

OIL STATES INTERNATIONAL, INC

Form 10-K

February 22, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2010**

**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 no. 001-16337**

**Oil States International, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**76-0476605**

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

**Three Allen Center, 333 Clay Street, Suite 4620, Houston, Texas 77002**

*(Address of principal executive offices) (Zip Code)*

**Registrant's telephone number, including area code:**

**(713) 652-0582**

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

**Title of Each Class**

**Name of Exchange on Which Registered**

Common Stock, par value \$.01 per share

New York Stock Exchange

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

**None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 has submitted electronically and posted on its corporate Website, 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  NO

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

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of common stock held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2010, was \$1,200,875,970.

The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of February 17, 2011 was 50,868,966 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, which the Registrant intends to file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this Form 10-K.

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**PART I**

*This Annual Report on Form 10-K contains certain 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 1. Business, Item 1A. Risk Factors, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures about Market Risk below.*

**Cautionary Statement Regarding Forward-Looking Statements**

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

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

- the level of demand for and supply of oil and natural gas;
- fluctuations in the current and future prices of oil and natural gas;
- the level of activity and developments in the Canadian oil sands;
- the level of drilling and completion activity;
- the level of mining activity in Australia and demand for coal from Australia;
- the level of offshore oil and natural gas developmental activities;
- general economic conditions and the pace of recovery from the recent recession;
- our ability to find and retain skilled personnel;

the availability and cost of capital; and

the other factors identified under the caption Risks Factors.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no responsibility to publicly release the result of any revision of our forward-looking statements after the date they are made.

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### **Item 1. *Business***

#### **Our Company**

Oil States International, Inc. (the Company or Oil States), through its subsidiaries, is a leading provider of specialty products and services to natural resources companies throughout the world. We operate in a substantial number of the world's active oil and natural gas and coal producing regions, including Canada, onshore and offshore U.S., Australia, West Africa, the North Sea, South America and Southeast and Central Asia. Our customers include many national oil companies, major and independent oil and natural gas companies, onshore and offshore drilling companies, other oilfield service companies and mining companies. We operate in four principal business segments—accommodations, offshore products, well site services and tubular services—and have established a leadership position in certain of our product or service offerings in each segment. In this Annual Report on Form 10-K, references to the Company or to we, us, our, and similar terms are to Oil States International, Inc. and its subsidiaries following the Combination.

#### **Available Information**

The Company maintains a website with the address [www.oilstatesintl.com](http://www.oilstatesintl.com). The Company is not including the information contained on the Company's website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. The Company makes available free of charge through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (the SEC). The filings are also available through the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330. Also, these filings are available on the internet at <http://www.sec.gov>. The Board of Directors of the Company documented its governance practices by adopting several corporate governance policies. These governance policies, including the Company's corporate governance guidelines and its code of business conduct and ethics, as well as the charters for the committees of the Board (Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee) may also be viewed at the Company's website. The code of business conduct and ethics applies to our principal executive officer, principal financial officer and principal accounting officer. Copies of such documents will be sent to shareholders free of charge upon written request to the corporate secretary at the address shown on the cover page of this Form 10-K.

#### **Our Business Strategy**

We have in past years grown our business lines both organically and through strategic acquisitions. Our investments are focused in growth areas and on areas where we expect we can expand market share and where we believe we can achieve an attractive return on our investment. Currently, we see investment opportunities in the oil sands developments in Canada, in shale play regions in North America, in the natural resources market in Australia and in the expansion of our capabilities to manufacture and assemble deepwater capital equipment on a global basis. As part of our long-term growth strategy, we continue to review complementary acquisitions as well as organic capital expenditures to enhance our cash flows. For additional discussion of our business strategy, please read Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### **Capital Spending and Acquisitions**

Capital spending since our initial public offering in February 2001 has totaled approximately \$1.2 billion and has included both growth and maintenance capital expenditures in each of our businesses as follows: accommodations \$579 million, rental tools \$268 million, drilling and other \$189 million, offshore products \$107 million, tubular services \$17 million and corporate \$4 million.



Since our initial public offering in February 2001, we have completed 39 acquisitions for total consideration of \$1.2 billion. Acquisitions of other oilfield service businesses and, recently, in the accommodations business supporting the natural resources market in Australia, have been an important aspect of our growth strategy and plan to increase shareholder value. Our acquisition strategy has allowed us to expand our geographic locations and our product and service offerings. This growth strategy has allowed us to leverage our existing and acquired products

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and services into new geographic locations, and has expanded our technology and product offerings. We have made strategic acquisitions in our accommodations, offshore products, well site services and tubular services business lines.

On December 30, 2010, we acquired all of the ordinary shares of The MAC Services Group Limited (The MAC), through a Scheme of Arrangement (the Scheme) under the Corporations Act of Australia. The MAC is headquartered in Sydney, Australia and supplies accommodations services to the natural resources market. The MAC currently has 5,210 rooms in six locations in Queensland and Western Australia. Under the terms of the Scheme, each shareholder of The MAC received \$3.95 (A\$3.90) per share in cash. This price represents a total purchase price of \$638 million, net of cash acquired plus debt assumed of \$87 million. The Company funded the acquisition with cash on hand and borrowings available under our new five-year, \$1.05 billion senior secured bank facilities. See Note 8 to the Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on our senior secured bank facilities. The MAC's operations will be reported as part of our accommodations segment.

On December 20, 2010, we also acquired all of the operating assets of Mountain West Oilfield Service and Supplies, Inc. and Ufford Leasing LLC (Mountain West) for total consideration of \$47.1 million and estimated contingent consideration of \$4.0 million. Headquartered in Vernal, Utah, with operations in the Rockies and the Bakken Shale region, Mountain West provides remote site workforce accommodations to the oil and gas industry. Mountain West has been included in the accommodations segment since its date of acquisition.

On October 5, 2010, we purchased all of the equity of Acute Technological Services, Inc. (Acute) for total consideration of \$30.0 million. Headquartered in Houston, Texas and with operations in Brazil, Acute provides metallurgical and welding innovations to the oil and gas industry in support of critical, complex subsea component manufacturing and deepwater riser fabrication on a global basis. Acute has been included in the offshore products segment since its date of acquisition.

We funded the Acute and Mountain West acquisitions using cash on hand and our then existing credit facility.

Accounting for the three acquisitions made in 2010 has not been finalized and is subject to adjustments during the purchase price allocation period, which is not expected to exceed a period of one year from the respective acquisition dates.

## **Our Industry**

We operate principally in the oilfield services industry and provide a broad range of products and services to our customers through our accommodations, offshore products, well site services and tubular services business segments. We also own and operate accommodations in the natural resources market in Australia. 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, natural gas and mineral reserves. Our customers' spending plans are generally based on their outlook for near-term and long-term commodity prices. As a result, demand for our products and services is highly sensitive to current and expected energy prices. See Note 13 to the Consolidated Financial Statements included in this Annual Report on Form 10-K for financial information by segment and a geographical breakout of revenues and long-lived assets.

Our historical financial results reflect the cyclical nature of the oilfield services business. Since 2001, there have been periods of increasing and decreasing activity in each of our operating segments. Because of the acquisition of The MAC, our future results will also be influenced by the level of activity in the natural resource market in Australia. For additional information about activities in each of our segments, please see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our accommodations business is significantly influenced by the level of development of oil sands deposits in Alberta, Canada, activity levels in support of oil and gas development in Canada and the United States and, going forward, in natural resource markets, primarily in Australia. Despite the downturn in 2009 and early 2010 as a result of the global financial crisis, activity in our accommodations business has grown significantly in the last five years.

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Our offshore products segment, which is more influenced by deepwater development spending and rig and vessel construction and repair, experienced significantly increased backlog and revenues from 2005 to 2008, which resulted in improved operating results during 2006, 2007 and in 2008. A high level of backlog at the beginning of 2009 provided stability in offshore products revenues and profits in that year. However, due to project postponements, cancellations and deferrals that limited new order activity beginning in the fourth quarter of 2008 which continued throughout 2009 and led to backlog declines and decreased revenues and profits in 2010. Increased regulation of offshore drilling as a result of the Deepwater Horizon rig explosion and sinking in 2010 and resultant oil spill from the Macondo well blowout also delayed drilling and development operations in the U.S. offshore. However, with the improvement in oil prices over the last twenty-two months and the improved outlook for long-term oil demand, we began to experience increased bidding and quoting activity for our offshore products beginning in the second half of 2010, and our backlog has also increased 72% since the beginning of 2010.

Our well site services businesses are significantly affected by movements in the North American rig count. Activity increased to peak levels during 2008, but saw material declines beginning in the fourth quarter of 2008 in most of our businesses, and continued through much of 2009. Activity levels in 2010 improved significantly off their 2009 troughs. In particular, oil related drilling activities have recovered and are now at their highest levels in over 20 years; however, pricing for certain of our products and services has not recovered to prior peak levels.

Our tubular services business is influenced by the overall level of U.S. drilling activity, the types of wells being drilled, movements in global steel and steel input prices and the overall industry level of oil country tubular goods (OCTG) inventory and pricing. Our tubular services business has historically been our most cyclical business segment. During 2008, this segment's margins were positively affected in a significant manner by increasing prices for steel products, including the OCTG we sell. Declining OCTG prices in 2009 coupled with weaker demand for OCTG, caused by a decline in U.S. drilling, led to significantly lower revenues and margins for our tubular services business in 2009. The recovery in U.S. drilling activity in 2010 led to increased tubular services revenues. Although price increases were announced by the major U.S. mills during the first half of 2010, margins for our tubular services business declined in 2010 due primarily to a larger portion of service related costs expensed on certain program work.

## **Accommodations**

### *Overview*

During the year ended December 31, 2010, we generated approximately 22% of our revenue and 51% of our operating income, before corporate charges, from our accommodations segment. We are one of North America's and, beginning in 2011 as a result of our acquisition of The MAC, Australia's largest integrated providers of accommodations services for people working in remote locations. Our scalable modular facilities provide temporary and permanent work force accommodations where traditional infrastructure is not accessible or cost effective. Once facilities are deployed in the field, we can also provide catering and food services, housekeeping, laundry, facility management, water and wastewater treatment, power generation, communications and redeployment logistics. Our accommodations are employed to support work forces in the Canadian oil sands and in a variety of mining and related natural resource applications as well as forest fire fighting and disaster relief efforts, primarily in Canada, Australia and the United States.

### *Accommodations Market*

Our accommodations business has grown in recent years due to the increasing demand for accommodations to support workers in the oil sands region of Canada. Demand for oil sands accommodations is influenced to a great extent by the longer-term outlook for energy prices rather than current energy prices, particularly crude oil prices, given the multi-year time frame to complete oil sands projects and the costs associated with development of such large scale

projects. Utilization of our existing accommodations capacity and our future expansions will largely depend on continued oil sands development spending.

Beginning in 2011 as a result of our acquisition of The MAC, our accommodations business entered into the Australian natural resources market. The Australian natural resources market plays a vital role in the Australian economy. The growth of Australian natural resource commodity exports over the last decade has been largely driven

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by strong Asian demand for iron ore, coal and liquefied natural gas (LNG). It is Australia's largest contributor to exports, a major contributor to gross domestic product, a major employer and a major contributor to government revenue. The MAC's current activities are primarily related to supplying accommodations in support of metallurgical coal mining.

Australia is a significant producer of most of the world's key mineral commodities including iron ore, uranium, zinc, bauxite, lead, metallurgical and thermal coal and gold. It also has extensive oil and gas reserves with its major energy resource regions including the North West Shelf off the north coast of Western Australia and the onshore Cooper/Eromanga and Bowen/Surat Basins which straddle Queensland, New South Wales and South Australia.

Western Australia and Queensland are the most natural resource rich states. Western Australia produces a range of commodities including almost all of Australia's iron ore from the Pilbara region in the northwest and gold and nickel from the Eastern Goldfields region around Kalgoorlie in the southeast. Queensland has significant deposits of metallurgical and thermal coal, lead, zinc, bauxite, gold and minerals sands. The Bowen Basin region of Queensland contains the largest metallurgical coal reserves in Australia and is becoming a major part of the rapidly developing east coast coal seam gas industry. The natural resources market is also a major contributor to economic activity in the other states of Australia (e.g. South Australia is home to the Olympic Dam mine, the fourth largest copper deposit and largest uranium deposit in the world).

Volumes and prices of commodities have historically varied significantly and are difficult to predict. Mineral and commodity prices have fluctuated in recent years and may continue to fluctuate significantly in the future. Strong economic growth in emerging economies, such as China and India, with associated strong demand for mineral and natural gas resources such as coal, iron ore and LNG, has more than offset moderating growth in the United States, Japan and Europe. This demand is expected to underpin continued investment and growth in the Australian natural resources market.

## ***Products and Services***

Since mid-year 2006, we have installed over 6,900 rooms in four of our major lodge properties supporting oil sands activities in northern Alberta. Our growth plan for this area of our business includes the expansion of these properties where we believe there is durable long-term demand. As of December 31, 2010, these company-owned properties include PTI Beaver River Executive Lodge (732 rooms), PTI Athabasca Lodge (1,537 rooms), PTI Wapasu Creek Lodge (4,013 rooms) and PTI Conklin Lodge (608 rooms). We are currently expanding the capacity of our PTI Wapasu Creek Lodge to over 5,000 rooms by the end of the first quarter of 2011.

