

SMITH INTERNATIONAL INC

Form 10-Q

November 09, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number

**1-8514**

**Smith International, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-3822631**

(I.R.S. Employer  
Identification No.)

**411 North Sam Houston Parkway, Suite 600**

**Houston, Texas**

(Address of principal executive offices)

**77060**

(Zip Code)

**(281) 443-3370**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares outstanding of the Registrant's common stock as of November 2, 2006 was 214,061,005.

# INDEX

|   | Page<br>No. |
|---|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>  |             |
| <b><u>Item 1.</u></b>   |             |
| <b><u>Financial Statements (Unaudited)</u></b>  |             |
| <b><u>CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS</u></b>                                       |             |
| <b><u>For the Three Months and Nine Months ended September 30, 2006 and 2005</u></b>                | 1           |
| <b><u>CONSOLIDATED CONDENSED BALANCE SHEETS</u></b>   |             |
| <b><u>As of September 30, 2006 and December 31, 2005</u></b>  | 2           |
| <b><u>CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS</u></b>                                       |             |
| <b><u>For the Nine Months ended September 30, 2006 and 2005</u></b>                                 | 3           |
| <b><u>NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS</u></b>                                  | 4           |
| <b><u>Item 2.</u></b>   |             |
| <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | 12          |
| <b><u>Item 3.</u></b>   |             |
| <b><u>Quantitative and Qualitative Disclosures about Market Risk</u></b>                            | 21          |
| <b><u>Item 4.</u></b>   |             |
| <b><u>Controls and Procedures</u></b>   | 21          |
| <b><u>PART II OTHER INFORMATION</u></b>   |             |
| <b><u>Items 1-5</u></b>   | 22          |
| <b><u>Item 6</u></b>  | 23          |
| <b><u>SIGNATURES</u></b>  | 24          |
| <b><u>EXHIBIT INDEX</u></b>   | 25          |

---

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**SMITH INTERNATIONAL, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

|   | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2006                                | 2005         | 2006                               | 2005         |
| Revenues  | \$ 1,914,184                        | \$ 1,410,162 | \$ 5,334,568                       | \$ 4,048,563 |
| Costs and expenses:                               |                                     |              |                                    |              |
| Costs of revenues                                 | 1,295,971                           | 985,558      | 3,644,739                          | 2,839,409    |
| Selling expenses                                  | 253,569                             | 199,972      | 703,018                            | 575,166      |
| General and administrative expenses               | 76,919                              | 53,217       | 216,508                            | 159,019      |
| Total costs and expenses                          | 1,626,459                           | 1,238,747    | 4,564,265                          | 3,573,594    |
| Operating income                                  | 287,725                             | 171,415      | 770,303                            | 474,969      |
| Interest expense                                  | 17,287                              | 11,001       | 44,808                             | 32,333       |
| Interest income                                   | (830)                               | (339)        | (2,123)                            | (1,143)      |
| Income before income taxes and minority interests | 271,268                             | 160,753      | 727,618                            | 443,779      |
| Income tax provision                              | 88,600                              | 51,970       | 232,172                            | 143,944      |
| Minority interests                                | 49,743                              | 29,279       | 136,472                            | 86,119       |
| Net income  | \$ 132,925                          | \$ 79,504    | \$ 358,974                         | \$ 213,716   |
| Earnings per share:                               |                                     |              |                                    |              |
| Basic   | \$ 0.66                             | \$ 0.40      | \$ 1.79                            | \$ 1.06      |
| Diluted   | \$ 0.66                             | \$ 0.39      | \$ 1.78                            | \$ 1.05      |
| Weighted average shares outstanding:              |                                     |              |                                    |              |
| Basic   | 200,009                             | 201,013      | 200,484                            | 202,063      |
| Diluted   | 201,811                             | 203,031      | 202,158                            | 204,120      |

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

**SMITH INTERNATIONAL, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

(In thousands, except par value data)

