OIL STATES INTERNATIONAL, INC
Form 10-Q
July 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-16337

OIL STATES INTERNATIONAL, INC.
____
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES [X] NO [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES [X] NO [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]

As of July 27, 2018, the number of shares of common stock outstanding was 59,985,264.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES
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PART I – FINANCIAL INFORMATION
ITEM 1. Financial Statements
OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Products	$136,182	$82,750	$265,008	$155,930
Service	149,663	88,652	274,413	166,939
	285,845	171,402	539,421	322,869
Costs and expenses:				
Product costs	95,324	59,309	188,300	109,659
Service costs	118,079	72,539	214,993	141,101
Selling, general and administrative expense	35,919	29,482	70,114	57,212
Depreciation and amortization expense	30,922	27,784	60,112	55,764
Other operating (income) expense, net	(3,099)	794	(1,884)	963
	277,145	189,908	531,635	364,699
Operating income (loss)	8,700	(18,506)	7,786	(41,830)
Interest expense	(4,913)	(1,149)	(9,446)	(2,223)
Interest income	123	85	202	170
Other income	571	273	1,218	270
Income (loss) before income taxes	4,481	(19,297)	(240)	(43,613)
Income tax (provision) benefit	(1,739)	5,051	(510)	11,689
Net income (loss)	$2,742	$(14,246)	$(750)	$(31,924)
Net income (loss) per share:				
Basic	$0.05	$(0.28)	$(0.01)	$(0.63)
Diluted	0.05	(0.28)	(0.01)	(0.63)
Weighted average number of common shares outstanding:				
Basic	59,005	50,232	58,396	50,296
Diluted	59,005	50,232	58,396	50,296

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$2,742	$(14,246)	$(750)	$(31,924)
Other comprehensive income (loss):				
Currency translation adjustments	(13,733)	5,139	(8,699)	8,633
Comprehensive loss	$(10,991)	$(9,107)	$(9,449)	$(23,291)

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

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$29,102	$53,459
Accounts receivable, net	289,806	216,139
Inventories, net	205,057	168,285
Prepaid expenses and other current assets	22,592	18,054
Total current assets	546,557	455,937
Property, plant, and equipment, net	537,701	498,890
Goodwill, net	658,034	268,009
Other intangible assets, net	253,966	50,265
Other noncurrent assets	28,868	28,410
Total assets	$2,025,126	$1,301,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capitalized leases	$535	$411
Accounts payable	69,416	49,089
Accrued liabilities	56,300	45,889
Income taxes payable	1,716	1,647
Deferred revenue	14,907	18,234
Total current liabilities	142,874	115,270
Long-term debt and capitalized leases	349,245	4,870
Deferred income taxes	57,066	24,718
Other noncurrent liabilities	25,288	23,940
Total liabilities	574,473	168,798
Stockholders' equity:		
Common stock, $.01 par value, 200,000,000 shares authorized, 71,760,769 shares and 62,721,698 shares issued, respectively	718	627
Additional paid-in capital	1,085,927	754,607
Retained earnings	1,047,873	1,048,623
Accumulated other comprehensive loss	(67,192)	(58,493)
Treasury stock, at cost, 11,779,505 and 11,632,276 shares, respectively	(616,673)	(612,651)
Total stockholders' equity	1,450,653	1,132,713
Total liabilities and stockholders' equity	$2,025,126	$1,301,511

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

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2017	$ 627	$754,607	$1,048,623	$ (58,493)	$(612,651)	$1,132,713
Net loss	—	—	(750)	—	—	(750)
Currency translation adjustments (excluding intercompany advances)	—	—	—	(6,138)	—	(6,138)
Currency translation adjustments on intercompany advances	—	—	—	(2,561)	—	(2,561)
Stock-based compensation expense:						
Restricted stock	4	10,557	—	—	—	10,561
Stock options	—	300	—	—	—	300
Issuance of common stock in connection with GEODynamics acquisition	87	294,823	—	—	—	294,910
Issuance of 1.50% convertible senior notes, net of income taxes of $7,744	—	25,640	—	—	—	25,640
Surrender of stock to settle taxes on restricted stock awards	—	—	—	—	(4,022)	(4,022)
Balance, June 30, 2018	$ 718	$1,085,927	$1,047,873	$ (67,192)	$(616,673)	$1,450,653