In December 2010, we acquired The MAC, which owns and operates six villages with over 5,200 rooms and has a significant development portfolio in Australia. The MAC provides accommodation services to mining and related service companies (including construction contractors) under medium-term contracts. The MAC villages are strategically located in proximity to long-life, low-cost mines operated by large mining companies. The MAC's villages are developments intended to be in operation for 15 plus years and comprise manufactured relocatable buildings, with two to six rooms per building. The accommodations are built around central facilities such as housing, kitchen, dining, retail, entertainment and fitness areas.

From 2007 to 2009 it added 1,657 rooms (net of retirements) by expanding existing villages and opening new villages. During 2010, given the uncertain global economic outlook, it consolidated its position incurring only maintenance capital expenditure while retiring 278 rooms. At December 31, 2010, The MAC had 5,210 rooms under management.

In addition to our large-scale lodge and village facilities, we offer a broad range of semi-permanent and mobile options to house workers in remote regions. Our fleet of temporary camps is designed to be deployed on short notice

and can be relocated as a project site moves. Our camps range in size from a 25 person drilling camp to a 2,000 person camp supporting varied operations, including pipeline construction, Steam Assisted Gravity Drainage (SAGD) drilling operations and large shale oil projects.

We own two accommodations manufacturing plants near Edmonton, Alberta, Canada, and a manufacturing location in Adelaide, Australia, which specialize in the design, engineering, production, transportation and

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installation of a variety of portable modular buildings, predominately for our own use. We manufacture accommodations facilities to suit the climate, terrain and population of a specific project site.

To a significant extent, the Company's recent capital expenditures have focused on opportunities in the oil sands region in northern Alberta. Since the beginning of 2005, we have spent \$489.7 million, or 48.6%, of our total consolidated capital expenditures in our Canadian accommodations business. Most of these capital investments have been in support of oil sands developments, both for initial construction phases and ongoing operations. Oil sands related accommodations revenues have increased from 33% of total accommodations revenues in 2005 to 71% in 2010.

### ***Regions of Operations***

Our accommodations business is focused primarily in northern Canada and, more recently, in Queensland, Australia, but also operates in Western Australia, the U.S. Rocky Mountain corridor and the Bakken Shale region (Wyoming, Colorado, Utah and North Dakota), the Fayetteville Shale region of Arkansas and offshore locations in the Gulf of Mexico. In the past, we have also served companies operating in international markets including the Middle East, Europe, Asia and South America.

### ***Customers and Competitors***

Our customers operate in a diverse mix of industries including primarily oil sands mining and development; drilling, exploration and extraction of oil and natural gas and coal and other extractive industries. To a lesser extent, we also operate in other industries, including pipeline construction, forestry, humanitarian aid and disaster relief, and support for military operations. Our primary competitors in North America include Aramark Corporation, Compass Group PLC, ATCO Structures and Logistics Ltd., Black Diamond Group Limited and Horizon North Logistics, Inc. Our primary competitors in Australia include Ausco Modular Pty Limited, Fleetwood Corporation Limited, Nomad Building Solutions Limited and Decmil Group Limited. Although not direct competitors, accommodations are sometimes owned and/or operated by our potential customers.

### **Offshore Products**

#### ***Overview***

During the year ended December 31, 2010, we generated approximately 18% of our revenue and 21% of our operating income, before corporate charges, from our offshore products segment. Through this segment, we design and manufacture a number of cost-effective, technologically advanced products for the offshore energy industry. In addition, we supply other lower margin products and services such as fabrication and inspection services. Our products and services are used primarily in deepwater producing regions and include flex-element technology, advanced connector systems, deepwater mooring systems, cranes, offshore equipment, installation services and subsea pipeline products and blow-out preventer stack integration and repair services. We have facilities in Arlington, Houston and Lampasas, Texas; Houma, Louisiana; Tulsa, Oklahoma; Scotland; Brazil; England; Singapore, Thailand and India that support our offshore products segment.

#### ***Offshore Products Market***

The market for our offshore products and services depends primarily upon development of infrastructure for offshore production activities, drilling rig refurbishments and upgrades and new rig and vessel construction. Demand for oil and natural gas and related drilling and production in offshore areas throughout the world, particularly in deeper water, will drive spending on these activities.



***Products and Services***

Our offshore products segment provides a broad range of products and services for use in offshore drilling and development activities. To a lesser extent, this segment provides onshore oil and natural gas, defense and general industrial products and services. Our offshore products segment is dependent in part on the industry's continuing innovation and creative applications of existing technologies.

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*Offshore Development and Drilling Activities.* We design, manufacture, fabricate, inspect, assemble, repair, test and market subsea equipment and offshore vessel and rig equipment. Our products are components of equipment used for the drilling and production of oil and natural gas wells on offshore fixed platforms and mobile production units, including floating platforms, such as Spars, tension leg platforms, floating production, storage and offloading (FPSO) vessels, and on other marine vessels, floating rigs, vessels and jack-up rigs. Our products and services include:

flexible bearings and connector products;

subsea pipeline products;

marine winches, mooring systems, cranes and rig equipment;

conductor casing connections and pipe;

drilling riser and related repair services;

blowout preventer stack assembly, integration, testing and repair services; and

other products and services.

*Flexible Bearings and Connector Products.* We are the principal supplier of flexible bearings, or FlexJoints<sup>®</sup>, to the offshore oil and gas industry. We also supply weld-on connectors and fittings that join lengths of large diameter conductor or casing used in offshore drilling operations. FlexJoints<sup>®</sup> are flexible bearings that permit the controlled movement of riser pipes or tension leg platform tethers under high tension and pressure. They are used on drilling, production and export risers and are used increasingly as offshore production moves to deeper water areas. Drilling riser systems provide the vertical conduit between the floating drilling vessel and the subsea wellhead. Through the drilling riser, equipment is guided into the well and drilling fluids are returned to the surface. Production riser systems provide the vertical conduit for the hydrocarbons from the subsea wellhead to the floating production platform. Oil and natural gas flows to the surface for processing through the production riser. Export risers provide the vertical conduit from the floating production platform to the subsea export pipelines. FlexJoints<sup>®</sup> are a critical element in the construction and operation of production and export risers on floating production systems in deepwater.

Floating production systems, including tension leg platforms, Spars and FPSO facilities, are a significant means of producing oil and gas, particularly in deepwater environments. We provide many important products for the construction of these facilities. A tension leg platform is a floating platform that is moored by vertical pipes, or tethers, attached to both the platform and the sea floor. Our FlexJoint<sup>®</sup> tether bearings are used at the top and bottom connections of each of the tethers, and our Merlin connectors are used to efficiently assemble the tethers during offshore installation. A Spar is a floating vertical cylindrical structure which is approximately six to seven times longer than its diameter and is anchored in place. An FPSO is a floating vessel, typically ship shaped, used to produce, and process oil and gas from subsea wells. Our FlexJoints<sup>®</sup> are also used to attach the steel catenary risers to a Spar, FPSO or tension leg platform and for use on import or export risers.

*Subsea Pipeline Products.* We design and manufacture a variety of equipment used in the construction, maintenance, expansion and repair of offshore oil and natural gas pipelines. New construction equipment includes:

pipeline end manifolds, pipeline end terminals;

midline tie-in sleds;

forged steel Y-shaped connectors for joining two pipelines into one;

pressure-balanced safety joints for protecting pipelines and related equipment from anchor snags or a shifting sea-bottom;

electrical isolation joints; and

hot tap clamps that allow new pipelines to be joined into existing lines without interrupting the flow of petroleum product.

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

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

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

*Marine Winches, Mooring Systems, Cranes and Rig Equipment.* We design, engineer and manufacture marine winches, mooring systems, cranes and certain rig equipment. Our Skagit® winches are specifically designed for mooring floating and semi-submersible drilling rigs and positioning pipelay and derrick barges, anchor handling boats and jack-ups, while our Nautilus® marine cranes are used on production platforms throughout the world. We also design and fabricate rig equipment such as automatic pipe racking and blow-out preventer handling equipment. Our engineering teams, manufacturing capability and service technicians who install and service our products provide our customers with a broad range of equipment and services to support their operations. Aftermarket service and support of our installed base of equipment to our customers is also an important source of revenue to us.

*BOP Stack Assembly, Integration, Testing and Repair Services.* We design and fabricate lifting and protection frames and offer system integration of blow-out preventer stacks and subsea production trees. We can provide complete turnkey and design fabrication services. We also design and manufacture a variety of custom subsea equipment, such as riser flotation tank systems, guide bases, running tools and manifolds. In addition, we also offer blow-out preventer and drilling riser testing and repair services.

To a lesser extent, our offshore products segment also produces a variety of products for use in applications other than in the offshore oil and gas industry. For example, we provide:

- elastomer consumable downhole products for onshore drilling and production;
- sound and vibration isolation equipment for the U.S. Navy submarine fleet;
- metal-elastomeric FlexJoints® used in a variety of naval and marine applications; and
- drum-clutches and brakes for heavy-duty power transmission in the mining, paper, logging and marine industries.

*Backlog.* Backlog in our offshore products segment was \$354 million at December 31, 2010, compared to \$206 million at December 31, 2009 and \$362 million at December 31, 2008. We expect in excess of 75% of our backlog at December 31, 2010 to be recognized as revenue during 2011. Our offshore products backlog consists of

firm customer purchase orders for which contractual commitments exist and delivery is scheduled. In some instances, these purchase orders are cancelable by the customer, subject to the payment of termination fees and/or the reimbursement of our costs incurred. Our backlog is an important indicator of future offshore products shipments and revenues; however, backlog as of any particular date may not be indicative of our actual operating results for any future period. We believe that the offshore construction and development business is characterized by lengthy projects and a long lead-time order cycle. The change in backlog levels from one period to the next does not necessarily evidence a long-term trend.

***Regions of Operations***

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

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Southeast Asia and India. We are currently expanding our capabilities in Southeast Asia by constructing a new facility in Singapore.

### ***Customers and Competitors***

We market our products and services to a broad customer base, including direct end users, engineering and design companies, prime contractors, and at times, our competitors through outsourcing arrangements. Our largest customers in 2010 were Transocean Ltd., Halliburton Company and BP p.l.c.

### **Well Site Services**

#### ***Overview***

During the year ended December 31, 2010, we generated approximately 20% of our revenue and 16% of our operating income, before corporate charges, from our well site services segment. Our well site services segment includes a broad range of products and services that are used to drill for, establish and maintain the flow of oil and natural gas from a well throughout its lifecycle. In this segment, our operations include completion-focused rental tools and land drilling services. We use our fleet of drilling rigs and rental equipment to serve our customers at well sites and project development locations. Our products and services are used primarily in onshore applications throughout the exploration, development and production phases of a well's life.

#### ***Well Site Services Market***

Demand for our drilling rigs and rental equipment has historically been tied to the level of oil and natural gas exploration and production activity. The primary driver for this activity is the price of oil and natural gas. Activity levels have been, and we expect will continue to be, highly correlated with hydrocarbon commodity prices.

#### ***Products and Services***

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

- wireline and coiled tubing pressure control equipment;
- wellhead isolation equipment;
- pipe recovery systems;
- thru-tubing fishing services;
- hydraulic chokes and manifolds;
- blow out preventers;
- well testing and flowback equipment, including separators and line heaters;
- gravel pack operations on well bores; and
- surface control equipment and down-hole tools utilized by coiled tubing operators.

Our rental equipment is primarily used during the completion and production stages of a well. As of December 31, 2010, we provided rental equipment at 58 distribution points throughout the United States, Canada, Mexico and Argentina, compared to 64 distribution points at December 31, 2009. We continue to consolidate operations in areas where our product lines previously had separate facilities and close facilities in areas where operations are marginal in order to streamline operations, enhance our facilities and improve marketing efficiency. We provide rental equipment on a daily rental basis with rates varying depending on the type of equipment and the length of time rented. In certain operations, we also provide service personnel in connection with the equipment rental. We own patents covering some of our rental tools, particularly in our wellhead isolation equipment product line. Our customers in the rental equipment business include major, independent and private oil and gas companies and other large oilfield service companies. Competition in the rental tool business is widespread and includes many

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smaller companies, although we also compete with the larger oilfield service companies for certain products and services. The recovery in our industry during 2010 resulted in a shortage of both equipment and personnel, contributing to both higher revenues and margins during the year when compared to 2009.

*Drilling Services.* Our drilling services business is located in the United States and provides land drilling services for shallow to medium depth wells ranging from 1,500 to 15,000 feet. Drilling services are typically used during the exploration and development stages of a field. As of December 31, 2010, after the sale of one of our rigs in 2010, we had a total of 36 semi-automatic drilling rigs with hydraulic pipe handling booms and lift capacities ranging from 75,000 to 500,000 pounds, 14 of which were fabricated and/or assembled in our Odessa, Texas facility with components purchased from specialty vendors. Twenty-two of these drilling rigs are based in Odessa, Texas and fourteen are based in the Rocky Mountains region. Utilization of our drilling rigs increased from an average of 37% in 2009 to an average of 72% in 2010. On December 31, 2010, 28 of our rigs were working or under contract with utilization of approximately 78%.

We market our drilling services directly to a diverse customer base, consisting of major, independent and private oil and gas companies. We contract on both footage and dayrate basis and have one rig in West Texas operating under a multi-well turnkey contract. Under a footage or turnkey drilling contract, we assume responsibility for certain costs (such as bits and fuel) and assume more risk (such as time necessary to drill) than we would on a daywork contract. Depending on market conditions and availability of drilling rigs, we see changes in pricing, utilization and contract terms. The land drilling business is highly fragmented, and our competition consists of a small number of larger companies and many smaller companies. Our Permian Basin drilling activities target primarily oil reservoirs while our Rocky Mountain drilling activities target both oil and natural gas reservoirs.

