. The factors identified in this cautionary statement are important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by us, or on our behalf. Where any such forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, we caution that, while we believe such assumptions or bases to be reasonable and make them in good faith, assumed facts or bases almost always vary from actual results. The differences between assumed facts or bases and actual results can be material, depending upon the circumstances. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future financial position, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. You can typically identify forward-looking statements by the use of forward-looking words such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "potential," "plan," "forecast," and other similar words.

Where, in any forward-looking statement, Oil States, or our management, expresses an expectation or belief as to the future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the statement of expectation or belief will result, or be achieved or accomplished. Taking this into account, the following are identified as important risk factors that could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, Oil States.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Risks Related to Oil States' Business Generally

DECREASED OIL AND GAS INDUSTRY EXPENDITURE LEVELS WILL ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

We depend upon the oil and gas industry and its willingness to make expenditures to explore for, develop and produce oil and gas. If these expenditures decline, our business will suffer. The industry's willingness to explore, develop and produce depends largely upon the prevailing view of future product prices. Many factors affect the supply and demand for oil and gas and therefore influence product prices, including:

- the level of production;
- the levels of oil and gas inventories;
- the expected cost of developing new reserves;
- the cost of producing oil and gas;
- the level of drilling activity;
- worldwide economic activity;
- national government political requirements, including the ability of the Organization of Petroleum Exporting Companies (OPEC) to set and maintain production levels and prices for oil;
- the cost of developing alternate energy sources;
- environmental regulation; and
- tax policies.

If demand for drilling services, cash flows of drilling contractors or drilling rig utilization rates decrease significantly, then demand for our products and services will decrease.

EXTENDED PERIODS OF LOW OIL PRICES MAY DECREASE DEEPWATER EXPLORATION AND PRODUCTION ACTIVITY AND ADVERSELY AFFECT OUR BUSINESS.

Our offshore products segment depends on exploration and production expenditures in deepwater areas. Because deepwater projects are more capital intensive and take longer to generate first production than shallow water and onshore projects, the economic analyses conducted by exploration and production companies typically assume lower prices for production from such projects to determine economic viability over the long term. If oil prices remain near or below those levels used to determine economic viability for an extended period of time, deepwater activity and our business will be adversely affected.

BECAUSE THE OIL AND GAS INDUSTRY IS CYCLICAL, OUR OPERATING RESULTS MAY FLUCTUATE.

Oil prices have been volatile over the last three years, ranging from less than \$11 per barrel to over \$37 per barrel. Spot gas prices have also been volatile, ranging from less than \$1.25 per MMBtu to above \$10.00 per MMBtu. These price changes have caused oil and gas companies and drilling contractors to change their strategies and expenditure levels. Oil States, Sooner, HWC and PTI have experienced in the past, and we may experience in the future, significant fluctuations in operating results based on these changes.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

WE MIGHT BE UNABLE TO COMPETE SUCCESSFULLY WITH OTHER COMPANIES IN OUR INDUSTRY.

We sell our products and services in competitive markets. In some of our business segments, we compete with the oil and gas industry's largest oilfield services providers. These companies have greater financial resources than we do. In addition, our business, particularly our tubular services business, may face competition from Internet business-to-business service providers. We expect the number of these providers to increase in the future. Our business will be adversely affected to the extent that these providers are successful in reducing purchases of our products and services.

11

Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better prices, features, performance or other competitive characteristics than our products and services. Competitive pressures or other factors also may result in significant price competition that could have a material adverse effect on our results of operations and financial condition.

DISRUPTIONS IN THE POLITICAL AND ECONOMIC CONDITIONS OF THE FOREIGN COUNTRIES IN WHICH WE OPERATE COULD ADVERSELY AFFECT OUR BUSINESS.

We have operations in various international areas, including parts of West Africa and South America. Our operations in these areas increase our exposure to risks of war, local economic conditions, political disruption, civil disturbance and governmental policies that may:

- disrupt our operations;
- restrict the movement of funds or limit repatriation of profits;
- lead to U.S. government or international sanctions; and
- limit access to markets for periods of time.

Some areas, including West Africa and parts of South America, have experienced political disruption in the past. Disruptions may occur in the future in our foreign operations, and losses caused by these disruptions may occur that will not be covered by insurance.

WE ARE SUSCEPTIBLE TO SEASONAL EARNINGS VOLATILITY DUE TO ADVERSE WEATHER CONDITIONS IN OUR REGIONS OF OPERATIONS.

Our operations are directly affected by seasonal differences in weather in the areas in which we operate, most notably in Canada and the Gulf of Mexico. Our Canadian remote site logistics operations are significantly focused on the winter months when the winter freeze in remote regions permits exploration and production activity to occur. The spring thaw in these frontier regions restricts operations in the spring months and, as a result, adversely affects our operations and sales of products and services in the second and third quarters. Our operations in the Gulf of Mexico are also affected by weather patterns. Weather conditions in the Gulf Coast region generally result in higher drilling activity in the spring, summer and fall months with the lowest activity in the winter months. In addition, summer and fall drilling activity can be restricted due to hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast. As a result, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

WE MIGHT BE UNABLE TO EMPLOY A SUFFICIENT NUMBER OF TECHNICAL PERSONNEL.

Many of the products that we sell, especially in our offshore products segment, are complex and highly engineered and often must perform in harsh conditions. We believe that our success depends upon our ability to employ and retain technical personnel with the ability to design, utilize and enhance these products. In addition, our ability to expand our operations depends in part on our ability to increase our skilled labor force. The demand for skilled workers is high, and the supply is limited. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay or both. If either of these events were to occur, our cost structure could increase and our growth potential could be impaired.

IF WE DO NOT DEVELOP NEW COMPETITIVE TECHNOLOGIES AND PRODUCTS, OUR BUSINESS AND REVENUES MAY BE ADVERSELY AFFECTED.

The market for our offshore products is characterized by continual technological developments to provide better performance in increasingly greater depths and harsher conditions. If we are not able to design, develop and produce commercially competitive products in a timely manner in response to changes in technology, our business and revenues will be adversely affected.

12

THE LEVEL AND PRICING OF TUBULAR GOODS IMPORTED INTO THE UNITED STATES COULD DECREASE DEMAND FOR OUR TUBULAR GOODS INVENTORY AND ADVERSELY IMPACT OUR RESULTS OF OPERATIONS.

U.S. law currently restricts imports of low-cost tubular goods from a number of foreign countries into the U.S. tubular goods market, resulting in higher prices for tubular goods. If these restrictions were to be lifted or if the level of imported low-cost tubular goods were to otherwise increase, our tubular services segment could be adversely affected to the extent that we then have higher-cost tubular goods in inventory. If prices were to decrease significantly, we might not be able to profitably sell our inventory of tubular goods. In addition, significant price decreases could result in a longer holding period for some of our inventory, which could also have a material adverse effect on our tubular services segment.

IF WE WERE TO LOSE A SIGNIFICANT SUPPLIER OF OUR TUBULAR GOODS, WE COULD BE ADVERSELY AFFECTED.

During 2001, we purchased from a single supplier approximately 40% of the tubular goods we distributed and from three suppliers approximately 62% of such tubular goods. We do not have contracts with any of these suppliers. If we were to lose any of these suppliers or if production at one or more of the suppliers were interrupted, our tubular services segment and our overall business, financial condition and results of operations could be adversely affected. If the extent of the loss or interruption were sufficiently large, the impact on us would be material.

WE ARE SUBJECT TO EXTENSIVE AND COSTLY ENVIRONMENTAL LAWS AND REGULATIONS THAT MAY REQUIRE US TO TAKE ACTIONS THAT WILL ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Our hydraulic well control and drilling operations and our offshore products business are significantly affected by stringent and complex foreign, federal, state and local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. We could be exposed to liability for cleanup costs, natural resource

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

damages and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior operators or other third parties. Environmental laws and regulations have changed in the past, and they are likely to change in the future. If existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

Any failure by us to comply with applicable environmental laws and regulations may result in governmental authorities taking actions against our business that could adversely impact our operations and financial condition, including the:

- issuance of administrative, civil and criminal penalties;
- denial or revocation of permits or other authorizations;
- reduction or cessation in operations; and
- performance of site investigatory, remedial or other corrective actions.

WE MAY NOT HAVE ADEQUATE INSURANCE FOR POTENTIAL LIABILITIES.

Our operations are subject to many hazards. We face the following risks under our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;
- we may be faced with types of liabilities that will not be covered by our insurance, such as damages from environmental contamination;
- the dollar amount of any liabilities may exceed our policy limits; and
- we do not maintain full coverage against the risk of interruption of our business.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on our results of operations or consolidated financial position.

13

WE ARE SUBJECT TO LITIGATION RISKS THAT MAY NOT BE COVERED BY INSURANCE.

In the ordinary course of business, we become the subject of various claims and litigation. We maintain insurance to cover many of our potential losses, and we are subject to various self-retentions and deductibles under our insurance. It is possible, however, that an unexpected judgment could be rendered against us in cases in which we could be uninsured and beyond the amounts that we currently have reserved or anticipate incurring for such matters.

Risks Related to Oil States' Operations

WE HAVE INCURRED LOSSES IN THE PAST. WE MAY INCUR LOSSES IN THE FUTURE.

We incurred a loss from continuing operations in 1999. We cannot assure you that we will be profitable in the future.

LOSS OF KEY MEMBERS OF OUR MANAGEMENT COULD ADVERSELY AFFECT OUR BUSINESS.

We depend on the continued employment and performance of Douglas E. Swanson

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

and other key members of management. If any of our key managers resign or become unable to continue in their present roles and are not adequately replaced, our business operations could be materially adversely affected. We do not maintain any "key man" life insurance for any of our officers.

IF WE HAVE TO WRITE OFF A SIGNIFICANT AMOUNT OF GOODWILL, OUR EARNINGS WILL BE NEGATIVELY AFFECTED.

Our consolidated balance sheet as of December 31, 2001 included goodwill representing 33% of our total assets. We have recorded goodwill because we paid more for some of our businesses than the fair market value of the tangible and separately measurable intangible net assets of those businesses. Generally accepted accounting principles previously required us to amortize goodwill over the periods we benefit from the acquired assets. Current accounting standards, which were effective January 1, 2002 (See Note 3 to Consolidated and Combined Financial Statements), require a periodic review of goodwill for impairment in value and a non-cash charge against earnings with a corresponding decrease in stockholders' equity if circumstances indicate that the carrying amount will not be recoverable.

WE MIGHT BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS.

We rely on a variety of intellectual property rights that we use in our offshore products and well site services segments, particularly our patents relating to our FlexJoint(TM) technology. We may not be able to successfully preserve these intellectual property rights in the future and these rights could be invalidated, circumvented or challenged. Technological developments may also reduce the value of our intellectual property. In addition, the laws of some foreign countries in which our products and services may be sold do not protect intellectual property rights to the same extent as the laws of the United States. The failure of our company to protect our proprietary information and any successful intellectual property challenges or infringement proceedings against us could adversely affect our competitive position.

BECAUSE WE ARE A NEWLY COMBINED COMPANY WITH A SHORT COMBINED OPERATING HISTORY, NEITHER OUR HISTORICAL NOR OUR PRO FORMA FINANCIAL AND OPERATING DATA MAY BE REPRESENTATIVE OF OUR FUTURE RESULTS.

We are a newly combined company with a short period of combined operating history. Our short combined operating history may make it difficult to forecast our future operating results. The pro forma and combined financial statements included in this Annual Report on Form 10-K reflect the separate historical results of operations, financial position and cash flows of Oil States, Sooner, HWC and PTI prior to the Combination. The consolidated financial statements reflect activity after the Combination.

14

L.E. SIMMONS, THROUGH SCF-III, L.P. AND SCV-IV, L.P. (COLLECTIVELY SCF) PRIVATE EQUITY FUNDS WHICH OWNED MAJORITY INTERESTS IN EACH OF THE COMPANIES IN THE COMBINATION, CONTROLS THE OUTCOME OF STOCKHOLDER VOTING AND MAY EXERCISE THIS VOTING POWER IN A MANNER ADVERSE TO OUR STOCKHOLDERS.

SCF holds approximately 63.2% of the outstanding common stock of our company. L.E. Simmons, the chairman of our board of directors, is the sole owner of L.E. Simmons & Associates, Incorporated, the ultimate general partner of SCF. Accordingly, Mr. Simmons, through his ownership of the ultimate general partner of SCF, is in a position to control the outcome of matters requiring a stockholder vote, including the election of directors, adoption of amendments to our certificate of incorporation or bylaws or approval of transactions involving a change of control. The interests of Mr. Simmons may differ from those of our

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

stockholders, and SCF may vote its common stock in a manner that may adversely affect our stockholders.

SCF'S OWNERSHIP INTEREST AND PROVISIONS CONTAINED IN OUR CERTIFICATE OF INCORPORATION AND BYLAWS COULD DISCOURAGE A TAKEOVER ATTEMPT, WHICH MAY REDUCE OR ELIMINATE THE LIKELIHOOD OF A CHANGE OF CONTROL TRANSACTION AND, THEREFORE, THE ABILITY OF OUR STOCKHOLDERS TO SELL THEIR SHARES FOR A PREMIUM.

In addition to SCF's controlling position, provisions contained in our certificate of incorporation and bylaws, such as a classified board, limitations on the removal of directors, on stockholder proposals at meetings of stockholders and on stockholder action by written consent and the inability of stockholders to call special meetings, could make it more difficult for a third party to acquire control of our company. Our certificate of incorporation also authorizes our board of directors to issue preferred stock without stockholder approval. If our board of directors elects to issue preferred stock, it could increase the difficulty for a third party to acquire us, which may reduce or eliminate our stockholders' ability to sell their shares of common stock at a premium.

TWO OF OUR DIRECTORS MAY HAVE CONFLICTS OF INTEREST BECAUSE THEY ARE ALSO DIRECTORS OR OFFICERS OF SCF. THE RESOLUTION OF THESE CONFLICTS OF INTEREST MAY NOT BE IN OUR OR OUR STOCKHOLDERS' BEST INTERESTS.

Two of our directors, L.E. Simmons and Andrew L. Waite, are also current directors or officers of L.E. Simmons & Associates, Incorporated, the ultimate general partner of SCF. This may create conflicts of interest because these directors have responsibilities to SCF and its owners. Their duties as directors or officers of L.E. Simmons & Associates, Incorporated may conflict with their duties as directors of our company regarding business dealings between SCF and us and other matters. The resolution of these conflicts may not always be in our or our stockholders' best interest.

WE HAVE RENOUNCED ANY INTEREST IN SPECIFIED BUSINESS OPPORTUNITIES, AND SCF AND ITS DIRECTOR NOMINEES ON OUR BOARD OF DIRECTORS GENERALLY HAVE NO OBLIGATION TO OFFER US THOSE OPPORTUNITIES.

SCF has investments in other oilfield service companies that compete with us, and SCF and its affiliates, other than our company, may invest in other such companies in the future. We refer to SCF, its other affiliates and its portfolio companies as the SCF group. Our certificate of incorporation provides that, so long as SCF and its affiliates continue to own at least 20% of our common stock, we renounce any interest in specified business opportunities. Our certificate of incorporation also provides that if an opportunity in the oilfield services industry is presented to a person who is a member of the SCF group, including any of those individuals who also serves as SCF's director nominee of our Company:

- no member of the SCF group or any of those individuals has any obligation to communicate or offer the opportunity to us; and
- such entity or individual may pursue the opportunity as that entity or individual sees fit, unless:
- it was presented to an SCF director nominee solely in that person's capacity as a director of our company and no other member of the SCF group independently received notice of or otherwise identified such opportunity; or
- the opportunity was identified solely through the disclosure of information by or on behalf of our Company.

These provisions of our certificate of incorporation may be amended only by an affirmative vote of holders of at least 80% of our outstanding common stock. As a result of these charter provisions, our future competitive position and growth potential could be adversely affected.

Risks Related to Ownership of Our Common Stock

THE AVAILABILITY OF SHARES OF OUR COMMON STOCK FOR FUTURE SALE COULD DEPRESS OUR STOCK PRICE

Sales by SCF and other stockholders of a substantial number of shares of our common stock in the public markets, or the perception that such sales might occur, could have a material adverse effect on the price of our common stock or could impair our ability to obtain capital through an offering of equity securities.

ITEM 2. PROPERTIES

The following table presents information about our principal properties and facilities. Except as indicated below, we own all of these properties or facilities.

LOCATION -----	APPROXIMATE SQUARE FOOTAGE/ACREAGE -----	DESCRIPTION -----
United States		
Houston, Texas (lease).....	3,095	Principal executive offices
Arlington, Texas.....	11,264	Offshore products business office
Arlington, Texas.....	55,853	Offshore products manufacturing facility
Arlington, Texas (lease).....	63,272	Offshore products manufacturing facility
Arlington, Texas.....	44,780	Elastomer technology center
Arlington, Texas.....	60,000	Molding and aerospace facilities
Houston, Texas (lease).....	25,638	Offshore products business office
Houston, Texas.....	65,105	Offshore products manufacturing facility
Houston, Texas (lease).....	54,050	Offshore products manufacturing facility
Lampasas, Texas.....	47,500	Molding facility for offshore products
Crosby, Texas.....	109 acres	Tubular yard
Belle Chasse, Louisiana (lease).....	20,000	Accommodations manufacturing facility
Lafayette, Louisiana (lease)....	9 acres	Accommodations equipment repair yard
Houma, Louisiana (lease).....	24,000	Accommodations manufacturing facility
Houma, Louisiana.....	24,000	Hydraulic well control yard and office
Houma, Louisiana.....	8,400	Well control office and training facility

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Houma, Louisiana.....	64,659	Offshore products manufacturing facility
Broussard, Louisiana.....	19,000	Rental tool warehouse
Odessa, Texas.....	7,500	Office and warehouse in support of drilling operations
Alvin, Texas.....	20,450	Rental tool warehouse
International		
Nisku, Alberta.....	8.58 acres	Accommodations manufacturing facility
Nisku, Alberta (lease).....	10.24 acres	Accommodations manufacturing facility
Edmonton, Alberta.....	31,000	Accommodations office and warehouse
Aberdeen, Scotland (lease).....	68,400	Offshore products manufacturing facility
Bathgate, Scotland.....	28,000	Offshore products manufacturing facility
Spruce Grove, Alberta.....	15,000	Accommodations facility and equipment yard
Grande Prairie, Alberta.....	14.69 acres	Accommodations facility and equipment yard
Peace River, Alberta (lease)....	80 acres	Accommodations equipment yard
Aberdeen, Scotland (lease).....	6,260	Tubular yard

17

LOCATION -----	APPROXIMATE SQUARE FOOTAGE/ACREAGE -----	DESCRIPTION -----
Barrow, England.....	14,551	Offshore products manufacturing facility
Singapore, Asia (lease).....	23,600	Offshore products manufacturing facility
Macaes, Brazil (lease).....	45,702	Offshore products manufacturing facility
Port Harcourt, Nigeria (lease).....	376,727	Tubular yard

We have five tubular sales offices and a total of 15 rental supply and distribution points in Texas, Louisiana, New Mexico, Mississippi and Oklahoma. Most of these office locations provide sales, technical support and personnel services to our customers. We also have various offices supporting our business segments which are both owned and leased.

ITEM 3. 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 claims relating to matters occurring prior to our acquisition of businesses and also relating 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 of businesses from us. Although we can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on us, we believe that any

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

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 our consolidated financial position, results of operations or liquidity.

The Company is aware that certain energy service companies that have in the past used asbestos in connection with the manufacture of equipment or otherwise in the operation of their business have become the subject of increased asbestos related litigation. Since September 30, 2001, subsidiaries of the Company have been named as defendants in two cases by plaintiffs seeking damages, including punitive damages, alleging that certain of our subsidiaries have responsibility for two individuals developing mesothelioma as a result of exposure to asbestos. Although these are the only cases that management is aware that are pending or threatened against the Company or its subsidiaries involving allegations relating to asbestos exposure, there can be no assurance that other asbestos related claims will not be made. Based on our preliminary investigation, we do not believe that these two cases or future claims relating to asbestos exposure will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our authorized common stock consists of 200,000,000 shares of common stock. There were 48,332,207 shares of common stock outstanding as of February 28, 2002, including 3,601,329 shares of common stock issuable upon exercise of exchangeable shares of one of our Canadian subsidiaries. These exchangeable shares, which were issued to certain former shareholders of PTI in the Combination, are intended to have characteristics essentially equivalent to our common stock prior to the exchange. For purposes of this Annual Report on Form 10-K, we have treated the shares of common stock issuable upon exchange of the exchangeable shares as outstanding. The approximate number of record holders of our common stock as of February 28, 2002 was 51. Our common stock is traded on the New York Stock Exchange

18

under the ticker symbol OIS. There was no public market for our common stock before February 9, 2001. The closing price of our common stock on February 28, 2002 was \$9.30 per share.

The following table sets forth the high and low closing sale prices of the Company's common stock as reported on the New York Stock Exchange Composite Tape.

CALENDAR YEAR -----	QUARTER -----	HIGH -----	LOW -----
2001	First (from February 9, 2001 to March 31, 2001).....	12.48	9.00
	Second.....	15.00	9.20
	Third.....	9.95	5.90
	Fourth.....	9.51	6.05

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Oil States has not declared or paid cash dividends on its common stock since its initial public offering in February 2001. We do not intend to declare or pay any cash dividends on our common stock in the foreseeable future. Instead, we currently intend to retain our earnings, if any, to finance our business and to use for general corporate purposes. Our board of directors has the authority to declare and pay dividends on the common stock, at its discretion, as long as there are funds legally available to do so. The payment of dividends is restricted by our revolving credit facility.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data on the following pages include selected historical and unaudited pro forma financial information of our company as of and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997. The following data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's Pro Forma and Consolidated and Combined Financial Statements, and related notes included in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The pro forma statements of operations for 1999, 2000 and 2001 and other financial data give effect to:

- our initial public offering of 10,000,000 shares at \$9.00 per share (the Offering) and the application of the net proceeds to us;
- our issuance of 4,275,555 shares of common stock to SCF in exchange for approximately \$36.0 million of our indebtedness held by SCF (SCF Exchange);
- the three-for-one reverse stock split of Oil States common stock;
- the combination of Oil States, HWC and PTI, excluding the minority interest of each company, as entities under common control from the dates such common control was established using reorganization accounting, which yields results similar to pooling of interest accounting;
- the acquisition of the minority interests of Oil States, HWC and PTI in the Combination using the purchase method of accounting as if the acquisition occurred on January 1, 1999, 2000 and 2001, respectively; and
- the acquisition of Sooner in the Combination using the purchase method of accounting as if the acquisition occurred on January 1, 1999, 2000 and 2001, respectively.