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(750)	$(31,924)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	60,112	55,764
Stock-based compensation expense	10,861	10,954
Deferred income tax provision (benefit)	481	(14,917)
Provision for bad debt	2,530	210
Gain on disposals of assets	(927)	(210)
Amortization of debt discount and deferred financing costs	3,613	405
Other, net	(10)	29
Changes in operating assets and liabilities, net of effect from acquired businesses:		
Accounts receivable	(19,134)	23,404
Inventories	(1,768)	8,689
Accounts payable and accrued liabilities	(2,251)	(3,075)
Income taxes payable	(31)	(3,211)
Other operating assets and liabilities, net	(5,792)	(1,191)
Net cash flows provided by operating activities	46,934	44,927
Cash flows from investing activities:		
Capital expenditures	(38,261)	(13,291)
Acquisitions of businesses, net of cash acquired	(379,676)	(12,859)
Proceeds from disposition of property, plant and equipment	1,197	742
Other, net	(985)	(453)
Net cash flows used in investing activities	(417,725)	(25,861)
Cash flows from financing activities:		
Issuance of 1.50% convertible senior notes	200,000	—
Revolving credit facility borrowings	704,469	127,929
Revolving credit facility repayments	(546,564)	(123,104)
Other debt and capital lease repayments, net	(266)	(267)
Payment of financing costs	(7,366)	—
Purchase of treasury stock	—	(16,283)
Shares added to treasury stock as a result of net share settlements due to vesting of restricted stock	(4,022)	(5,200)
Net cash flows provided by (used in) financing activities	346,251	(16,925)
Effect of exchange rate changes on cash and cash equivalents	183	1,527
Net change in cash and cash equivalents	(24,357)	3,668
Cash and cash equivalents, beginning of period	53,459	68,800
Cash and cash equivalents, end of period	$29,102	$72,468

Cash paid for:

Interest	$4,033	$2,487
Income taxes, net of refunds	2,978	7,049

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

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

The preparation of condensed consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. If the underlying estimates and assumptions, upon which the financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying condensed consolidated financial statements. Our industry is cyclical and this cyclicality impacts our estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows including our determination of whether a decline in value of our long-lived assets, including definite-lived intangibles, and/or goodwill has occurred.

The financial statements included in this report should be read in conjunction with the Company’s audited financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10 K”).

2. Recent Accounting Pronouncements

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

In May 2014, the FASB issued guidance on revenue from contracts with customers that superseded most then-current revenue recognition guidance, including industry-specific guidance (often referred to as "ASC 606"). The underlying principle is that an entity recognizes revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to receive in exchange for those goods or services. The Company adopted this guidance on January 1, 2018, using the modified retrospective transition method applied to those contracts which were not completed as of that date. On January 1, 2018, we were required to recognize any cumulative effect of adopting this guidance as an adjustment to our opening balance of retained earnings. Prior periods were not retrospectively adjusted. Based on our analysis of existing contracts with customers, the Company concluded the cumulative impact of the new standard was not material to our consolidated financial statements through January 1, 2018. In accordance with the guidance, we have expanded our revenue recognition disclosures to address the new qualitative and quantitative requirements. See Note 12, "Segments, Revenue Recognition and Related Information."

In February 2016, the FASB issued guidance on leases which, as amended, introduces the recognition of lease assets and lease liabilities by lessees for all leases which are not short-term in nature (often referred to as "ASC 842"). The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. In connection with the required adoption of this guidance on January 1, 2019, the Company continues to evaluate various specific implementation options allowed under the standard, such as not reassessing the classification of existing leases. Upon initial evaluation, the Company believes the key change upon adoption will be the balance sheet recognition of our operating leases when the Company is the lessee. The income statement recognition appears similar to the Company's current methodology.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(Continued)

3. Business Acquisitions, Goodwill and Other Intangible Assets

GEODynamics Acquisition

On January 12, 2018, the Company acquired GEODynamics, Inc. ("GEODynamics") for a purchase price consisting of (i) $295.4 million in cash (net of cash acquired), which we funded through borrowings under the Company's Revolving Credit Facility (as defined in Note 6, "Long-term Debt"), (ii) approximately 8.66 million shares of the Company's common stock (having a market value of approximately $295 million as of the closing date of the acquisition) and (iii) an unsecured $25 million promissory note that bears interest at 2.5% per annum and matures on July 12, 2019 (the “GEODynamics Acquisition”). GEODynamics’ results of operations have been included in the Company’s financial statements subsequent to the closing of the acquisition on January 12, 2018. The acquired GEODynamics operations, reported as the Downhole Technologies segment, contributed revenues of $105.1 million and operating income of $19.7 million for the period from January 12, 2018 through June 30, 2018. See Note 12, "Segments, Revenue Recognition and Related Information" for further information with respect to the Downhole Technologies segment operations.

With respect to the approximately 8.66 million shares of the Company's common stock issued in the GEODynamics Acquisition, the Company also entered into a registration rights agreement. The Company filed a shelf registration statement for the resale of shares in accordance with the agreement on January 19, 2018 and the selling stockholder sold approximately 5.93 million shares of the Company's common stock through an underwritten offering in late February 2018. As of June 30, 2018, the Company does not expect to have any further obligations under the registration rights agreement.