## **Tubular Services**

### *Overview*

During the year ended December 31, 2010, we generated approximately 40% of our revenue and 12% of our operating income, before corporate charges, from our tubular services segment. Through our Sooner, Inc. subsidiary, we distribute OCTG and provide associated OCTG finishing and logistics services to the oil and gas industry. OCTG consist of downhole casing and production tubing. Through our tubular services segment, we:

distribute a broad range of casing and tubing;

provide threading, logistical and inventory management services; and

We serve a customer base ranging from major oil and gas companies to small independents. Through our key relationships with more than 20 domestic and foreign manufacturers and related service providers and suppliers of OCTG, we deliver tubular products and ancillary services to oil and gas companies, drilling contractors and consultants predominantly in the United States. The OCTG distribution market is highly fragmented and competitive, and is focused in the United States. We purchase tubular goods from a variety of sources. However, during 2010, we purchased 56% of our total tubular goods from a single domestic supplier and 72% of our total OCTG purchases from three domestic suppliers.

### *OCTG Market*

Our tubular services segment primarily distributes casing and tubing. Casing forms the structural wall in oil and natural gas wells to provide support, control pressure and prevent collapse during drilling operations. Casing is also used to protect water-bearing formations during the drilling of a well. Casing is generally not removed after it has



been installed in a well. Production tubing, which is used to bring oil and natural gas to the surface, may be replaced during the life of a producing well.

A key indicator of domestic demand for OCTG is the aggregate footage of wells drilled onshore and offshore in the United States. The OCTG market is also affected by the level of inventories maintained by manufacturers, distributors and end users. Inventory on the ground, when at high levels, can cause tubular sales to lag a rig count increase due to inventory destocking and can put downward pressure on OCTG pricing. Demand for tubular products is positively impacted by increased drilling of deeper, horizontal and offshore wells. Deeper wells require

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incremental tubular footage and enhanced mechanical capabilities to ensure the integrity of the well. Premium tubulars are generally used in deeper wells and in horizontal drilling to withstand the increased bending and compression loading associated with a horizontal well. Operators typically specify premium tubulars for the completion of offshore wells.

### ***Products and Services***

*Tubular Products and Services.* We distribute various types of OCTG produced by both domestic and foreign manufacturers to major and independent oil and gas exploration and production companies and other OCTG distributors. We have distribution relationships with most major domestic and certain international steel mills. We do not manufacture any of the tubular goods that we distribute. As a result, gross margins in this segment are generally lower than those reported by our other business segments. We operate our tubular services segment from a total of ten offices and facilities located near areas of oil and natural gas exploration and development activity.

In our tubular services segment, inventory management is critical to our success. We maintain on-the-ground inventory in five company-owned yards and approximately 60 third-party yards located in the United States, giving us the flexibility to fill customer orders from our own stock or directly from the manufacturer. We have a proprietary inventory management system, designed specifically for the OCTG industry, which enables us to track our product shipments.

*A-Z Terminal.* Our A-Z Terminal pipe maintenance and storage facility in Crosby, Texas is equipped to provide a full range of tubular services, giving us strong customer service capabilities. Our A-Z Terminal is on 109 acres, is an ISO 9001-certified facility, has a rail spur and more than 1,400 pipe racks and two double-ended thread lines. We have exclusive use of a permanent third-party inspection center within the facility. The facility also includes indoor chrome storage capability and patented pipe cleaning machines. We offer services at our A-Z Terminal facility typically outsourced by other distributors, including the following: threading, inspection, cleaning, cutting, logistics, rig returns, installation of float equipment and non-destructive testing.

*Other Facilities.* We also offer tubular services at our facilities in Midland and Godley, Texas, Searcy, Arkansas and Montoursville, Pennsylvania. Our Midland, Texas facility covers approximately 60 acres and has more than 400 pipe racks. Our Godley, Texas facility, which services the Barnett shale area, has approximately 60 pipe racks on approximately 31 developed acres and is serviced by a rail spur. Our Searcy location has approximately 140 pipe racks on 14 acres. Our Montoursville location has approximately 99 pipe racks on 24 acres. Independent third party inspection companies operate within each of these facilities either with mobile or permanent inspection equipment.

*Tubular Products and Services Sales Arrangements.* We provide our tubular products and logistics services through a variety of arrangements, including spot market sales and alliances. We provide some of our tubular products and services to independent and major oil and gas companies under alliance or program arrangements. Although our alliances are generally not as profitable as the spot market and can generally be cancelled by the customer, they provide us with more stable and predictable revenues and an improved ability to forecast required inventory levels, which allows us to manage our inventory more efficiently.

### ***Regions of Operations***

Our tubular services segment provides tubular products and services principally to customers in the United States both for land and offshore applications. However, we also sell a small percentage for export worldwide.

### ***Suppliers and Competitors***

Our largest supplier is U.S. Steel Group. Although we have a leading market share position in tubular services distribution, the market is highly fragmented. Our main competitors in tubular distribution are Bourland & Leverich Supply Company, L.C., McJunkin Red Man Corporation, Pipeco Services Inc. and Premier Pipe L.P.

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### **Seasonality of Operations**

Our operations are directly affected by seasonal differences in weather in the areas in which we operate, most notably in Canada, Australia, the Rocky Mountain region and the Gulf of Mexico. A portion of our Canadian accommodations operations is conducted during the winter months when the winter freeze in remote regions is required for exploration and production activity to occur. The spring thaw in these frontier regions restricts operations in the second quarter and adversely affects our operations and sales of products and services. Our operations in the Gulf of Mexico are also affected by weather patterns. Weather conditions in the Gulf Coast region generally result in higher drilling activity in the spring, summer and fall months with the lowest activity in the winter months. As a result of these seasonal differences, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters. In addition, summer and fall drilling activity can be restricted due to hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast. For example, during 2005, a significant disruption occurred in oil and natural gas drilling and production operations in the U.S. Gulf of Mexico due to damage inflicted by Hurricanes Katrina and Rita and, during 2008, from Hurricane Ike. Cyclones can affect our operations in Australia.

### **Employees**

As of December 31, 2010, the Company had 6,904 full-time employees on a consolidated basis, 44% of whom are in our accommodations segment, 24% of whom are in our offshore products segment, 29% of whom are in our well site services segment, 2% of whom are in our tubular services segment and 1% of whom are in our corporate headquarters. We are party to collective bargaining agreements covering 1,689 employees located in Canada, Australia, the United Kingdom and Argentina as of December 31, 2010. We believe relations with our employees are good.

### **Government Regulation**

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

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

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

Our operations are subject to numerous stringent and comprehensive foreign, federal, state and local environmental laws and regulations governing the release and/or discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental agencies issue regulations to implement and enforce these laws,

for which compliance is often costly and difficult. The violation of these laws and regulations may result in the denial or revocation of permits, issuance of corrective action orders, modification or cessation of operations, assessment of administrative and civil penalties, and even criminal prosecution. We believe that we are in substantial compliance with existing environmental laws and regulations and we do not anticipate that future compliance with existing environmental laws and regulations will have a material effect on our Consolidated

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Financial Statements. However, there can be no assurance that substantial costs for compliance or penalties for non-compliance with these existing requirements will not be incurred in the future. Moreover, it is possible that other developments, such as the adoption of stricter environmental laws, regulations and enforcement policies or more stringent enforcement of existing environmental laws and regulations, could result in additional costs or liabilities that we cannot currently quantify.

For example, in Canada, the Federal Government of Canada in September 2010 appointed an Oil Sands Advisory Panel to review and comment upon existing scientific studies and literature regarding water monitoring in the Lower Athabasca region and provide recommendations for improving such monitoring. The Oil Sands Advisory Panel presented its final report to the Minister of the Environment in December 2010. The recommendations of the Oil Sands Advisory Panel, if accepted, would increase the level and cost of government oversight and implement an industrial user pay system. The Province of Alberta has also established a Provincial Environmental Monitoring Panel with a mandate to recommend a world class environmental evaluation, monitoring and reporting system, generally for the Province and specifically for the lower Athabasca Region where oil sands are produced. While it is unclear if and when such new monitoring systems or requirements will be in place, it would appear the Province of Alberta is taking steps to implement the recommendations of the Federal Oil Sands Advisory Panel.

Further, the Province of Alberta released a report in December 2010 regarding regulatory changes to be implemented in 2011 regarding Alberta Environment's regulation of oil sands operations. The report suggests regulatory changes will include increased reclamation security requirements, increased monitoring requirements for water quality, and additional requirements for the management of tailings ponds. These changes, if and when they are implemented, may result in additional costs or liabilities for our customers' operations.

We generate wastes, including hazardous wastes, which are subject to the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. The United States Environmental Protection Agency, or EPA, and state agencies have limited the approved methods of disposal for some types of hazardous and nonhazardous wastes. Some wastes handled by us in our field service activities currently are exempt from treatment as hazardous wastes under RCRA because that act specifically excludes drilling fluids, produced waters and other wastes associated with the exploration, development or exploration of oil or natural gas from regulation as hazardous waste. However, these wastes may in the future be designated as hazardous wastes under RCRA or other applicable statutes. This would subject us to more rigorous and costly operating and disposal requirements. In any event, such wastes may remain subject to regulation under RCRA as solid wastes.

With regard to our U.S. operations, the federal Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, also known as the Superfund law, and comparable state statutes impose liability, without regard to fault or legality of the original conduct, on classes of persons that are considered to have contributed to the release of a hazardous substance into the environment. These persons include the owner or operator of the disposal site or the site where the release occurred and companies that transported, disposed of, or arranged for the disposal of the hazardous substances at the site where the release occurred. Under CERCLA, these persons may be subject to joint and several, strict liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We currently have operations in the United States on properties where activities involving the handling of hazardous substances or wastes may have been conducted prior to our operations on such properties or by third parties whose operations were not under our control. These properties may be subject to CERCLA, RCRA and analogous state laws. Under these laws and related regulations, we could be required to remove or remediate previously discarded hazardous substances and wastes or property contamination that was caused by these third parties. These laws and regulations may also expose us to liability for our acts that were in compliance with applicable laws at the time the acts were performed.

In the course of our domestic operations, some of our equipment may be exposed to naturally occurring radiation associated with oil and natural gas deposits, and this exposure may result in the generation of wastes containing naturally occurring radioactive materials or NORM. NORM wastes exhibiting trace levels of naturally occurring radiation in excess of established state standards are subject to special handling and disposal requirements, and any storage vessels, piping, and work area affected by NORM may be subject to remediation or

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restoration requirements. Because many of the properties presently or previously owned, operated, or occupied by us have been used for oil and gas production operations for many years, it is possible that we may incur costs or liabilities associated with elevated levels of NORM.

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

A certain portion of our rental tools business supports other contractors actually performing hydraulic fracturing to enhance the production of natural gas from formations with low permeability, such as shales. Due to concerns raised concerning potential impacts of hydraulic fracturing on groundwater quality, legislative and regulatory efforts at the federal level and in some states have been initiated in the United States to render permitting and compliance requirements more stringent for hydraulic fracturing. Congress has considered two companion bills for the Fracturing Responsibility and Awareness of Chemicals Act, or FRAC Act. The bills would repeal an exemption in the federal Safe Drinking Water Act, or SWDA, for the underground injection of hydraulic fracturing fluids near drinking water sources. Sponsors of the FRAC Act have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. If enacted, the FRAC Act could result in additional regulatory burdens on the oil and gas industry generally, primarily on our customers, such as permitting, construction, financial assurance, monitoring, recordkeeping, and plugging and abandonment requirements. The FRAC Act also proposes requiring the disclosure of chemical constituents used in the fracturing process to state or federal regulatory authorities, who would then make such information publicly available. The availability of this information could make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. The Subcommittee on Energy and Environment of the U.S. House of Representatives is currently examining the practice of hydraulic fracturing in the United States and is gathering information on its potential impacts on human health and the environment. The EPA also has commenced a study of the potential adverse effects that hydraulic fracturing may have on water quality and public health. In addition, various state and local governments have implemented or are considering increased regulatory oversight of hydraulic fracturing through additional permit requirements, operational restrictions, requirements for disclosure of chemical constituents, and temporary or permanent bans on hydraulic fracturing in certain environmentally sensitive areas such as watersheds.

The adoption of the FRAC Act or any other federal or state laws or regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult, or less economic, to complete oil or natural gas wells in shale formations, increase our customers' costs of compliance, and cause delays in permitting. Such regulatory and legislative efforts could have an adverse effect on oil and natural gas production activities by operators or other contractors with whom we have a business relationship, which in turn could have an adverse effect on demand for our North American completion products and services.