19

SELECTED FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

PRO FORMA(1)			CONSOLIDATED AND COMBINED	
YEAR ENDED DECEMBER 31,				
2001	2000	1999	2001	2000

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Statement of Operations Data:

Revenue.....	\$719,722	\$595,647	\$487,380	\$671,205	\$304,549
Expenses					
Costs of sales and operating expenses.....	582,934	482,662	405,652	537,792	217,601
Selling, general and administrative.....	51,157	46,146	43,815	50,024	37,816
Depreciation and amortization...	28,693	26,729	26,306	28,039	21,314
Other expense (income).....	(347)	(69)	2,448	(346)	(69)
Operating income.....	57,285	40,179	9,159	55,696	27,887
Net interest expense.....	(8,394)	(9,260)	(11,243)	(8,674)	(11,504)
Other income (expense).....	87	89	(534)	88	89
Income (loss) before income taxes.....	48,978	31,008	(2,318)	47,110	16,472
Income tax (expense) benefit.....	(2,090)	(4,542)	3,979	(2,054)	(10,776)
Income (loss) from continuing operations before minority interest.....	46,888	26,466	1,661	45,056	5,696
Minority interest.....	4	(30)	(31)	(1,596)	(4,248)
Income (loss) from continuing operations.....	\$ 46,892	\$ 26,436	\$ 1,630	\$ 43,460	\$ 1,448
Income (loss) from continuing operations before extraordinary item per common share(3)					
Basic.....	\$ 0.97	\$ 0.55	\$.03	\$ 0.96	\$ 0.05
Diluted.....	\$ 0.96	\$ 0.55	\$.03	\$ 0.95	\$ 0.04
Average shares outstanding(3)					
Basic.....	48,198	48,013	48,156	45,263	24,482
Diluted.....	48,619	48,358	48,529	46,045	26,471

	PRO FORMA (1)		CONSOLIDATED AND COMBINED		
	-----		-----		-----
			YEAR ENDED DECEMBER 31,		
	2001	2000	2001	2000	1
	-----	-----	-----	-----	-----

Other Data:

EBITDA as defined(4).....	\$ 85,978	\$66,908	\$ 83,735	\$ 49,201	\$
Net income (loss) before goodwill amortization (5).....	54,403	33,897	50,380	3,979	
Capital expenditures.....	29,718		29,671	21,314	
Net cash provided by operating activities.....	60,263		55,122	33,937	
Net cash provided by (used in) investing activities.....	(27,648)		(22,667)	(22,377)	1

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Net cash provided by (used in) financing activities.....	(34,005)	(32,415)	304	(1)
----------------------------------------------------------	----------	----------	-----	-----

20

	CONSOLIDATED	COMBI	
	2001	DECEMBER 31,	
		2000	1999
Balance Sheet Data:			
Cash and cash equivalents.....	\$ 4,982	\$ 4,821	\$ 3,216
Net property and equipment.....	150,090	143,468	142,242
Total assets.....	529,883	353,518	355,544
Long-term debt and capital leases, excluding current portion.....	73,939	102,614	120,290
Redeemable preferred stock of subsidiaries.....	--	25,293	25,064
Total stockholders' equity.....	344,197	56,549	58,462

-
- (1) Includes the results of Sooner, the acquisition of the minority interests of Oil States, HWC and PTI in the Combination and the Offering and use of proceeds on a pro forma basis assuming the transactions occurred on January 1, 1999, 2000 and 2001, respectively, for statement of operations and other data purposes.
 - (2) Includes the results of Oil States, HWC and PTI on a combined basis using the reorganization method of accounting for entities under common control from the dates common control was established.
 - (3) Share and per share data have been retroactively restated to reflect a three-for-one reverse stock split for Oil States and also to reflect the effects of the Combination.
 - (4) EBITDA as defined consists of operating income (loss) before depreciation and amortization expense. EBITDA as defined is not a measure of financial performance under generally accepted accounting principles. You should not consider it in isolation from or as a substitute for net income or cash flow measures prepared in accordance with generally accepted accounting principles or as a measure of profitability or liquidity. Additionally, the EBITDA as defined calculated herein may not be comparable to other similarly titled measures of other companies. We have included EBITDA as defined as a supplemental disclosure because it may provide useful information regarding our ability to service debt and to fund capital expenditures.
 - (5) Net income (loss) before goodwill amortization consists of net income (loss) before amortization expense. Net income (loss) before goodwill amortization is not a measure of financial performance under generally accepted accounting principles. You should not consider it in isolation from or as a substitute for net income or cash flow measures prepared in accordance with generally accepted accounting principles or as a measure of profitability or liquidity.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

OF OPERATIONS

You should read the following discussion and analysis together with Selected Financial Data and our Financial Statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements based on our current expectations, assumptions, estimates and projections about us and our industry. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these forward-looking statements as a result of certain factors, as more fully described under Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995 in Item 1, Business and elsewhere in this Annual Report on Form 10-K. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statements, even if new information becomes available or other events occur in the future.

CRITICAL ACCOUNTING POLICIES

In our selection of the critical accounting policies adopted by the Company, 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 have been put into practice at the Company that have an important effect on our reported financial results. 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

21

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.

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 the Company's 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, postretirement benefits, warranty claims and contract claims.

The Company recognizes 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. Oil States follows this 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 that give rise to the revision become known.

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

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

basis for recording these allowances. If market conditions are less favorable than those projected by management, or if the Company's historical experience is materially different from future experience, additional allowances may be required. Oil States records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While Oil States has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to expense in the period such determination was made.

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 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. 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 repairs and upgrades of existing drilling rigs, construction of new drilling rigs and the development of offshore production systems. In this segment, we are particularly influenced by deepwater drilling and production activities. Through our tubular services division, we distribute premium tubing and casing. Sales of tubular products and services depend upon the overall level of drilling activity and the mix of wells being drilled. Demand for tubular products is positively impacted by increased drilling of deeper horizontal and offshore wells that generally require premium tubulars and connectors, large diameter pipe and longer and additional tubular and casing strings. In our well site services business segment, we provide hydraulic well control services, pressure control equipment and rental tools and remote site accommodations, catering and logistics services. Demand for our well site services depends upon the level of worldwide drilling and workover activity.

22

Energy and oilfield service activities are highly cyclical depending upon crude oil and natural gas pricing, among other things. Beginning in late 1996 and continuing through the early part of 1998, stabilization of oil and gas prices led to increases in drilling activity as well as the refurbishment and new construction of drilling rigs. In the second half of 1998, crude oil prices declined substantially and reached levels below \$11 per barrel in early 1999. With this decline in pricing, many of our customers substantially reduced their capital spending and related activities. This industry downturn continued through most of 1999. The rig count in the United States and Canada, as measured by Baker Hughes Incorporated, fell from 1,481 rigs in February 1998 to 559 rigs in April 1999. This downturn in activity had a material adverse effect on demand for our products and services, and the results of our operations decreased significantly. The price of crude oil and natural gas increased over 1999 levels in 2000 and 2001 due to improved demand for oil, supply reductions by OPEC member countries and reductions in natural gas storage levels. That improvement in crude oil and natural gas pricing led to increases in the rig count in 2000 and the first half of 2001, particularly in Canada and the United States, where the rig count reached a high of 1,698 rigs in February 2001. The average North

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

American rig count was 1,263 and 1,498 during 2000 and 2001, respectively. Crude oil and natural gas prices have since decreased significantly from levels reached in early 2001. The economic slowdown in the United States and the rest of the world, moderate weather and the resultant increased inventories of oil and gas, especially in the United States, contributed to the price declines. With these price reductions, our customers have responded with decreased drilling activity and spending on exploration and development. As of December 31, 2001, the rig count in the United States and Canada, as measured by Baker Hughes, was 1,165, a decline of 31% from the high reached earlier in the year and a decline of 23% from the 1,436 rigs working at December 29, 2000.

We have a diversified product and service offering which has exposure throughout the oil and gas cycle. Demand for our tubular services is highly correlated to movements in the rig count in the United States and began to weaken with the overall deterioration of industry fundamentals in the last half of 2001. Certain of our well site services businesses began to decrease in the fourth quarter of 2001 when the United States and Canadian rig count declined 18% compared to the third quarter of 2001. Our land drilling business in West Texas and our remote accommodations business in Canada are generally impacted by movements in the rig counts. The United States and Canadian rig count has increased since December 31, 2001. 1,243 working rigs as of February 15, 2002. However, this increase is due to seasonal factors in Canada, rather than an overall improvement in drilling activity.

We believe that our offshore products segment lagged the general market recovery in 2000 and 2001 because its sales primarily relate to offshore construction and production facility development which generally occur later in the exploration and development cycle. Worldwide offshore construction and development activity is improving currently and we expect it to increase substantially as construction activity in the shallow water regions of the Gulf of Mexico resumes and as the industry increasingly pursues deeper water drilling and development projects. Our backlog in the offshore products segment increased from \$38.1 million at December 31, 2000 to \$72.4 million at December 31, 2001, an increase of 90%. As of February 15, 2002, our backlog totaled \$84.6 million.

Management believes that fundamental oil and gas supply and demand factors will lead to increased drilling activity in North America over time. However, the timing of any such recovery is uncertain. We view the current inventory imbalance and price decreases as a short to medium-term situation and are encouraged by relatively stable international drilling and development activity. Although the diversified nature of our businesses is expected to moderate the impact of North American drilling activity declines, we are expecting a 15 -- 20% revenue decline in 2002 compared to 2001 based upon our forecast of energy prices and drilling activity levels.

The Combination

Prior to the Offering in February 2001, SCF-III, L.P. owned majority interests in Oil States, HWC and PTI, and SCF-IV, L.P. owned a majority interest in Sooner. L. E. Simmons & Associates, Incorporated is the ultimate general partner of SCF-III, L.P. and SCF-IV, L.P. L.E. Simmons, the chairman of our board of directors, is the sole shareholder of L.E. Simmons & Associates, Incorporated. Concurrently with the closing

23

of our initial public offering, the Combination closed and HWC, PTI and Sooner merged with wholly owned subsidiaries of Oil States. As a result, HWC, Sooner and PTI became our wholly owned subsidiaries.

The financial results of Oil States, HWC and PTI have been combined for the three years in the period ended December 31, 2000 using reorganization

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

accounting, which yields results similar to the pooling of interests method. The combined results of Oil States, HWC and PTI form the basis for the discussion of our results of operations for those years. The operations of Oil States, HWC and PTI represent two of our business segments, offshore products and well site services. Concurrent with the closing of our initial public offering in February 2001, Oil States acquired Sooner, and the acquisition was accounted for using the purchase method of accounting. The pro forma financial statements for the years ended December 31, 1999, 2000 and 2001 reflect the acquisition of Sooner. Following the acquisition of Sooner, we reported under three business segments.

PRO FORMA RESULTS OF OPERATIONS

	PRO FORMA YEARS ENDED DECEMBER 31,		
	2001	2000	1999
Revenues			
Offshore Products.....	\$129.3	\$114.6	\$154.3
Well Site Services.....	239.8	189.9	121.1
Tubular Services.....	350.6	291.1	212.0
	\$719.7	\$595.6	\$487.4
	=====	=====	=====
Gross Margin			
Offshore Products.....	\$ 29.5	\$ 21.2	\$ 27.5
Well Site Services.....	86.2	65.7	43.4
Tubular Services.....	22.1	26.1	10.8
Corporate/Other.....	(1.0)	--	--
	\$136.8	\$113.0	\$ 81.7
	=====	=====	=====
Gross Margin as a Percent of Revenues			
Offshore Products.....	22.8%	18.5%	17.8%
Well Site Services.....	35.9%	34.6%	38.5%
Tubular Services.....	6.3%	9.0%	5.1%
Total.....	19.0%	19.0%	16.8%
Operating Income (Loss)			
Offshore Products.....	\$ 6.6	\$ (1.6)	\$ (2.7)
Well Site Services.....	47.4	30.8	14.8
Tubular Services.....	12.5	16.7	(2.2)
Corporate/Other.....	(9.2)	(5.7)	(.8)
	\$ 57.3	\$ 40.2	\$ 9.1
	=====	=====	=====

Year Ended December 31, 2001 Compared To The Year Ended December 31, 2000

Revenues. Pro forma revenues increased by 20.8% from \$595.6 million during the year ended December 31, 2000 to \$719.7 million for the year ended December 31, 2001. Revenues from our well site services segment increased \$49.9 million, or 26.3%, of which \$24.0 million was generated from our remote site accommodations, catering and logistics services and modular building construction services, \$9.1 million was generated from our rental tool business, \$11.7 million was generated from our land drilling operations and \$5.1 million was generated from our hydraulic workover operations. Increases in Canadian drilling activity, oil sands development activity and strong Gulf of Mexico accommodations activity drove the increase in revenues in our remote site

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

accommodations, catering and logistics services and modular building construction services. The increases in revenues from our rental tool operations was due to increased equipment available to rent and

24

two small acquisitions completed in the third quarter of 2001. Increases in revenues for our land drilling services were due to improvements in utilization and pricing from the year 2000 to the year 2001. Our tubular services revenues increased \$59.5 million, or 20.4%, as a direct result of increased drilling activity over the period. In addition, the fourth quarter benefited from a large one-time sale of inventory held in international locations in the fourth quarter of 2001 pursuant to scheduled contract terminations. Such international sales totaled \$17.1 million and \$51.5 million in 2000 and 2001, respectively. These contracts have been extended on an interim, short-term basis. There can be no assurance that such interim contracts will be further extended. The remaining \$14.7 million increase in revenues was generated by our offshore products segment. This year over year increase in revenues was generated by increased demand for our bearings and connector products and certain fabrication work.

Cost of Sales. Pro forma cost of sales increased \$100.2 million, or 20.8%, to \$582.9 million for the year ended December 31, 2001 from \$482.7 million for the year ended December 31, 2000. The cost of sales increase was due to increased activity at each of our operating segments and other factors influencing revenues. Cost of sales increased in our well site services, tubular services and offshore products segments by \$29.4 million, \$63.5 million and \$6.4 million, respectively.

Gross Margin. Our gross margins, which we calculate before a deduction for depreciation and amortization expense, increased \$23.8 million from \$113.0 million in 2000 to \$136.8 million in 2001. Our gross margin percentage was consistent in 2000 and 2001 at 19.0% due to an improvement in our offshore products and well site services segments, offset by declines in our tubular services gross margin percentages. Offshore products' gross margin increased from \$21.2 million in 2000 to \$29.5 million in 2001, an increase of \$8.3 million, or 39.2%. Our gross margin percentage in this segment increased from 18.5% in 2000 to 22.8% in 2001. This gross margin increase was due to improved revenues and margins related to our BOP stack integration and repair services as well as increased demand for our flexible bearings and connector products. We also had improved margins related to the manufacturing of rig and vessel equipment. Our well site services gross margins increased from \$65.7 million in 2000 to \$86.2 million in 2001, an increase of \$20.5 million, or 31.2%. Our gross margin percentage in this segment increased from 34.6% in 2000 to 35.9% in 2001. Within our well site services segment, land drilling contributed \$7.2 million of the margin increase as both utilization of our rigs and average revenues per day worked increased in 2001 compared to 2000. Our remote site accommodations, catering and logistics services and modular building construction was responsible for an improvement in gross margin of \$6.4 million due to increased activity, especially in the U.S. Gulf of Mexico operations, increased equipment available to rent as a result of capital expenditures and increased activity in the oil sands development areas in northern Alberta, Canada. Our rental tool operations contributed margin improvement of \$4.9 million. This increase in gross margin was principally related to the increase in revenues discussed above. Tubular Services gross margins decreased from \$26.1 million, or 9.0% of revenues, during 2000 to \$22.1 million, or 6.3% of revenues during 2001, a decrease of \$4.0 million, or 15.3%. Our tubular services segment suffered margin declines during the last half of 2001 due to general market declines and our decision to aggressively reduce inventory levels in anticipation of a weakening market. This margin decline occurred despite a liquidation of our international tubular inventories at year end 2001. Gross margin from international sales totalled \$2.8 million and \$6.6 million in 2000 and 2001, respectively. The negative gross margin for corporate/other is due to recognition of unallocated

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

insurance expense at the corporate level.

Selling, General and Administrative Expenses. During the year ended December 31, 2001, pro forma selling, general and administrative (SG&A) expenses increased \$5.0 million, or 10.8%, to \$51.1 million from \$46.1 million during 2000. As a percent of revenues, SG&A expenses declined to 7.1% in 2001 from 7.7% in 2000. SG&A expenses increased by \$2.4 million, or 12.1%, in our well site services segment due to headcount increases in support of increased market activity and higher employer incentive costs, which are based upon the Company's EBITDA performance. Corporate headquarter charges were up \$2.8 million due to the establishment of a new corporate headquarters office.

Depreciation and Amortization. Pro forma depreciation and amortization increased \$2.0 million to a total of \$28.7 million for the year ended December 31, 2001. The 7.5% increase was primarily due to acquisitions and capital expenditures made in our well site services segment during 2000 and 2001.

25

Operating Income. Our pro forma operating income represents revenues less (i) cost of sales, (ii) selling, general and administrative expenses and (iii) depreciation and amortization plus other operating income. Our operating income increased \$17.1 million, or 42.5%, to \$57.3 million for the year ended December 31, 2001 from \$40.2 million during 2000. Operating income from our well site services segment increased \$16.6 million from \$30.8 million for the year ended December 31, 2000 to \$47.4 million during 2001. Operating income for our tubular services segment decreased \$4.2 million to \$12.5 million for the year ended December 31, 2001 from \$16.7 million during 2000. Operating income in our offshore products segment increased \$8.2 million to \$6.6 million for the year ended December 31, 2001 from an operating loss of \$1.6 million during 2000.

Net Interest Expense. Net pro forma interest expense totaled \$8.4 million for the year ended December 31, 2001 compared to \$9.3 million during 2000. The \$0.9 million reduction in net interest expense was primarily related to lower interest rates, partially offset by an increase in average debt balances outstanding. Average debt balances were higher in 2001 as a result of refinancing of certain preferred stock issues in February 2001. However, bank debt has decreased from \$110.5 million at February 28, 2001 to \$69.2 million at December 31, 2001.

Income Tax Expense. Pro forma income tax expense totaled \$2.1 million during 2001 compared to \$4.5 million during 2000. The decrease of \$2.4 million, and the corresponding low effective tax rate, was primarily due to a reduction in the allowance applied against tax assets, primarily net operating losses (NOL's), due to expected tax benefits resulting from the Combination. We adjusted such tax assets because we determined that it was more likely than not that the deferred tax assets would be realized.

Minority Interest. Minority interest was immaterial during the years ended December 31, 2001 and 2000. Substantially all of the minority interests were acquired, and therefore reduced, in connection with the Combination.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

Revenues. Pro forma revenues increased by \$108.2 million, or 22.2%, to \$595.6 million for the year ended December 31, 2000 from \$487.4 million during 1999. Well site services revenues increased \$68.8 million, or 56.8%, and tubular services revenues increased \$79.1 million, or 37.3%, during the same period. These increases in revenue were partially offset by a decrease in offshore products revenues of \$39.7 million, or 25.7%. Of the \$68.8 million increase in well site services revenues, \$41.5 million was generated from our remote site

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

accommodations, catering and logistics services and modular building construction services, \$9.1 million was generated from our hydraulic workover units, \$9.9 million was generated from our drilling operations and \$8.3 million was generated from our rental tool operations. The significant improvement in revenues from our remote site accommodations, catering and logistics services and modular building construction services was due to the strong level of Canadian drilling activity during the first and fourth quarters of 2000, which resulted in increased demand for our drilling camps and related catering services. The increased revenues in our hydraulic workover units and drilling rigs resulted from higher utilization during the period. The \$8.3 million increase in our rental tool revenues was largely due to increases in activity levels. The increased tubular services revenues were directly attributable to increases in drilling activity over the period. These revenue increases were partially offset by declines in our offshore products segment due to a significant downturn in offshore construction related activity.

Cost of Sales. Pro forma cost of sales increased \$77.0 million, or 19.0%, to \$482.7 million for the year ended December 31, 2000 from \$405.7 million during 1999. Cost of sales increased in our well site services and tubular services segments by \$46.5 million and \$63.8 million, respectively, but was partially offset by a decrease of \$33.4 million in our offshore products segment. The changes from the 1999 period to the 2000 period were caused by the same factors influencing revenues.

Gross Margins. Gross margins, which we calculate before a deduction for depreciation and amortization expense, increased \$31.3 million from \$81.7 million in 1999 to \$113.0 million in 2000. Our gross margin percentages increased from 16.8% in 1999 to 19.0% in 2000 due to improvements in our offshore products and tubular services segments partially offset by declines in our well site services segment. Offshore products gross

26

margin decreased from \$27.5 million, or 17.8% of revenues in 1999, to \$21.2 million, or 18.5% of revenues in 2000. The offshore products gross margin percentage improvement in the year 2000 was attributable to the greater percentage mix of higher margin connector products revenues versus lower margin fabrication work. Our well site services gross margin increased from \$43.4 million in 1999 to \$65.7 million in 2000, an increase of \$22.3 million, or 51.4%. Within our well site services segment, our remote site accommodations, catering and logistics and modular building construction contributed \$11.7 million of the margin increase. This margin improvement resulted from an overall increase in Canadian drilling activity as the average Canadian rig count increased to 345 rigs in 2000 from 245 rigs in 1999, a 40.8% increase. Our hydraulic workover, specialty rental tool and land drilling operations contributed \$10.6 million of the margin increase. This improvement resulted from increased drilling and workover activity, especially in the U.S. Gulf of Mexico, West Texas, and West Africa. Tubular services gross margins increased from \$10.8 million, or 5.1% of revenue, in 1999 to \$26.1 million, or 9.0% of revenue, in 2000. Increased revenues caused by higher drilling activity helped leverage our fixed costs, and liquidation of relatively low cost inventories in a period of rising inventory prices, helped us achieve the margin increases.