Falcon Acquisition

On February 28, 2018, the Company acquired Falcon Flowback Services, LLC (“Falcon”), a full service provider of flowback and well testing services for the separation and recovery of fluids, solid debris and proppant used during hydraulic fracturing operations. Falcon provides additional scale and diversity to our Completion Services well testing operations in key shale plays in the United States. The purchase price was $84.2 million (net of cash acquired), which is subject to customary post-closing purchase price adjustments. The Falcon acquisition was funded by borrowings under the Company's Amended Revolving Credit Facility (as defined in Note 6, "Long-term Debt"). Falcon’s results of operations have been included in the Company’s financial statements and has been reported within the Completion Services business subsequent to the closing of the acquisition on February 28, 2018.

Transaction-Related Costs

During the six months ended June 30, 2018, the Company expensed transaction-related costs of $2.6 million, which are included within selling, general and administrative expense. No material transaction-related costs were incurred during the three months ended June 30, 2018.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(Continued)

The GeoDynamics and Falcon acquisitions have been accounted for using the acquisition method of accounting. The following table summarizes the Company's preliminary estimates of the fair value of assets acquired and liabilities assumed in the acquisitions, as of their respective dates of acquisitions (in thousands):

	GEODynamics		Falcon	
Accounts receivable, net	$ 37,282		$21,180	
Inventories	36,140		242	
Property, plant and equipment	25,769		30,000	
Intangible assets				
Customer relationships	100,000		13,500	
Patents/Technology/Know-how	47,000		—	
Tradenames	34,000		1,500	
Noncompete agreements	18,000		1,100	
Other assets	1,770		664	
Accounts payable and accrued liabilities	(21,168	)	(10,200	)
Deferred income taxes	(23,560	) (a)	—	
Other liabilities	(3,674	)	(167	)
Total identifiable net assets	251,559		57,819	
Goodwill	363,781	(b)	26,427	(c)
Total net assets	$ 615,340		$84,246	

Consideration consists of:		
Cash, net of cash acquired	$295,430	$84,246
Oil States common stock	294,910	—
Promissory note	25,000	—
Total consideration	$615,340	$84,246

Intangible asset weighted-average useful lives (years):		
Customer relationships	20	15
Patents/Technology/Know-how	17	n.a.
Tradenames	20	20
Noncompete agreements	3	3

a. In connection with the acquisition accounting for GEODynamics, the Company provided deferred taxes related to, among other items, the estimated fair value adjustments for acquired property, plant and equipment, intangible assets and U.S. tax net operating loss carryforwards.

b. The goodwill recognized is primarily attributable to expected synergies that will result from combining the operations of the Company and GEODynamics, as well as intangible assets which do not qualify for separate recognition. The amount of goodwill that is deductible for income tax purposes is not significant.

c. The goodwill recognized is primarily attributable to expected synergies that will result from combining the operations of the Company and Falcon, as well as intangible assets which do not qualify for separate recognition. All goodwill is deductible for income tax purposes.

The Company has not completed the purchase price allocation for the GEODynamics and Falcon acquisitions and these preliminary estimates of fair value and intangible asset useful lives are subject to revision. The final purchase price allocation will be determined when the Company has finalized the opening balance sheet of each acquisition and completed the detailed valuations and necessary calculations. The final allocations and intangible asset useful lives could differ materially from the preliminary estimates. The final allocations may include (1) changes in identifiable net assets, (2) changes in allocations to intangible assets such as tradenames, patents/technology/know-how and customer relationships as well as goodwill, (3) changes in fair values of property, plant and equipment and deferred taxes (4) changes in useful lives and (5) other changes to assets and liabilities.

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(Continued)

Supplemental Unaudited Pro Forma Financial Information

The following supplemental unaudited pro forma results of operations data for the Company gives pro forma effect to the consummation of the GEODynamics and Falcon acquisitions as if they had occurred on January 1, 2017. The supplemental unaudited pro forma financial information for the Company was prepared based on historical financial information, adjusted to give pro forma effect to fair value adjustments on depreciation and amortization expense, interest expense, and related tax effects, among others. The pro forma results for the six months ended June 30, 2018 reflect adjustments to exclude after-tax impact of transaction costs of $2.0 million. The supplemental pro forma financial information is unaudited and may not reflect what combined operations would have been were the acquisitions to have occurred on January 1, 2017. As such, it is presented for informational purposes only (in thousands, except per share amounts):

	Pro Forma Six Months Ended June 30,	
	2018	2017
Revenue	$566,045	$429,995
Net income (loss)	$1,110	$(34,241)
Diluted net income (loss) per share	$0.02	$