In April 2010, there was a fire and explosion aboard the Deepwater Horizon drilling rig leading to an oil spill from the Macondo well operated in the ultra deep water in the Gulf of Mexico. In response to the explosion and spill, there



have been many proposals by governmental and private constituencies to address the direct impact of the incident and to prevent similar incidents in the future. Beginning in May 2010, the Bureau of Ocean Energy Management, Regulation and Enforcement, or BOEMRE (formerly the Minerals Management Service), of the United States Department of the Interior implemented a moratorium on certain drilling activities in water depths greater than 500 feet in the U.S. Gulf of Mexico that effectively shut down deepwater drilling activities through at least October 2010. In addition, BOEMRE issued Notices to Lessees and Operators, or NTLs, implemented

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additional safety and certification requirements applicable to drilling activities in the U.S. Gulf of Mexico, and imposed additional requirements with respect to development and production activities in the U.S. Gulf of Mexico, and has delayed the approval of applications to drill in both deepwater and shallow-water areas. Even without the official moratorium, offshore drilling activity is being delayed by adjustments in operating procedures, compliance certifications, and lead times for permits and inspections, as a result of the changes in the regulatory environment. In addition, there have been a variety of proposals to change existing laws and regulations that could affect offshore development and production, including proposals to significantly increase the minimum financial responsibility demonstration required under the federal Oil Pollution Act of 1990. Uncertainties and delays caused by the new regulatory environment have and will continue to have an overall negative effect on Gulf of Mexico drilling activity and, to a certain extent, the financial results of each of our business segments.

Some of our operations also result in emissions of regulated air pollutants. The federal Clean Air Act, or CAA, and analogous state laws require permits for facilities in the United States that have the potential to emit substances into the atmosphere that could adversely affect environmental quality. Failure to obtain a permit or to comply with permit requirements could result in the imposition of substantial administrative, civil and even criminal penalties.

Past scientific studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases, or GHG, and including carbon dioxide and methane, may be contributing to warming of the Earth's atmosphere and other climatic changes. In response to such studies, many foreign nations, including Canada, have agreed to limit emissions of these gases pursuant to the United Nations Framework Convention on Climate Change, also known as the Kyoto Protocol. In December 2002, Canada ratified the Kyoto Protocol, which requires Canada to reduce its emissions of greenhouse gases to 6% below 1990 levels by 2012. The Canadian federal government previously released the Regulatory Framework for Air Emissions, updated March 10, 2008 by Turning the Corner: Regulatory Framework for Industrial Greenhouse Emissions (collectively, the Regulatory Framework) for regulating GHG emissions and in doing so proposed mandatory emissions intensity reduction obligations on a sector by sector basis. Recently, the Government of Canada has announced a number of regulatory changes to address GHG emissions from motor vehicles and coal fired electricity generation. These changes may have implications for our costs of operations.

On January 29, 2010, Canada affirmed its desire to be associated with the Copenhagen Accord that was negotiated in December 2009 as part of the international meetings on climate change regulation in Copenhagen. The Copenhagen Accord, which is not legally binding, allows countries to commit to specific efforts to reduce GHG emissions, although how and when the commitments may be converted into binding emission reduction obligations is currently uncertain. Pursuant to the Copenhagen Accord process, Canada has indicated an economy-wide GHG emissions target that equates to a 17 per cent reduction from 2005 levels by 2020, and the Canadian federal government has also indicated an objective of reducing overall Canadian GHG emissions by 60% to 70% by 2050. Additionally, in 2009, the Canadian federal government announced its commitment to work with the provincial governments to implement a North America-wide cap and trade system for GHG emissions, in cooperation with the United States. Under the system, Canada would have a cap-and-trade market for Canadian-specific industrial sectors that could be integrated into a North American market for carbon permits. It is uncertain whether either federal GHG regulations or an integrated North American cap-and-trade system will be implemented, or what obligations might be imposed under any such systems.

Additionally, GHG regulation can take place at the provincial and municipal level. For example, Alberta introduced the Climate Change and Emissions Management Act, which provides a framework for managing GHG emissions by reducing specified gas emissions, relative to gross domestic product, to an amount that is equal to or less than 50% of 1990 levels by December 31, 2020. The accompanying regulation, the Specified Gas Emitters Regulation, effective July 1, 2007, requires mandatory emissions reductions through the use of emissions intensity targets, and a company can meet the applicable emissions limits by making emissions intensity improvements at facilities, offsetting GHG emissions by purchasing offset credits or emission performance credits in the open market, or acquiring fund credits

by making payments of \$15 per ton of GHG emissions to the Alberta Climate Change and Management Fund. The Alberta government recently announced its intention to raise the price of fund credits. The Specified Gas Reporting Regulation imposes GHG emissions reporting requirements if a company has GHG emissions of 100,000 tons or more from a facility in a year. In addition, Alberta facilities must currently report emissions of industrial air pollutants and comply with obligations in permits and under other environmental

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regulations. The Canadian federal government currently proposes to enter into equivalency agreements with provinces to establish a consistent regulatory regime for GHGs, but the success of any such plan is uncertain, possibly leaving overlapping levels of regulation. The direct and indirect costs of these regulations may adversely affect our operations and financial results as well as those of our customers.

Our recently acquired Australian accommodations business is regulated by general statutory environmental controls at both the state and federal level. These controls include: the regulation of hard and liquid waste, including the requirement for trade waste and/or wastewater permits or licences; the regulation of water, noise, heat, and atmospheric gases emissions; the regulation of the production, transport and storage of dangerous and hazardous materials (including asbestos); and the regulation of pollution and site contamination. Some specified activities, for example, sewage treatment works, may require regulation at a state level by way of environmental protection licenses which also impose monitoring and reporting obligations on the holder. National and state based regulations for the monitoring and reduction of green house gas emissions have been proposed or commenced but no national mandatory emissions trading market has yet commenced. Federal requirements for the disclosure of energy performance under building rating regulations have been introduced and are to be expanded. These regulations require the tracking of specific environmental performance factors.

Although the United States is not participating in the Kyoto Protocol, in December 2009, the U.S. EPA determined that emissions of carbon dioxide, methane and other GHGs present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. Based on these findings, the EPA has begun adopting and implementing regulations to restrict emissions of greenhouse gases under existing provisions of the CAA. The EPA recently adopted two sets of rules regulating greenhouse gas emissions under the CAA, one of which requires a reduction in emissions of greenhouse gases from motor vehicles and the other of which regulates emissions of greenhouse gases from certain large stationary sources, effective January 2, 2011. The EPA has also adopted rules requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States, including petroleum refineries, on an annual basis, beginning in 2011 for emissions occurring after January 1, 2010, as well as certain oil and natural gas production facilities, on an annual basis, beginning in 2012 for emissions occurring in 2011.

In addition, the United States Congress has from time to time considered adopting legislation to reduce emissions of greenhouse gases and almost one-half of the states have already taken legal measures to reduce emissions of greenhouse gases primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Most of these cap and trade programs work by requiring major sources of emissions, such as electric power plants, or major producers of fuels, such as refineries and gas processing plants, to acquire and surrender emission allowances. The number of allowances available for purchase is reduced each year in an effort to achieve the overall greenhouse gas emission reduction goal.

The adoption of legislation or regulatory programs to reduce emissions of greenhouse gases could require us or our customers to incur increased operating costs, such as costs to purchase and operate emissions control systems, to acquire emissions allowances or comply with new regulatory or reporting requirements. Any such legislation or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, the oil and natural gas, which could reduce the demand for our products and services. Consequently, legislation and regulatory programs to reduce emissions of greenhouse gases could have an adverse effect on our business, financial condition and results of operations. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts, floods and other climatic events. If any such effects were to occur, they could have an adverse effect on our financial condition and results of operations.

Our operations outside of the United States are potentially subject to similar foreign governmental controls relating to protection of the environment. We believe that, to date, our operations outside of the United States have been in substantial compliance with existing requirements of these foreign governmental bodies and that such compliance has not had a material adverse effect on our operations. However, this trend of compliance with existing requirements may not continue in the future or the cost of such compliance may become material. For instance, any future restrictions on emissions of greenhouse gases that are imposed in foreign countries in which we operate, such

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as in Canada and Australia, pursuant to the Kyoto Protocol or other locally enforceable requirements, could adversely affect demand for our services.

**Item 1A. Risk Factors**

The risks described in this Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

***Our business is subject to a number of economic risks.***

Financial markets worldwide experienced extreme disruption in the past three years, including, among other things, extreme volatility in securities prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments took unprecedented actions intended to address extreme market conditions such as severely restricted credit and declines in real estate values. Such economic events can recur and can potentially affect businesses such as ours in a number of ways. Tightening of credit in financial markets and a slowing economy adversely affects the ability of our customers and suppliers to obtain financing for significant operations, can result in lower demand for our products and services, and could result in a decrease in or cancellation of orders included in our backlog and adversely affect the collectability of our receivables. Additionally, tightening of credit in financial markets coupled with a slowing economy could negatively impact our cost of capital and ability to grow. Our business is also adversely affected when energy demand declines as a result of lower overall economic activity. Typically, lower energy demand negatively affects commodity prices which reduces the earnings and cash flow of our E&P and mining customers, reducing their spending and demand for our products and services. These conditions could have an adverse effect on our operating results and our ability to recover our assets at their stated values. Likewise, our suppliers may be unable to sustain their current level of operations, fulfill their commitments and/or fund future operations and obligations, each of which could adversely affect our operations. Strengthening of the rate of exchange for the U.S. Dollar against certain major currencies, such as the Euro, the British Pound and the Canadian and Australian Dollar, could also adversely affect our results.

***Decreased customer expenditure levels will adversely affect our results of operations.***

Demand for our products and services is particularly sensitive to the level of exploration, development and production activity of, and the corresponding capital spending by, oil and gas and mining companies, including national oil companies. If our customers' expenditures decline, our business will suffer. The industry's willingness to explore, develop and produce depends largely upon the availability of attractive drilling prospects and the prevailing view of future commodity prices. Prices for oil, coal, natural gas, and other minerals are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other factors that are beyond our control. A sudden or long-term decline in product pricing would have material adverse effects on our results of operations. Any prolonged reduction in oil and natural gas prices will depress levels of exploration, development, and production activity, often reflected as reductions in rig counts. Additionally, significant new regulatory requirements, including climate change legislation, could have an impact on the demand for and the cost of producing oil and gas. Many factors affect the supply and demand for oil, coal, natural gas and other minerals and, therefore, influence product prices, including:

the level of drilling activity;

the level of production;

the levels of oil and natural gas inventories;

depletion rates;

the worldwide demand for oil and natural gas;

the expected cost of finding, developing and producing new reserves;

delays in major offshore and onshore oil and natural gas field development timetables;

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the level of activity and developments in the Canadian oil sands;

the level of demand for coal and other natural resources from Australia;

the availability of attractive oil and natural gas field prospects, which may be affected by governmental actions or environmental activists which may restrict drilling;

the availability of transportation infrastructure, refining capacity and shifts in end-customer preferences toward fuel efficiency and the use of natural gas;

global weather conditions and natural disasters;

worldwide economic activity including growth in underdeveloped countries, such as China and India;

national government political requirements, including the ability of the Organization of Petroleum Exporting Companies (OPEC) to set and maintain production levels and prices for oil and government policies which could nationalize or expropriate oil and natural gas exploration, production, refining or transportation assets;

the level of oil and gas production by non-OPEC countries;

the impact of armed hostilities involving one or more oil producing nations;

rapid technological change and the timing and extent of alternative energy sources, including liquefied natural gas (LNG) or other alternative fuels;

environmental regulation; and

domestic and foreign tax policies.

***Our business may be adversely affected by extended periods of low oil prices or unsuccessful exploration results may decrease deepwater exploration and production activity or oil sands development and production in Canada.***

Two of our businesses, where we manufacture offshore products for deepwater exploration and production and where we supply accommodations for oil sands developments, typically support our customers' projects that are more capital intensive and take longer to generate first production than traditional oil and natural gas exploration and development activities. The economic analyses conducted by exploration and production companies in deepwater and oil sands areas have historically assumed a relatively conservative longer-term price outlook for production from such projects to determine economic viability. Perceptions of lower longer-term oil prices by these companies can cause our customers to reduce or defer major expenditures given the long-term nature of many large scale development projects, which could adversely affect our revenues and profitability in our offshore products segment and our accommodations segment.

***Federal legislation and state legislative and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays as well as adversely affect our services.***

The federal Congress is currently considering two companion bills in the United States, known as the Fracturing Responsibility and Awareness of Chemicals Act, or FRAC Act, that would repeal an exemption in the federal Safe Drinking Water Act for the underground injection of hydraulic fracturing fluids near drinking water sources.



Hydraulic fracturing is an important and commonly used process for the completion of oil and natural gas wells in formations with low permeabilities, such as shale formations, and involves the pressurized injection of water, sand and chemicals into rock formations to stimulate production. Sponsors of the FRAC Act have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. If enacted, the FRAC Act could result in additional regulatory burdens such as permitting, construction, financial assurance, monitoring, recordkeeping, and plugging and abandonment requirements. The FRAC Act also proposes requiring the disclosure of chemical constituents used in the fracturing process to state or federal regulatory authorities, who would then make such information publicly available. The availability of this information could make it easier for third parties

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opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. The Subcommittee on Energy and Environment of the U.S. House of Representatives is currently examining the practice of hydraulic fracturing in the United States and is gathering information on its potential impacts on human health and the environment. The EPA has commenced a study of the potential adverse effects that hydraulic fracturing may have on water quality and public health. In addition, various state and local governments have implemented or are considering increased regulatory oversight of hydraulic fracturing through additional permit requirements, operational restrictions, disclosure requirements and temporary or permanent bans on hydraulic fracturing in certain environmentally sensitive areas such as certain watersheds. The adoption of the FRAC Act or any other federal, state or local laws or regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete natural gas wells in certain formations, increase our costs of compliance, and adversely affect the demand for the well site services that we provide.

