OIL STATES INTERNATIONAL, INC
Form 10-Q
August 02, 2007

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

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from __________ to __________

Commission file number: 1-16337

OIL STATES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

(713) 652-0582

(Registrant s telephone number, including area code)

None

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

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

YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 2b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

YES o NO þ

The Registrant had 49,615,077 shares of common stock outstanding and 2,090,796 shares of treasury stock as of July 20, 2007.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	**2006**	**2007**	**2006**
Revenues	$ 499,308	$ 463,359	$ 979,824	$ 959,590
Costs and expenses:				
Cost of sales	386,710	353,686	742,513	731,919
Selling, general and administrative expenses	28,225	26,753	55,548	52,197
Depreciation and amortization expense	16,113	12,995	30,532	25,881
Other operating (income) expense	(221)	(78)	(141)	387
	430,827	393,356	828,452	810,384
Operating income	68,481	70,003	151,372	149,206
Interest expense	(3,739)	(4,938)	(8,581)	(9,734)
Interest income	784	683	1,710	956
Equity in earnings of unconsolidated affiliates	748	1,303	1,290	1,987
Sale of workover services business		(244)		11,250
Gain on sale of investment	12,774		12,774	
Other income (expense)	237	(1)	351	245
Income before income taxes	79,285	66,806	158,916	153,910
Income tax expense	(27,052)	(21,501)	(54,222)	(55,689)
Net income	$ 52,233	$ 45,305	$ 104,694	$ 98,221
Net income per share:				
Basic	$ 1.06	$ 0.91	$ 2.12	$ 1.99
Diluted	$ 1.03	$ 0.88	$ 2.08	$ 1.92
Weighted average number of common shares outstanding:				
Basic	49,341	49,598	49,305	49,403
Diluted	50,833	51,230	50,414	51,126

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)

	JUNE 30, 2007 (UNAUDITED)	DECEMBER 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,121	$ 28,396
Accounts receivable, net	366,456	351,701
Inventories, net	365,880	386,182
Prepaid expenses and other current assets	28,430	17,710
Total current assets	781,887	783,989
Property, plant, and equipment, net	444,978	358,716
Goodwill, net	337,026	331,804
Investments in unconsolidated affiliates	22,711	38,079
Other non-current assets	57,304	58,506
Total assets	$ 1,643,906	$ 1,571,094
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 176,545	$ 6,873
Accounts payable and accrued liabilities	212,470	199,842
Income taxes	912	11,376
Deferred revenue	46,192	58,645
Other current liabilities	1,592	3,680
Total current liabilities	437,711	280,416
Long-term debt	167,103	391,729
Deferred income taxes	38,513	38,020
Other liabilities	26,413	21,093
Total liabilities	669,740	731,258
Stockholders equity:		
Common stock	517	511
Additional paid-in capital	385,940	372,043
Retained earnings	592,034	487,627
Accumulated other comprehensive income	53,827	30,183
Treasury stock	(58,152)	(50,528)

Total stockholders equity		974,166		839,836
Total liabilities and stockholders equity	$	1,643,906	$	1,571,094

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

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

	SIX MONTHS ENDED JUNE 30, 2007	SIX MONTHS ENDED JUNE 30, 2006
Cash flows from operating activities:		
Net income	$ 104,694	$ 98,221
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	30,532	25,881
Deferred income tax provision	2,989	1,071
Excess tax benefits from share-based payment arrangements	(3,344)	(4,792)
Non-cash gain on sale of workover services business		(11,250)
Equity in earnings of unconsolidated subsidiaries	(1,290)	(1,987)
Non-cash compensation charge	3,708	4,206
Gain on sale of investment	(12,774)	
Gain on disposal of assets	(825)	(75)
Other, net	19	1,309
Changes in working capital	(2,292)	(50,762)
Net cash flows provided by operating activities	121,417	61,822
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired		(99)
Cash balances of workover services business sold		(4,366)
Capital expenditures	(100,556)	(56,999)
Proceeds from sale of investment	29,354	
Proceeds from sale of equipment	1,318	1,567
Other, net	(412)	(530)
Net cash flows used in investing activities	(70,296)	(60,427)
Cash flows from financing activities:		
Revolving credit repayments	(52,983)	(10,615)
Debt repayments	(5,504)	(2,184)
Issuance of common stock	6,684	7,823
Purchase of treasury stock	(12,211)	(3,044)
Excess tax benefits from share-based payment arrangements	3,344	4,792
Other, net	(421)	(193)
Net cash flows used in financing activities	(61,091)	(3,421)
Effect of exchange rate changes on cash	2,869	950
Net decrease in cash and cash equivalents from continuing operations	(7,101)	(1,076)
Net cash used in discontinued operations operating activities	(174)	(81)
Cash and cash equivalents, beginning of period	28,396	15,298