(Unaudited)

|   | September<br>30,<br>2006 | December<br>31,<br>2005 |
|---|--------------------------|-------------------------|
| <b>Assets</b>   |                          |                         |
| <b>Current Assets:</b>  |                          |                         |
| Cash and cash equivalents   | \$ 82,340                | \$ 62,543               |
| Receivables, net  | 1,510,396                | 1,200,289               |
| Inventories, net  | 1,332,611                | 1,059,992               |
| Deferred tax assets, net  | 48,821                   | 48,467                  |
| Prepaid expenses and other  | 102,220                  | 65,940                  |
| Total current assets  | 3,076,388                | 2,437,231               |
| Property, Plant and Equipment, net  | 812,584                  | 665,389                 |
| Goodwill, net   | 871,030                  | 737,048                 |
| Other Intangible Assets, net  | 141,900                  | 78,779                  |
| Other Assets  | 166,696                  | 141,467                 |
| Total Assets  | \$ 5,068,598             | \$ 4,059,914            |
| <b>Liabilities and Stockholders Equity</b>  |                          |                         |
| <b>Current Liabilities:</b>   |                          |                         |
| Short-term borrowings and current portion of long-term debt   | \$ 282,604               | \$ 133,650              |
| Accounts payable  | 593,253                  | 479,206                 |
| Accrued payroll costs   | 126,270                  | 108,419                 |
| Income taxes payable  | 119,799                  | 91,303                  |
| Other   | 145,219                  | 120,575                 |
| Total current liabilities   | 1,267,145                | 933,153                 |
| Long-Term Debt  | 847,034                  | 610,857                 |
| Deferred Tax Liabilities  | 128,761                  | 107,838                 |
| Other Long-Term Liabilities   | 102,820                  | 86,853                  |
| Minority Interests  | 874,750                  | 742,708                 |
| Commitments and Contingencies (Note 13)   |                          |                         |
| <b>Stockholders Equity:</b>   |                          |                         |
| Preferred stock, \$1 par value; 5,000 shares authorized; no shares issued or outstanding in 2006 or 2005              |                          |                         |
| Common stock, \$1 par value; 250,000 shares authorized; 214,054 shares issued in 2006 (213,270 shares issued in 2005) | 214,054                  | 213,270                 |
| Additional paid-in capital  | 417,544                  | 383,695                 |
| Retained earnings   | 1,526,425                | 1,215,483               |
| Accumulated other comprehensive income  | 22,028                   | 6,901                   |
|   | (331,963)                | (240,844)               |

Edgar Filing: SMITH INTERNATIONAL INC - Form 10-Q

Less Treasury securities, at cost; 14,671 common shares in 2006 (12,301 common shares in 2005)

|  |              |              |
|--|--------------|--------------|
| Total stockholders' equity                 | 1,848,088    | 1,578,505    |
| Total Liabilities and Stockholders' Equity | \$ 5,068,598 | \$ 4,059,914 |

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

**SMITH INTERNATIONAL, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2006                               | 2005       |
| <b>Cash flows from operating activities:</b>  |                                    |            |
| Net income  | \$ 358,974                         | \$ 213,716 |
| <i>Adjustments to reconcile net income to net cash provided by operating activities, excluding the net effects of acquisitions:</i> |                                    |            |
| Depreciation and amortization   | 106,937                            | 86,555     |
| Minority interests  | 136,472                            | 86,119     |
| Deferred income tax benefit   | (4,380)                            | (3,427)    |
| Provision for losses on receivables   | 5,443                              | 2,864      |
| Increase in LIFO inventory reserves   | 16,864                             | 22,557     |
| Gain on disposal of property, plant and equipment   | (16,060)                           | (11,805)   |
| Foreign currency translation losses (gains)   | 2,992                              | (80)       |
| Share-based compensation expense  | 20,173                             | 2,995      |
| Equity earnings, net of dividends received  | (7,310)                            | (5,116)    |
| Gain on sale of operations  | (5,930)                            | (5,898)    |
| <i>Changes in operating assets and liabilities:</i>   |                                    |            |
| Receivables   | (284,765)                          | (160,586)  |
| Inventories   | (285,098)                          | (158,364)  |
| Accounts payable  | 101,046                            | 103,999    |
| Other current assets and liabilities  | 25,988                             | 13,464     |
| Other non-current assets and liabilities  | (22,318)                           | (13,648)   |
| Net cash provided by operating activities   | 149,028                            | 173,345    |
| <b>Cash flows from investing activities:</b>  |                                    |            |
| Acquisitions, net of cash acquired  | (224,305)                          | (31,702)   |
| Purchases of property, plant and equipment  | (198,824)                          | (115,645)  |
| Proceeds from disposal of property, plant and equipment   | 25,649                             | 20,377     |
| Proceeds from sale of operations  | 9,296                              | 20,496     |
| Net cash used in investing activities   | (388,184)                          | (106,474)  |
| <b>Cash flows from financing activities:</b>  |                                    |            |
| Proceeds from issuance of long-term debt  | 646,471                            | 132,049    |
| Principal payments of long-term debt  | (250,443)                          | (54,287)   |
| Net change in short-term borrowings   | (8,243)                            | 1,757      |
| Purchases of treasury stock   | (91,119)                           | (108,228)  |
| Proceeds from employee stock option exercises   | 9,984                              | 26,561     |
| Payment of common stock dividends   | (44,114)                           | (24,316)   |
| Distributions to minority interest partner  |                                    | (28,000)   |
| Debt issuance costs   | (4,744)                            |            |