***Our financial results could be adversely impacted by the Macondo well incident and the resulting changes in regulation of offshore oil and natural gas exploration and development activity.***

The U.S. Department of the Interior has issued Notices to Lessees and Operators (NTLs), has implemented additional safety and certification requirements applicable to drilling activities in the U.S. Gulf of Mexico, has imposed additional requirements with respect to development and production activities in U.S. waters and has delayed the approval of drilling plans and well permits in both deepwater and shallow-water areas. The delays caused by new regulations and requirements have and will continue to have an overall negative effect on Gulf of Mexico drilling activity, and to a certain extent, our financial results.

The Macondo well incident, the subsequent oil spill and moratorium on drilling has caused offshore drilling delays, and is expected to result in increased state, federal and international regulation of our and our customer's operations that could negatively impact our earnings, prospects and the availability and cost of insurance coverage. This delay could result in decreased demand for all of our business segments. There have been a variety of proposals to change existing laws and regulations that could affect offshore development and production, including proposals to significantly increase the minimum financial responsibility demonstration required under the federal Oil Pollution Act of 1990. Any increased regulation of the exploration and production industry as a whole that arises out of the Macondo well incident could result in fewer companies being financially qualified to operate offshore in the U.S., could result in higher operating costs for our customers and could reduce demand for our services.

***We have a significant concentration of our accommodations business located in the oil sands region of Alberta, Canada.***

Because of the concentration of our accommodations business in the Canadian oil sands in one relatively small geographic area, we have increased exposure to political, regulatory, environmental, labor, climate or natural disaster events or developments that could negatively impact our operations and financial results.

***In our accommodations business supporting mining, our clients' production or price issues may adversely affect us.***

The volumes and prices of the products of our clients, including coal and gold, have historically varied significantly and are difficult to predict. The demand for, and price of, these minerals and commodities is highly dependent on a variety of factors, including international supply and demand, the price and availability of alternative fuels, actions taken by governments and global economic and political developments. Mineral and commodity prices have fluctuated in recent years and may continue to fluctuate significantly in the future. We expect that a material decline in mineral and commodity prices could result in a decrease in the activity of our clients with the possibility that this

would materially adversely affect us. No assurance can be given regarding future volumes and/or prices relating to the activities of our clients.

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***Because the oil and gas industry is cyclical, our operating results may fluctuate.***

Oil and natural gas prices have been and are expected to remain volatile. This volatility causes oil and gas companies and drilling contractors to change their strategies and expenditure levels. Supplies of oil and natural gas can be influenced by many factors, including improved technology such as the hydraulic fracturing of horizontally drilled wells in shale discoveries, access to potential productive regions and availability of required infrastructure to deliver production to the marketplace. We have experienced in the past, and expect to experience in the future, significant fluctuations in operating results based on these changes.

***The cyclical nature of our business and a severe prolonged downturn could negatively affect the value of our goodwill.***

As of December 31, 2010, goodwill represented approximately 16% of our total assets. We have recorded goodwill because we paid more for some of our businesses than the fair market value of the tangible and separately measurable intangible net assets of those businesses. Current accounting standards, which were effective January 1, 2002, require a periodic review of goodwill for impairment in value and a non-cash charge against earnings with a corresponding decrease in stockholders' equity if circumstances, some of which are beyond our control, indicate that the carrying amount will not be recoverable. In the fourth quarter of 2008, we recognized an impairment of a portion of our goodwill totaling \$85.6 million as a result of several factors affecting our tubular services and drilling reporting units. In the second quarter of 2009, we recognized an impairment of \$94.5 million representing a portion of our remaining goodwill as a result of several factors affecting our rental tools reporting unit. It is possible that we could recognize additional goodwill impairment losses in the future if, among other factors:

global economic conditions deteriorate;

the outlook for future profits and cash flow for any of our reporting units deteriorate as the result of many possible factors, including, but not limited to, increased or unanticipated competition, technology becoming obsolete, further reductions in customer capital spending plans, loss of key personnel, adverse legal or regulatory judgment(s), future operating losses at a reporting unit, downward forecast revisions, or restructuring plans;

costs of equity or debt capital increase further; or

valuations for comparable public companies or comparable acquisition valuations deteriorate further.

***The level and pricing of tubular goods imported into the United States could decrease demand for our tubular goods inventory and adversely impact our results of operations. Also, if steel mills were to sell a substantial amount of goods directly to end users in the United States, our results of operations could be adversely impacted.***

Although imports of OCTG from China are currently restricted by trade sanctions imposed by the U.S. government, lower-priced tubular goods from a number of foreign countries are still imported into the U.S. tubular goods market. If the level of imported lower-priced tubular goods were to otherwise increase from current levels, our tubular services segment could be adversely affected to the extent that we would then have higher-cost tubular goods in inventory or if prices and margins are driven down by increased supplies of tubular goods. If prices were to decrease significantly, we might not be able to profitably sell our inventory of tubular goods. In addition, significant price decreases could result in a longer holding period for some of our inventory, which could also have an adverse effect on our tubular services segment.

We do not manufacture any of the tubular goods that we distribute. Historically, users of tubular goods in the United States, in contrast to those outside the United States, have purchased tubular goods through distributors. If customers were to purchase tubular goods directly from steel mills, our results of operations could be adversely impacted.

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***We do business in international jurisdictions whose political and regulatory environments and compliance regimes differ from those in the United States.***

A portion of our revenue is attributable to operations in foreign countries. These activities accounted for approximately 29% (7.9% excluding Canada) of our consolidated revenue in the year ended December 31, 2010. Risks associated with our operations in foreign areas include, but are not limited to:

war and civil disturbances or other risks that may limit or disrupt markets;

expropriation, confiscation or nationalization of assets;

renegotiation or nullification of existing contracts;

foreign exchange restrictions;

foreign currency fluctuations;

foreign taxation;

the inability to repatriate earnings or capital;

changing political conditions;

changing foreign and domestic monetary policies;

social, political, military and economic situations in foreign areas where we do business and the possibilities of war, other armed conflict or terrorist attacks; and

regional economic downturns.

Additionally, in some jurisdictions we are subject to foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These regulations may adversely affect our ability to compete.

Our international business operations also include projects in countries where governmental corruption has been known to exist and where our competitors who are not subject to the same ethics related laws and regulations such as the Foreign Corrupt Practices Act in the U.S. and the Anti-Bribery law in the U.K., can gain competitive advantages over us by securing business awards, licenses or other preferential treatment in those jurisdictions using methods that certain ethics related laws and regulations prohibit us from using. For example, our non-U.S. competitors are not subject to the anti-bribery restrictions of the Foreign Corrupt Practices Act, which make it illegal to give anything of value to foreign officials or employees or agents of nationally owned oil companies in order to obtain or retain any business or other advantage. While many countries, like the U.S. and the U.K., have adopted similar anti-bribery statutes, there has not been universal adoption and enforcement of such statutes. Therefore, we may be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence.

Violations of these laws could result in monetary and criminal penalties against us or our subsidiaries and could damage our reputation and, therefore, our ability to do business.

***We are subject to extensive and costly environmental laws and regulations that may require us to take actions that will adversely affect our results of operations.***

All of our operations are significantly affected by stringent and complex foreign, federal, provincial, state and local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. We could be exposed to liability for cleanup costs, natural resource damages and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior operators or other third parties. Environmental laws and regulations are subject to change in the future, possibly resulting in more stringent requirements. If existing regulatory requirements or enforcement policies change or are more stringently enforced, we may be required to make significant unanticipated capital and operating expenditures.

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

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

***We may be exposed to certain regulatory and financial risks related to climate change.***

Climate change is receiving increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. A significant focus is being made on companies that are active producers of depleting natural resources.

There are a number of legislative and regulatory proposals to address greenhouse gas emissions, which are in various phases of discussion or implementation. The outcome of foreign, U.S. federal, regional, provincial and state actions to address global climate change could result in a variety of regulatory programs including potential new regulations, additional charges to fund energy efficiency activities, or other regulatory actions. These actions could:

- result in increased costs associated with our operations and our customers' operations;
- increase other costs to our business;
- adversely impact overall drilling activity in the areas in which we operate;
- reduce the demand for carbon-based fuels; and
- reduce the demand for our services.

Any adoption by foreign, U.S. federal, regional or state governments mandating a substantial reduction in greenhouse gas emissions and implementation of the Kyoto Protocol (the Copenhagen Accord,) or other foreign, U.S. federal, regional or state requirements or other efforts to regulate greenhouse gas emissions, could have far-reaching and significant impacts on the energy industry. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address greenhouse gas emissions would impact our business, any such future laws and regulations could result in increased compliance costs or additional operating restrictions, and could have a material adverse effect on our business or demand for our services. See Item 1. Government Regulation for a more detailed description of our climate-change related risks.

***Currently proposed legislative changes could materially, negatively impact the Company, increase the costs of doing business and decrease the demand for our products.***

The current U.S. administration and Congress have proposed several new articles of legislation or legislative and administration changes which could have a material negative effect on our Company. Some of the proposed changes



that could negatively impact us are:

cap and trade system for emissions;

increase environmental limits on exploration and production activities;

repeal of expensing of intangible drilling costs;

increase of the amortization period for geological and geophysical costs to seven years;

repeal of percentage depletion;

limits on hydraulic fracturing or disposal of hydraulic fracturing fluids;

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repeal of the domestic manufacturing deduction for oil and natural gas production;

repeal of the passive loss exception for working interests in oil and natural gas properties;

repeal of the credits for enhanced oil recovery projects and production from marginal wells;

repeal of the deduction for tertiary injectants;

changes to the foreign tax credit limitation calculation; and

changes to healthcare rules and regulations.

***Our customers in the accommodations business are exposed to a number of unique operating risks which could also adversely affect us.***

We could be materially adversely affected by disruptions to the operation of our clients caused by any one of or all of the following singularly or in combination:

domestic and international pricing and demand for the natural resource being produced at a given project (or proposed project);

unexpected problems and delays during the development, construction and project start-up which may delay the commencement of production;

unforeseen and adverse climatic, geological, geotechnical, seismic and mining conditions;

lack of availability of sufficient water or power to maintain their or our operations;

lack of availability or failure of the required infrastructure necessary to maintain or to expand their operations;

the breakdown or shortage of equipment and labor necessary to maintain their or our operations;

risks associated with the natural resources industry being subject to various regulatory approvals. Such risks may include a Government Agency failing to grant an approval or failing to renew an existing approval, or the approval or renewal not being provided by the Government Agency in a timely manner or the Government Agency granting or renewing an approval subject to materially onerous conditions;

risks to land titles, mining titles and use thereof as a result of native title claims;

claims by persons living in close proximity to mining projects, which may have an impact on the consents granted;

interruptions to the operations of our clients caused by industrial accidents or disputation; and

delays in or failure to commission new infrastructure in timeframes so as not to disrupt client operations.

***Our accommodations business is exposed to a number of general risks that could materially adversely affect our assets and liabilities, financial position, profits, prospects and share price.***

Examples of these broad general risks which may impact our performance include:

abnormal stoppages in the production or delivery of the products of our clients due to factors such as industrial disruption, infrastructure failure, war, political or civil unrest;

cost overruns in the provision of new rooms or in other associated or related capital expenditure;

higher than budgeted costs associated with the provision of accommodations services;

our clients not renewing their contracts, renewing them on less favorable terms, or other loss of clients;

failure of our clients to meet their obligations under their contracts;

extreme weather conditions adversely affecting our operations or the operations of our clients; and

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a major disaster at one or more of our large accommodations facilities involving fire, communicable diseases, criminal acts or other events causing significant reputational damage.

***Development of permanent infrastructure in the oil sands region or regions of Australia where we locate accommodations villages could negatively impact our accommodations business.***

Our accommodations business specializes in providing housing and personnel logistics for work forces in remote areas which lack the infrastructure typically available in nearby towns and cities. If permanent towns, cities and municipal infrastructure develop in the oil sands region of northern Alberta, Canada, or regions of Australia where we locate accommodations villages demand for our accommodations could decrease as customer employees move to the region and choose to utilize permanent housing and food services.

***Construction risks exist in our accommodations business.***

There are a number of general risks that might impinge on companies involved in the development, construction, manufacture and installation of facilities as a prerequisite to the management of those assets in an operational sense. We might be exposed to these risks from time to time by relying on these corporations and/or other third parties which could include any and/or all of the following;

the construction activities of our accommodations business are partially dependent on the supply of appropriate construction and development opportunities;

development approvals, slow decision making by counterparties, complex construction specifications, changes to design briefs, legal issues and other documentation changes may give rise to delays in completion, loss of revenue and cost over-runs. Delays in completion may, in turn, result in liquidated damages and termination of accommodation supply contracts;

other time delays that may arise in relation to construction and development include supply of labor, scarcity of construction materials, lower than expected productivity levels, inclement weather conditions, land contamination, cultural heritage claims, difficult site access, or industrial relations issues;

objections aired by community interest, environment and/or neighborhood groups which may cause delays in the granting or approvals and/or the overall progress of a project;

where we assume design responsibility, there is a risk that design problems or defects may result in rectification and/or costs or liabilities which we cannot readily recover; and

there is a risk that we may fail to fulfill our statutory and contractual obligations in relation to the quality of our materials and workmanship, including warranties and defect liability obligations.