Cash and cash equivalents, end of period	$ 21,121	$ 14,141
Non-cash investing activities:		
Receipt of stock and notes for hydraulic workover services business in merger transaction, net of unrecognized gain of $9.4 million (See Note 11)		$ 50,105
Non-cash financing activities:		
Reclassification of 2 3/8% contingent convertible senior notes to current liabilities	$ 175,000	

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

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

The financial statements included in this report should be read in conjunction with the Company s audited financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2006.

2. RECENT ACCOUNTING PRONOUNCEMENT

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company is currently evaluating the impact of SFAS 157, but does not expect the adoption of SFAS 157 to have a material impact on its results from operations or financial position.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . SFAS 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 159, but does not expect the adoption of SFAS 159 to have a material impact on its results from operations or financial position.

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

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3. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS

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

	JUNE 30, 2007	DECEMBER 31, 2006
Accounts receivable, net:		
Trade	$ 292,045	$ 269,136
Unbilled revenue	76,010	83,782
Other	1,318	1,726
Allowance for doubtful accounts	(2,917)	(2,943)
	$ 366,456	$ 351,701

	JUNE 30, 2007	DECEMBER 31, 2006
Inventories, net:		
Tubular goods	$ 221,702	$ 261,785
Other finished goods and purchased products	57,405	50,095
Work in process	49,853	45,848
Raw materials	44,406	35,642
Total inventories	373,366	393,370
Inventory reserves	(7,486)	(7,188)
	$ 365,880	$ 386,182

	ESTIMATED USEFUL LIFE	JUNE 30, 2007	DECEMBER 31, 2006
Property, plant and equipment, net:			
Land		$ 11,525	$ 9,112
Buildings and leasehold improvements	5-50 years	88,829	77,853
Machinery and equipment	2-20 years	372,400	326,977
Rental tools	1-10 years	70,462	64,178
Office furniture and equipment	1-10 years	21,310	18,832
Vehicles	4-10 years	39,271	31,541
Construction in progress		61,694	18,811
Total property, plant and equipment		665,491	547,304
Less: Accumulated depreciation		(220,513)	(188,588)
		$ 444,978	$ 358,716

	JUNE 30, 2007	DECEMBER 31, 2006
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 166,836	$ 142,204
Accrued compensation	17,429	29,058
Accrued insurance	7,512	5,836
Accrued taxes, other than income taxes	6,166	3,317
Reserves related to discontinued operations	3,183	3,357
Other	11,344	16,070
	$ 212,470	$ 199,842

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4. EARNINGS PER SHARE

The calculation of earnings per share is presented below (in thousands except per share amounts):

	THREE MONTHS ENDED JUNE 30, 2007	THREE MONTHS ENDED JUNE 30, 2006	SIX MONTHS ENDED JUNE 30, 2007	SIX MONTHS ENDED JUNE 30, 2006
Basic earnings per share:				
Net income	$ 52,233	$ 45,305	$ 104,694	$ 98,221
Weighted average number of shares outstanding	49,341	49,598	49,305	49,403
Basic earnings per share	$ 1.06	$ 0.91	$ 2.12	$ 1.99
Diluted earnings per share:				
Net income	$ 52,233	$ 45,305	$ 104,694	$ 98,221
Weighted average number of shares outstanding	49,341	49,598	49,305	49,403
Effect of dilutive securities:				
Options on common stock	673	857	664	943
2 3/8% Contingent Convertible Notes	741	721	370	723
Restricted stock awards and other	78	54	75	57
Total shares and dilutive securities	50,833	51,230	50,414	51,126
Diluted earnings per share	$ 1.03	$ 0.88	$ 2.08	$ 1.92

5. GOODWILL

Changes in the carrying amount of goodwill for the six month period ended June 30, 2007 are as follows (in thousands):

	Balance as of January 2007	Acquisitions and adjustments	Foreign currency translation and other changes	Balance as of June 30, 2007
Offshore Products	$ 75,716	$	$ 168	$ 75,884
Tubular Services	62,453	364		62,817
Well Site Services	193,635		4,690	198,325
Total	$ 331,804	$ 364	$ 4,858	$ 337,026