Edgar Filing: SMITH INTERNATIONAL INC - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Net cash provided by (used in) financing activities | 257,792   | (54,464)  |
| Effect of exchange rate changes on cash             | 1,161     | (661)     |
| Increase in cash and cash equivalents               | 19,797    | 11,746    |
| Cash and cash equivalents at beginning of period    | 62,543    | 53,596    |
| Cash and cash equivalents at end of period          | \$ 82,340 | \$ 65,342 |

**Supplemental disclosures of cash flow information:**

|                            |           |           |
|----------------------------|-----------|-----------|
| Cash paid for interest     | \$ 45,888 | \$ 39,080 |
| Cash paid for income taxes | 206,199   | 127,495   |

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

**SMITH INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Basis of Presentation of Interim Financial Statements**

The accompanying unaudited consolidated condensed financial statements of Smith International, Inc. and subsidiaries (the Company) were prepared in accordance with U.S. generally accepted accounting principles and applicable rules and regulations of the Securities and Exchange Commission (the Commission) pertaining to interim financial information. These interim financial statements do not include all information or footnote disclosures required by generally accepted accounting principles for complete financial statements and, therefore, should be read in conjunction with the audited financial statements and accompanying notes included in the Company's 2005 Annual Report on Form 10-K and other current filings with the Commission. All adjustments which are, in the opinion of management, of a normal and recurring nature and are necessary for a fair presentation of the interim financial statements have been included.

Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amounts of contingent assets and liabilities and the reported amounts of revenues and expenses. If the underlying estimates and assumptions, upon which the financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying consolidated condensed financial statements.

Management believes the consolidated condensed financial statements present fairly the financial position, results of operations and cash flows of the Company as of the dates indicated. The results of operations for the interim periods presented may not be indicative of results for the fiscal year.

**2. Recent Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) which are adopted by the Company as of the specified effective date. On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123r, Share-Based Payment, (SFAS No. 123r) using the modified prospective method. In accordance with this method, results for prior periods have not been restated. See Note 11 for further disclosure regarding SFAS No. 123r.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes, and prescribes a consistent recognition threshold and measurement attribute for financial statement recognition and disclosure of tax positions taken, or expected to be taken, on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the provisions of FIN 48 and have not yet determined the impact, if any, on our consolidated condensed financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). Effective December 31, 2006, SFAS 158 requires recognition of the funded status of an entity's defined benefit pension and other postretirement benefit plans as an asset or liability in the Company's consolidated balance sheet. Subsequent changes to the funded status are to be recognized through stockholders' equity as a component of comprehensive income. Additionally, for fiscal years ending after December 31, 2008, SFAS 158 requires measurement of plan assets and obligations as of the end of the employer's fiscal year. We are currently evaluating the provisions of SFAS 158 and have not yet determined the impact on our consolidated condensed financial statements.

Management believes the impact of other recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated condensed financial statements upon adoption.

### 3. Acquisitions and Dispositions

During the nine months ended September 30, 2006, the Company completed six acquisitions in exchange for aggregate cash consideration of \$224.3 million. The current year transactions primarily consist of the following:

On August 3, 2006, M-I SWACO acquired Specialised Petroleum Services Group Limited ( SPS ) in exchange for cash consideration of approximately \$165 million. SPS, based in Aberdeen, Scotland, is a global provider of patented well-bore clean-up products and engineering services used to remove debris from the wellbore to facilitate improved well production.

On February 23, 2006, M-I SWACO acquired Epcon Offshore AS ( Epcon ) in exchange for cash consideration of approximately \$45 million. Epcon, based in Porsgrunn, Norway, is a global provider of proprietary water treatment technology designed to optimize the removal of hydrocarbons from water generated during the oil and gas production process.