***We are susceptible to seasonal earnings volatility due to adverse weather conditions in our regions of operations.***

Our operations are directly affected by seasonal differences in weather in the areas in which we operate, most notably in Canada, Australia, the Rocky Mountain region and the Gulf of Mexico. A portion of our Canadian accommodations operations is conducted during the winter months when the winter freeze in remote regions is required for exploration and production activity to occur. The spring thaw in these frontier regions restricts operations in the spring months and, as a result, adversely affects our operations and sales of products and services in the second and, to a lesser extent, third quarters. Our operations in the Gulf of Mexico are also affected by weather patterns. Weather conditions

in the Gulf Coast region generally result in higher drilling activity in the spring, summer and fall months with the lowest activity in the winter months. As a result of these seasonal differences, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters. In addition, summer and fall drilling activity can be restricted due to hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast. For example, during 2005, a significant disruption occurred in oil and natural gas drilling and production operations in the U.S. Gulf of Mexico due to damage inflicted by Hurricanes Katrina and Rita and, during 2008, from Hurricane Ike. Cyclones can affect our operations in Australia.

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***We are exposed to risk relating to subcontractors performance in some of our projects.***

In many cases, we subcontract the performance of parts of our operations to subcontractors. While we seek to obtain appropriate indemnities and guarantees from these subcontractors, we remain ultimately responsible for the performance of our subcontractors. Industrial disputes, natural disasters, financial failure or default or inadequate performance in the provision of services, or the inability to provide services by such subcontractors has the potential to materially adversely affect us.

***Our inability to control the inherent risks of acquiring and integrating businesses could adversely affect our operations.***

Acquisitions have been, and our management believes acquisitions will continue to be, a key element of our growth strategy. We may not be able to identify and acquire acceptable acquisition candidates on favorable terms in the future. We may be required to incur substantial indebtedness to finance future acquisitions and also may issue equity securities in connection with such acquisitions. Such additional debt service requirements could impose a significant burden on our results of operations and financial condition. The issuance of additional equity securities could result in significant dilution to stockholders.

We expect to gain certain business, financial and strategic advantages as a result of business combinations we undertake, including synergies and operating efficiencies. Our forward-looking statements assume that we will successfully integrate our business acquisitions and realize these intended benefits. An inability to realize expected strategic advantages as a result of the acquisition would negatively affect the anticipated benefits of the acquisition. Additional risks we could face in connection with acquisitions include:

- retaining key employees of acquired businesses;
- retaining and attracting new customers of acquired businesses;
- retaining supply and distribution relationships key to the supply chain;
- increased administrative burden;
- developing our sales and marketing capabilities;
- managing our growth effectively;
- potential impairment resulting from the overpayment for an acquisition;
- integrating operations;
- operating a new line of business; and
- increased logistical problems common to large, expansive operations.

Additionally, an acquisition may bring us into businesses we have not previously conducted and expose us to additional business risks that are different from those we have previously experienced. If we fail to manage any of these risks successfully, our business could be harmed. Our capitalization and results of operations may change significantly following an acquisition, and shareholders of the Company may not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in evaluating future acquisitions.

***We may not have adequate insurance for potential liabilities.***

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

we may not be able to continue to obtain insurance on commercially reasonable terms;

we may be faced with types of liabilities that will not be covered by our insurance, such as damages from environmental contamination or terrorist attacks;

the dollar amount of any liabilities may exceed our policy limits;

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the counterparties to our insurance contracts may pose credit risks; and

we may incur losses from interruption of our business that exceed our insurance coverage.

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

***We are subject to litigation risks that may not be covered by insurance.***

In the ordinary course of business, we become the subject of various claims, 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 the activities of businesses that we have sold, and some relate to the activities of businesses that we have acquired, even though these activities may have occurred prior to our acquisition of such businesses. We maintain insurance to cover many of our potential losses, and we are subject to various self-retentions and deductibles under our insurance. It is possible, however, that a judgment could be rendered against us in cases in which we could be uninsured and beyond the amounts that we currently have reserved or anticipate incurring for such matters.

***Our concentration of customers in two industries may impact overall exposure to credit risk.***

Substantially all of our customers operate in the energy or mining industries. This concentration of customers in two industries may impact our overall exposure to credit risk, either positively or negatively, in that customers may be similarly affected by changes in economic and industry conditions. We perform ongoing credit evaluations of our customers and do not generally require collateral in support of our trade receivables.

***Our common stock price has been volatile.***

The market price of common stock of companies engaged in the oil and gas services industry has been highly volatile. Likewise, the market price of our common stock has varied significantly (2010 low of \$34.20 per share; 2010 high of \$65.31 per share) in the past, and we expect it to continue to remain highly volatile.

***We may assume contractual risk in developing, manufacturing and delivering products in our offshore products business segment.***

Many of our products from our offshore products segment are ordered by customers under frame agreements or project specific contracts. In some cases these contracts stipulate a fixed price for the delivery of our products and impose liquidated damages or late delivery fees if we do not meet specific customer deadlines. In addition, some customer contracts stipulate consequential damages payable, generally as a result of our gross negligence or willful misconduct. The final delivered products may also include customer and third party supplied equipment, the delay of which can negatively impact our ability to deliver our products on time at our anticipated profitability.

In certain cases these orders include new technology or unspecified design elements. In some cases we may not be fully or properly compensated for the cost to develop and design the final products, negatively impacting our profitability on the projects. In addition, our customers, in many cases, request changes to the original design or bid specifications for which we may not be fully or properly compensated.



As is customary for our offshore products segment, we agree to provide products under fixed-price contracts, typically assuming responsibility for cost overruns. Our actual costs and any gross profit realized on these fixed-price contracts may vary from the initially expected contract economics. There is inherent risk in the estimation process including significant unforeseen technical and logistical challenges or longer than expected lead times. A fixed-price contract may prohibit our ability to mitigate the impact of unanticipated increases in raw material prices (including the price of steel) through increased pricing. In fulfilling some contracts, we provide limited warranties for our products. Although we estimate and record a provision for potential warranty claims, repair or replacement costs under warranty provisions in our contracts could exceed the estimated cost to cure the claim which could be material to our financial results. We utilize percentage completion accounting, depending on the size of a project

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and variations from estimated contract performance could have a significant impact on our reported operating results as we progress toward completion of major jobs.

***Our backlog is subject to unexpected adjustments and cancellations and is, therefore, an imperfect indicator of our future revenues and earnings.***

The revenues projected in our backlog may not be realized or, if realized, may not result in profits. Because of potential changes in the scope or schedule of our customers' projects, we cannot predict with certainty when or if backlog will be realized. In addition, even where a project proceeds as scheduled, it is possible that contracted parties may default and fail to pay amounts owed to us. Material delays, cancellations or payment defaults could materially affect our financial condition, results of operations and cash flows.

Reductions in our backlog due to cancellations by customers or for other reasons would adversely affect, potentially to a material extent, the revenues and earnings we actually receive from contracts included in our backlog. Some of the contracts in our backlog are cancelable by the customer, subject to the payment of termination fees and/or the reimbursement of our costs incurred. We typically have no contractual right upon cancellation to the total revenues reflected in our backlog. If we experience significant project terminations, suspensions or scope adjustments to contracts reflected in our backlog, our financial condition, results of operations and cash flows may be adversely impacted.

***We might be unable to employ a sufficient number of technical personnel.***

Many of the products that we sell, especially in our offshore products segment, are complex and highly engineered and often must perform in harsh conditions. We believe that our success depends upon our ability to employ and retain technical personnel with the ability to design, utilize and enhance these products. In addition, our ability to expand our operations depends in part on our ability to increase our skilled labor force. During periods of increased activity, the demand for skilled workers is high, and the supply is limited. We have already experienced high demand and increased wages for labor forces serving our accommodations business in Canada. When these events occur, our cost structure increases and our growth potential could be impaired.

***We might be unable to compete successfully with other companies in our industry.***

The markets in which we operate are highly competitive and certain of them have relatively few barriers to entry. The principal competitive factors in our markets are product, equipment and service quality, availability, responsiveness, experience, technology, safety performance and price. In some of our business segments, we compete with the oil and gas industry's largest oilfield service providers. These large national and multi-national companies have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Several of our competitors provide a broader array of services and have a stronger presence in more geographic markets. In addition, we compete with several smaller companies capable of competing effectively on a regional or local basis. Our competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements. Some contracts are awarded on a bid basis, which further increases competition based on price. As a result of competition, we may lose market share or be unable to maintain or increase prices for our present services or to acquire additional business opportunities, which could have a material adverse effect on our business, financial condition and results of operations.

***If we do not develop new competitive technologies and products, our business and revenues may be adversely affected.***

The market for our offshore products is characterized by continual technological developments to provide better performance in increasingly greater water depths, higher pressure levels and harsher conditions. If we are not able to design, develop and produce commercially competitive products in a timely manner in response to changes in technology, our business and revenues will be adversely affected. In addition, competitors or customers may develop new technology, which addresses similar or improved solutions to our existing technology. Should our technology, particularly in offshore products or in our rental tool business, become the less attractive solution, our operations and profitability would be negatively impacted.

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***During periods of strong demand, we may be unable to obtain critical project materials on a timely basis.***

Our operations depend on our ability to procure, on a timely basis, certain project materials, such as forgings, to complete projects in an efficient manner. Our inability to procure critical materials during times of strong demand could have a material adverse effect on our business and operations.

***Our oilfield operations involve a variety of operating hazards and risks that could cause losses.***

Our operations are subject to the hazards inherent in the oilfield business. These include, but are not limited to, equipment defects, blowouts, explosions, fires, collisions, capsizing and severe weather conditions. These hazards could result in personal injury and loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage and suspension of operations. We may incur substantial liabilities or losses as a result of these hazards as part of our ongoing business operations. We may agree to indemnify our customers against specific risks and liabilities. While we maintain insurance protection against some of these risks, and seek to obtain indemnity agreements from our customers requiring the customers to hold us harmless from some of these risks, our insurance and contractual indemnity protection may not be sufficient or effective enough to protect us under all circumstances or against all risks. The occurrence of a significant event not fully insured or indemnified against or the failure of a customer to meet its indemnification obligations to us could materially and adversely affect our results of operations and financial condition.

***If we were to lose a significant supplier of our tubular goods, we could be adversely affected.***

During 2010, we purchased 56% of our total tubular goods from a single domestic supplier and 72% of our total OCTG purchases from three domestic suppliers. If we were to lose any of these suppliers or if production at one or more of the suppliers was interrupted, our tubular services segment's business, financial condition and results of operations could be adversely affected. If the extent of the loss or interruption were sufficiently large, the impact on us could be material.

***Our operations may suffer due to increased industry-wide capacity of certain types of equipment or assets.***

The demand for and pricing of certain types of our assets and equipment, particularly our drilling rigs and rental tool assets, is subject to the overall availability of such assets in the marketplace. If demand for our assets were to decrease, or to the extent that we and our competitors increase our fleets in excess of current demand, we may encounter decreased pricing for or utilization of our assets and services, which could adversely impact our operations and profits.

In addition, we have significantly increased our accommodations capacity in the oil sands region over the past five years based on our expectation for current and future customer demand for accommodations in the area. Should our customers build their own facilities to meet their accommodations needs or our competitors likewise increase their available accommodations, or activity in the oil sands decline significantly, demand and/or pricing for our accommodations could decrease, negatively impacting the profitability of our accommodations segment.

***We might be unable to protect our intellectual property rights.***

We rely on a variety of intellectual property rights that we use in our offshore products and well site services segments, particularly our patents relating to our FlexJoint® technology and intervention tools utilized in the completion or workover of oil and natural gas wells. The market success of our technologies will depend, in part, on our ability to obtain and enforce our proprietary rights in these technologies, to preserve rights in our trade secret and non-public information, and to operate without infringing the proprietary rights of others. We may not be able to

successfully preserve these intellectual property rights in the future and these rights could be invalidated, circumvented or challenged. If any of our patents or other intellectual property rights are determined to be invalid or unenforceable, or if a court limits the scope of claims in a patent or fails to recognize our trade secret rights, our competitive advantages could be significantly reduced in the relevant technology, allowing competition for our customer base to increase. In addition, the laws of some foreign countries in which our products and services may be sold do not protect intellectual property rights to the same extent as the laws of the United States. The failure of our

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company to protect our proprietary information and any successful intellectual property challenges or infringement proceedings against us could adversely affect our competitive position.

### ***Loss of key members of our management could adversely affect our business.***

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

### ***We are exposed to the credit risk of our customers and other counterparties, and a general increase in the nonpayment and nonperformance by counterparties could have an adverse impact on our cash flows, results of operations and financial condition.***

Risks of nonpayment and nonperformance by our counterparties are a concern in our business. We are subject to risks of loss resulting from nonpayment or nonperformance by our customers and other counterparties, such as our lenders and insurers. Many of our customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. In connection with the recent economic downturn, commodity prices declined sharply, and the credit markets and availability of credit were constrained. Additionally, many of our customers equity values declined substantially. The combination of lower cash flow due to commodity prices, a reduction in borrowing bases under reserve-based credit facilities and the lack of available debt or equity financing may result in a significant reduction in our customers liquidity and ability to pay or otherwise perform on their obligations to us. Furthermore, some of our customers may be highly leveraged and subject to their own operating and regulatory risks, which increases the risk that they may default on their obligations to us. Any increase in the nonpayment and nonperformance by our counterparties could have an adverse impact on our operating results and could adversely affect our liquidity.