6. DEBT

As of June 30, 2007 and December 31, 2006, long-term debt consisted of the following (in thousands):

	June 30, 2007 (Unaudited)	December 31, 2006
U.S. revolving credit facility, with available commitments up to $300 million and with an average interest rate of 6.4% for the six month period ended June 30, 2007	$ 107,600	$ 186,200
Canadian revolving credit facility, with available commitments up to $100 million and with an average interest rate of 5.3% for the six month period ended June 30, 2007	58,304	29,177
2 3/8% contingent convertible senior notes due 2025	175,000	175,000
Subordinated unsecured notes payable to sellers of businesses, interest ranging from 5% to 6%, maturing in 2007	1,385	6,689
Capital lease obligations and other debt	1,359	1,536
Total debt	343,648	398,602
Less: current maturities	(176,545)	(6,873)
Total long-term debt	$ 167,103	$ 391,729

The $175.0 million of 2 3/8% contingent convertible senior notes (2 3/8% Notes) are convertible into cash and common stock of the Company at $31.75 (Conversion Price) per share only upon the occurrence of certain events prior to July 1, 2023. Upon conversion, a holder will receive cash for the principal amount of each note and shares of the Company s common stock for the conversion value in excess of such principal amount. Based upon the

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closing price of the Company s common stock for the prescribed measurement periods during the quarter ended June 30, 2007, the contingent conversion conditions on the 2 3/8% Notes were met. As a result, the 2 3/8% Notes were convertible at the option of the holder as of June 30, 2007, and, as such, the principal balance of the notes has been classified as a current liability. The holders of the 2 3/8% Notes may convert their notes only during the quarter ended September 30, 2007 based on the share price performance during measurement periods in the quarter ended June 30, 2007. The future convertibility and resultant balance sheet classification of this liability will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company s common stock during prescribed measurement periods.

7. COMPREHENSIVE INCOME AND CHANGES IN COMMON STOCK OUTSTANDING:

Comprehensive income for the three and six months ended June 30, 2007 and 2006 was as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2007	2006	2007	2006
Comprehensive income:				
Net income	$ 52,233	$ 45,305	$ 104,694	$ 98,221
Other comprehensive income:				
Cumulative translation adjustment	20,582	11,596	23,644	11,621
Foreign currency hedge				41
Total comprehensive income	$ 72,815	$ 56,901	$ 128,338	$ 109,883

Shares of common stock outstanding January 1, 2007	49,296,740
Shares issued upon exercise of stock options and vesting of stock awards	566,480
Shares withheld for taxes on vesting of restricted stock awards and transferred to treasury	(11,893)
Repurchase of shares held in treasury	(240,000)
Shares of common stock outstanding June 30, 2007	49,611,327

8. STOCK BASED COMPENSATION

During the first six months of 2007, we granted restricted stock awards totaling 162,603 shares valued at $4.9 million. A total of 143,607 of these awards vest in four equal annual installments, 3,800 of these awards vest in two annual installments and the remaining 15,196 awards vest after one year.

Stock based compensation pre-tax expense recognized under SFAS 123R in the six month periods ended June 30, 2007 and June 30, 2006 totaled $3.7 million and $4.2 million, or $0.05 and $0.05 per diluted share after tax, respectively. For the three month periods ended June 30, 2007 and June 30, 2006, our stock compensation pre-tax expense totaled $1.8 million and $2.5 million, or $0.02 and $0.03 per diluted share after tax, respectively. At June 30, 2007, $16.2 million of compensation cost related to unvested stock options and restricted stock awards attributable to future performance had not yet been recognized. The total fair value of restricted stock awards that vested during the six months ended June 30, 2007 was $2.2 million.

9. INCOME TAXES AND CHANGE IN ACCOUNTING PRINCIPLE

The Company s income tax provision for the three months and six months ended June 30, 2007 totaled $27.1 million and $54.2 million, respectively, or 34.1% of pretax income in both periods, compared to $21.5 million, or 32.2%, of pretax income for the three months ended June 30, 2006 and $55.7 million, or 36.2%, of pretax income for the six months ended June 30, 2006. The effective rate was higher in the six months ended June 30, 2006 principally because of the higher effective tax rate applicable to the gain on the sale of the workover services business.