The excess of the purchase price over the estimated fair value of the net assets acquired related to these transactions totaled \$133.6 million, which has been recorded as goodwill in the accompanying consolidated condensed balance sheet. The purchase price allocation related to the 2006 acquisitions is based on preliminary information and is subject to change when additional data concerning final asset and liability valuations is obtained; however, material changes in the preliminary allocations are not anticipated by management.

Additionally, during the nine months ended September 30, 2006, the Company completed the disposition of its ownership interest in two oilfield business operations for aggregate cash proceeds of \$9.3 million. These transactions resulted in an aggregate pre-tax gain of approximately \$5.9 million and, \$2.9 million net of taxes and minority interest, which has been reflected as a reduction in general and administrative expenses in the accompanying consolidated condensed statements of operations.

Pro forma results of operations have not been presented because the effect of these transactions was not material to the Company's consolidated condensed financial statements.

### 4. Earnings Per Share

Basic earnings per share ( EPS ) is computed using the weighted average number of common shares outstanding during the period. Diluted EPS gives effect to the potential dilution of earnings that could have occurred if additional shares were issued for stock option and restricted stock awards under the treasury stock method. For the three and nine-month periods ended September 30, 2006, 11,266 and 12,047 outstanding stock option awards, respectively, were excluded from the computations of diluted EPS because they were anti-dilutive. No stock option awards were excluded in the 2005 computations and the impact of restricted stock awards is reflected in all periods shown. The following schedule reconciles the income and shares used in the basic and diluted EPS computations (in thousands, except per share data):

|  | Three Months Ended<br>September 30,<br>2006 |           | Nine Months Ended<br>September 30,<br>2006 |            |
|--|---|-----------|--|------------|
|  | 2006  | 2005      | 2006                                       | 2005       |
| <b>Basic EPS:</b>                                    |   |           |  |            |
| Net income   | \$ 132,925                                  | \$ 79,504 | \$ 358,974                                 | \$ 213,716 |
| Weighted average number of common shares outstanding | 200,009                                     | 201,013   | 200,484                                    | 202,063    |
| Basic EPS  | \$ 0.66                                     | \$ 0.40   | \$ 1.79                                    | \$ 1.06    |
| <b>Diluted EPS:</b>                                  |   |           |  |            |
| Net income   | \$ 132,925                                  | \$ 79,504 | \$ 358,974                                 | \$ 213,716 |
| Weighted average number of common shares outstanding | 200,009                                     | 201,013   | 200,484                                    | 202,063    |

Edgar Filing: SMITH INTERNATIONAL INC - Form 10-Q

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Dilutive effect of stock options and restricted stock units | 1,802   | 2,018   | 1,674   | 2,057   |
|   | 201,811 | 203,031 | 202,158 | 204,120 |
| Diluted EPS   | \$ 0.66 | \$ 0.39 | \$ 1.78 | \$ 1.05 |

5

---

**5. Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the average cost method for the majority of the Company's inventories; however, a significant portion of the Company's U.S.-based inventories are valued utilizing the last-in, first-out (LIFO) method. Inventory costs, consisting of materials, labor and factory overhead, are as follows (in thousands):

|  | September<br>30,<br>2006 | December<br>31,<br>2005 |
|--|--------------------------|-------------------------|
| Raw materials  | \$ 115,205               | \$ 86,961               |
| Work-in-process  | 132,068                  | 111,399                 |
| Products purchased for resale  | 398,902                  | 303,307                 |
| Finished goods   | 777,900                  | 632,925                 |
|  | 1,424,075                | 1,134,592               |
| Reserves to state certain U.S. inventories (FIFO cost of \$519,924 and \$386,643 in 2006 and 2005, respectively) on a LIFO basis | (91,464)                 | (74,600)                |
|  | \$ 1,332,611             | \$ 1,059,992            |

During the first nine months of 2006, the Company recorded additional LIFO reserves of \$16.9 million. The increase primarily related to the revaluation of on-hand inventories to current standards, largely reflecting higher manufacturing costs in the Oilfield segment.