Selling, General and Administrative Expenses. During the year ended December 31, 2000, pro forma SG&A expenses increased \$2.3 million, or 5.3%, to \$46.1 million compared to \$43.8 million during 1999. As a percent of revenues, SG&A expenses declined to 7.7% in 2000 from 9.0% in 1999. SG&A expenses in our well site services segment increased \$6.7 million, or 49%, due to increased activity, acquisitions in late 1999 in our hydraulic workover business, and certain nonrecurring charges totaling \$.4 million in our remote site accommodations business. This increase was partially offset by a \$3.2 million decrease in our offshore products segment and a \$1.2 million decrease in our

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

tubular services segment. We reduced costs in our offshore products segment in response to the market downturn in offshore construction activity. Our tubular services segment benefited from cost synergies created from the market consolidation during 1999.

Depreciation and Amortization. Pro forma depreciation and amortization totaled \$26.7 million during the year ended December 31, 2000 compared to \$26.3 million during 1999. The 1.5% increase was primarily related to asset acquisitions and capital expenditures made in our well site services segment during 1999.

Operating Income. Our pro forma operating income equals revenues less cost of sales, SG&A expense, depreciation and amortization and other operating income (expense). Our operating income increased by \$31.1 million to \$40.2 million for the year ended December 31, 2000 from \$9.1 million for the same period in 1999. Operating income from our well site services segment increased \$16.0 million from \$14.8 million for the year ended December 31, 1999 to \$30.8 million for the same period in 2000. Operating income in our tubular services segment increased \$18.9 million from a loss of \$2.2 million in 1999 to \$16.7 million of income in 2000. Operating loss in our offshore products segment decreased \$1.1 million from \$2.7 million in 1999 to \$1.6 million in 2000.

Net Interest Expense. Pro forma net interest expense totaled \$9.3 million during the year ended December 31, 2000 compared to \$11.2 million during the year ended December 31, 1999. The \$1.9 million decrease in net interest expense primarily related to a reduction in average debt balances outstanding in our offshore products segment with funds generated from asset sales.

Income Tax (Expense) Benefit. Pro forma income tax expense totaled \$4.5 million during the year ended December 31, 2000 compared to a benefit of \$4.0 million during 1999. The increase of \$8.5 million was primarily due to the increase in pre-tax income. In both periods, the effective tax rate was benefited by a reduction in the allowance applied against tax assets, primarily net operating losses, due to expected tax benefits resulting from the Combination. We adjusted such tax assets because we determined that it was more likely than not that the deferred tax assets would be realized.

Minority Interest. Minority interest expense was immaterial during the years ended December 31, 2000 and 1999. The minority interests were acquired, and therefore substantially reduced, in connection with the Combination.

27

Consolidated and Combined Results of Operations

Prior to the Sooner acquisition in February 2001, we reported under two business segments, offshore products and well site services. Information for these two segments, which represent the combined results of Oil States, HWC and PTI using reorganization accounting, is presented below for the years 2000 and 1999. Subsequent to the February 2001 acquisition of Sooner and the Combination, we reported the following consolidated results.

YEARS ENDED DECEMBER 31,		
-----	-----	-----
CONSOLIDATED	COMBINED	
-----	-----	-----
2001	2000	1999
-----	-----	-----

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Revenues			
Offshore Products.....	\$129.3	\$114.6	\$154.3
Well Site Services.....	239.8	189.9	112.8
Tubular Services.....	302.1	--	--
	-----	-----	-----
Total.....	\$671.2	\$304.5	\$267.1
	=====	=====	=====
Gross Margin			
Offshore Products.....	\$ 29.5	\$ 21.2	\$ 27.5
Well Site Services.....	86.2	65.7	39.7
Tubular Services.....	18.7	--	--
Corporate/Other.....	(1.0)	--	--
	-----	-----	-----
Total.....	\$133.4	\$ 86.9	\$ 67.2
	=====	=====	=====
Gross Margin as a Percent of Revenues			
Offshore Products.....	22.8%	18.5%	17.8%
Well Site Services.....	35.9%	34.6%	35.2%
Tubular Services.....	6.2%	--	--
Total.....	19.9%	28.5%	25.2%
Operating Income (Loss)			
Offshore Products.....	\$ 6.6	\$ (1.6)	\$ (2.7)
Well Site Services.....	47.4	30.8	13.6
Tubular Services.....	10.5	--	--
Corporate/Other.....	(8.8)	(1.3)	--
	-----	-----	-----
Total.....	\$ 55.7	\$ 27.9	\$ 10.9
	=====	=====	=====

YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

Revenues. Revenues increased \$366.7 million, or 120.4%, during the year ended December 31, 2001 compared to the year 2000. This revenue increase was primarily due to the acquisition of Sooner in February 2001, which contributed \$302.1 million in revenues. Revenues from our well site services segment increased \$49.9 million, or 26.3%, of which \$24.0 million was generated from our remote site accommodations, catering and logistics services and modular building construction services, \$9.1 million was generated from our rental tool business, \$11.7 million was generated from our land drilling operations and \$5.1 million was generated from our hydraulic workover business. Increases in Canadian drilling activity, oil sands development activity and strong Gulf of Mexico accommodations activity drove the increase in revenues in our remote site accommodations, catering and logistics services and modular building construction services. The increases in revenues from our rental tool operations and land drilling services were due to improvements in utilization and pricing. The remaining \$14.7 million increase in revenues was generated by our offshore products segment. This year over year increase in revenues was generated by increased demand for our bearings and connector products and certain fabrication work.

Cost of sales. Cost of sales increased \$320.2 million, or 147.1%, to \$537.8 million for the year ended December 31, 2001 from \$217.6 million during 2000. The acquisition of Sooner accounted for \$283.4 million

of this increase. The remaining increase in cost of sales was primarily due to the increased activity and associated revenues at each of our operating segments. Cost of sales increased in our well site services and offshore products segments by \$29.4 million and \$6.4 million, respectively.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Gross Margins. Gross margins, which we calculate before a deduction for depreciation and amortization expense, increased from \$86.9 million in 2000 to \$133.4 million for 2001, an increase of \$46.5 million. Of this total increase, \$18.7 million was due to the acquisition of our tubular services business effective February 14, 2001. Our gross margin percentages decreased from 28.5% in 2000 to 19.9% in 2001, largely due to the addition of our tubular services segment, whose business is characterized by lower gross margins than are realized in our other two operating segments. Offshore products gross margin increased from \$21.2 million, or 18.5% of revenues, in 2000 to \$29.5 million, or 22.8% of revenues, in 2001, an increase of \$8.3 million, or 39.2%. This margin increase was due to improved revenues and margins related to our BOP stack integration and repair services as well as increased demand for our flexible bearings and connector products. We also had improved margins related to the manufacturing of rig and vessel equipment. Our well site services gross margins increased from \$65.7 million in 2000 to \$86.2 million in 2001, an increase of \$20.5 million, or 31.2%. Within our well sites services segment, land drilling contributed \$7.2 million of the margin increase as both utilization of our rigs and average revenues per day worked increased. Our remote site accommodations, catering and logistics services and modular building construction was responsible for an improvement in gross margin of \$6.4 million due to increased activity, especially in the U.S. Gulf of Mexico operations, increased equipment available to rent as a result of capital expenditures and increased activity in the oil sands development areas in northern Alberta, Canada. Our rental tool operations contributed gross margin improvement of \$4.9 million. This increase in gross margin was principally related to the increase in revenues discussed above. The negative gross margin for corporate/other is attributable to recognition of unallocated insurance expense at the corporate level.

Selling, General and Administrative Expenses. During the year ended December 31, 2001, S,G&A expenses increased \$12.2 million to \$50.0 million, or 7.4% of revenues, from \$37.8 million, or 12.4% of revenues, during 2000. The acquisition of our tubular services segment contributed \$6.4 million of this increase and was the principal reason S,G&A expense as a percent of revenues was lower in 2001 given the level of revenues contributed by the segment. S,G&A expenses increased by \$2.4 million, or 12.1%, in our well site services segment due to headcount increases in support of increased market activity and higher employee incentive costs, which are based upon the Company's EBITDA performance. Corporate headquarters charges were up \$3.3 million due to the establishment of a new corporate headquarters office in connection with the Offering.

Depreciation and Amortization. Depreciation and amortization increased \$6.7 million to a total of \$28.0 million for the year ended December 31, 2001. The addition of our tubular services segment accounted for \$1.9 million of this increase. The remaining increase was due to asset acquisitions and capital expenditures made in our well site services segment during 2000, as well as amortization of goodwill recorded in connection with our acquisitions of Sooner and minority interests in February 2001.

Operating Income. Operating income increased \$27.8 million, or 99.6%, to \$55.7 million during the year ended December 31, 2001 from \$27.9 million during the year ended December 31, 2000. Operating income from our well site services segment increased \$16.6 million from \$30.8 million for the year ended December 31, 2000 to \$47.4 million for the year ended December 31, 2001. Our tubular services segment contributed operating income of \$10.5 million during the period from acquisition in February 2001 to December 31, 2001. Operating income in our offshore products segment increased \$8.2 million to \$6.6 million for the year ended December 31, 2001 from an operating loss of \$1.6 million for the year ended December 31, 2000.

Income Tax Expense. Income tax expense totaled \$2.1 million during the year ended December 31, 2001 compared to \$10.8 million during the year ended

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

December 31, 2000. The decrease of \$8.7 million, and the corresponding low effective tax rate, was primarily due to a reduction in the allowance applied against tax assets, primarily net operating losses (NOL's), due to expected tax benefits resulting from the Combination.

29

We adjusted such tax assets because we determined that it was more likely than not that the deferred tax assets would be realized.

Minority Interest. Minority interests decreased by \$2.6 million during the year ended December 31, 2001 to \$1.6 million from \$4.2 million during the year ended December 31, 2000. Substantially all of the minority interests were acquired, and therefore reduced, in connection with the Combination.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999.

Revenues. Revenues increased by \$37.4 million, or 14.0%, to \$304.5 million for the year ended December 31, 2000 from \$267.1 million for the year ended December 31, 1999. Well site services revenues increased by \$77.1 million, or 68.4%, partially offset by a decrease in offshore products revenues of \$39.7 million, or 25.7%. Of the \$77.1 million increase in well site services revenues, \$41.5 million was generated from our remote site accommodations, catering and logistics services and modular building construction services, \$16.0 million was generated from our hydraulic workover units, \$9.9 million was generated from our drilling operations and \$9.7 million was generated from our rental tool operations. The significant improvement in revenues from our remote site accommodations, catering and logistics services and modular building construction services was due to the strong level of Canadian drilling activity during the first and fourth quarters of 2000, which resulted in increased demand for our drilling camps and related catering services. The increased revenues in our hydraulic workover units and drilling rigs resulted from higher utilization during the period and contributions from the operation of various hydraulic workover assets that were acquired in the fourth quarter of 1999 and were not, therefore, in operation for the majority of 1999. The acquisitions contributed \$8.3 million of the \$16.0 million revenue increase in our hydraulic workover operations. The \$9.7 million increase in our rental tool revenues was largely due to increases in activity levels and the acquisition of additional rental tool facilities on March 31, 1999. These revenue increases were partially offset by declines in our offshore products segment due to a significant downturn in construction related activity.

Cost of Sales. Cost of sales increased by \$17.7 million, or 8.9%, to \$217.6 million for the year ended December 31, 2000 from \$199.9 million for the year ended December 31, 1999. Cost of sales increased in our well site services segment by \$51.1 million, but was partially offset by a decrease of \$33.4 million in our offshore products segment. The changes from the 1999 period to the 2000 period were caused by the same factors influencing revenues.

Gross Margins. Gross margin, which we calculate before a deduction for depreciation and amortization expense, increased from \$67.2 million, or 25.2% of revenue, in 1999, to \$86.9 million, or 28.5% of revenue in 2000, an increase of \$19.7 million, or 29.3%. The improvement in gross margin as a percent of revenue is caused by a relatively high mix of well site services revenue in the year 2000 which typically has a higher margin, compared to the offshore products business. Offshore products margins decreased from \$27.5 million, or 17.8% of revenues, to \$21.2 million, or 18.5% of revenues. The offshore products gross margin percentage improvement in the year 2000 was attributable to the greater percentage mix of higher margin connector products revenues versus lower margin fabrication work in 1999. In addition, cost reductions were made in our offshore products segments in response to the market downturn in offshore construction

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

activity. Our well site services gross margin increased from \$39.7 million in 1999 to \$65.7 million in 2000, an improvement of \$26.0 million, or 65.5%. Our remote site accommodations, catering and logistics and modular building construction services reported an improvement of \$11.7 million, or 48.1%, as a result of an overall increase in Canadian drilling activity as the average Canadian rig count increased to 345 rigs in 2000 from 245 rigs in 1999, a 40.8% increase. Our hydraulic workover, specialty rental tool and land drilling operations contributed \$14.3 million of the margin increase. This improvement resulted from acquisitions made in 1999 that were included for a full year in 2000, in addition to increased drilling and workover activity, especially in the U.S. Gulf of Mexico, West Texas and West Africa.

Selling, General and Administrative Expenses. During the year ended December 31, 2000, S,G&A expenses increased \$4.2 million, or 12.5%, to \$37.8 million, compared to \$33.6 million during 1999. As a percent of revenues, S,G&A expenses declined to 12.4% in 2000 from 12.6% in 1999. S,G&A expenses in

30

our well site services segment increased \$6.9 million, or 50%, due to increased activity, acquisitions in late 1999 in our hydraulic workover business and certain nonrecurring charges totaling \$.4 million in our remote site accommodation business. This increase was partially offset by a \$2.7 million decrease in our offshore products segment. We reduced costs in our offshore products segment in response to the market downturn in offshore construction activity.

Depreciation and Amortization. Depreciation and amortization totaled \$21.3 million during the year ended December 31, 2000 compared to \$20.3 million in the year ended December 31, 1999. The 4.9% increase was primarily related to asset acquisitions and capital expenditures made in our well site services segment during 1999.

Operating Income. Our operating income equals revenues less cost of sales, selling, general and administrative expense, depreciation and amortization and other operating income (expense). Our operating income increased by \$17.0 million to \$27.9 million for the year ended December 31, 2000 from \$10.9 million for the same period in 1999. Operating income from our well site services segment increased \$17.2 million from \$13.6 million for the year ended December 31, 1999 to \$30.8 million for the same period in 2000. Operating loss in our offshore products segment decreased \$1.1 million from \$2.7 million in 1999 to \$1.6 million in 2000.

Net Interest Expense. Net interest expense totaled \$11.5 million during the year ended December 31, 2000 compared to \$12.5 million during the year ended December 31, 1999. The \$1.0 million decrease in net interest expense primarily related to a reduction in average debt balances outstanding in our offshore products segment funded by cash generated from asset sales.

Income Tax (Expense) Benefit. Income tax expense totaled \$10.8 million during the year ended December 31, 2000 compared to \$4.7 million during the year ended December 31, 1999. The increase of \$6.1 million was primarily due to the increase in pre-tax income. In both periods, the effective tax rate was adversely affected by losses incurred in our offshore products segment for which tax assets were not recorded. We did not record such tax assets because we could not determine that it was more likely than not that the deferred tax assets would be realized.

Minority Interest. Minority interest expense totaled \$4.2 million during the year ended December 31, 2000 compared to \$0.6 million of income during the year ended December 31, 1999. The increase in expense was primarily due to

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

increased profitability within our business segments, particularly well site services.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, such as expanding and upgrading our manufacturing facilities and equipment, increasing our rental tool and workover assets, increasing our accommodation units, funding new product development and to fund 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 private and public capital investments.

Cash was provided by operations during the year ended December 31, 2001 and 2000 in the amounts of \$55.1 million and \$33.9 million, respectively. Cash provided by operations in 2001 was generated by our net income before extraordinary item and lower working capital invested in our tubular inventories, partially offset by the use of working capital to reduce accounts payable and accrued expenses during the year ended December 31, 2001. During the last half of 2001, we aggressively reduced our tubular services inventories in anticipation of expected reductions in demand for our products in light of a general weakening of energy industry fundamentals during the period. Our tubular services inventories decreased \$29.9 million, from \$71.8 million at December 31, 2000 to \$41.9 million at December 31, 2001. In addition, accounts receivable increased at December 31, 2001 due to significant amounts of international tubular services sales made at year-end pursuant to scheduled contract terminations with a major customer. Approximately \$27 million of our accounts receivable at December 31, 2001 relate to this contract. If such contract is not extended beyond the current interim extensions, our working capital needs should decrease.

31

Cash was used by investing activities in the amount of \$22.7 million during the year ended December 31, 2001 primarily as a result of capital expenditures which totaled \$29.7 million and two rental tool acquisitions in our well site services segment totaling \$3.0 million, partially offset by cash acquired in connection with the Sooner acquisition and proceeds from asset sales. Net cash was used in investing activities in the amount of \$22.4 million during the year ended December 31, 2000, primarily to fund capital expenditures and acquisitions.

Capital expenditures totaled \$29.7 million and \$21.4 million during the year ended December 31, 2001 and 2000, respectively. Capital expenditures during both these periods consisted principally of purchases of assets for our well site services businesses. Approximately \$10 million of the 2001 capital spending was expansionary in nature, made in order to expand in areas where our assets were previously fully utilized. We expect to spend a total of approximately \$18 million during 2002 to upgrade our equipment and facilities and expand our product and service offerings. We expect to generate sufficient cash flow during 2002 to fund these capital expenditures.

Net cash of \$32.4 million was used in financing activities during the year ended December 31, 2001, primarily as a result of debt and preferred stock repayments, partially offset by net proceeds from the Offering. Net cash provided by financing activities of \$.3 million during the year ended December 31, 2000 was primarily from net debt changes.

The following summarizes our debt and lease obligations at December 31, 2001:

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

DECEMBER 31, 2001 -----	TOTAL -----	DUE IN LESS THAN 1 YEAR -----	DUE IN 1-3 YEARS -----	DUE AFTER 3 -----
		(IN THOUSANDS)		
Debt and Lease Obligations:				
Long-Term Debt, Including Capital Leases....	\$77,833	\$3,894	\$70,090	\$3,84
Non-Cancelable Operating Lease Obligations.....	14,910	3,897	5,386	5,62
	-----	-----	-----	-----
Total Contractual Cash Obligations.....	\$92,743	\$7,791	\$75,476	\$9,47
	=====	=====	=====	=====

With the proceeds received in the Offering, the Company repaid \$43.7 million of outstanding subordinated debt, redeemed \$21.8 million of preferred stock of Oil States, paid accrued interest on subordinated debt and accrued dividends on preferred stock aggregating \$7.1 million, and repurchased common stock from non-accredited shareholders and shareholders holding pre-emptive stock purchase rights for \$1.6 million. The balance of the proceeds were used to reduce amounts outstanding under bank lines of credit. Concurrently with the closing of the Offering, we issued 4,275,555 shares of common stock in the SCF Exchange.

Concurrent with the Offering, we also entered into a \$150 million senior secured revolving credit facility in February 2001. Up to \$45.0 million of the credit facility is available in the form of loans denominated in Canadian dollars and may be made to our principal Canadian operating subsidiaries. This credit facility replaced our existing credit facilities. The facility matures on February 14, 2004, unless extended for up to two additional one-year periods with the consent of the lenders. Amounts borrowed under this new facility bear interest, at our election, at either:

- a variable rate equal to LIBOR (or, in the case of Canadian dollar denominated loans, the Bankers' Acceptance discount rate) plus a margin ranging from 1.5% to 2.5%; or
- an alternate base rate equal to the higher of the bank's prime rate and the federal funds effective rate plus 0.5% (or, in the case of Canadian dollar denominated loans, the Canadian Prime Rate) plus a margin ranging from 0.5% to 1.5%, depending upon the ratio of total debt to EBITDA (as defined in the credit facility).

We pay commitment fees ranging from 0.25% to 0.5% per year on the undrawn portion of the facility, also depending upon the ratio of total debt to EBITDA.

Commitments under our credit facility will be permanently reduced, and loans prepaid, by an amount equal to 100% of the net cash proceeds of all non-ordinary course asset sales and the issuance of additional debt and by 50% of the issuance of equity securities. Mandatory commitment reductions will be allocated pro

rata based on amounts outstanding under the U.S. dollar denominated facility and the Canadian dollar denominated facility. In addition, voluntary reductions in commitments are permitted.

Our credit facility is guaranteed by all of our active domestic

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

subsidiaries and, in some cases, our Canadian and other foreign subsidiaries. Our credit facility is secured by a first priority lien on all our inventory, accounts receivable and other material tangible and intangible assets, as well as those of our active subsidiaries. However, no more than 65% of the voting stock of any foreign subsidiary is required to be pledged if the pledge of any greater percentage would result in adverse tax consequences.

Our credit facility contains negative covenants that restrict our ability to borrow additional funds, pay dividends, sell assets except in the normal course of business and enter into other significant transactions.

Under our credit facility, the occurrence of specified change of control events involving our company would constitute an event of default that would permit the banks to, among other things, accelerate the maturity of the facility and cause it to become immediately due and payable in full.

As of December 31, 2001, we had \$65.8 million outstanding under this facility and an additional \$7.1 million of outstanding letters of credit leaving \$77.1 million available to be drawn under the facility. In addition, we have another floating rate bank credit facility in the UK that had a balance of \$3.3 million at December 31, 2001. Our total interest bearing debt represented 18.4% of our total capitalization at December 31, 2001.

We had an aggregate of approximately \$8.7 million of subordinated debt outstanding at December 31, 2001. A total of \$2.8 million of this debt was paid in January 2002. The remaining subordinated debt will become due and payable at various times over the period from 2002 to November 2005. See Note 6 to Consolidated and Combined Financial Statements.