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

The total amount of unrecognized tax benefits as of June 30, 2007 was $4.5 million, including $0.9 million of accrued interest. Currently, the Company s consolidated U.S. federal return for the year 2004 is undergoing an examination by the Internal Revenue Service. Tax years subsequent to 2003 remain open to U.S. federal tax audit and, because of net operating losses (NOL s) utilized by the Company, years from 1994 to 2002 remain subject to federal tax audit with respect to NOL s available for tax carryforward. Our Canadian subsidiaries federal tax returns since 2003 are subject to audit by Canada Revenue Agency.

10. SEGMENT AND RELATED INFORMATION

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has identified the following reportable segments: well site services, offshore products and tubular services. The Company s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were initially acquired as a unit, and the management at the time of the acquisition was retained. Subsequent acquisitions have been direct extensions to our business segments. The separate business lines within the well site services segment have been disclosed to provide additional detail for that segment. Results of our Canadian business related to the provision of work force accommodations, catering and logistics services are seasonal with significant activity occurring in the peak winter drilling season. We sold our workover services, business, effective March 1, 2006, in exchange for an equity interest in Boots & Coots International Well Control, Inc. (AMEX:WEL) (Boots & Coots) and a note receivable See Note 11.

Financial information by business segment for each of the three and six months ended June 30, 2007 and 2006 is summarized in the following table (in thousands):

	Revenues from unaffiliated customers	Depreciation and amortization	Operating income (loss)	Capital expenditures	Total assets
Three months ended June 30, 2007					
Well Site Services -					
Accommodations	$ 61,864	$ 4,923	$ 13,152	$ 38,250	$ 368,004
Rental tools	50,842	5,123	14,131	9,430	275,880
Drilling and other (1)	36,752	2,892	11,816	11,885	164,801
Total Well Site Services	149,458	12,938	39,099	59,565	808,685
Offshore Products	135,437	2,795	24,207	3,165	419,688
Tubular Services	214,413	331	10,710	760	388,286
Corporate and Eliminations		49	(5,535)	165	27,247
Total	$ 499,308	$ 16,113	$ 68,481	$ 63,655	$ 1,643,906

Three months ended June 30, 2006					
Well Site Services -					
Accommodations	$ 75,015	$ 4,025	$ 15,581	$ 18,497	$ 304,391
Rental tools	46,777	4,152	14,193	5,763	259,106
Drilling and other (1)	32,205	1,826	13,664	4,006	139,517
Total Well Site Services	153,997	10,003	43,438	28,266	703,014
Offshore Products	93,675	2,692	15,186	1,800	337,656
Tubular Services	215,687	269	17,023	357	406,982
Corporate and Eliminations		31	(5,644)	33	16,281
	$ 463,359	$ 12,995	$ 70,003	$ 30,456	$ 1,463,933

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	Revenues from unaffiliated customers	Depreciation and amortization	Operating income (loss)	Capital expenditures	Total assets
Six months ended June 30, 2007					
Well Site Services -					
Accommodations	$ 155,417	$ 8,750	$ 48,144	$ 55,893	$ 368,004
Rental tools	104,481	9,863	31,613	17,854	275,880
Drilling and other (1)	67,669	5,543	21,810	19,275	164,801
Workover services (1)					
Total Well Site Services	327,567	24,156	101,567	93,022	808,685
Offshore Products	254,477	5,625	41,815	6,409	419,688
Tubular Services	397,780	654	18,444	894	388,286
Corporate and Eliminations		97	(10,454)	231	27,247
Total	$ 979,824	$ 30,532	$ 151,372	$ 100,556	$ 1,643,906
Six months ended June 30, 2006					
Well Site Services -					
Accommodations	$ 179,604	$ 7,603	$ 40,940	$ 30,034	$ 304,391
Rental tools	96,365	8,233	31,010	11,305	259,106
Drilling and other (1)	60,223	3,504	25,387	10,338	139,517
Workover services	8,544	650	1,922	263	
Total Well Site Services	344,736	19,990	99,259	51,940	703,014
Offshore Products	171,946	5,300	25,251	4,360	337,656
Tubular Services	442,908	533	34,842	642	406,982
Corporate and Eliminations		58	(10,146)	57	16,281
Total	$ 959,590	$ 25,881	$ 149,206	$ 56,999	$ 1,463,933

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

acquired in the transaction as Drilling and other.