**6. Property, Plant and Equipment**

Property, plant and equipment consist of the following (in thousands):

|                               | September<br>30,<br>2006 | December<br>31,<br>2005 |
|-------------------------------|--------------------------|-------------------------|
| Land                          | \$ 45,837                | \$ 37,753               |
| Buildings                     | 178,090                  | 153,467                 |
| Machinery and equipment       | 668,144                  | 587,808                 |
| Rental tools                  | 572,094                  | 472,913                 |
|                               | 1,464,165                | 1,251,941               |
| Less-Accumulated depreciation | (651,581)                | (586,552)               |
|                               | \$ 812,584               | \$ 665,389              |

**7. Goodwill and Other Intangible Assets***Goodwill*

The following table presents goodwill on a segment basis as of the dates indicated, as well as changes in the account during the period shown. Beginning and ending goodwill balances are presented net of accumulated amortization of \$53.6 million.

|                                 | Oilfield<br>Segment | Distribution<br>Segment<br>(in thousands) | Consolidated |
|---------------------------------|---------------------|---|--------------|
| Balance as of December 31, 2005 | \$ 699,142          | \$ 37,906                                 | \$ 737,048   |

Edgar Filing: SMITH INTERNATIONAL INC - Form 10-Q

|                                      |            |           |            |
|--------------------------------------|------------|-----------|------------|
| Goodwill acquired                    | 131,237    | 2,314     | 133,551    |
| Purchase price and other adjustments |            | 431       | 431        |
| Balance as of September 30, 2006     | \$ 830,379 | \$ 40,651 | \$ 871,030 |

*Other Intangible Assets*

The Company amortizes other identifiable intangible assets on a straight-line basis over the periods expected to be benefited, ranging from two to 27 years. The components of these other intangible assets included in the accompanying consolidated condensed balance sheets, are as follows (in thousands):

|   | September 30, 2006 |              |            | December 31, 2005 |              |           | Weighted<br>Average<br>Amortization<br>Period<br>(years) |
|---|--------------------|--------------|------------|-------------------|--------------|-----------|--|
|   | Gross<br>Carrying  | Accumulated  |            | Gross<br>Carrying | Accumulated  |           |  |
|   | Amount             | Amortization | Net        | Amount            | Amortization | Net       |  |
| Patents                                     | \$ 99,369          | \$ 20,613    | \$ 78,756  | \$ 43,191         | \$ 16,938    | \$ 26,253 | 14.1   |
| License agreements                          | 31,231             | 9,732        | 21,499     | 29,308            | 7,181        | 22,127    | 10.4   |
| Non-compete<br>agreements and<br>trademarks | 34,801             | 15,836       | 18,965     | 29,150            | 12,414       | 16,736    | 8.8  |
| Customer lists and<br>contracts             | 29,183             | 6,503        | 22,680     | 17,282            | 3,619        | 13,663    | 9.1  |
|   | \$ 194,584         | \$ 52,684    | \$ 141,900 | \$ 118,931        | \$ 40,152    | \$ 78,779 | 12.0   |

Amortization expense of other intangible assets was \$5.3 million and \$2.5 million for the three-month periods ended September 30, 2006 and 2005, respectively, and \$12.5 million and \$7.1 million for the nine-month periods ended September 30, 2006 and 2005, respectively. Additionally, estimated future amortization expense is expected to range between \$12.3 million and \$20.0 million per year for the next five fiscal years.

**8. Debt**

The following summarizes the Company's outstanding debt (in thousands):

|  | September<br>30,<br>2006 | December<br>31,<br>2005 |
|--|--------------------------|-------------------------|
| Current:                               |                          |                         |
| Short-term borrowings                  | \$ 111,363               | \$ 122,174              |
| Current portion of long-term debt      | 171,241                  | 11,476                  |
|  | \$ 282,604               | \$ 133,650              |
| Long-Term:                             |                          |                         |
| Notes, net of unamortized discounts    | \$ 651,350               | \$ 386,959              |
| Revolving credit facilities            | 330,500                  | 232,700                 |
| Term loans and other                   | 36,425                   | 2,674                   |
|  | 1,018,275                | 622,333                 |
| Less current portion of long-term debt | (171,241)                | (11,476)                |
|  | \$ 847,034               | \$ 610,857              |

Short-term borrowings consist of amounts outstanding under lines of credit and short-term notes. The current portion of long-term debt at September 30, 2006 primarily reflects the Company's \$150.0 million principal amount of Senior

Edgar Filing: SMITH INTERNATIONAL INC - Form 10-Q

Notes that are scheduled to mature on September 15, 2007.