We believe that cash from operations and available borrowings under our credit facility will be sufficient to meet our liquidity needs for the foreseeable future. If our plans or assumptions change or are inaccurate, or we make any 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.

TAX MATTERS

For the year ended December 31, 2001, we had deferred tax assets, net of deferred tax liabilities, of approximately \$19.7 million for federal income tax purposes before application of valuation allowances. Our primary deferred tax assets are net operating loss carry forwards, or NOLs, which total approximately \$93.7 million. A valuation allowance is currently provided against the majority of our NOLs. The NOLs expire over a period through 2020. Our NOLs are currently limited under Section 382 of the Internal Revenue Code due to a change of control that occurred during 1995. However in 2002, approximately \$40 million of NOLs are available for use currently if sufficient income is generated. See Note 11 to Consolidated and Combined Financial Statements.

Our 2001 effective tax rate approximated 4%. This low effective tax rate was due to the partial utilization of net operating losses which benefited the consolidated group after the merger. We currently estimate our 2002 effective tax rate will be approximately 22%, of which \$10 million are estimated to be cash taxes. During 2001 we paid cash taxes of \$12.7 million.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (the Statements), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statements is expected to result in an increase in net income of approximately \$8.0 million (\$.16 per diluted share) per year. During 2002, the

33

Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. The Company has not completed its evaluation of goodwill and indefinite lived intangible assets and, accordingly, the impact, if any, of this statement is not yet known.

In June of 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement is effective for fiscal years beginning after June 15, 2002 and the Company expects to adopt the Statement effective January 1, 2003. It is expected that this Statement will have an immaterial effect on the Company's consolidated financial statements.

In August of 2001 the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company was required to adopt this Statement effective January 1, 2002 and it did not have an impact on the consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. We have long-term debt and revolving lines of credit subject to the risk of loss associated with movements in interest rates.

Currently, we have floating rate obligations totaling approximately \$69.2 million for amounts borrowed under our revolving lines of credit. 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 December 31, 2001 levels, our combined interest expense would increase by a total of approximately \$692,000 annually.

Foreign Currency Exchange Rate Risk. Our operations are conducted in various countries around the world in a number of different currencies. As such, our earnings are subject to change due to movements in foreign currency exchange rates when transactions are denominated in currencies other than the U.S. dollar, which is our functional currency. 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. As of December 31, 2001, we had Canadian dollar-denominated debt totaling approximately \$17 million. We had no interest rate hedges or forward foreign exchange contracts at December 31, 2001.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The combined, pro forma combined and consolidated financial statements and supplementary data of the Company appear on pages 39 through 82 hereof and are incorporated by reference into this Item 8. Selected quarterly financial data is set forth in Note 18 to Consolidated and Combined Financial Statements, which is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

The financial statements of Oil States as of December 31, 1998 and 1999 and for the three years ended December 31, 1999 were audited by Arthur Andersen LLP. In connection with the Combination and following discussions with two accounting firms, we engaged Ernst & Young LLP in May 2000 to audit our consolidated financial statements in the future. Accordingly, Oil States' engagement of Arthur Andersen LLP was terminated in May 2000. The report of Arthur Andersen LLP for the year ended December 31, 1999 did not contain an adverse opinion or disclaimer of opinion, nor was it qualified as to uncertainty, audit scope or accounting principles. This report contains an explanatory paragraph related to an uncertainty. Further, for this period and the five month period ended May 31, 2000, there were no disagreements over accounting principles, nor were any material weaknesses in internal control reported. The engagement of Ernst & Young LLP and the termination of Arthur Andersen LLP have been approved by our board of directors. Ernst & Young LLP was not consulted on any matters involving accounting principles of Oil States during the year ended December 31, 1999 or the five-month period ended May 31, 2000. Ernst & Young LLP has audited the consolidated financial statements of Sooner Inc. as of and for the two years in the period ended June 30, 2000. Ernst & Young LLP has audited the consolidated financial statements of HWC Energy Services as of December 31, 2000 and for each of the two years in the period then ended.

34

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 hereby is incorporated by reference to such information as set forth in the Company's Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 hereby is incorporated by reference to such information as set forth in the Company's Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 hereby is incorporated by reference to such information as set forth in the Company's Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 hereby is incorporated by reference to such information as set forth in the Company's Definitive Proxy Statement for the 2002 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Index to Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements: Reference is made to the index set forth on page 39 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules: No schedules have been included

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

herein because the information required to be submitted has been included in the Combined, Pro Forma Combined and Consolidated Financial Statements or the Notes thereto, or the required information is inapplicable.

(3) Index of Exhibits: See Index of Exhibits, below, for a list of those exhibits filed herewith, which index also includes and identifies management contracts or compensatory plans or arrangements required to be filed as exhibits to this Annual Report on Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K. No reports on Form 8-K were filed during the last quarter of the period covered by this report.

(c) Index of Exhibits

EXHIBIT NO. -----	DESCRIPTION -----
3.1	-- Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.2	-- Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.3	-- Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).

35

EXHIBIT NO. -----	DESCRIPTION -----
4.1	-- Form of common stock certificate (incorporated by reference to Exhibit 4.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).
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 Commission on March 30, 2001).
10.1	-- Combination Agreement dated as of July 31, 2000 by and among Oil States International, Inc., HWC Energy Services, Inc., Merger Sub-HWC, Inc., Sooner Inc., Merger Sub-Sooner, Inc. and PTI Group Inc. (incorporated by reference to Exhibit 10.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).
10.2	-- Plan of Arrangement of PTI Group Inc. (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

- 10.3 -- Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.4 -- Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.5** -- 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.6** -- Form of Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.7** -- Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.8** -- Executive Agreement between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.9** -- Executive Agreement between Oil States International, Inc. and Cindy B. Taylor (incorporated by Reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.10** -- Form of Executive Agreements between Oil States International, Inc. and Named Executive Officers (Messrs. Hughes and Chaddick) (incorporated by reference to Exhibit 10.10 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.11** -- Form of Change of Control Severance Plan for Selected Members of Management (incorporated by reference to Exhibit 10.11 of Oil States' Registration Statement No. 333-43400 on Form S-1).

36

EXHIBIT NO. -----	DESCRIPTION -----
10.12	-- Credit Agreement among Oil States International, Inc., PTI Group Inc., the Lenders named therein, Credit Suisse First Boston, Credit Suisse First Boston Canada, Hibernia National Bank and Royal Bank of Canada (incorporated by reference to Exhibit 10.12 of Oil States' Registration Statement No. 333-43400 on Form S-1).
10.13A**	-- Restricted Stock Agreement, dated February 8, 2001, between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.13A of Oil States Report on Form 10Q filed May 15, 2001).
10.13B**	-- Restricted Stock Agreement, dated February 22, 2001,

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

- between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.13B of Oil States Report on Form 10Q filed May 15, 2001).
- 10.14** -- Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 of Oil States' Registration Statement No. 333-43400 on Form S-1).
 - 10.15** -- Compensation Letter Agreement between HWC Energy Services, Inc. and Jay Trahan (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
 - 10.16*,** -- Form of Executive Agreement between Oil States International, Inc. and named Executive Officer (Mr. Slator).
 - 16.1 -- Letter Regarding Change in Certifying Accountant (incorporated by reference to Exhibit 16.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).
 - 21.1* -- List of subsidiaries of the Company (incorporated by reference to Exhibit 21.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).
 - 23.1* -- Consent of Ernst & Young LLP
 - 23.2* -- Consent of PricewaterhouseCoopers LLP
 - 23.3* -- Consent of Arthur Andersen LLP
 - 24.1* -- Powers of Attorney for Directors.

* Filed herewith

** Management contracts or compensatory plans or arrangements

37

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By /s/ DOUGLAS E. SWANSON

 Douglas E. Swanson
 President and
 Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on March 1, 2002.

SIGNATURE

TITLE

L. E. SIMMONS*

Chairman of the Board

 L. E. Simmons

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

<p>/s/ DOUGLAS E. SWANSON ----- Douglas E. Swanson</p>	<p>Director, President and Chief Executive Officer (Principal Executive Officer)</p>
<p>/s/ CINDY B. TAYLOR ----- Cindy B. Taylor</p>	<p>Senior Vice President, Chief Financial Officer and Treasurer (Principal Finan Officer)</p>
<p>/s/ ROBERT W. HAMPTON ----- Robert W. Hampton</p>	<p>Vice President -- Finance and Accounting Secretary (Principal Accounting Office)</p>
<p>MARTIN LAMBERT* ----- Martin Lambert</p>	<p>Director</p>
<p>MARK G. PAPA* ----- Mark G. Papa*</p>	<p>Director</p>
<p>GARY L. ROSENTHAL* ----- Gary L. Rosenthal</p>	<p>Director</p>
<p>ANDREW L. WAITE* ----- Andrew L. Waite</p>	<p>Director</p>
<p>STEPHEN A. WELLS* ----- Stephen A. Wells</p>	<p>Director</p>

*By: /s/ CINDY B. TAYLOR

Cindy B. Taylor, pursuant to a power of attorney
filed as Exhibit 24.1 to this Annual Report on Form
10-K

38

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO COMBINED, PRO FORMA COMBINED AND
CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Pro Forma Consolidated and Combined Financial Statements.....	40
Unaudited Pro Forma Consolidated and Combined Statement of Operations for the Year Ended December 31, 2001.....	41
Unaudited Pro Forma Combined Statement of Operations for the Year Ended December 31, 2000.....	42
Unaudited Pro Forma Combined Statement of Operations for the Year Ended December 31, 1999.....	43
Notes to Unaudited Pro Forma Consolidated and Combined Financial Statements.....	44
Consolidated and Combined Financial Statements Reports of Independent Auditors	

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Ernst and Young LLP.....	48
PricewaterhouseCoopers LLP.....	49
Arthur Andersen LLP.....	50
Consolidated and Combined Statements of Operations for the Years Ended December 31, 2001, 2000, and 1999.....	51
Consolidated and Combined Balance Sheets at December 31, 2001 and 2000.....	52
Consolidated and Combined Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2001, 2000 and 1999.....	53
Consolidated and Combined Statements of Cash Flow for the Years Ended December 31, 2001, 2000, and 1999.....	54
Notes to the Consolidated and Combined Financial Statements.....	55

39

UNAUDITED PRO FORMA CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The consolidated financial statements of Oil States International, Inc. reflect the Company's financial position, results of operations and changes in stockholders' equity for periods subsequent to February 14, 2001, the date of our initial public offering and the combination of Oil States International, Inc. (Oil States), HWC Energy Services, Inc. (HWC) and PTI Group Inc. (PTI) (collectively the Controlled Group), among other things.

As more fully described below, and in footnotes that follow, the combined financial statements reflect the financial position, results of operations and changes in stockholders' equity of the predecessor entities that now comprise Oil States International, Inc. based on reorganization accounting. The pro forma financial information that follows reflect our historical consolidated or combined statements of operations, depending upon the period involved, and give effect to the pro forma transactions and adjustments more fully described below.

The following tables set forth unaudited pro forma consolidated and combined financial information for Oil States giving effect to:

- the combination of Oil States, HWC and PTI as entities under the common control of SCF-III L.P. (SCF III), based upon reorganization accounting, which yields results similar to pooling of interest accounting, effective from the dates each of these entities became controlled by SCF III;
- the conversion of the common stock held by the minority interests of each entity in the Controlled Group into shares of our common stock, based on the purchase method of accounting;
- the conversion of all of the outstanding common stock of Sooner Inc. (Sooner) into shares of our common stock, based on the purchase method of accounting; and
- the exchange of 4,275,555 shares of common stock for \$36.0 million of debt of Sooner and Oil States; and
- our sale of 10,000,000 shares of common stock (the Offering) and the application of the net proceeds totaling \$84.1 million. With the proceeds received in the Offering, the Company repaid \$43.7 million of outstanding subordinated debt of the Controlled Group and Sooner, redeemed \$21.8 million of preferred stock of Oil States, paid accrued interest on subordinated debt and accrued dividends on preferred stock aggregating \$7.1 million, and repurchased common stock from non-accredited

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

shareholders and shareholders holding pre-emptive stock purchase rights for \$1.6 million. The balance of the proceeds was used to reduce amounts outstanding under bank lines of credit.

The unaudited pro forma consolidated and combined statements of operations for the years ended December 31, 2001, 2000 and 1999 were prepared based upon the historical consolidated and combined financial statements of the Controlled Group, adjusted to conform accounting policies, and give effect to:

- our acquisition of minority interests of the Controlled Group;
- our acquisition of Sooner;
- our exchange of shares of common stock for debt of Sooner and Oil States; and
- our sale of shares in the Offering,

as if these transactions had occurred on January 1, 1999, 2000 and 2001, respectively.

The audited December 31, 2001 consolidated balance sheet reflects all of the transactions discussed above, which were completed on February 14, 2001.

The unaudited pro forma combined financial statements do not purport to be indicative of the results that would have been obtained had the transactions described above been completed on the indicated dates or that may be obtained in the future. The unaudited pro forma combined financial statements should be read in conjunction with the historical consolidated and combined financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

40

OIL STATES INTERNATIONAL, INC.

PRO FORMA CONSOLIDATED AND COMBINED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2001 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)

	HISTORICAL	PRO FORMA			
	-----	-----			
	CONSOLIDATED				
	AND	SOONER INC.		MINORITY	
	COMBINED	(PERIOD		INTEREST	OFFERIN
	YEAR ENDED	FROM	SOONER INC.	ADJUSTMENTS	ADJUSTMEN
	DECEMBER 31,	01/01/01 TO	ADJUSTMENTS	(NOTE 2)	(NOTES 1, 3
	2001	02/14/01)	(NOTE 2)	(NOTE 3)	(NOTES 1, 3
	-----	-----	-----	-----	-----
Revenue.....	\$671,205	\$ 48,517	\$	\$	\$
Expenses					
Costs of sales.....	537,792	45,142			
Selling, general and administrative.....	50,024	1,133			
Depreciation and amortization.....	28,039	188	331	135	
Other income.....	(346)	(1)			

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Operating income (loss)...	55,696	2,055	(331)	(135)	
Interest income.....	602	22			
Interest expense.....	(9,276)	(585)			84
Other income.....	88	(1)			
Earnings (loss) before income taxes.....	47,110	1,491	(331)	(135)	84
Income tax (expense) benefit.....	(2,054)	(542)			50
Net income (loss) before minority interests.....	45,056	949	(331)	(135)	1,34
Minority interests.....	(1,596)	--			1,60
Net income (loss) before extraordinary item.....	43,460	949	(331)	(135)	2,94
Preferred stock dividends.....	(41)	--			4
Net income before extraordinary item attributable to common shares.....	\$ 43,419	\$ 949	\$ (331)	\$ (135)	\$ 2,99
Net income per common share before extraordinary item					
Basic.....	\$.96				
Diluted.....	\$.95				
Average shares outstanding					
Basic.....	45,263				
Diluted.....	46,045				

41

OIL STATES INTERNATIONAL, INC.

PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	HISTORICAL		PRO FORMA		
	COMBINED GROUP	SOONER INC.	SOONER INC. ADJUSTMENTS (NOTE 2)	MINORITY INTEREST ADJUSTMENTS (NOTE 3)	OFFERING ADJUSTMENTS (NOTES 1, 3 AND 4)
Revenue.....	\$304,549	\$291,098	\$	\$	\$
Expenses					

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Costs of sales.....	217,601	265,061			
Selling, general and administrative.....	37,816	7,845			485 (B)
Depreciation and amortization.....	21,314	1,485	2,650	1,280	
Other income.....	(69)				
-----	-----	-----	-----	-----	-----
Operating income (loss).....	27,887	16,707	(2,650)	(1,280)	(485)
-----	-----	-----	-----	-----	-----
Interest income.....	95	428			
Interest expense.....	(11,599)	(4,048)			5,864 (A)
Other income.....	89	--			
-----	-----	-----	-----	-----	-----
Earnings (loss) before income taxes.....	16,472	13,087	(2,650)	(1,280)	5,379
Income tax (expense) benefit.....	(10,776)	(1,274)			7,508 (D)
-----	-----	-----	-----	-----	-----
Net income (loss) before minority interests....	5,696	11,813	(2,650)	(1,280)	12,887
Minority interests.....	(4,248)	--			4,218
-----	-----	-----	-----	-----	-----
Net income (loss).....	1,448	11,813	(2,650)	(1,280)	17,105
Preferred stock dividends.....	(332)	--			332 (C)
-----	-----	-----	-----	-----	-----
Net income attributable to common shares.....	\$ 1,116	\$ 11,813	\$ (2,650)	\$ (1,280)	\$17,437
=====	=====	=====	=====	=====	=====
Net income per common share Basic.....	\$.05				
=====	=====				
Diluted.....	\$.04				
=====	=====				
Average shares outstanding Basic.....	24,482				
=====	=====				
Diluted.....	26,471				
=====	=====				

42

OIL STATES INTERNATIONAL, INC.

PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	PRO FORMA			HISTORICAL	
	COMBINED GROUP	GROUP ACQUISITION ADJUSTMENTS (NOTE 5)	COMBINED GROUP WITH ACQUISITIONS	SOONER INC.	SOONER ADJUSTED (NO)
	-----	-----	-----	-----	-----
Revenue.....	\$267,110	\$8,296	\$275,406	\$159,256	\$

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Expenses Costs of sales.....	199,865	4,639	204,504	148,847	
Selling, general and administrative.....	33,624	222	33,846	7,297	
Depreciation and amortization.....	20,275	809	21,084	1,058	
Other expense.....	2,448	--	2,448	--	
	-----	-----	-----	-----	
Operating income (loss).....	10,898	2,626	13,524	2,054	(
	-----	-----	-----	-----	
Interest income.....	300		300	--	
Interest expense.....	(12,796)	(410)	(13,206)	(4,399)	
Other income (expense).....	(1,297)		(1,297)	763	
	-----	-----	-----	-----	
Earnings (loss) before income taxes.....	(2,895)	2,216	(679)	(1,582)	(
Income tax (expense) benefit.....	(4,654)	(753)	(5,407)	(627)	
	-----	-----	-----	-----	
Net income (loss) before minority interests.....	(7,549)	1,463	(6,086)	(2,209)	(
Minority interests.....	610	--	610	--	
	-----	-----	-----	-----	
Net income (loss) from continuing operations attributable to common shares.....	(6,939)	1,463	(5,476)	(2,209)	(
Preferred stock dividends.....	(121)	--	(121)	--	
	-----	-----	-----	-----	
Net income (loss) from continuing operations attributable to common shares.....	\$ (7,060)	\$1,463	\$ (5,597)	\$ (2,209)	\$ (
	=====	=====	=====	=====	=====
Net income (loss) per common share Basic.....	\$ (0.30)				
	=====				
Diluted.....	\$ (0.30)				
	=====				
Average shares outstanding Basic.....	23,053				
	=====				
Diluted.....	23,069				
	=====				

PRO FORMA

	MINORITY INTEREST ADJUSTMENTS (NOTE 3)	OFFERING ADJUSTMENTS (NOTES 1, 3 AND 4)	COMBINED, ACQUISITIONS AND OFFERING
	-----	-----	-----
Revenue.....	\$	\$	\$ 487,380
Expenses Costs of sales.....			405,652
Selling, general and administrative.....		945 (B)	43,815
Depreciation and amortization.....	1,280		26,306
Other expense.....			2,448
	-----	-----	-----
Operating income (loss).....	(1,280)	(945)	9,159
	-----	-----	-----
Interest income.....			300
Interest expense.....		6,362 (A, C)	(11,243)
Other income (expense).....			(534)
	-----	-----	-----
Earnings (loss) before income			

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

taxes.....	(1,280)	5,417	(2,318)
Income tax (expense) benefit.....		9,473 (D)	3,979
	-----	-----	-----
Net income (loss) before minority interests.....	(1,280)	14,890	1,661
Minority interests.....	--	(641)	(31)
	-----	-----	-----
Net income (loss) from continuing operations attributable to common shares.....	(1,280)	14,249	1,630
Preferred stock dividends.....		121 (C)	--
	-----	-----	-----
Net income (loss) from continuing operations attributable to common shares.....	\$ (1,280)	\$14,370	\$ 1,630
	=====	=====	=====
Net income (loss) per common share Basic.....			\$.03
			=====
Diluted.....			\$.03
			=====
Average shares outstanding Basic.....			48,156
			=====
Diluted.....			48,529
			=====

43

OIL STATES INTERNATIONAL, INC.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Basis of Presentation

The purchase method of accounting has been used to reflect the acquisition of the minority interests of each company in the Controlled Group concurrent with the closing of the Offering. The purchase price is based on the fair value of the shares owned by the minority interests, valued at the initial public offering price of \$9.00 per share. Under this accounting method, the excess of the purchase price over the fair value of the assets and liabilities allocable to the minority interests acquired has been reflected as goodwill. Where book value of minority interests exceeded the purchase price, such excess reduced property, plant and equipment. The estimated fair values of assets and liabilities are preliminary and subject to change. For purposes of the pro forma combined financial statements, the goodwill recorded in connection with this transaction is being amortized over 20 years using the straight-line method based on management's evaluation of the nature and duration of customer relationships and considering competitive and technological developments in the industry. Note, however, that accounting for goodwill will change prospectively under new accounting pronouncements (See Note 3 to Consolidated and Combined Financial Statements). The unaudited pro forma statements of operations for the years ended December 31, 2001, 2000 and 1999 have been adjusted for the effects of purchase accounting, as described below.

The purchase method of accounting also has been used to reflect the acquisition of the outstanding common stock of Sooner concurrent with the closing of the Offering. The purchase price is based on the fair value of the shares of Sooner, valued at the initial public offering price of \$9.00 per share. The excess of the purchase price over the fair value of the assets and

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

liabilities of Sooner has been reflected as goodwill. For purposes of the pro forma combined financial statements, the goodwill recorded in connection with this transaction is being amortized over 15 years using the straight-line method based on management's evaluation of the nature and duration of customer relationships and considering competitive and technological developments in the industry. Note, however, that accounting for goodwill will change prospectively under new accounting pronouncements (See Note 3 to Consolidated and Combined Financial Statements). The unaudited pro forma statements of operations for the years ended December 31, 2001, 2000 and 1999 include the historical financial statements of Sooner, converted to a calendar year end and adjusted for the effects of purchase accounting, as presented below.