11. WORKOVER SERVICES BUSINESS TRANSACTION

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

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

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

In April 2007, the Company sold, pursuant to a registration statement filed by Boots & Coots, 14,950,000 shares of Boots & Coots stock that it owned for net proceeds of $29.4 million and, as a result, we recognized a net after tax gain of $8.4 million, or approximately $0.17 per diluted share in the second quarter of 2007. After the sale of Boots & Coots shares by the Company and the sale of primary shares of stock directly by Boots & Coots in April 2007, the Company s ownership interest in Boots & Coots was reduced to approximately 15%. The equity method of accounting will continue to be used to account for the Company s remaining investment in Boots & Coots common stock (11.5 million shares). The carrying value of the Company s remaining investment in Boots & Coots stock totals $18.5 million as of June 30, 2007.

12. COMMITMENTS AND CONTINGENCIES

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

13. SUBSEQUENT EVENTS

In July and August 2007, the Company announced the expansion of its rental tools operations through two acquisitions.

In July 2007, we acquired substantially all of the assets of Wire Line Service, Ltd. (Well Testing), a Midland, Texas business that primarily provides well testing and flowback services through its locations in Texas and New Mexico. Total consideration was approximately $44.0 million and consisted of cash in the amount of $41.0 million and a $3.0 million note payable to the seller that bears interest at 6% and is payable in two equal annual installments beginning one year from the July 2, 2007 date of the closing of the transaction.

In August 2007, we completed the acquisition of substantially all of the assets of Schooner Petroleum Services, Inc. (Schooner). Schooner, headquartered in Houston, Texas, primarily provides completion-related rental tools and services through eleven locations in Texas, Louisiana, Wyoming and Arkansas. The consideration for the assets acquired, totaling approximately $67.0 million subject to customary post-closing adjustments, consisted of cash and a $6.0 million note payable to the seller that bears interest at 6% and is payable in two equal annual installments beginning one year from the August 2, 2007 date of the closing of the transaction.

These acquisitions were funded with amounts available under the Company s existing credit facility.

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

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

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

Overview

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

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

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	Average Rig Count for the			
	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
U.S. Land	1,680	1,536	1,665	1,487
U.S. Offshore	77	96	80	89
Total U.S	1,757	1,632	1,745	1,576
Canada (1)	139	282	336	474
Total North America	1,896	1,914	2,081	2,050

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

The average North American rig count for the six months ended June 30, 2007 increased by 31 rigs, or 1.5%, compared to the six months ended June 30, 2006. The increases in U.S. land rig counts have contributed to increased well site services revenues, particularly in our land drilling and rental tool businesses. However, decreased Canadian rig counts, compared to the first six months of 2006, have adversely impacted our rental tools and accommodations, catering and logistical services which support Canadian oil and gas drilling operations. These decreases in Canada were offset by growth in accommodations, catering and logistical services in support of oil sands development in Canada. Also, our well site services segment results for the first half of 2007 also benefited from capital spending, which aggregated $158 million in the twelve months ended June 30, 2007 in that segment, and the impact of increased activity levels and pricing gains in certain rental tool and accommodations business lines.

Our 2007 capital expenditures are estimated to total $261 million and include $236 million to be spent in well site services, $22 million for offshore products and $3 million for tubular services. We continue to increase our capital commitments for the expansion of large accommodations facilities in support of oil sands development activities in Canada. In May 2007, we announced the latest expansion of our Wapasu Creek Lodge where we have committed an additional $13.9 million to expand that facility to 1,353 rooms expected in the first quarter of 2008 from 905 rooms. Of our total approved capital expenditures for 2007 of approximately $261 million, approximately $114 million is expected to be spent on Canadian oil sands accommodations related projects.

Subsequent to the end of the second quarter, we announced the completion of two rental tool acquisitions for total consideration of $111.0 million. The acquired businesses provide well testing and flow back services in Texas and New Mexico and completion-related rental tools and services in Texas, Louisiana, Wyoming and Arkansas. These investments are consistent with our strategy to expand our suite of production and completion products and services in our North American operations. We believe that demand for these services has strong growth potential given the decline rates of oil and gas wells and the increasing complexity of completions in the high activity basins.