In June 2006, the Company completed a public offering of \$275.0 million of ten-year Senior Notes issued under an existing Indenture. Net proceeds of \$272.8 million were received in connection with the offering and were primarily used to repay indebtedness under the Smith U.S. revolving credit facility. The Senior Notes are unsecured obligations of the Company, carry an effective interest rate of 6.11 percent and require semi-annual interest payments.

Principal payments, net of unamortized discounts, of long-term debt for the twelve-month periods ending subsequent to September 30, 2007 are as follows (in thousands):

|            |            |
|------------|------------|
| 2008       | \$ 15,201  |
| 2009       | 6,975      |
| 2010       | 330,526    |
| 2011       | 219,601    |
| Thereafter | 274,731    |
|            | \$ 847,034 |

**9. Comprehensive Income**

Comprehensive income includes net income and changes in the components of accumulated other comprehensive income during the periods presented. The Company's comprehensive income is as follows (in thousands):

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2006                                | 2005      | 2006                               | 2005       |
| Net income   | \$ 132,925                          | \$ 79,504 | \$ 358,974                         | \$ 213,716 |
| Currency translation adjustments                     | 1,522                               | 798       | 13,132                             | (12,468)   |
| Changes in unrealized fair value of derivatives, net | 354                                 | 148       | 1,995                              | (2,051)    |
| Pension liability adjustments                        |                                     |           |                                    | (476)      |
| Comprehensive income                                 | \$ 134,801                          | \$ 80,450 | \$ 374,101                         | \$ 198,721 |

Accumulated other comprehensive income in the accompanying consolidated condensed balance sheet consists of the following (in thousands):

**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant, General Electric Company, certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this

Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Fairfield, State of Connecticut, on the 7th day of November, 2014.

**GENERAL ELECTRIC COMPANY**

By: /s/ Christoph A. Pereira

Name: Christoph A. Pereira

Title: Chief Corporate, Securities and  
Finance Counsel

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

| <b>Signature</b>     | <b>Title</b>   | <b>Date</b>      |
|----------------------|--|------------------|
| *                    | Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director) | November 7, 2014 |
| Jeffrey R. Immelt    |  |                  |
| *                    | Senior Vice President and Chief Financial Officer (Principal Financial Officer)              | November 7, 2014 |
| Jeffrey S. Bornstein |  |                  |
| *                    | Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)       | November 7, 2014 |
| Jan R. Hauser        |  |                  |

Edgar Filing: SMITH INTERNATIONAL INC - Form 10-Q

|                     |          |                  |
|---------------------|----------|------------------|
| *                   | Director | November 7, 2014 |
| W. Geoffrey Beattie |          |                  |
| *                   | Director | November 7, 2014 |
| John J. Brennan     |          |                  |
| *                   | Director | November 7, 2014 |
| James I. Cash, Jr.  |          |                  |
| *                   | Director | November 7, 2014 |
| Francisco D. Souza  |          |                  |
| *                   | Director | November 7, 2014 |
| Marijn E. Dekkers   |          |                  |
| *                   | Director | November 7, 2014 |
| Ann M. Fudge        |          |                  |
| *                   | Director | November 7, 2014 |
| Susan J. Hockfield  |          |                  |
| *                   | Director | November 7, 2014 |
| Andrea Jung         |          |                  |
| *                   | Director | November 7, 2014 |
| Robert W. Lane      |          |                  |

**Table of Contents**

| <b>Signature</b>         | <b>Title</b>   | <b>Date</b>      |
|--------------------------|--|------------------|
| *                        | Director   | November 7, 2014 |
| Rochelle B. Lazarus      |  |                  |
| *                        | Director   | November 7, 2014 |
| James J. Mulva           |  |                  |
| *                        | Director   | November 7, 2014 |
| James E. Rohr            |  |                  |
| *                        | Director   | November 7, 2014 |
| Mary L. Schapiro         |  |                  |
| *                        | Director   | November 7, 2014 |
| Robert J. Swieringa      |  |                  |
| *                        | Director   | November 7, 2014 |
| James S. Tisch           |  |                  |
| *                        | Director   | November 7, 2014 |
| Douglas A. Warner III    |  |                  |
| /s/ Christoph A. Pereira | As Attorney-In-Fact for the individuals<br>noted above with an asterisk. | November 7, 2014 |
| Christoph A. Pereira     |  |                  |