### ***Employee and customer labor problems could adversely affect us.***

We are party to collective bargaining agreements covering 1,283 employees in Canada, 374 employees in Australia, 16 employees in the United Kingdom and 16 employees in Argentina. In addition, our accommodations facilities serving oil sands development work in Northern Alberta, Canada house both union and non-union customer employees. We have not experienced strikes, work stoppages or other slowdowns in the recent past, but we cannot guarantee that we will not experience such events in the future. A prolonged strike, work stoppage or other slowdown by our employees or by the employees of our customers could cause us to experience a disruption of our operations, which could adversely affect our business, financial condition and results of operations.

### ***Provisions contained in our certificate of incorporation and bylaws could discourage a takeover attempt, which may reduce or eliminate the likelihood of a change of control transaction and, therefore, the ability of our stockholders to sell their shares for a premium.***

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

## **Item 1B. Unresolved Staff Comments**

None.

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**Table of Contents****Item 2. Properties**

The following table presents information about our principal properties and facilities. For a discussion about how each of our business segments utilizes its respective properties, please see Item 1. Business. Except as indicated below, we own all of these properties or facilities.

| <b>Location</b>                         | <b>Approximate<br/>Square<br/>Footage/Acreage</b> | <b>Description</b>   |
|---|---|--|
| United States:                          |   |  |
| Houston, Texas (lease)                  | 15,829  | Principal executive offices  |
| Arlington, Texas                        | 11,264  | Offshore products business office  |
| Arlington, Texas                        | 36,770  | Offshore products business office and warehouse                                |
| Arlington, Texas                        | 55,853  | Offshore products manufacturing facility                                       |
| Arlington, Texas (lease)                | 63,272  | Offshore products manufacturing facility                                       |
| Arlington, Texas                        | 44,780  | Elastomer technology center for offshore products                              |
| Arlington, Texas                        | 60,000  | Molding and aerospace facilities for offshore products                         |
| Houston, Texas (lease)                  | 52,000  | Offshore products business office  |
| Houston, Texas                          | 25 acres  | Offshore products manufacturing facility and yard                              |
| Houston, Texas                          | 22 acres  | Offshore products manufacturing facility and yard                              |
| Houston, Texas (lease)                  | 50,750  | Offshore products service facility and office                                  |
| Lampasas, Texas                         | 48,500  | Molding facility for offshore products   |
| Lampasas, Texas (lease)                 | 20,000  | Warehouse for offshore products  |
| Tulsa, Oklahoma                         | 74,600  | Molding facility for offshore products   |
| Tulsa, Oklahoma (lease)                 | 14,000  | Molding facility for offshore products   |
| Houma, Louisiana                        | 40 acres  | Offshore products manufacturing facility and yard                              |
| Houma, Louisiana (lease)                | 20,000  | Offshore products manufacturing facility and yard                              |
| Houston, Texas (lease)                  | 9,945   | Tubular services business office   |
| Tulsa, Oklahoma (lease)                 | 11,955  | Tubular services business office   |
| Midland, Texas                          | 60 acres  | Tubular yard   |
| Godley, Texas                           | 31 acres  | Tubular yard   |
| Crosby, Texas                           | 109 acres   | Tubular yard   |
| Searcy, Arkansas                        | 14 acres  | Tubular yard   |
| Montoursville, Pennsylvania             | 24 acres  | Tubular yard   |
| Belle Chasse, Louisiana (own and lease) | 427,020   | Accommodations manufacturing facility and yard                                 |
| Vernal, Utah (lease)                    | 21 acres  | Accommodations facility and yard   |
| Dickinson, North Dakota (lease)         | 26 acres  | Accommodations facility and yard   |
|   |   | Office, shop, warehouse and yard in support of drilling operations             |
| Odessa, Texas                           | 22 acres  | for well site services   |
|   |   | Office, shop and yard in support of drilling operations for well site services |
| Casper, Wyoming                         | 7 acres   |  |
| Canada:                                 |   |  |
| Nisku, Alberta                          | 9 acres   | Accommodations manufacturing facility  |
| Spruce Grove, Alberta                   | 15,000  | Accommodations facility and equipment yard                                     |
| Grande Prairie, Alberta                 | 15 acres  | Accommodations facility and equipment yard                                     |



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|  |           |                                       |
|--|-----------|---------------------------------------|
| Grimshaw, Alberta (lease)  | 20 acres  | Accommodations equipment yard         |
| Edmonton, Alberta  | 33 acres  | Accommodations manufacturing facility |
| Edmonton, Alberta (lease)  | 86,376    | Accommodations office and warehouse   |
| Edmonton, Alberta (lease)  | 16,130    | Accommodations office                 |
| Fort McMurray, Alberta (Beaver River and Athabasca Lodges) (lease) | 128 acres | Accommodations facility               |
| Fort McMurray, Alberta (Wapasu Lodge)(lease)                       | 240 acres | Accommodations facility               |
| Fort McMurray, Alberta (Conklin Lodge)(lease)                      | 135 acres | Accommodations facility               |
| Fort McMurray, Alberta (Christina Lake Lodge)                      | 45 acres  | Accommodations facility               |
| Fort McMurray, Alberta (Pebble Beach) (lease)                      | 140 acres | Accommodations facility               |
| Australia:   |           |                                       |
| Copabella, Queensland, Australia                                   | 198 acres | Accommodations facility               |
| Calliope, Queensland, Australia                                    | 124 acres | Accommodations facility               |
| Narrabri, New South Wales, Australia                               | 82 acres  | Accommodations facility               |
| Wandoan, Queensland, Australia                                     | 51 acres  | Accommodations facility               |
| Middlemount, Queensland, Australia                                 | 37 acres  | Accommodations facility               |
| Dysart, Queensland, Australia                                      | 34 acres  | Accommodations facility               |
| Kambalda, Western Australia, Australia                             | 27 acres  | Accommodations facility               |

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| <b>Location</b>                               | <b>Approximate<br/>Square<br/>Footage/Acreage</b> | <b>Description</b>                                   |
|---|---|--|
| Other International:                          |   |  |
| Aberdeen, Scotland (lease)                    | 15 acres  | Offshore products manufacturing facility and yard    |
| Bathgate, Scotland                            | 3 acres   | Offshore products manufacturing facility and yard    |
| Barrow-in-Furness, England (own<br>and lease) | 63,300  | Offshore products service facility and yard          |
| Singapore (lease)                             | 155,398   | Offshore products manufacturing facility             |
| Singapore (lease)                             | 71,516  | Offshore products manufacturing facility             |
| Macaé, Brazil (lease)                         | 6 acres   | Offshore products manufacturing facility and yard    |
| Rayong Province, Thailand (lease)             | 28,000  | Offshore products service and manufacturing facility |

We have eight tubular sales offices and a total of 58 rental tool supply and distribution points throughout the United States, Canada, Mexico and Argentina. Most of these office locations are leased and provide sales, technical support and personnel services to our customers. We also have various offices supporting our business segments which are both owned and leased. We believe that our leases are at competitive or market rates and do not anticipate any difficulty in leasing additional suitable space upon expiration of our current lease terms.

**Item 3. *Legal Proceedings***

We are a party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters, including 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 of 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.

**Table of Contents****PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities*****Common Stock Information**

Our authorized common stock consists of 200,000,000 shares of common stock. There were 50,868,966 shares of common stock outstanding as of February 17, 2011. The approximate number of record holders of our common stock as of February 17, 2011 was 35. Our common stock is traded on the New York Stock Exchange under the ticker symbol OIS. The closing price of our common stock on February 17, 2011 was \$75.41 per share.

The following table sets forth the range of high and low sales prices of our common stock.

|                | Sales Price |          |
|----------------|-------------|----------|
|                | High        | Low      |
| <b>2009:</b>   |             |          |
| First Quarter  | \$ 22.50    | \$ 11.14 |
| Second Quarter | 29.13       | 13.00    |
| Third Quarter  | 35.61       | 21.79    |
| Fourth Quarter | 40.27       | 32.65    |
| <b>2010:</b>   |             |          |
| First Quarter  | \$ 48.77    | \$ 33.65 |
| Second Quarter | 51.20       | 35.99    |
| Third Quarter  | 47.89       | 38.24    |
| Fourth Quarter | 65.98       | 46.21    |

We have not declared or paid any cash dividends on our common stock since our initial public offering and do not intend to declare or pay any cash dividends on our common stock in the foreseeable future. Furthermore, our existing credit facilities restrict the payment of dividends. For additional discussion of such restrictions, please see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Any future determination as to the declaration and payment of dividends will be at the discretion of our Board of Directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our Board of Directors considers relevant.

**Table of Contents****PERFORMANCE GRAPH**

The following performance graph and chart compare the cumulative total stockholder return on the Company's common stock to the cumulative total return on the Standard & Poor's 500 Stock Index and Philadelphia OSX Index, an index of oil and gas related companies that represent an industry composite of the Company's peer group, for the period from December 31, 2005 to December 31, 2010. The graph and chart show the value at the dates indicated of \$100 invested at December 31, 2005 and assume the reinvestment of all dividends.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***  
**Among Oil States International, Inc., The S&P 500 Index**  
**And The PHLX Oil Service Sector Index**

Oil States International NYSE

|                                | <b>Cumulative Total Return</b> |              |              |              |              |              |
|--------------------------------|--------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                | <b>12/05</b>                   | <b>12/06</b> | <b>12/07</b> | <b>12/08</b> | <b>12/09</b> | <b>12/10</b> |
| OIL STATES INTERNATIONAL, INC. | \$ 100.00                      | \$ 101.74    | \$ 107.70    | \$ 59.00     | \$ 124.02    | \$ 202.30    |
| S & P 500                      | 100.00                         | 115.80       | 122.16       | 76.96        | 97.33        | 111.99       |
| PHLX OIL SERVICE SECTOR (OSX)  | 100.00                         | 115.32       | 174.14       | 70.63        | 116.93       | 142.90       |

\* \$100 invested on 12/31/05 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

- (1) This graph is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.
- (2) The stock price performance shown on the graph is not necessarily indicative of future price performance. Information used in the graph was obtained from Research Data Group, Inc., a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

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[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)

**Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Purchases of Equity Securities by the Issuer and Affiliated Purchases**

None.



**Table of Contents****Item 6. Selected Financial Data**

The selected financial data on the following pages include selected historical financial information of our company as of and for each of the five years ended December 31, 2010. The following data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's financial statements, and related notes included in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

**Selected Financial Data**  
(In thousands, except per share amounts)

|  | Year Ended December 31, |              |              |              |              |
|--|-------------------------|--------------|--------------|--------------|--------------|
|  | 2010                    | 2009         | 2008         | 2007         | 2006         |
| Statement of Income Data:  |                         |              |              |              |              |
| Revenues   | \$ 2,411,984            | \$ 2,108,250 | \$ 2,948,457 | \$ 2,088,235 | \$ 1,923,357 |
| Costs and Expenses:  |                         |              |              |              |              |
| Product costs, service and other costs                                     | 1,874,294               | 1,640,198    | 2,234,974    | 1,602,213    | 1,467,988    |
| Selling, general and administrative  | 150,865                 | 139,293      | 143,080      | 118,421      | 107,216      |
| Depreciation and amortization  | 124,202                 | 118,108      | 102,604      | 70,703       | 54,340       |
| Impairment of goodwill   |                         | 94,528       | 85,630       |              |              |
| Acquisition related expenses   | 6,959                   |              |              |              |              |
| Other operating (income) expense   | 82                      | (2,606)      | (1,586)      | (888)        | (4,124)      |
| Operating income   | 255,582                 | 118,729      | 383,755      | 297,786      | 297,937      |
| Interest expense   | (16,274)                | (15,266)     | (23,585)     | (23,610)     | (24,608)     |
| Interest income  | 751                     | 380          | 3,561        | 3,508        | 2,506        |
| Equity in earnings of unconsolidated affiliates                            | 239                     | 1,452        | 4,035        | 3,350        | 7,148        |
| Gain on sale of workover services business and resulting equity investment |                         |              | 6,160        | 12,774       | 11,250       |
| Other income (expense)   | 330                     | 414          | (476)        | 1,213        | 2,290        |
| Income before income taxes   | 240,628                 | 105,709      | 373,450      | 295,021      | 296,523      |
| Income tax expense(1)  | (72,023)                | (46,097)     | (154,151)    | (94,945)     | (102,119)    |
| Net income   | \$ 168,605              | \$ 59,612    | \$ 219,299   | \$ 200,076   | \$ 194,404   |
| Less: Net income attributable to noncontrolling interest                   | 587                     | 498          | 446          | 284          | 94           |
| Net income attributable to Oil States International, Inc.                  | \$ 168,018              | \$ 59,114    | \$ 218,853   | \$ 199,792   | \$ 194,310   |
| Net income per share attributable to Oil States International, Inc:        |                         |              |              |              |              |

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|  |    |        |    |        |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|----|--------|----|--------|
| Basic                                      | \$ | 3.34   | \$ | 1.19   | \$ | 4.41   | \$ | 4.04   | \$ | 3.92   |
| Diluted                                    | \$ | 3.19   | \$ | 1.18   | \$ | 4.26   | \$ | 3.92   | \$ | 3.83   |
| Average common shares<br>outstanding Basic |    | 50,238 |    | 49,625 |    | 49,622 |    | 49,500 |    | 49,519 |
| Diluted                                    |    | 52,700 |    | 50,219 |    | 51,414 |    | 50,911 |    | 50,773 |