Management believes that, based on the current economic environment, oil and gas producers will continue to explore for and develop oil and gas reserves at an active pace in spite of continued volatility in current U.S. domestic natural gas and crude oil prices, given their longer term views of supply and demand fundamentals. Management estimates that approximately 55% to 65% of the Company s revenues are dependent on North American natural gas drilling and completion activity with a significant amount of such revenues being derived from lower margin OCTG sales. As such, we estimate that our profitability is more evenly impacted by oil driven activity and natural gas driven activity. Our customers have increased their spending and commitments for deepwater offshore exploration and development which has benefited our offshore products segment. Our customers have also announced significant levels of expenditures for oil sands related projects in Canada. We continue to focus on expansion opportunities and execution initiatives in these high growth markets supporting deepwater development and Canadian oil sands spending. Deepwater infrastructure spending and capital equipment upgrades have driven improved financial results and improved backlog. In addition, our commitment to support the oil sands activity continues to increase with our investments in large scale accommodations in the oil sands region of northern Alberta, Canada. We see continued growth in activity for our accommodations business in the oil sands region as labor needs in the region are expected to double over the next three to five years.

There can be no assurance that these trends will continue and there is a risk that lower energy prices for sustained periods could negatively impact drilling and completion activity and, correspondingly, reduce oil and gas expenditures. Such a decline would be adverse to our business. In addition, particularly in our well site services segment, we must continue to monitor industry capacity additions in relationship to our own capital expenditures and expected returns, considering project risks and expected cash flows from such investments. In tubular services, we continue to monitor industry wide OCTG inventory levels, mill shipments, OCTG pricing and our inventory turnover levels.

Consolidated Results of Operations

	THREE MONTHS ENDED June 30,				SIX MONTHS ENDED June 30,			
			Variance 2007 vs. 2006				Variance 2007 vs. 2006	
	2007	2006	$	%	2007	2006	$	%
Revenues								
Well Site Services - Accommodations	$ 61.9	$ 75.0	$ (13.1)	(17%)	$ 155.4	$ 179.6	$ (24.2)	(13%)
Rental Tools	50.8	46.8	4.0	9%	104.5	96.4	8.1	8%
Drilling and Other	36.8	32.2	4.6	14%	67.6	60.2	7.4	12%
Workover Services				0%		8.5	(8.5)	(100%)
Total Well Site Services	149.5	154.0	(4.5)	(3%)	327.5	344.7	(17.2)	(5%)
Offshore Products	135.4	93.7	41.7	45%	254.5	172.0	82.5	48%
Tubular services	214.4	215.7	(1.3)	(1%)	397.8	442.9	(45.1)	(10%)
Total	$ 499.3	$ 463.4	$ 35.9	8%	$ 979.8	$ 959.6	$ 20.2	2%
Cost of sales								
Well Site Services - Accommodations	$ 38.5	$ 50.5	$ (12.0)	(24%)	$ 88.2	$ 121.8	$ (33.6)	(28%)
Rental Tools	26.1	22.7	3.4	15%	51.5	45.8	5.7	12%
Drilling and Other	21.5	16.2	5.3	33%	39.0	30.2	8.8	29%
Workover Services				0%		5.3	(5.3)	(100%)
Total Well Site Services	86.1	89.4	(3.3)	(4%)	178.7	203.1	(24.4)	(12%)
Offshore Products	99.9	68.7	31.2	45%	190.9	127.1	63.8	50%
Tubular services	200.7	195.6	5.1	3%	372.9	401.7	(28.8)	(7%)
Total	$ 386.7	$ 353.7	$ 33.0	9%	$ 742.5	$ 731.9	$ 10.6	1%
Gross margin								
Well Site Services - Accommodations	$ 23.4	$ 24.5	$ (1.1)	(4%)	$ 67.2	$ 57.8	$ 9.4	16%
Rental Tools	24.7	24.1	0.6	2%	53.0	50.6	2.4	5%
Drilling and Other	15.3	16.0	(0.7)	(4%)	28.6	30.0	(1.4)	(5%)
Workover Services				0%		3.2	(3.2)	(100%)
Total Well Site Services	63.4	64.6	(1.2)	(2%)	148.8	141.6	7.2	5%

Offshore Products	35.5	25.0	10.5	42%	63.6	44.9	18.7	42%
Tubular services	13.7	20.1	(6.4)	(32%)	24.9	41.2	(16.3)	(40%)
Total	$ 112.6	$ 109.7	$ 2.9	3%	$ 237.3	$ 227.7	$ 9.6	4%
Gross margin as a percent of revenues								
Well Site Services - Accommodations	38%	33%			43%	32%		
Rental Tools	49%	51%			51%	52%		
Drilling and Other	42%	50%			42%	50%		
Workover Services	%	%			%	38%		
Total Well Site Services	42%	42%			45%	41%		
Offshore Products	26%	27%			25%			