NOTE 1. COMBINING ADJUSTMENTS

Minority interest in (income) loss and related tax effect of the Controlled Group are presented below (in thousands):

	OIL STATES	HWC	PTI	TOTAL
Year Ended December 31, 1999.....	\$3,019	\$ 430	\$(2,808)	\$ 641
	=====	=====	=====	=====
Year Ended December 31, 2000.....	\$1,463	\$(557)	\$(5,124)	\$(4,218)
	=====	=====	=====	=====
Period from January 1, 2001 to February 14, 2001.....	\$ 72	\$(129)	\$(1,543)	\$(1,600)
	=====	=====	=====	=====

NOTE 2. ACQUISITION OF SOONER

Certain reclassifications have been made to conform the presentation of Sooner's financial statements to the Controlled Group.

44

OIL STATES INTERNATIONAL, INC.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

To reflect the acquisition of all outstanding common shares of Sooner in exchange for 7,597,152 shares of Oil States common stock valued at the estimated offering price per share of \$9.00 (in millions):

Purchase price.....	\$69.5(1)
Less: fair value of net assets acquired.....	29.7

Goodwill.....	\$39.8

Amortization for the years ended December 31, 2000 and 1999.....	\$2.65
	=====
Amortization for the period from January 1, 2001 to February 14, 2001.....	\$.33
	=====

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

(1) The purchase price for Sooner includes the estimated fair value of Sooner stock options (\$1.1 million) converted into Oil States stock options.

NOTE 3. ACQUISITION OF MINORITY INTERESTS

To reflect the acquisition of the minority interests of each company in the Controlled Group in exchange for shares of Oil States common stock and elimination of the historical amounts reflected for the combined group (in millions, except share and per share information):

	OIL STATES	HWC	PTI	COMBINED
Common stock issued to minority interests.....	1,418,729	1,359,603	4,204,058	6,982,390
Estimated offering price per share...	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
Purchase price of the minority interests.....	12.8	12.2	37.8	62.8
Minority interests in fair value of net assets acquired.....	13.8	7.7	15.9	37.4
Additional goodwill.....	\$ (1.0)	\$ 4.5	\$ 21.9	\$ 25.4
Amortization of the additional goodwill for the years ended December 31, 2000 and 1999.....	\$ (.05)	\$.23	\$ 1.10	\$ 1.28
Amortization of the additional goodwill for the period from January 1, 2001 to February 14, 2001.....	\$ (.015)	\$.020	\$.130	\$.135

NOTE 4. OFFERING

(A) To adjust interest expense for debt repaid with Offering proceeds and as a result of the exchange of shares for subordinated debt.

(B) To adjust for costs associated with the new corporate office, including executives hired in connection with the Offering, which costs are not fully reflected in the historical financial statements. These costs will have a continuing impact on our operations.

(C) To eliminate preferred stock dividends due to the redemption of the preferred stock.

(D) To adjust income tax expense for the reduction of deferred taxes due to the formation of the combined group.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

NOTE 5. GROUP ACQUISITIONS

To reflect the following acquisitions as if such acquisitions had occurred on January 1, 1999:

On March 31, 1999, HWC acquired all of the outstanding stock of C&H Rental Tools, Inc., and C&H Specialty Company, Inc. (collectively, C&H). C&H provided rental equipment for drilling and workover operations in Louisiana and offshore in the Gulf of Mexico. We paid cash of approximately \$2.4 million and \$.8 million in principal amount of subordinated promissory notes for the acquisition. Funding for the transaction was received from the issuance of preferred stock.

On November 30, 1999, HWC acquired 12 snubbing units and related equipment from Schlumberger Limited (Schlumberger) and Target Snubbing Company (Target). Consideration paid for these acquisitions included \$3.7 million of cash and subordinated notes in aggregate principal amount of \$4.5 million. Funding for the transactions was received from the issuance of preferred stock.

Details of the fiscal year 1999 pro forma adjustments for HWC are as follows (in thousands):

	SCHLUMBERGER	TARGET	C&H	TOTAL
Revenue.....	\$6,025	\$894	\$1,377	\$8,296
Expenses				
Cost of sales.....	3,324	528	787	4,639
Selling, general and administrative.....	--	222	--	222
Depreciation and amortization.....	530	158	121	809
	-----	-----	-----	-----
Operating income (loss).....	2,171	(14)	469	2,626
	-----	-----	-----	-----
Interest expense.....	(341)	(56)	(13)	(410)
	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes.....	1,830	(70)	456	2,216
Income tax (expense) benefit.....	(622)	24	(155)	(753)
	-----	-----	-----	-----
Income from continuing operations.....	\$1,208	\$(46)	\$ 301	\$1,463
	=====	=====	=====	=====

The Schlumberger and Target acquisitions were asset purchases, while the C&H acquisition was a stock purchase. The difference between the C&H purchase price and the fair market value of the assets and liabilities acquired was not material to the combined group.

NOTE 6. SOONER ACQUISITION ADJUSTMENT

To reflect the acquisitions by Sooner in May and June 1999 of the tubular distribution businesses of Continental Emsco, Wilson Supply and National-Oilwell, Inc. Total consideration paid for these acquisitions was \$36.6 million.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Details of the fiscal year 1999 pro forma adjustments for Sooner are as follows (in thousands):

	CONTINENTAL EMSCO	WILSON SUPPLY	NATIONAL- OILWELL, INC.	TOTAL
	-----	-----	-----	-----
Revenue.....	\$11,639	\$18,705	\$22,374	\$52,718
Expenses				
Costs of sales.....	11,544	17,795	22,962	52,301
Selling, general and administrative...	400	650	677	1,727
Depreciation and amortization(1).....	69	83	83	234
	-----	-----	-----	-----
Operating income (loss).....	(374)	177	(1,348)	(1,544)
Income tax (expense) benefit.....	131	(62)	472	540
	-----	-----	-----	-----
Net Income (loss).....	\$ (243)	\$ 115	\$ (876)	\$ (1,004)
	=====	=====	=====	=====

(1) Substantially all of this adjustment results from incremental amortization of goodwill recorded for these acquisitions as if such acquisitions occurred on January 1, 1999.

47

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
OIL STATES INTERNATIONAL, INC.

We have audited the accompanying consolidated balance sheet of Oil States International, Inc. as of December 31, 2001 and the combined balance sheet as of December 31, 2000, and the related consolidated and combined statement of operations, stockholders' equity and cash flows for the year ended December 31, 2001 and the combined statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2000. We did not audit the financial statements of PTI Group Inc., for any period prior to January 1, 2001, which represented 32% of total assets in 2000 and 36% and 26% of total revenue in 2000 and 1999, respectively, nor did we audit Oil States International, Inc. for 1999, which represented 58% of total revenue in 1999. These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Oil States International, Inc. or PTI Group Inc., for the periods noted, is based solely on the report of the other auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oil States International, Inc. at December 31, 2001 and the combined financial position as of December 31, 2000, and the consolidated and combined results of their operations and their cash flows for the year ended December 31, 2001 and the combined results of their operations and their cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States

ERNST & YOUNG LLP

Houston Texas
February 1, 2002

48

AUDITORS' REPORT

TO THE SHAREHOLDERS AND DIRECTORS OF
PTI GROUP INC.

We have audited the consolidated balance sheets of PTI Group Inc. as at December 31, 2000 and 1999 and the consolidated statements of earnings, shareholders' equity and cash flows for the years ended December 31, 2000, 1999 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years ended December 31, 2000, 1999 and 1998 in accordance with United States generally accepted accounting principles.

PRICEWATERHOUSECOOPERS LLP

CHARTERED ACCOUNTANTS

Edmonton, Alberta
February 26, 2001

49

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
OIL STATES INTERNATIONAL, INC.:

We have audited the consolidated balance sheets of Oil States International, Inc. (a Delaware corporation) and subsidiaries (the "Company") (formerly Conemsco, Inc.) as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of CE Franklin Ltd., a majority-owned subsidiary, which represented 6% and 5% of total consolidated assets in 1998 and 1997, respectively. CE Franklin Ltd. was sold on May 28, 1999, and was classified as discontinued operations prior to its sale. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CE Franklin Ltd., is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 9, on July 21, 2000, the Company obtained a waiver from the holder of the Series A Cumulative Preferred Stock totaling \$14.4 million, extending the optional redemption date to the earlier of April 30, 2001 or upon the occurrence of a registered public offering of capital stock. On July 29, 2000 and July 31, 2000, the Company renegotiated terms with the holders of certain subordinated debt totaling \$7.0 million and \$7.0 million, respectively. Original maturities of the subordinated debt extending through February 2003 were accelerated to the earlier of April 30, 2001 or upon the occurrence of a registered public offering of capital stock, in exchange for the holders waiving their rights to scheduled maturities of principal and interest which were due prior to April 30, 2001. Additionally, scheduled principal payments on other long-term debt totaling \$15.5 million become due during 2001. Management's current projections indicate that there will not be sufficient cash flow from operations to fund these obligations. Management is currently developing a plan whereby the Company will be combined with other companies under common majority ownership, and the stock of the combined company would be sold in an initial public offering. The proceeds of the offering would be used, in part, to reduce the existing debt obligations. If management is unsuccessful in that effort, then management's plans would be to restructure its debt obligations as well as generate additional cash flow through asset sales.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Oil States International, Inc., and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Dallas, Texas
July 31, 2000

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	CONSOLIDATED AND COMBINED		
	COMBINED		COMBINED
	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Revenues:			
Product.....	\$421,758	\$104,233	\$128,128
Service and other.....	249,447	200,316	138,982
	-----	-----	-----
	671,205	304,549	267,110
Costs and expenses:			
Product costs.....	376,260	82,516	101,680
Service and other costs.....	161,532	135,085	98,185
Selling, general and administrative expenses.....	50,024	37,816	33,624
Depreciation expense.....	20,790	18,187	16,779
Amortization expense.....	7,249	3,127	3,496
Other operating expense (income).....	(346)	(69)	2,448
	-----	-----	-----
	615,509	276,662	256,212
Operating income.....	55,696	27,887	10,898
Interest expense.....	(9,276)	(11,599)	(12,796)
Interest income.....	602	95	300
Other income (expense).....	88	89	(1,297)
	-----	-----	-----
Income (loss) from continuing operations before income taxes, minority interest, discontinued operations, and extraordinary item.....	47,110	16,472	(2,895)
Income tax provision.....	(2,054)	(10,776)	(4,654)
Minority interest in income of combined companies and consolidated subsidiaries.....	(1,596)	(4,248)	610
	-----	-----	-----
Net income (loss) from continuing operations before discontinued operations and extraordinary item.....	43,460	1,448	(6,939)
Discontinued operations:			
Estimated and realized losses on sales of discontinued operations (net of income tax expense of \$215 in 1999).....	--	--	(6,416)
	-----	-----	-----
Net income (loss) before extraordinary item.....	43,460	1,448	(13,355)
Extraordinary loss on debt restructuring.....	(784)	--	(927)
	-----	-----	-----
Net income (loss).....	42,676	1,448	(14,282)
Preferred stock dividends.....	(41)	(332)	(121)
	-----	-----	-----
Net income (loss) attributable to common shares.....	\$ 42,635	\$ 1,116	\$ (14,403)
	=====	=====	=====

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Basic earnings (loss) per share:

Earnings (loss) per share from continuing operations			
before extraordinary item.....	\$.96	\$.05	\$ (.30)
Discontinued operations, net of income taxes.....	--	--	(.28)
Extraordinary loss on debt restructuring, net of income taxes.....	(.02)	--	(.04)
	-----	-----	-----
Basic net income (loss) per share.....	\$.94	\$.05	\$ (.62)
	=====	=====	=====

Diluted earnings (loss) per share:

Earnings (loss) per share from continuing operations			
before extraordinary item.....	\$.95	\$.04	\$ (.30)
Discontinued operations, net of income taxes.....	--	--	(.28)
Extraordinary loss on debt restructuring, net of income taxes.....	(.02)	--	(.04)
	-----	-----	-----
Diluted net income (loss) per share.....	\$.93	\$.04	\$ (.62)
	=====	=====	=====

Weighted average number of common shares outstanding (in thousands):

Basic.....	45,263	24,482	23,053
Diluted.....	46,045	26,471	23,069

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

51

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	CONSOLIDATED DECEMBER 31, 2001	COMBINED DECEMBER 31, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 4,982	\$ 4,821
Accounts receivable, net.....	116,790	64,137
Inventories, net.....	76,917	30,826
Prepaid expenses and other current assets.....	3,932	1,715
	-----	-----
Total current assets.....	202,621	101,499
Property, plant and equipment, net.....	150,090	143,468
Goodwill, net.....	172,235	103,391
Other noncurrent assets.....	4,937	5,160
	-----	-----
Total assets.....	\$529,883	\$353,518
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities.....	\$ 86,174	\$ 58,348
Income taxes.....	4,267	2,427
Deferred income taxes.....	--	369
Current portion of long-term debt.....	3,894	37,629
Other current liabilities.....	509	2,333

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Total current liabilities.....	94,844	101,106
Long-term debt.....	73,939	102,614
Deferred income taxes.....	8,436	19,977
Postretirement healthcare benefits.....	5,570	5,899
Other liabilities.....	2,746	4,519
<hr/>		
Total liabilities.....	185,535	234,115
Minority interest.....	151	37,561
Redeemable preferred stock.....	--	25,293
Stockholders' equity:		
Convertible preferred stock.....	--	1,625
Common stock, \$.01 par value, 200,000,000 shares authorized, 48,332,207 shares and 27,154,672 shares issued and outstanding, respectively.....	483	272
Additional paid-in capital.....	326,031	83,810
Retained earnings (deficit).....	24,710	(25,854)
Accumulated other comprehensive loss.....	(7,027)	(3,304)
<hr/>		
Total stockholders' equity.....	344,197	56,549
<hr/>		
Total liabilities and stockholders' equity.....	\$529,883	\$353,518
<hr/> <hr/>		

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

52

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	COMPREHENSIVE INCOME
	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	\$1,625	\$224	\$ 87,074	\$ (12,567)	
Net loss.....				(14,282)	\$ (14,282)
Currency translation adjustment....					(521)
Other comprehensive income.....					1,771
Total other comprehensive income...					1,250
Comprehensive loss.....					\$ (13,032)
Preferred stock dividends.....				(121)	
Redeemable preferred stock dividends.....			(1,308)		
Minority interest.....			(386)		
Issuance of shares from treasury...			(493)		
Purchase of common stock held in					

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

treasury at cost.....					
Balance, December 31, 1999.....	----- 1,625	----- 224	----- 84,887	----- (26,970)	
Net income.....				1,448	\$ 1,448
Currency translation adjustment....					(1,508)
Other comprehensive loss.....					(492)
Total other comprehensive loss.....					----- (2,000)
Comprehensive loss.....					----- \$ (552) =====
Issuance of common stock for cash.....		48	154		
Preferred stock dividends.....				(332)	
Redeemable preferred stock dividends.....			(1,518)		
Compensatory stock options.....			600		
Unearned compensation.....			(313)		
Balance, December 31, 2000.....	----- 1,625	----- 272	----- 83,810	----- (25,854)	
Net income.....				42,676	\$ 42,676
Currency translation adjustment....					(3,723)
Comprehensive income.....					----- \$ 38,953 =====
Issuance of common stock for cash.....		100	79,615		
Amortization of restricted stock compensation.....		1	421		
Preferred stock dividends.....				(41)	
Redeemable preferred stock dividends.....			(285)		
Redemption of preferred stock.....	(1,625)				
Conversion of preferred stock to common stock.....			5,143		
Conversion of debt to common stock.....		43	35,936		
Shares issued to acquire Sooner....		76	30,596		
Shares issued to acquire minority interest.....		174	92,329	7,929	
Purchase of subsidiary stock in connection with Combination.....		(2)	(1,465)		
Three-for-one reverse stock split.....		(181)	181		
Other.....			(250)		
Balance, December 31, 2001.....	----- \$ -- =====	----- \$483 =====	----- \$326,031 =====	----- \$ 24,710 =====	

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

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income (loss) before discontinued operations and extraordinary item.....	\$ 43,460	\$ 1,448	\$ (6,939)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:			
Minority interest, net of distributions.....	1,596	4,148	(610)
Depreciation and amortization.....	28,039	21,314	20,275
Deferred income tax provision (benefit).....	(11,504)	840	(519)
Provision for loss on accounts receivable.....	1,571	580	1,121
Deferred financing cost amortization.....	922	--	--
(Gain) loss on disposal of assets.....	(225)	(18)	2,472
(Gain) loss on sale of other businesses.....	(227)	--	975
Loss on sale of marketable securities.....	--	--	334
Other, net.....	378	(1,186)	(2)
Changes in operating assets and liabilities, net of effect from acquired and divested businesses:			
Accounts receivable.....	(20,030)	1,238	(5,219)
Inventories.....	28,758	(774)	9,653
Accounts payable and accrued liabilities.....	(26,866)	5,461	(16,355)
Other current assets and liabilities, net.....	9,250	886	(16)
Net cash flows provided by operating activities...	55,122	33,937	5,170
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired.....	(5,119)	(3,500)	(7,217)
Capital expenditures.....	(29,671)	(21,383)	(11,297)
Proceeds from sale of equipment.....	5,976	2,391	1,358
Cash acquired in Sooner acquisition.....	4,894	--	--
Proceeds from sale of discontinued operations.....	--	--	102,439
Proceeds from sale of other businesses.....	1,200	--	1,976
Proceeds from sale of marketable securities.....	--	--	24,408
Other, net.....	53	115	560
Net cash flows provided by (used in) investing activities.....	(22,667)	(22,377)	112,227
Cash flows from financing activities:			
Revolving credit repayments.....	(10,132)	(3,158)	(65,081)
Debt borrowings.....	--	13,487	10,449
Debt repayments.....	(76,628)	(8,589)	(63,205)
Preferred stock dividends.....	(844)	(1,681)	(1,568)
Issuance of common stock.....	84,599	268	4,839
Repurchase of preferred stock.....	(21,775)	--	--
Payment of offering and financing costs.....	(4,982)	--	--
Other, net.....	(2,653)	(23)	(1,556)
Net cash flows provided by (used in) financing activities.....	(32,415)	304	(116,122)
Effect of exchange rate changes on cash.....	(4)	(77)	66
Net increase in cash and cash equivalents from continuing operations.....	36	11,787	1,341
Net cash provided by (used in) discontinued operations.....	375	(10,182)	(4,159)
Extraordinary item.....	(250)	--	--
Cash and cash equivalents, beginning of year.....	4,821	3,216	6,034
Cash and cash equivalents, end of year.....	\$ 4,982	\$ 4,821	\$ 3,216

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

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

54

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Oil States International, Inc. (Oil States or the Company) and its consolidated subsidiaries since February 14, 2001. On February 14, 2001, the Company acquired the three companies (HWC Energy Services, Inc. -- HWC; PTI Group, Inc. -- PTI and Sooner Inc. -- Sooner) previously reported in the Combined and Pro Forma financial statements presented herein. The combined financial statements include the activities of Oil States, HWC and PTI, collectively the Controlled Group or the Company for the period prior to February 14, 2001, utilizing reorganization accounting. The reorganization accounting method, which yields results similar to the pooling of interests method, has been used in the preparation of the combined financial statements of the Controlled Group (entities under common control of SCF-III L.P. (SCF-III), a private equity fund that focuses on investments in the energy industry). Under this method of accounting, the historical financial statements of HWC and PTI are combined with Oil States for the years ended December 31, 1999 and 2000 and for the period until February 14, 2001 when Oil States, HWC and PTI merged and Oil States acquired Sooner in exchange for its common stock. After February 14, 2001, the consolidated financial statements of Oil States include the results of all its subsidiaries including HWC, PTI and Sooner. The combined financial statements have been adjusted to reflect minority interests in the Controlled Group. All significant intercompany accounts and transactions between the consolidated entities have been eliminated in the accompanying consolidated, combined and pro forma financial statements.

Oil States International, Inc.

Oil States was formerly named CONEMSCO, Inc. On July 20, 2000, an amendment to the Certificate of Incorporation for CONEMSCO, Inc. was filed with the State of Delaware to change the corporate name from CONEMSCO, Inc. to Oil States International, Inc. Oil States' subsidiaries currently include: Oil States Industries, Inc. and its subsidiaries (collectively, OSI) HWC, PTI and Sooner. OSI's wholly-owned subsidiaries are Oil States Skagit SMATCO, LLC (SMATCO), Oil States Industries (UK) Limited (OSI-UK), Oil States Industries (Asia) Pte. Ltd., Oil States Industries do Brasil Instalacoes Maritimas Ltda. and Continental Emsco Company and its subsidiaries. OSI also owns a 60% interest in Elastomeric Actuators, Inc., a joint venture with a third party. OSI-UK's wholly-owned subsidiaries include Oil States MCS Limited (MCS Limited) and Oil States Klaper Limited.

OSI is a leading designer and manufacturer of a diverse range of products for offshore platforms, subsea pipelines, and defense and general industrial applications. Major product lines include flexible bearings, advanced connectors, mooring systems, winches, services for installing and removing offshore platforms, downhole production equipment, and custom molded products. Sales are made primarily to major oil companies, large and small independent oil and gas companies, drilling contractors, and well service and workover operators.

During 1999, OSI sold all of the operating assets of CE Distribution

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Services, Inc. (CE Distribution), CE Drilling Products, Inc. (CE Drilling), CE Mobile Equipment, Inc. (CE Mobile), and its 51.8% investment in CE Franklin, Ltd. (CE Franklin). Accordingly, for the periods presented, the results of CE Distribution, CE Drilling, CE Mobile, and CE Franklin are shown as discontinued operations. A charge for the estimated and realized losses on sale of discontinued operations of \$6.4 million was recorded during 1999 (See Note 16). During the year ended December 31, 1999, OSI sold two wholly-owned subsidiaries: H.O. Mohr Research and Engineering, Inc. (H.O. Mohr) and Oil States Martec Crane Services, Inc. (Martec).

PTI Group, Inc.

PTI was formed on January 8, 1997 as a result of the amalgamation of PTI Group, Inc. and 712955 Alberta Ltd. (Alberta), a special purpose company formed to acquire PTI.

55

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

PTI is a supplier of integrated housing, food, site management and logistics support services to remote sites utilized by natural resources and other industries primarily in Canada and the United States.

HWC Energy Services, Inc.

HWC provides worldwide well control services and drilling and rental equipment to the oil and gas industry. HWC operates primarily in Texas, Louisiana, Ohio, Oklahoma and New Mexico, along with foreign operations conducted in Venezuela, the Middle East, and Africa. Its hydraulic well control operations provide, globally, hydraulic workover (snubbing) units for emergency well control situations and, in selected markets, various hydraulic well control solutions involving well drilling and workover and completion activities. In West Texas and Ohio, HWC's Capstar Drilling, Inc., subsidiary operates shallow well drilling rigs with automated pipe handling capabilities. Specialty Rental Tools and Supply, Inc. (Specialty), a subsidiary of HWC, operates from 5 locations in Texas, Louisiana, Mississippi, New Mexico and Oklahoma to provide rental equipment for drilling and workover operations.

Sooner, Inc.

Sooner is a distributor of oilfield tubular products with operations located primarily in the United States (U.S.). Sooner also has sales and marketing subsidiaries located in the United Kingdom, Canada, Nigeria and Venezuela. The majority of sales are to large fully integrated and independent oil companies headquartered in the U.S.

2. INITIAL PUBLIC OFFERING, MERGER TRANSACTIONS AND REFINANCING

On February 9, 2001, the Company began trading its common stock on the New York Stock Exchange under the symbol "OIS" pursuant to completion of its initial public offering (the Offering). On February 14, 2001, the Company closed the business combination and the Offering thereby acquiring the minority interests in PTI and HWC and 100% of the Sooner operations. The Company recorded additional goodwill of \$61.9 million as a result of the acquisition of these minority interests.

Concurrent with the Offering, the Company acquired Sooner for \$69.5 million. The Company exchanged 7,597,152 shares of its common stock for all the outstanding common shares of Sooner. The Company accounted for the acquisition

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

using the purchase method of accounting and recorded approximately \$40 million in goodwill that is being amortized over a 15-year period. In 2001, the Financial Accounting Standards Board issued a new standard that will effect goodwill amortization (See Note 3).

Concurrent with the closing of the Offering, the Company issued 4,275,555 shares of common stock to SCF-III and SCF-IV L.P. (SCF-IV) in exchange for approximately \$36.0 million of indebtedness of Oil States and Sooner which was held by SCF-III and SCF-IV (the SCF Exchange).

With the proceeds received in the Offering, the Company repaid \$43.7 million of outstanding subordinated debt of the Controlled Group and Sooner, redeemed \$21.8 million of preferred stock of Oil States, paid accrued interest on subordinated debt and accrued dividends on preferred stock aggregating \$7.1 million, and repurchased common stock from non-accredited shareholders and shareholders holding pre-emptive stock purchase rights for \$1.6 million. The balance of the proceeds was used to reduce amounts outstanding under bank lines of credit.

On February 14, 2001, the Company entered into a \$150 million senior secured revolving credit facility. This new credit facility replaced existing bank credit facilities (See Note 6).

56

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

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

Inventories

Inventories consist of tubular and other oilfield products, manufactured equipment, and spare parts for manufactured equipment. Inventories include raw materials, work in process, finished goods, labor, and manufacturing overhead. Approximately 13% and 37% of combined inventories at December 31, 2001 and 2000, respectively, is valued at the lower of cost or market with cost determined by the last-in, first-out (LIFO) method. The cost of tubular goods inventories is determined using the first-in, first-out (FIFO) method and the cost for the remaining inventories is determined on an average cost or specific-identification method. If the LIFO method had not been used for particular inventories, total inventories would have been approximately the same at December 31, 2001 and 2000. During 2001 and 2000, the Company experienced reductions in inventories carried on a LIFO basis. The cost of these liquidated LIFO inventories did not differ from the current cost by a material amount.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and depreciation is

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statements of operations.

Goodwill

Goodwill represents the excess of the purchase price for acquired businesses over the allocated value of the related net assets. Goodwill is amortized on a straight-line basis over a period of 15 to 40 years based on management's evaluation of the nature and duration of customer relationships and considering competitive and technological developments in the industry. Goodwill is stated net of accumulated amortization of \$18.2 million and \$10.0 million at December 31, 2001 and 2000, respectively. In 2001, the Financial Accounting Standards Board issued a new standard that will affect goodwill amortization (See Note 3).

Impairment of Long-Lived Assets

In compliance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the recoverability of the carrying values of property, plant and equipment, goodwill, and other intangible assets is assessed at a minimum annually, or whenever, in management's judgment, events or changes in circumstances indicate that the carrying value of such assets may not be recoverable based on estimated future cash flows. If this

57

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

assessment indicates that the carrying values will not be recoverable, as determined based on undiscounted cash flows over the remaining useful lives, an impairment loss is recognized. The impairment loss equals the excess of the carrying value over the fair value of the asset. The fair value of the asset is based on prices of similar assets, if available, or discounted cash flows. Based on the Company's review, the carrying value of its assets are recoverable and no impairment losses have been recorded for the periods presented.

In August of 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company was required to adopt this Statement effective January 1, 2002 and it did not have an impact.

Foreign Currency

Gains and losses resulting from balance sheet translation of foreign operations where a foreign currency is the functional currency are included as a separate component of accumulated other comprehensive income within stockholders' equity. Gains and losses resulting from balance sheet translation of foreign operations where the U.S. dollar is the functional currency are included in the consolidated statements of operations as incurred.

Revenue and Cost Recognition

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Revenue from the sale of products is recognized upon shipment to the customer or when all significant risks of ownership have passed to the customer. For significant fabrication projects built to customer specifications, revenues are recognized under the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract (cost-to-cost method). Management believes this method is the most appropriate measure of progress on large fabrication contracts. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. In rental equipment and services, revenues are recognized based on a periodic (usually daily) rental rate or when the services are rendered. Proceeds from customers for the cost of oilfield rental equipment that is damaged or lost downhole are reflected as revenues. For drilling contracts based on footage drilled, we recognize revenues as footage is drilled.

Cost of goods sold includes all direct material and labor costs and those costs related to contract performance, such as indirect labor, supplies, tools, and repairs. Selling, general, and administrative costs are charged to expense as incurred.

Income Taxes

The Company follows the liability method of accounting for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are recorded based upon the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

When the Company's earnings from foreign subsidiaries are considered to be indefinitely reinvested, no provision for US income taxes is made for these earnings. If any of the subsidiaries have a distribution of earnings in the form of dividends or otherwise, the Company would be subject to both US income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries.

In accordance with SFAS No. 109, the Company records a valuation reserve in each reporting period when management believes that it is more likely than not that any deferred tax asset created will not be realized. Management will continue to evaluate the appropriateness of the reserve in the future based upon the operating results of the Company.

58

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Receivables and Concentration of Credit Risk

Based on the nature of its customer base, the Company does not believe that it has any significant concentrations of credit risk other than its concentration in the oil and gas industry. The Company evaluates the credit worthiness of its major new and existing customers' financial condition and, generally, the Company does not require significant collateral from its domestic customers.

Earnings per Share

The Company's basic income (loss) per share (EPS) amounts have been computed based on the average number of common shares outstanding, including 3,601,329 shares of common stock issuable upon exercise of exchangeable shares of one of our Canadian subsidiaries. These exchangeable shares, which were

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

issued to certain former shareholders of PTI in the Combination, are intended to have characteristics essentially equivalent to our common stock prior to the exchange. We have treated the shares of common stock issuable upon exchange of the exchangeable shares as outstanding. Diluted EPS amounts include the effect of the Company's outstanding stock options under the treasury stock method and the effect of convertible preferred stock in periods when such preferred shares were outstanding. All shares awarded under the Company's Equity Participation Plan are included in our fully diluted shares.

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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. Examples of a few such estimates include the costs associated with the disposal of discontinued operations, including potential future adjustments as a result of contractual agreements, revenue and income recognized on the percentage-of-completion method, and the valuation allowance recorded on net deferred tax assets. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. We adopted SFAS No. 133 effective January 1, 2001, and the adoption did not have a material impact on our results of operations.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (collectively the Statements), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of approximately \$8.0 million (\$.16 per diluted share) per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. The Company has not completed its evaluation of goodwill and indefinite lived intangible assets and accordingly, the impact, if any, of this Statement is not yet known.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Statement is effective for fiscal years beginning after June 15, 2002 and the Company expects to adopt the Statement effective January 1, 2003. It is expected that this Statement will have an immaterial effect on the Company's consolidated financial statements.

4. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS

Additional information regarding selected balance sheet accounts at December 31, 2001 and 2000, is presented below (in thousands):

	2001	2000
	-----	-----
Accounts receivable:		
Trade.....	\$115,726	\$61,969
Unbilled revenue.....	2,674	--
Other.....	1,123	4,323
Allowance for doubtful accounts.....	(2,733)	(2,155)
	-----	-----
	\$116,790	\$64,137
	=====	=====

	2001	2000
	-----	-----
Inventories:		
Tubular goods.....	\$41,882	\$ --
Other finished goods and purchased products.....	20,024	14,813
Work in process.....	12,012	12,208
Raw materials.....	8,696	8,720
	-----	-----
Total inventories.....	82,614	35,741
Inventory reserves.....	(5,697)	(4,915)
	-----	-----
	\$76,917	\$30,826
	=====	=====

	ESTIMATED USEFUL LIFE	2001	2000
	-----	-----	-----
Property, plant and equipment:			
Land.....		\$ 4,163	\$ 3,660
Buildings and leasehold improvements.....	2-50 years	27,505	25,501

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Machinery and equipment.....	2-15 years	147,183	134,983
Rental tools.....	3-10 years	24,876	18,370
Office furniture and equipment.....	1-10 years	10,667	8,724
Vehicles.....	2-5 years	6,197	4,853
Construction in progress.....		1,033	26
		-----	-----
Total property, plant and equipment.....		221,624	196,117
Less: Accumulated depreciation.....		(71,534)	(52,649)
		-----	-----
		\$150,090	\$143,468
		=====	=====

60

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

	COMBINED	
	2001	2000
	-----	-----
Accounts payable and accrued liabilities:		
Trade accounts payable.....	\$52,386	\$26,215
Accrued compensation.....	10,317	7,685
Accrued insurance.....	3,498	2,819
Accrued interest.....	248	6,646
Accrued taxes, other than income taxes.....	3,314	812
Deferred revenue.....	2,646	4,456
Reserves related to discontinued operations, current portion.....	4,976	3,283
Postretirement healthcare benefits, current portion.....	1,100	1,100
Other.....	7,689	5,332
	-----	-----
	\$86,174	\$58,348
	=====	=====

5. ACQUISITIONS

On February 14, 2001, the Company acquired 100% of the issued and outstanding shares of Sooner for \$69.5 million of the Company's common stock (See Note 2).

In July and August 2001, Oil States acquired, within its well site services segment, 100% of the common stock of two rental tool businesses located in Mississippi and Oklahoma for aggregate cash consideration of \$3.0 million, net of cash acquired. A total of \$2.1 million of goodwill was recorded in connection with these acquisitions which will not be deductible for tax purposes.

On February 28, 2000, the Company acquired substantially all the operating assets and business of International Quarters, L.L.C. (IQ), a company located in Houma, Louisiana, for a purchase price of \$4.5 million. IQ manufactures and leases accommodation facilities primarily to the oil and gas industry. The IQ acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the net assets acquired based on their estimated fair values with the balance of the purchase price, \$1.3 million, included as goodwill.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

On March 31, 1999, Specialty completed the acquisition of all of the outstanding stock of C&H Rental Tools, Inc., and C&H Specialty Company, Inc. (collectively C&H). Specialty paid cash of approximately \$2.4 million and \$0.82 million in subordinated promissory notes. C&H provides rental equipment for drilling and workover operations in Louisiana and offshore in the Gulf of Mexico. In addition, the C&H purchase agreement provided for the payment of contingent consideration based on the earnings of the acquired business during the period from January 1, 1999 through December 31, 2000. The contingent consideration was earned based on results through December 31, 2000. Accordingly, an additional payment of \$2.1 million was paid to the sellers on March 31, 2001. The contingent consideration was reflected in the December 31, 2000 balance sheet as a current liability and the additional purchase consideration was recorded as goodwill in 2001 when paid.

Effective November 30, 1999, the Company completed the acquisition of 12 snubbing units and related equipment from two unrelated vendors for total consideration of \$8.2 million, consisting of \$3.7 million cash and subordinated notes held by one of the companies in the amount of \$4.5 million. The snubbing units are similar to those currently operated by the Company and were located in Europe, Africa, the Middle East and Canada when acquired. The purchase agreement contained a pre-established rate which would be charged to the buyers upon future leasing of the equipment and such amounts paid by the buyers will be applied as payment of the related debt obligations.

61

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

6. LONG-TERM DEBT

As of December 31, 2001 and 2000, long-term debt consisted of the following (in thousands):

	2001 -----	2000 -----
OSI		
US revolving credit facility, up to \$105 million; secured by substantially all assets; commitment fee on unused portion ranges from 0.25% to 0.5% per annum; variable interest rate payable monthly based on prime or LIBOR plus applicable percentage; weighted average rate is 5.55% for 2001.....	\$48,850	\$ --
US revolving credit facility, up to \$21 million; secured by substantially all assets; commitment fee on unused portion is 0.375% per annum; variable interest rate payable monthly based on prime plus 2.25%; weighted average rate is 9.34% and 9.5% for 2001 and 2000, respectively.....	--	6,624
US term bank loan -- Payable in monthly principal installments of \$81,740 with the remainder due March 1, 2003; secured by substantially all assets; variable interest rate payable monthly based on prime plus 0.25%; weighted average rate of 9.5% and 9.6% for 2001 and 2000, respectively.....	--	4,169
UK revolving overdraft credit facility -- Payable on demand; interest payable quarterly at a margin of 1.90% per annum over the bank's variable base rate; weighted average rate		

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

is 6.4% and 8.0% for 2001 and 2000, respectively.....	3,349	3,777
Subordinated debt issued in conjunction with acquisition -- Payable to the stockholders of the acquired company in installments through July 2002; terms were renegotiated during 2000 with full payment due upon closing of the offering; interest rate is prime plus 4% payable annually; weighted average rate is 12.9% and 10.3% for 2001 and 2000, respectively.....	--	7,000
Subordinated debt issued in conjunction with acquisition -- Payable to the stockholders of the acquired company in installments through August 2003; terms were renegotiated during 2000 with full payment due upon closing of the offering; interest rate is prime plus 4% payable annually; weighted average rate is 12.8% and 9.8% for 2001 and 2000, respectively.....	--	7,000
Subordinated note payable to shareholders -- Principal and accrued interest at 6% are due December 2005.....	--	25,000
Subordinated note payable to related party -- \$10.4 million is due on May 17, 2001 with the remaining \$500,000 due on September 1, 2001; rate of 8.5% for 2001 and 2000.....	--	10,949
Obligations under capital leases.....	348	558
PTI		
Canadian revolving credit facility, up to \$45 million; secured by substantially all assets; variable interest rate payable monthly based on the Canadian prime rate or Bankers Acceptance discount rate plus applicable percentage; weighted average rate is 6.2% for 2001.....	16,955	--
Canadian revolving operating credit facility -- A portion of the facility is designated as overdraft and the remainder is restricted by a margin limit based on the level of trade accounts receivable and inventories.....	--	1,816
PTI US revolving credit facility.....	--	1,560
Canadian term revolving bank facility -- Payable in quarterly installments of \$834,000.....	--	23,506
Unsecured notes payable issued in conjunction with acquisitions due in installments over 24 to 36 months and bearing interest at 7.5% to 8.5%.....	720	2,549

62

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

	2001	2000
	-----	-----
PTI U.S. term loan facility -- Payable in monthly installments of \$100,000 from September 2000 through February 2005, at which time the remaining balance is due.....	--	7,000
Obligations under capital leases.....	586	730
HWC		
Bank line of credit -- up to \$20.0 million available based upon a borrowing base consisting of a percentage of eligible accounts receivable, real estate and fixed assets; interest payable monthly at the bank's prime rate or LIBOR plus from 1.00% to 3.00% and an unused commitment fee ranging from 0.25% to 0.50% based on the ratio of debt		

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

to earnings before depreciation, interest and taxes; the weighted average interest rate for 2000 was 8.7%; amounts outstanding are due May 1, 2003.....	--	12,250
Bank term debt -- interest is the same rate as the above bank line of credit; principal of \$762 is repayable quarterly through March 31, 2003; balance due at maturity May 1, 2003.....	--	11,940
Bank line of credit -- up to \$500 (Canadian dollars) available at HWC's option; interest is payable monthly at the bank's prime rate plus 0.25%; amounts outstanding are due on demand.....	--	87
Bank term debt -- interest is payable monthly at the bank's prime rate plus 0.50%; principal of \$300 (Canadian dollars) is repayable consisting of \$200 due at the end of April and \$50 at the end of July and October each year; balance due at maturity, December 2, 2004.....	--	799
Subordinated unsecured notes payable due January 31, 2001; interest payable quarterly at 7.00%.....	--	4,215
Subordinated unsecured note payable due May 1, 2002; interest payable quarterly at 7.00%.....	2,750	2,750
Subordinated notes payable due November 30, 2005; interest accrues at 7.00% annually; principal and interest are payable at a fixed amount for each day the acquired equipment is utilized.....	4,245	4,488
Subordinated note payable due September 30, 2003; interest payable quarterly at 6.50%.....	--	820
Convertible subordinated unsecured note payable due June 15, 2001; interest payable quarterly at 5.00%; convertible by holder into 200 shares of common stock.....	--	500
Other notes and capital lease obligations payable in monthly installments of principal and interest at various interest rates.....	30	156
	-----	-----
Total debt.....	77,833	140,243
Less: current maturities.....	3,894	37,629
	-----	-----
Total long-term debt.....	\$73,939	\$102,614
	=====	=====

63

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Scheduled maturities of combined long-term debt as of December 31, 2001, are as follows (in thousands):

YEAR ENDING DECEMBER 31,

2002.....	\$ 3,894
2003.....	3,791
2004.....	66,299
2005.....	283
2006.....	3,566

	\$77,833
	=====

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Current Debt Instruments

On February 14, 2001, OSI entered into a \$150 million senior secured revolving credit facility with a group of banks. Up to \$45.0 million of the credit facility is available in the form of loans denominated in Canadian dollars and may be made to our principal Canadian operating subsidiaries. This credit facility replaced our existing credit facilities. The facility matures on February 14, 2004, unless extended for up to two additional one-year periods with the consent of the lenders. Amounts borrowed under this new facility bear interest, at our election, at either:

- a variable rate equal to LIBOR (or, in the case of Canadian dollar denominated loans, the Bankers' Acceptance discount rate) plus a margin ranging from 1.5% to 2.5%; or
- an alternate base rate equal to the higher of the bank's prime rate and the federal funds effective rate plus 0.5% (or, in the case of Canadian dollar denominated loans, the Canadian Prime Rate) plus a margin ranging from 0.5% to 1.5%, depending upon the ratio of total debt to EBITDA (as defined in the new credit facility).

Commitment fees ranging from 0.25% to 0.5% per year are paid on the undrawn portion of the facility, also depending upon the ratio of total debt to EBITDA.

Subject to exceptions, commitments under our credit facility will be permanently reduced, and loans prepaid, by an amount equal to 100% of the net cash proceeds of all non-ordinary course asset sales and the issuance of additional debt and by 50% of the issuance of equity securities. Mandatory commitment reductions will be allocated pro rata based on amounts outstanding under the U.S. dollar denominated facility and the Canadian dollar denominated facility. In addition, voluntary reductions in commitments will be permitted.

The credit facility is guaranteed by all of our active domestic subsidiaries and, in some cases, our Canadian and other foreign subsidiaries. The credit facility is secured by a first priority lien on all the Company's inventory, accounts receivable and other material tangible and intangible assets, as well as those of our active subsidiaries. However, no more than 65% of the voting stock of any foreign subsidiary is required to be pledged if the pledge of any greater percentage would result in adverse tax consequences.

The credit facility contains negative covenants that restrict the Company's ability to borrow additional funds, pay dividends, sell assets except in the normal course of business and enter into other significant transactions.

Under our credit facility, the occurrence of specified change of control events involving our company would constitute an event of default that would permit the banks to, among other things, accelerate the maturity of the facility and cause it to become immediately due and payable in full.

As of December 31, 2001, we had \$65.8 million outstanding under this facility and an additional \$7.1 million of outstanding letters of credit leaving \$77.1 million available to be drawn under the facility. Our

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

at December 31, 2001 was 4.1%.

In conjunction with executing the \$150 million senior secured revolving credit facility on February 14, 2001, OSI recognized an extraordinary charge, net of tax benefit, of \$.78 million. In conjunction with executing amendments to a prior credit facility during 1999, OSI recognized an extraordinary charge of \$.9 million. These extraordinary charges are due to the write-off of deferred financing costs related to OSI's credit facilities and the payment of prepayment penalties in 2001 of \$.25 million.

On March 3, 2000, OSI entered into an overdraft credit facility providing for borrowings totaling L5.0 million for UK operations. On June 22, 2001 OSI renewed this overdraft credit facility for its UK operations providing for borrowings totaling L3.5 million. Interest is payable quarterly at a margin of 1.90% per annum over the bank's variable base rate. All borrowings under this facility are payable on demand.

Refinanced Debt Instruments

On March 1, 2000, OSI entered into a new credit agreement (the 2000 Agreement) providing for borrowings totaling \$25.9 million for US operations. From the proceeds of the initial borrowings, all U.S. borrowings under a prior credit agreement were repaid on March 1, 2000. The 2000 Agreement provided for \$4.9 million of term advances and up to \$21.0 million of borrowings on a revolving basis to OSI. The 2000 Agreement provided for the issuance of letters of credit, such issuance reducing the amount available for borrowing under the revolving portion of the facility. On March 1, 2000, \$12.4 million was available to borrow under the revolving portion of the 2000 Agreement. The 2000 Agreement has a scheduled termination date of March 1, 2003. The term advances were payable in 59 monthly principal installments of \$81,740 with the remainder due March 1, 2003. Borrowings under the 2000 Agreement carried variable interest rates payable monthly based upon prime, or eurodollar rate plus 2.25%, for the revolving loans and prime plus 0.25%, or eurodollar rate plus 2.5%, for the term loans. The commitment fee on the unused portion of the revolving facility was 0.375% per annum. The 2000 Agreement was secured by substantially all of OSI's assets and contains customary representations and warranties and events of default. The 2000 Agreement also required compliance with a number of affirmative, negative and financial covenants, including a limitation on the incurrence of indebtedness and a requirement that OSI maintain a specified net worth.

OSI had subordinated notes payable to Hunting Oilfield Services (International), Ltd. (Hunting) totaling \$10.9 million. Of the total, \$10.4 million was due on May 17, 2001, and the remaining \$0.5 million was due September 30, 2001. These notes carried an interest rate of 8.50%. Accrued interest was payable on March 31 of each year; however, interest payments were only required to be made if specified cumulative EBITDA thresholds were met. OSI did not meet such EBITDA thresholds for 1999 and 2000. As of December 31, 2000, interest of \$1.8 million had been accrued but not paid. These instruments were paid in full during 2001.

On July 31, 1997, OSI issued subordinated promissory notes totaling \$7.0 million payable to the stockholders of an acquired company. Principal of \$2.0 million was paid on July 31, 2000, with \$2.0 million due on July 31, 2001, and \$3.0 million due on July 31, 2002. These notes carried an interest rate of 8.0% with interest payable on July 31 of each year, beginning July 31, 1998. These notes were paid in full during 2001.

On February 28, 1998, OSI issued subordinated promissory notes totaling \$7.5 million payable to former SVI stockholders in conjunction with the SVI acquisition. Principal on these notes was payable in the amounts of \$0.5 million on February 28, 2001, \$1.5 million on August 31, 2001, \$1.5 million on February

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

2002, \$1.5 million on August 31, 2002 and \$1.5 million on February 28, 2003. Payments of \$.95 million had been made as of December 31, 2000. These notes carried an interest rate of 8.0% with interest payable on the last day of February 1999 and 2000, and on each payment date thereafter. These notes were paid in full during 2001.

65

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

On July 29, 2000 and July 31, 2000, OSI renegotiated terms with the holders of subordinated debt totaling \$7.0 million and \$7.0 million, respectively. Original maturities of the subordinated debt extending through February 2003 were accelerated to the earlier of April 30, 2001 or upon the occurrence of a registered public offering of capital stock, in exchange for the holders waiving their rights to scheduled maturities of principal and interest which were due prior to April 30, 2001. Interest increased from 8% to prime plus 4% until principle was paid in full in February 2001.

On December 31, 1998, OSI declared a dividend in the form of a subordinated note payable to SCF III, acting as agent for all of the common stockholders of OSI, in the amount of \$25.0 million. Principal and accrued interest at 6.0% was due on December 31, 2005. A portion of this debt was converted to common stock on February 14, 2001 with the remainder paid in cash.

On July 5, 2000, PTI signed an Amended and Restated Credit Agreement (PTI Amended Agreement) that included a revolving operating credit facility with Canadian banks. A portion of the facility was designated as the overdraft facility and the remainder of the facility was restricted by a margin limit based on the level of trade accounts receivable and inventories. Amounts outstanding under this facility were \$1.8 million as of December 31, 2000. This facility was available to the Company through direct advances, subject to the limits, and at the interest rates as described.

2000

Applicable interest rates:

Canadian prime based rate.....	7.50% + (0.00% - 0.50)%
Bankers' acceptances based rate.....	5.80% + (1.00% - 1.50)%

Under the PTI Amended Agreement, the scheduled loan repayments on the term revolving facility bank loan consist of quarterly installments of \$0.8 million, with payment commencing on August 31, 2000. The unused portion of this facility was \$8.2 million at December 31, 2000. Amounts drawn against the term revolving facility were available through direct advances and bankers' acceptances. The interest rate depends on the ratio of PTI's total debt to its earnings before interest, taxes, depreciation and amortization for the preceding 12 months and ranges from the Canadian prime rate of 7.50% at December 31, 2000 plus 0.50% to 1.00% for direct advances, and market rate of 5.80% at December 31, 2000 plus stamping fees of 1.50% to 2.00% for bankers' acceptances.

On August 16, 2000, PTI replaced a prior U.S. revolving credit facility with a new credit agreement (PTI U.S. Credit Agreement), which included a \$2.0 million revolving line of credit facility and a \$2.0 million non-revolving line of credit facility. The PTI U.S. Credit Agreement was with the same bank with applicable U.S. interest rates being prime based (at December 31, 2000, 9.50%

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

+/- 0.25%) or LIBOR based (at December 31, 2000, 6.80% + 1.75% to 2.50%). At December 31, 2000, \$1.6 million was drawn under this revolving line of credit facility.

On August 16, 2000, under the PTI U.S. Credit Agreement, a term loan was replaced by a \$6.5 million term loan facility. The scheduled loan repayments consist of monthly installments of \$0.1 million, from September 1, 2000 through February 1, 2005, at which time the remaining balance is due. This debt was repaid on February 14, 2001. This loan bore interest at United States prime (at December 31, 2000, 9.50% +/- 0.25%) or LIBOR (at December 31, 2000, 6.80% + 1.75% to 2.50%). Collateral provided against the operating credit facility and term revolving facility is a general security agreement, a fixed and floating charge debenture on the assets of PTI, pledge of all shares directly held in the capital stock of subsidiaries, joint and several guarantees from subsidiaries, assignment of accounts receivable, postponement of claims by the shareholders and assignment of insurance proceeds.

In connection with an acquisition, PTI issued a promissory note in the amount of \$3.5 million, repayable in three equal annual installments commencing June 16, 1999. This note was repaid during the year ended December 31, 2001. The previous term loan incurred interest at 7.50%, and was repayable monthly over three

66

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

years, commencing June 1999, with annual payments of \$0.3 million. Certain assets in the US are provided as collateral. On December 7, 2000, an additional term loan under the PTI U.S. Credit Agreement was established for \$1.0 million with repayment scheduled for March 7, 2001. This loan bears interest at the bank's prime (at December 31, 2000, 9.50%). Collateral provided is a first charge on specified U.S. assets. Certain assets in the US are provided as collateral.

Amounts owed the bank in previous years by HWC were secured by substantially all the assets of HWC. Each of HWC's subsidiaries as well as HWC were guarantors under those bank credit agreements. The bank credit agreement contained financial and other covenants that, among other things, restricted the amount of dividends HWC could pay and the amount of debt HWC could incur. HWC was required to pay an unused commitment fee ranging from 0.25% to 0.5% per annum of the amount of the unused commitment from the bank line of credit.

7. POSTRETIREMENT HEALTHCARE AND OTHER INSURANCE BENEFITS

The Company provides healthcare and other insurance benefits for approximately 650 eligible retired employees. This plan is no longer available to current employees. The healthcare plans are contributory and contain other cost-sharing features such as deductibles, lifetime maximums, and co-payment requirements.

	2001	2000
	-----	-----
	(IN THOUSANDS)	
Changes in accumulated postretirement benefit obligation:		
Benefit obligation at beginning of year.....	\$ 9,058	\$ 9,973
Interest cost on accumulated postretirement benefit		

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

obligation.....	618	849
Benefits paid.....	(1,100)	(1,299)
Actuarial (gain) loss.....	(1,420)	1,154
Settlement of life benefits.....	--	(1,619)
	-----	-----
Benefit obligation at end of year.....	\$ 7,156	\$ 9,058
	=====	=====

	2001	2000	1999
	----	-----	----
	(IN THOUSANDS)		
Components of net periodic benefit cost:			
Service cost, benefits earned during the period.....	\$ --	\$ --	\$ 24
Interest cost on accumulated postretirement benefit obligation.....	618	849	615
Amortization of net loss (gain).....	(16)	51	--
Amortization of prior service cost.....	79	78	10
Gain due to settlement of life benefits.....	--	(1,720)	--
	----	-----	----
Total net periodic benefit cost (benefit).....	\$681	\$ (742)	\$649
	=====	=====	=====

67

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

	2001	2000
	-----	-----
	(IN THOUSANDS)	
Accumulated postretirement benefit obligation:		
Retirees and dependent spouses.....	\$ 6,607	\$ 8,337
Other plan participants.....	549	721
	-----	-----
Total accumulated postretirement benefit obligation.....	7,156	9,058
Unrecognized prior service cost.....	(775)	(855)
Unrecognized net gain (loss).....	289	(1,204)
	-----	-----
Total liability included in the consolidated and combined balance sheets.....	6,670	6,999
Less: Current portion.....	(1,100)	(1,100)
	-----	-----
Noncurrent liability.....	\$ 5,570	\$ 5,899
	=====	=====

The healthcare plans are not funded, and the Company's policy is to pay these benefits as they are incurred.

In 2000, the Company amended the postretirement plan, which resulted in a \$1.6 million benefit obligation reduction. This amount was credited to expense in the fourth quarter of 2000.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

The accumulated benefit obligation was determined under an actuarial assumption using a healthcare cost trend rate of 7.5% for medical and 11.25% for prescription drugs in 2001, gradually declining to approximately 5% in the year 2009 and thereafter over the projected payout period of the benefits. The accumulated benefit obligations were determined using an assumed discount rate of 7.25% and 7.50% at December 31, 2001 and 2000, respectively. Under the plan's provisions, the Company's prescription costs are capped at annual benefit limits. Retirees are assumed to pay the portion of future prescription costs above the capped limit.

A one percentage-point increase or decrease in the assumed healthcare cost trend rates would be immaterial to the accumulated postretirement benefit obligation and net periodic benefit cost at December 31, 2001.

8. RETIREMENT PLANS

Prior to January 2002, the Company sponsored a number of defined contribution plans. Effective in January 2002, the Company merged its domestic defined contribution plans into a single plan sponsored by Oil States. Participation in these plans is available to substantially all employees.

The Company recognized expense of \$1.7 million, \$1.7 million and \$2.2 million related to its various defined contribution plans during the years ended December 31, 2001, 2000 and 1999, respectively.

68

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

9. REDEEMABLE PREFERRED STOCK

Redeemable preferred stock outstanding as of December 31, 2001 and 2000, is as follows (dollar amounts in thousands):

	SHARES OUTSTANDING	2001	2000
	-----	-----	-----
OSI			
Series A Cumulative Preferred Stock.....	143,000	\$ --	\$14,300
Series A Exchangeable Cumulative Preferred Stock.....	20,000	--	2,000
Series B Exchangeable Cumulative Preferred Stock.....	38,500	--	3,850
HWC			
Series A Convertible Preferred Stock.....	2,145	--	2,322
Series B Convertible Preferred Stock.....	2,717	--	2,821
		-----	-----
		\$ --	\$25,293
		=====	=====

Series A Cumulative Preferred Stock

As of December 31, 2000, OSI had 143,000 shares of Series A Cumulative Preferred Stock (Series A Preferred Stock), issued and outstanding with a par value of \$100 per share. The stock was issued to LTV Corporation (LTV) in conjunction with the acquisition of OSI (formerly Continental Emsco Company) in 1995. Holders of the Series A Preferred Stock were entitled to cumulative quarterly dividends which commenced on September 15, 1995, at the annual rate of

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

7.0% (\$7.00 per share). As of December 31, 2000, dividends of \$.07 million had been accrued but not paid. The holders of Series A Preferred Stock were not entitled to vote, except as specified in the Series A Preferred Stock designation. OSI or the holders of the Series A Preferred Stock could, at either party's option, redeem all or any part of the Series A Preferred Stock at \$100 per share (plus accrued and unpaid dividends), commencing September 15, 2000. On July 21, 2000, OSI obtained a waiver from LTV whereby LTV waived its rights to the optional redemption on September 15, 2000. LTV could request redemption at the earlier of April 30, 2001 or after completion of a registered public offering. Dividends increased from 7% to 12% effective as of September 15, 2001 as consideration for LTV executing the waiver. This preferred stock and accrued dividends were paid in full in February 2001 with the proceeds received in the Offering (See Note 2).

SERIES A EXCHANGEABLE CUMULATIVE PREFERRED STOCK

On July 15, 1997, OSI issued 45,000 shares of preferred stock having a par value of \$0.0001 per share, in connection with the acquisition of HydroTech. These shares, designated as Series A Exchangeable Cumulative Preferred Stock (Series A Exchangeable Preferred Stock), had a liquidation value of \$100 per share, plus any accrued and unpaid dividends, less any amounts due from former HydroTech stockholders. The acquisition agreement with HydroTech provided that 25,000 shares of the Series A Exchangeable Preferred Stock be placed in escrow and be released in accordance with earn-out requirements specified in the acquisition agreement. Holders of the Series A Exchangeable Preferred Stock were entitled to cumulative annual dividends commencing on July 15, 1998, at the annual rate of 7.0% (\$7.00 per share). As of December 31, 2000, dividends of \$.2 million had been accrued but not paid. Each share of Series A Exchangeable Preferred Stock was exchangeable, prior to July 15, 2002, into a number of shares of OSI's Class A common stock determined by dividing the liquidation value as of the conversion date by the exchange price. The exchange price was defined as \$15.00 plus 80% times the excess of the fair market value of OSI's common stock on the date of exchange over \$15.00. All unexchanged shares of Series A Exchangeable Preferred Stock outstanding on July 15, 2002 would automatically be redeemed at a redemption price equal to liquidation value. OSI also has the option, upon the occurrence of events specified in the Series A

69

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Exchangeable Preferred Stock certificate of designation, to redeem all or any portion of the Series A Exchangeable Preferred Stock at a redemption price equal to liquidation value. The holders of Series A Exchangeable Preferred Stock were not entitled to vote. During 1998, OSI purchased 25,000 shares, placed in escrow for \$0.01 per share, in accordance with the provisions of the acquisition agreement as HydroTech failed to meet the specified earn-out requirements. The difference of \$2.5 million was treated as a reduction in goodwill. This preferred stock and accrued dividends were paid in full in February 2001 with the proceeds received in the Offering (See Note 2).

Series B Exchangeable Cumulative Preferred Stock

On July 15, 1997, OSI issued 38,500 shares of preferred stock having a par value of \$0.0001 per share in connection with the acquisition of HydroTech. These shares, designated as Series B Exchangeable Cumulative Preferred Stock (Series B Exchangeable Preferred Stock), had a liquidation value of \$100 per share, plus any accrued and unpaid dividends, less any amounts due from former HydroTech stockholders. Holders of the Series B Exchangeable Preferred Stock were entitled to cumulative annual dividends commencing on July 15, 1998, at the

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

annual rate of 3.1% (\$3.10 per share). As of December 31, 2000, dividends of \$.17 million had been accrued but not paid. Each share of Series B Exchangeable Preferred Stock was exchangeable, prior to July 15, 2004, into a number of shares of OSI's Class A common stock determined by dividing the liquidation value as of the conversion date by the exchange price of \$12.80 per share. All unexchanged shares of Series B Exchangeable Preferred Stock outstanding on July 15, 2004 would automatically be redeemed at a redemption price equal to liquidation value. OSI also has the option, upon the occurrence of events specified in the Series B Exchangeable Preferred Stock certificate of designation, to redeem all or any portion of the Series B Exchangeable Preferred Stock at a redemption price equal to liquidation value. The holders of Series B Exchangeable Preferred Stock were not entitled to vote. This preferred stock and accrued dividends were paid in full in February 2001 with the proceeds received in the Offering (See Note 2).

Series A Redeemable Convertible Preferred Stock

In connection with the 1999 acquisition of C&H, HWC issued 2,145 shares of a new Series A class of redeemable convertible preferred stock (Redeemable Series A Preferred Stock). The shares were redeemable with a liquidation preference of \$1,000 per share. The preferred shares accrued dividends at the rate of 6.5% per annum. HWC accrued the cumulative unpaid dividends totaling \$.18 million at December 31, 2000. The Redeemable Series A Preferred Stock shall be redeemed as a whole by HWC on March 31, 2004, at a redemption price of \$1,000 per share, plus all accrued and unpaid dividends to the date of the redemption. The holders of the Redeemable Series A Preferred Stock had the right to convert, at any time, all or any shares into common stock of HWC based on the liquidation value of the preferred stock, including accrued but unpaid dividends, on such date based upon pre-established formulas defined in the agreement. This preferred stock and accrued dividends were converted into common stock in February 2001 (See Note 2).

Series B Redeemable Convertible Preferred Stock

In connection with the 1999 acquisition of two unrelated companies, HWC issued 2,650 shares of a new Series B class of redeemable convertible preferred stock (Redeemable Series B Preferred Stock). The shares were redeemable with a liquidation preference of \$1,000 per share. The preferred shares accrued dividends at the rate of 6.5% per annum. HWC accrued the cumulative unpaid dividends totaling \$.1 million at December 31, 2000. The Redeemable Series B Preferred Stock shall be redeemed as a whole by HWC on October 30, 2004, at a redemption price of \$1,000 per share, plus all accrued and unpaid dividends to the date of the redemption. The holders of the Redeemable Series B Preferred Stock had the right to convert, at any time, all or any shares into common stock of HWC based on the liquidation value of the preferred stock, including accrued but unpaid dividends, on such date based upon pre-established formulas defined in the

70

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

agreement. This preferred stock and accrued dividends were converted into common stock in February 2001 (See Note 2).

10. CONVERTIBLE PREFERRED STOCK

On July 31, 1997, OSI issued 16,250 shares of preferred stock, having a par value of \$.0001 per share, in connection with the acquisition of SMATCO. These shares, designated as Series A Convertible Cumulative Preferred Stock

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

(Convertible Preferred Stock), had a liquidation value of \$100 per share, plus any accrued and unpaid dividends. Holders of the Convertible Preferred Stock are entitled to cumulative annual dividends commencing on July 31, 1998, at the annual rate of 3.0% (\$3.00 per share). As of December 31, 2000, dividends of \$.07 million had been accrued but not paid. Each share of Convertible Preferred Stock was convertible into a number of shares of OSI's Class A common stock determined by dividing the liquidation value as of the conversion date by the conversion price of \$15.00 per share. Conversion was optional, prior to August 1, 2002, subject to the occurrence of events specified in the Convertible Preferred Stock certificate of designation. On August 1, 2002, each share of Convertible Preferred Stock outstanding would automatically convert as described above. Upon the occurrence of events specified in the Convertible Preferred Stock certificate of designation, OSI had the option to redeem all or any portion of unconverted Convertible Preferred Stock at liquidation value. The holders of Convertible Preferred Stock were not entitled to vote. This preferred stock and accrued dividends were paid in full in February 2001 with the proceeds received in the Offering (See Note 2).

11. INCOME TAXES

Consolidated pre-tax income (loss) from continuing operations for the years ended December 31, 2001, 2000 and 1999 consists of the following (in thousands):

	2001	2000	1999
	-----	-----	-----
US operations.....	\$21,899	\$(2,915)	\$(13,808)
Foreign operations.....	25,211	19,387	10,913
	-----	-----	-----
Total.....	\$47,110	\$16,472	\$ (2,895)
	=====	=====	=====

The components of the income tax provision for continuing operations before extraordinary items for the years ended December 31, 2001, 2000 and 1999 consist of the following (in thousands):

	2001	2000	1999
	-----	-----	-----
Current:			
Federal.....	\$ 2,451	\$ 2,085	\$1,009
State.....	1,450	54	(65)
Foreign.....	9,657	9,523	4,229
	-----	-----	-----
	13,558	11,662	5,173
	-----	-----	-----
Deferred:			
Federal.....	(12,153)	(839)	(940)
State.....	(209)	--	--
Foreign.....	858	(47)	421
	-----	-----	-----
	(11,504)	(886)	(519)
	-----	-----	-----
Total Provision.....	\$ 2,054	\$10,776	\$4,654
	=====	=====	=====

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

71

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The provision for taxes for continuing operations, before extraordinary items, differs from an amount computed at statutory rates as follows for the years ended December 31, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
	-----	-----	-----
Federal tax expense (benefit) at statutory rates.....	\$ 16,490	\$ 5,600	\$ (984)
Foreign income tax rate differential.....	2,472	517	151
Reduced foreign tax rates.....	--	1,183	480
Nondeductible expenses.....	2,867	1,670	1,550
Foreign distributions.....	6,650	--	--
Net operating loss (utilized) not benefited.....	--	(187)	2,741
State tax expense (benefit), net of federal benefits....	1,296	(161)	(121)
Manufacturing and processing profits deduction.....	(782)	(620)	(295)
Adjustment of valuation allowance.....	(26,939)	2,876	1,279
Other, net.....	--	(102)	(147)
	-----	-----	-----
Net income tax provision.....	\$ 2,054	\$10,776	\$4,654
	=====	=====	=====

The significant items giving rise to the deferred tax assets and liabilities as of December 31, 2001 and 2000 are as follows (in thousands):

	2001	2000
	-----	-----
Deferred tax assets		
Net operating loss carryforward.....	\$ 31,913	\$ 46,909
Allowance for doubtful accounts.....	547	453
Inventory.....	1,330	961
Employee benefits.....	3,408	2,407
Depreciation.....	1,531	924
Other, net.....	5,230	6,005
	-----	-----
Total deferred tax assets.....	43,959	57,659
Less: valuation allowance.....	(28,104)	(55,043)
	-----	-----
Net deferred tax assets.....	15,855	2,616
	-----	-----
Deferred tax liabilities		
Depreciation.....	(22,901)	(22,232)
Other intangibles.....	--	(182)
Inventories.....	(185)	(369)
Other.....	(1,205)	(179)
	-----	-----
Total deferred tax liabilities.....	(24,291)	(22,962)
	-----	-----
Net deferred tax (liabilities).....	\$ (8,436)	\$ (20,346)
	=====	=====

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

For US federal income tax purposes, the Company has net operating loss carryforwards of approximately \$93.7 million for regular income taxes that will expire in the years 2005 through 2020. A portion of the Company's net operating loss carryforwards are subject to limitations under Section 382 of the Internal Revenue Code of 1986, as amended. Based on these limitations, the years the carryforwards expire, and the uncertainty in achieving levels of taxable income required for their utilization, the Company has provided a valuation allowance on a portion of these carryforwards. The Company has federal alternative minimum tax net operating loss carryforwards of \$75.2 million, which will expire in the years 2005 through 2020.

Appropriate US and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted in the near future. The cumulative amount of undistributed

72

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

earnings of foreign subsidiaries that the company intends to permanently reinvest and upon which no deferred US income taxes have been provided is \$30.1 million at December 31, 2001. The company anticipates that there would be no material incremental US tax due on the unremitted foreign earnings, if ever repatriated, as any additional US Tax should be offset in whole or in part by foreign tax credits.

A portion of the deferred tax assets associated with property, plant and equipment and net operating loss carryforwards relates to our Canadian subsidiary's Chilean operation. Because these deferred tax assets can only be realized against income earned in Chile, a valuation allowance has been provided. The operating loss carryforwards of approximately \$2.9 million are available to reduce future years taxable income, with no expiration date.

12. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the years ended December 31, 2001, 2000 and 1999, for interest and income taxes was as follows (in thousands):

	2001	2000	1999
	-----	-----	-----
Interest.....	\$12,366	\$7,828	\$11,610
Income taxes, net of refunds.....	\$12,736	\$9,187	\$ 8,107

Components of cash used for acquisitions as reflected in the consolidated statements of cash flows for the years ended December 31, 2001, 2000 and 1999, are summarized as follows (in thousands):

	2001	2000	1999
	-----	-----	-----
Fair value of assets acquired and goodwill.....	\$ 7,766	\$ 4,500	\$14,945
Liabilities assumed.....	(1,795)	--	(2,168)
Noncash consideration.....	--	(1,000)	(5,522)

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Less: cash acquired.....	(852)	--	(38)
	-----	-----	-----
Cash used in acquisition of businesses.....	\$ 5,119	\$ 3,500	\$ 7,217
	=====	=====	=====

Other noncash transactions included the receipt of noncash consideration in 1999 for businesses sold by OSI totaling \$57.4 million.

13. COMMITMENTS AND CONTINGENCIES

The Company leases a portion of its equipment, office space, computer equipment, automobiles and trucks under leases which expire at various dates.

Minimum future operating lease obligations in effect at December 31, 2001, are as follows (in thousands):

	OPERATING LEASES		

2002.....	\$ 3,897		
2003.....	3,153		
2004.....	2,233		
2005.....	1,800		
2006.....	772		
Thereafter.....	3,055		

Total.....	\$14,910		
	=====		

Rental expense under operating leases was \$3.9 million, \$3.0 million and \$3.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

73

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

As of December 31, 2000, OSI had entered into forward purchase contracts through March 30, 2001 with a bank totaling \$3.2 million for the purchase of foreign currency as a hedge to existing receivable balances. The contract purchase rates were not significantly different from the December 31, 2000 currency exchange rates.

The Company is involved in various claims, lawsuits and other proceedings relating to a wide variety of matters. While uncertainties are inherent in the final outcome of such matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management believes that the resolution of such uncertainties and the incurrence of such costs will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company is aware that certain energy service companies that have in the past used asbestos in connection with the manufacture of equipment or otherwise in the operation of their business have become the subject of increased asbestos related litigation. Since September 30, 2001, subsidiaries of the Company have been named as defendants in two cases by plaintiffs seeking damages, including punitive damages, alleging that our subsidiaries have responsibility for two

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

individuals developing mesothelioma as a result of exposure to asbestos. Although these are the only cases that management is aware that are pending or threatened against the Company or its subsidiaries involving allegations relating to asbestos exposure, there can be no assurance that other asbestos related claims will not be made. Based on management's preliminary investigation, management does not believe that these two cases or future claims relating to asbestos exposure will have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

14. RELATED-PARTY TRANSACTIONS

The Company incurred legal fees totaling \$.24 million in 2001 for services rendered by a law firm in connection with a possible acquisition of a company. A member of our Board of Directors is a partner with that law firm. No transaction resulted from the acquisition effort.

The company currently rents land and buildings from an officer of the Company and pays a monthly rent of \$5,100. Such officer was the previous owner of a business acquired by Oil States.

L. E. Simmons & Associates Incorporated, from time to time, has served as financial advisor to the Company as it explored opportunities for mergers, acquisitions or divestitures. Professional advisory fees and out-of-pocket expenses totaling approximately \$.08 million and \$.12 million were paid to L. E. Simmons & Associates, Incorporated, in 2000 and 1999, respectively.

On December 31, 1998, OSI declared a \$25.0 million dividend in the form of a subordinated note payable to SCF III, acting as agent for all common stockholders of OSI (See Note 6).

HWC paid consulting fees of approximately \$.4 million in 1999 to three former owners of Hydraulic Well Control, Inc., one of which was a board member of HWC.

15. STOCK-BASED COMPENSATION

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which requires the Company to record stock-based compensation at fair value. The Company has adopted the disclosure requirements of SFAS No. 123 and has elected to record employee compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees."

The Company accounts for its employee stock-based compensation plan under APB Opinion No. 25 and its related interpretations. Accordingly, any deferred compensation expense is recorded for stock options based on the excess of the market value of the common stock on the date the options were granted over the aggregate exercise price of the options. This deferred compensation is amortized over the vesting period of

74

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

each option. The Company is authorized to grant 3,700,000 stock options under the 2001 Equity Participation Plan (the Stock Option Plan) to employees, consultants and directors with amounts, exercise prices and vesting schedules determined by the Company's compensation committee. As the exercise price of options granted under the Stock Option Plan have been equal to or greater than the market price of the Company's stock on the date of grant, no compensation expense related to this plan has been recorded. Had compensation expense for its

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Stock Option Plan been determined consistent with SFAS No. 123, the Company's net income (loss) and earnings per share at December 31, 2001, 2000 and 1999, would have been as follows (in thousands, except per share amounts):

	2001	2000	1999
Net income (loss):			
As reported.....	\$42,676	\$1,448	\$(14,282)
Pro forma.....	41,136	836	(14,357)
Pro forma income (loss) per share:			
Basic.....	\$.91	\$.02	\$ (0.63)
Diluted.....	.89	.02	(0.63)

STOCK OPTION PLAN		
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 1998.....	1,020,873	\$10.05
Granted.....	114,795	6.13
Exercised.....	(85,880)	6.27
Forfeited.....	(288,835)	14.03

Balance at December 31, 1999.....	760,953	8.37
Granted.....	118,377	8.95
Exercised.....	(14,562)	8.65
Forfeited.....	(27,897)	12.36

Balance at December 31, 2000.....	836,871	8.31
Granted.....	1,389,060	8.02
Exercised.....	(75,820)	5.94
Forfeited.....	(94,619)	7.95

Balance at December 31, 2001.....	2,055,492	8.24
=====		
Exercisable at December 31, 1999.....	294,679	8.93
Exercisable at December 31, 2000.....	435,616	8.64
Exercisable at December 31, 2001.....	717,533	7.98

75

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes information for stock options outstanding at December 31, 2001:

OPTIONS OUTSTANDING	OPTIONS EXERCISABLE
WEIGHTED	

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AS OF 12/31/2001	AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AS OF 12/31/2001	WEIGHTED AVERAGE EXERCISE PRICE
\$5.6659 - \$5.7686	732,111	2.88	\$ 5.7247	471,401	\$ 5.7247
\$6.2700 - \$6.5432	113,772	3.17	\$ 6.3606	96,995	\$ 6.3606
\$8.1790 - \$8.6529	238,008	7.66	\$ 8.3874	55,796	\$ 8.3874
\$9.0000 - \$9.8148	838,866	8.98	\$ 9.0183	--	\$ 9.0183
\$11.4506 - \$19.8000	112,733	2.52	\$16.4277	75,003	\$16.4277
\$30.0000 - \$30.0000	20,002	3.46	\$30.0000	18,338	\$30.0000
	-----	----	-----	-----	-----
\$5.6659 - \$30.0000	2,055,492	5.93	\$ 8.2356	717,533	\$ 8.2356

At December 31, 2001, 1,468,688 options were available for future grant under the Stock Option Plan.

The weighted average fair values of options granted during 2001, 2000, and 1999 were \$5.48, \$1.98, and \$1.66 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2001, 2000, and 1999, respectively: risk-free interest rates of 5.0%, 4.9%, and 6.3%, no expected dividend yield, expected lives of 8.3, 5.3, and 5.6 years, and an expected volatility of 45%, 0% and 0%.

In February 2001, the Company granted a restricted stock award totaling 100,000 shares. The total value of this award at award date (\$.9 million) is being amortized as compensation expense over its three-year vesting period.

16. DISCONTINUED OPERATIONS

On May 28, 1999, in one transaction, CE Distribution sold all of its distribution net assets for two senior subordinated notes receivable totaling \$30.0 million, and OSI sold its 51.8% investment in CE Franklin for marketable securities with a fair market value of \$24.7 million on the date of sale. The combined transaction resulted in a loss on sale of approximately \$17.2 million, net of income tax benefit of \$.19 million. Included in the loss on sale is a provision for operating losses of \$12.4 million, net of income tax benefit of \$.8 million, recorded during the phaseout period. In June 1999, one of the senior subordinated notes in the amount of \$14.5 million, plus accrued interest at LIBOR plus 2.75%, was paid in full. In July 1999, the second senior subordinated note in the amount of \$15.5 million, plus accrued interest at LIBOR plus 2.75%, was paid in full. Subsequent to May 28, 1999, all of the marketable securities were sold at a loss of \$.33 million. On June 21, 2000, OSI returned \$1.8 million of the purchase price to the buyer for indemnification of specified post-closing liabilities. Additional adjustments to the purchase price are possible and management believes the amounts accrued are adequate to cover any exposure.

On May 28, 1999, in a separate transaction, CE Distribution sold all of its "oil country tubular" related assets to Sooner for cash of \$7.4 million and \$2.0 million of noncash consideration for the cancellation of the subordinated promissory note discussed in Note 6, resulting in a loss on sale of \$.7 million. As a result of the above-mentioned transactions, CE Distribution ceased operations in 1999.

On July 7, 1999, CE Drilling sold all of its operating net assets, which included the net assets of CE Mobile, for \$65.0 million in cash resulting in a loss on sale of \$4.9 million, net of income tax expense of \$.07 million. Included in the loss on sale is operating income of \$.26 million, net of income

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

tax expense of \$.01 million, recorded during the phase out period. The purchase price was subject to adjustments as defined in the agreement. During 1999, an additional accrual of \$5.7 million, net of income tax expense of

76

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

\$.22 million, was recorded primarily to accrue for a revision of the purchase price. On April 17, 2000, OSI settled the purchase price adjustment and returned \$6.9 million of the purchase price to the buyer; however, there are some outstanding claims which remain to be settled and management believes the amounts accrued are adequate to cover any exposure. As a result of the above-mentioned transaction, CE Drilling and CE Mobile ceased operations in 1999.

The results of CE Distribution, CE Franklin, CE Drilling, and CE Mobile are shown as discontinued operations. Components of amounts reflected in the accompanying combined statements of operations and cash flows as of and for the year ended December 31, 1999 is presented in the following table (in thousands):

	1999

Operations data:	
Revenues.....	\$141,489
Costs and expenses.....	147,385

Operating (loss) income.....	(5,896)
Interest expense.....	2,371
Other expense.....	4,710
Income tax (benefit) expense.....	(793)
Amount reserved in 1998 for 1999 losses.....	(12,184)

Income from discontinued operations.....	\$ --
	=====
Cash flow data:	
Cash flows from operations.....	\$(12,251)
Cash flows from investing activities.....	\$ --
Cash flows from financing activities.....	8,092

Net cash used in discontinued operations.....	\$ (4,159)
	=====

17. 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: Offshore Products, Wellsite Services 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 acquired as a unit, and the management at the time of the acquisition was retained.

Financial information by industry segment for each of the three years ended December 31, 2001, 2000 and 1999, is summarized in the following table in

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

thousands. The Company evaluates performance and allocates resources based on EBITDA as defined, which is calculated as operating income adding back depreciation and amortization. Calculations of EBITDA as defined should not be viewed as a substitute to calculations under accounting principles generally accepted in the US, in particular operating income and net income. In addition, EBITDA calculations by one company may not be comparable to another company. The

77

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

accounting policies of the segments are the same as those described in the summary of significant accounting policies.

	OFFSHORE PRODUCTS	WELLSITE SERVICES	TUBULAR SERVICES	CORPORATE AND ELIMINATIONS	TOTAL
	-----	-----	-----	-----	-----
2001					
Revenues from unaffiliated customers.....	\$129,349	\$239,777	\$302,079	\$ --	\$671,205
	=====	=====	=====	=====	=====
EBITDA as defined.....	13,008	63,931	12,242	(5,446)	83,735
Depreciation and amortization.....	6,420	16,522	1,786	3,311	28,039
	-----	-----	-----	-----	-----
Operating income (loss).....	6,588	47,409	10,456	(8,757)	55,696
	=====	=====	=====	=====	=====
Capital expenditures.....	4,708	24,131	732	100	29,671
	=====	=====	=====	=====	=====
Total assets.....	136,527	241,621	148,491	3,244	529,883
	=====	=====	=====	=====	=====
2000					
Revenues from unaffiliated customers.....	\$114,594	\$189,955	\$ --	\$ --	\$304,549
	=====	=====	=====	=====	=====
EBITDA as defined.....	4,946	45,514	--	(1,259)	49,201
Depreciation and amortization.....	6,568	14,740	--	6	21,314
	-----	-----	-----	-----	-----
Operating (loss) income.....	(1,622)	30,774	--	(1,265)	27,887
	=====	=====	=====	=====	=====
Capital expenditures.....	2,476	18,907	--	--	21,383
	=====	=====	=====	=====	=====
Total assets.....	140,846	208,641	--	4,031	353,518
	=====	=====	=====	=====	=====
1999					
Revenues from unaffiliated customers.....	\$154,330	\$112,780	\$ --	\$ --	\$267,110
	=====	=====	=====	=====	=====
EBITDA as defined.....	4,788	26,385	--	--	31,173
Depreciation and amortization.....	7,476	12,799	--	--	20,275
	-----	-----	-----	-----	-----
Operating income (loss).....	(2,688)	13,586	--	--	10,898
	=====	=====	=====	=====	=====
Capital expenditures.....	2,638	8,659	--	--	11,297
	=====	=====	=====	=====	=====

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Total assets.....	=====	=====	=====	=====	=====
	157,718	197,826	--	--	355,544
	=====	=====	=====	=====	=====

Financial information by geographic segment for each of the three years ended December 31, 2001, 2000 and 1999, is summarized below in thousands. Revenues in the US include export sales. Revenues are attributable to countries based on the location of the entity selling the products or performing the services. Total assets are attributable to countries based on the physical location of the entity and its operating assets and do not include intercompany balances and the net assets of discontinued operations.

78

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

	UNITED STATES	CANADA	UNITED KINGDOM	OTHER NON-US	TOTAL
	-----	-----	-----	-----	-----
2001					
Revenues from unaffiliated customers.....	\$451,690	\$108,685	\$41,138	\$69,692	\$671,205
Long-lived assets.....	279,783	19,144	17,698	10,637	327,262
2000					
Revenues from unaffiliated customers.....	\$154,746	\$101,624	\$29,149	\$19,030	\$304,549
Long-lived assets.....	170,105	52,200	19,162	13,373	254,840
1999					
Revenues from unaffiliated customers.....	\$171,221	\$ 56,221	\$26,995	\$12,673	\$267,110
Long-lived assets.....	160,748	56,408	21,455	11,048	249,659

One customer in the year ended December 31, 2001 accounted for 6.4% of our revenues. No other customer accounted for more than 5% of our revenues in the periods presented.

79

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for 2001, 2000 and 1999 as follows (in thousands, except per share amounts):

	FIRST QUARTER (1)	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER (1)
	-----	-----	-----	-----
2001				
Revenues.....	\$ 142,976 (2)	\$175,333	\$173,510	\$179,386

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Gross profit*.....	34,798	33,711	33,120	31,784
Income from continuing operations.....	11,814	10,261	10,302	11,083
Extraordinary loss.....	(784)	--	--	--
Net income.....	11,030	10,261	10,302	11,083
Basic earnings per share:				
Continuing operations.....	0.32	0.21	0.21	0.23
Extraordinary loss.....	(0.02)	--	--	--
Net income.....	0.30	0.21	0.21	0.23
Diluted earnings per share:				
Continuing operations.....	0.31	0.21	0.21	0.23
Extraordinary loss.....	(0.02)	--	--	--
Net income.....	0.29	0.21	0.21	0.23
2000				
Revenues.....	\$ 88,227	\$ 68,160	\$ 67,525	\$ 80,637
Gross profit*.....	28,204	17,535	18,904	22,305
Net income (loss).....	3,028	(1,840)	(1,071)	1,331
Basic earnings (loss) per share.....	0.12	(0.08)	(0.04)	0.05
Diluted earnings (loss) per share.....	0.11	(0.08)	(0.04)	0.05
1999				
Revenues.....	\$ 71,314	\$ 64,328	\$ 63,658	\$ 67,810
Gross profit*.....	19,729	14,815	17,688	15,013
Loss from continuing operations.....	(622)	(3,232)	(221)	(2,864)
Loss from discontinued operations.....	--	(701)	--	(5,715)
Extraordinary loss.....	--	(349)	(578)	--
Net loss.....	(622)	(4,282)	(799)	(8,579)
Basic and diluted loss per share:				
Continuing operations.....	(0.03)	(0.14)	(0.01)	(0.12)
Discontinued operations.....	--	(0.03)	--	(0.25)
Extraordinary loss.....	--	(0.02)	(0.02)	--
Net loss.....	(0.03)	(0.19)	(0.03)	(0.37)

* Represents revenues less costs of sales.

- (1) Our business in the Wellsite Services segment, particularly in Canada, is seasonal with the highest activity occurring in the winter months.
- (2) Effective, February 14, 2001, the Company acquired Sooner and results of Sooner are included from acquisition date.

80

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

19. VALUATION ALLOWANCES

Activity in the valuation accounts was as follows (in thousands):

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	TRANSLATION AND OTHER, NET	BALANCE AT END OF PERIOD
	-----	-----	-----	-----	-----
Year Ended December 31, 2001:					
Allowance for doubtful accounts receivable.....	\$2,155	\$1,064	\$ (729)	\$243	\$2,733

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

Reserve for inventories.....	4,915	1,119	(740)	403	5,697
Reserves related to					
discontinued operations....	6,512	--	(403)	--	6,109
Year Ended December 31, 2000:					
Allowance for doubtful					
accounts receivable.....	\$2,177	\$ 580	\$ (558)	\$ (44)	\$2,155
Reserve for inventories.....	4,620	778	(447)	(36)	4,915
Reserves related to					
discontinued operations....	17,529	--	(11,017)	--	6,512
Year Ended December 31, 1999:					
Allowance for doubtful					
accounts receivable.....	\$1,686	\$1,121	\$ (557)	\$ (73)	\$2,177
Reserve for inventories.....	4,554	773	(729)	22	4,620
Provision for operating loss					
during phaseout period					
included in net assets of					
discontinued operations....	12,977	--	(12,977)	--	--
Reserves related to					
discontinued operations....	13,511	4,000	(182)	200	17,529

81

INDEX TO EXHIBITS

EXHIBIT

- 3.1 -- Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 3.2 -- Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 3.3 -- Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 4.1 -- Form of common stock certificate (incorporated by reference to Exhibit 4.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 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 Commission on March 30, 2001).
- 10.1 -- Combination Agreement dated as of July 31, 2000 by and among Oil States International, Inc., HWC Energy Services, Inc., Merger Sub-HWC, Inc., Sooner Inc., Merger Sub-Sooner, Inc. and PTI Group Inc. (incorporated by reference to Exhibit 10.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.2 -- Plan of Arrangement of PTI Group Inc. (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

- filed with the Commission on March 30, 2001).
- 10.3 -- Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.4 -- Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.5** -- 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.6** -- Form of Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.7** -- Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.8** -- Executive Agreement between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).

EXHIBIT

- 10.9** -- Executive Agreement between Oil States International, Inc. and Cindy B. Taylor (incorporated by Reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
- 10.10** -- Form of Executive Agreements between Oil States International, Inc. and Named Executive Officers (Messrs. Hughes and Chaddick) (incorporated by reference to Exhibit 10.10 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.11** -- Form of Change of Control Severance Plan for Selected Members of Management (incorporated by reference to Exhibit 10.11 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.12 -- Credit Agreement among Oil States International, Inc., PTI Group Inc., the Lenders named therein, Credit Suisse First Boston, Credit Suisse First Boston Canada, Hibernia National Bank and Royal Bank of Canada (incorporated by reference to Exhibit 10.12 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.13A** -- Restricted Stock Agreement, dated February 8, 2001, between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.13A of Oil States Report on Form 10Q filed May 15, 2001).
- 10.13B** -- Restricted Stock Agreement, dated February 22, 2001, between Oil States International, Inc. and Douglas E.

Edgar Filing: OIL STATES INTERNATIONAL INC - Form 10-K405

- Swanson (incorporated by reference to Exhibit 10.13B of Oil States Report on Form 10Q filed May 15, 2001).
- 10.14** -- Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 of Oil States' Registration Statement No. 333-43400 on Form S-1).
 - 10.15** -- Compensation Letter Agreement between HWC Energy Services, Inc. and Jay Trahan (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
 - 10.16*,** -- Form of Executive Agreement between Oil States International, Inc. and named Executive Officer (Mr. Slator).
 - 16.1 -- Letter Regarding Change in Certifying Accountant (incorporated by reference to Exhibit 16.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).
 - 21.1* -- List of subsidiaries of the Company.
 - 23.1* -- Consent of Ernst & Young LLP.
 - 23.2* -- Consent of Pricewaterhousecoopers LLP.
 - 23.3* -- Consent of Arthur Andersen LLP.
 - 24.1* -- Powers of Attorney for Directors.

* Filed herewith

** Management contracts or compensatory plans or arrangements