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|   | <b>Year Ended December 31,</b> |             |             |             |             |
|---|--------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2010</b>                    | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
| Other Data:   |                                |             |             |             |             |
| EBITDA, as defined(2)   | \$ 379,766                     | \$ 238,205  | \$ 495,632  | \$ 385,542  | \$ 372,871  |
| Capital expenditures, including capitalized interest                  | 182,207                        | 124,488     | 247,384     | 239,633     | 129,591     |
| Acquisitions of businesses, net of cash acquired                      | 709,575                        | (18)        | 29,835      | 103,143     | 99          |
| Net cash provided by operating activities                             | 230,922                        | 453,362     | 257,464     | 247,899     | 137,367     |
| Net cash used in investing activities, including capital expenditures | (889,680)                      | (102,608)   | (246,094)   | (310,836)   | (114,248)   |
| Net cash provided by (used in) financing activities                   | 649,032                        | (296,773)   | (1,666)     | 60,632      | (11,201)    |

|  | <b>At December 31,</b> |             |             |             |             |
|--|------------------------|-------------|-------------|-------------|-------------|
|  | <b>2010</b>            | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
| Balance Sheet Data:  |                        |             |             |             |             |
| Cash and cash equivalents  | \$ 96,350              | \$ 89,742   | \$ 30,199   | \$ 30,592   | \$ 28,396   |
| Total current assets   | 1,100,004              | 925,568     | 1,237,484   | 865,667     | 783,989     |
| Net property, plant and equipment  | 1,252,657              | 749,601     | 695,338     | 586,910     | 358,716     |
| Total assets   | 3,015,999              | 1,932,386   | 2,298,518   | 1,928,669   | 1,569,908   |
| Long-term debt and capital leases, excluding current portion and 23/8% notes | 731,732                | 8,215       | 299,948     | 312,102     | 216,729     |
| 23/8% contingent convertible senior subordinated notes                       | 163,108                | 155,859     | 149,110     | 142,827     | 136,977     |
| Total stockholders equity  | 1,628,933              | 1,382,066   | 1,235,541   | 1,105,058   | 863,522     |

- (1) Our effective tax rate increased in 2008 and 2009 due to the impairment of non-deductible goodwill.
- (2) The term EBITDA as defined consists of net income plus interest expense, net, income taxes, depreciation and amortization. EBITDA as defined is not a measure of financial performance under generally accepted accounting principles. You should not consider it in isolation from or as a substitute for net income or cash flow measures prepared in accordance with generally accepted accounting principles or as a measure of profitability or liquidity. Additionally, EBITDA as defined may not be comparable to other similarly titled measures of other companies. The Company has included EBITDA as defined as a supplemental disclosure because its management believes that EBITDA as defined provides useful information regarding its ability to service debt and to fund capital expenditures and provides investors a helpful measure for comparing its operating performance with the performance of other companies that have different financing and capital structures or tax rates. The Company uses EBITDA as defined to compare and to monitor the performance of its business segments to other



comparable public companies and as one of the primary measures to benchmark for the award of incentive compensation under its annual incentive compensation plan.

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We believe that net income is the financial measure calculated and presented in accordance with generally accepted accounting principles that is most directly comparable to EBITDA as defined. The following table reconciles EBITDA as defined with our net income, as derived from our financial information (in thousands):

|   | <b>Year Ended December 31,</b> |             |             |             |             |
|---|--------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2010</b>                    | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
| Net income attributable to Oil States International, Inc. | \$ 168,018                     | \$ 59,114   | \$ 218,853  | \$ 199,792  | \$ 194,310  |
| Depreciation and amortization                             | 124,202                        | 118,108     | 102,604     | 70,703      | 54,340      |
| Interest expense, net                                     | 15,523                         | 14,886      | 20,024      | 20,102      | 22,102      |
| Income taxes  | 72,023                         | 46,097      | 154,151     | 94,945      | 102,119     |
| EBITDA, as defined  | \$ 379,766                     | \$ 238,205  | \$ 495,632  | \$ 385,542  | \$ 372,871  |

**ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion and analysis together with our Consolidated Financial Statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K.

**Overview**

We provide a broad range of products and services to the oil and gas industry through our accommodations, offshore products, well site services and tubular services business segments. In our accommodations segment, we support both the oil and gas industry and mining industry. Demand for our products and services is cyclical and substantially dependent upon activity levels in the oil and gas and mining industries, particularly our customers' willingness to spend capital on the exploration for and development of oil, natural gas, coal and mineral reserves. Our customers' spending plans are generally based on their outlook for near-term and long-term commodity prices. As a result, demand for our products and services is highly sensitive to current and expected commodity prices. The activity for our accommodations and offshore products segments is primarily tied to the long-term outlook for crude oil and, to a lesser extent, coal, natural gas, and other mineral prices. In contrast, activity for our well site services and tubular services segments responds more rapidly to shorter-term movements in oil and natural gas prices and, specifically, changes in North American drilling and completion activity. Other factors that can affect our business and financial results include the general global economic environment and regulatory changes in the United States and internationally. Our offshore products segment provides highly engineered products for offshore oil and natural gas production systems and facilities. Sales of our offshore products and services depend primarily upon development of infrastructure for offshore production systems and subsea pipelines, repairs and upgrades of existing offshore drilling rigs and construction of new offshore drilling rigs and vessels. In this segment, we are particularly influenced by global deepwater drilling and production spending, 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 used in the drilling and completion of oil and natural gas wells primarily in North America. Accordingly, sales and gross margins in our tubular services segment depend upon the overall level of drilling activity, the types of wells being drilled, movements in global steel input prices and the overall industry level of OCTG inventory and pricing. Historically, tubular services' gross margin generally expands during periods of rising OCTG prices and contracts during periods of decreasing OCTG prices. In our well site services business segment, we provide rental tools and land drilling services. Demand for our drilling services is driven by land drilling activity in our primary drilling

markets in West Texas, where we primarily drill oil wells, and in the Rocky Mountains area in the U.S. where we drill both oil and natural gas wells. Our rental tools business provides equipment and service personnel utilized in the completion and initial production of new and recompleted wells. Activity for the rental tools business is dependant primarily upon the level and complexity of drilling, completion and workover activity throughout North America.

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, land drilling and rental tool businesses is highly correlated to

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changes in the drilling rig count in the United States and, to a much lesser extent, Canada. The table below sets forth a summary of North American rig activity, as measured by Baker Hughes Incorporated, for the periods indicated.

|                     | <b>Average Rig Count for<br/>Year Ended December 31,</b> |             |             |             |             |
|---------------------|--|-------------|-------------|-------------|-------------|
|                     | <b>2010</b>  | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
| U.S. Land           | 1,510  | 1,042       | 1,813       | 1,695       | 1,559       |
| U.S. Offshore       | 31   | 44          | 65          | 73          | 90          |
| Total U.S.          | 1,541  | 1,086       | 1,878       | 1,768       | 1,649       |
| Canada              | 351  | 221         | 379         | 343         | 470         |
| Total North America | 1,892  | 1,307       | 2,257       | 2,111       | 2,119       |

The rig count began to decline in the fourth quarter of 2008 and fell precipitously in the first half of 2009. The average North American rig count for the year ended December 31, 2010 increased by 585 rigs, or 45%, compared to the average for the year ended December 31, 2009 largely due to growth in the U.S. land rig count.

We support the development of several oil and natural gas shale properties through our rental tool and tubular businesses. There is continuing exploration and development activity focused in these shale areas leading us and many of our competitors to relocate equipment to and also concentrate on these areas. Domestic U.S. natural gas prices have decreased from peak levels in 2008 to recent levels of approximately \$3.90 to \$4.50 per Mcf. Many experts are expecting continued weakness in natural gas prices unless the supply and demand for natural gas becomes more balanced. Gas-directed drilling could come under pressure given low natural gas prices and the supply/demand balance.

Generally, our customers for oil sands and mining accommodations and offshore products are making multi-billion dollar investments to develop their prospects, which have estimated reserve lives of ten to thirty years, and consequently these investments are dependent on those customers' longer-term view of energy and coal prices. Crude oil prices have recovered to levels generally ranging from \$80 to \$90 per barrel compared to an average of approximately \$62 per barrel experienced during 2009. With the recovery in demand for energy in several key growing markets, specifically China and India, long-term forecasts for oil demand and prices, have improved. Our Australian accommodations business is significantly influenced by metallurgical coal (met coal) mining and prices. Met Coal is used in the production of steel and demand and pricing is fundamentally linked to demand for steel, especially in China and India, which has increased in the past year. As a result, our customers have begun to announce additional investments in the oil sands region, in deepwater globally and in coal mining in Australia.

In May 2009, Imperial Oil announced the sanctioning of Phase I of its Kearl oil sands project. In November 2009, Suncor announced its 2010 capital expenditure plan that included spending on Phase 3 and 4 of its Firebag project. Both of these announcements have led to either extensions of existing accommodations contracts or incremental accommodations contracts for us in Canada. In addition, several major oil companies and national oil companies have acquired oil sands leases over the past twelve months that should bode well for future oil sands investment and, as a result, demand for oil sands accommodations. However, we sometimes lose major contracts which cause decreases in revenues and profits.

Another factor that has influenced the financial results for our accommodations segment is the exchange rate between the U.S. dollar and the Canadian dollar. In the future when we begin to report results from the recently completed acquisition of The MAC, the Australian dollar and U.S. dollar exchange rate will also influence our financial results. Our accommodations segment has derived a majority of its revenues and operating income in Canada denominated in Canadian dollars. These revenues and profits are translated into U.S. dollars for U.S. GAAP financial reporting purposes. For the year 2010, the Canadian dollar was valued at an average exchange rate of U.S. \$0.97 compared to U.S. \$0.88 for 2009, an increase of 10%. This strengthening of the Canadian dollar had a significant positive impact on the translation of earnings generated from our Canadian subsidiaries and, therefore, the financial results of our accommodations segment. In January 2011, the value of the Canadian dollar strengthened to an average exchange rate of \$1.01.

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Steel and steel input prices influence the pricing decisions of our OCTG suppliers, thereby influencing the pricing and margins of our tubular services segment. Steel prices on a global basis declined precipitously during the recession in 2009. Industry inventories increased materially as the rig count declined and imports remained at high levels. These developments in the OCTG marketplace had a material detrimental impact on OCTG pricing and, accordingly, on our revenues and margins realized during the last half of 2009 in our tubular services segment. These negative trends moderated in 2010 due to a reduction in imports, largely due to the imposition of trade sanctions on Chinese OCTG imports coupled with increases in the U.S. rig count. The OCTG Situation Report suggests that industry OCTG inventory levels peaked in the first quarter of 2009 at approximately twenty months supply on the ground and have trended down to approximately six months supply currently.

During 2010, U.S. mills have increased production and imports have surged recently, particularly goods imported from Canada and Korea followed by India, Mexico and Japan. This increase in supply has been in response to the 42% year-over-year increase in the drilling rig count in the United States.

While global demand for oil and natural gas are significant factors influencing our business generally, certain other factors such as the recent global economic recession and credit crisis, the Macondo well incident and resultant oil spill and drilling moratorium as well as other changes and potential changes in the regulatory environment also influence our business.

We have witnessed unprecedented events in the U.S. Gulf of Mexico as a result of the Macondo well incident and resultant oil spill. As a result of the incident, in May 2010, the Bureau of Ocean Energy Management, Regulation and Enforcement, or BOEMRE, of the U.S. Department of the Interior implemented a moratorium on certain drilling activities in water depths greater than 500 feet in the U.S. Gulf of Mexico that effectively shut down new deepwater drilling activities in 2010. The moratorium was lifted during October 2010. However, the BOEMRE issued Notices to Lessees and Operators (NLTs), implemented additional safety and certification requirements applicable to drilling activities in the U.S. waters, imposed additional requirements with respect to development and production activities in the U.S. waters, and has delayed the approval of applications to drill in both deepwater and shallow-water areas. Despite the rescission of the moratorium, offshore drilling activity is being delayed by adjustments in operating procedures, compliance certifications, and lead times for permits and inspections, as a result of changes in the regulatory environment. In addition, there have been a variety of proposals to change existing laws and regulations that could affect offshore development and production, including proposals to significantly increase the minimum financial responsibility demonstration required under the federal Oil Pollution Act of 1990. Uncertainties and delays caused by the new regulatory environment have and are expected to continue to have an overall negative effect on Gulf of Mexico drilling activity and, to a certain extent, the financial results of all of our business segments.

Throughout the first half of 2009, we saw unprecedented declines in the global economic outlook that were initially fueled by the housing and credit crises. These market conditions led to reduced growth, and in some instances, decreased overall output. Beginning in late 2009 and throughout 2010, market factors have suggested that economic improvement is underway, notably in international markets, such as China and India.

We continue to monitor the fallout of the financial crisis on the global economy, the demand for crude oil, coal and natural gas prices and the resultant impact on the capital spending plans and operations of our customers in order to plan our business. Our capital expenditures in 2010 totaled \$182 million compared to 2009 capital expenditures of \$124 million. Our 2010 capital expenditures included funding to complete projects in progress at December 31, 2009, including (i) the continued expansion of our Wapasu Creek accommodations facility in the Canadian oil sands, (ii) international expansion at offshore products, (iii) the purchase of an accommodations facility in the Horn River Basin area of northeast British Columbia, (iv) expansion at tubular services through the addition of a facility in Pennsylvania to service the Marcellus shale area and (v) ongoing maintenance capital requirements. In our well site services segment, we continue to monitor industry capacity additions and will make future capital expenditure

decisions based on a careful evaluation of both the market outlook and industry fundamentals. In our tubular services segment, we remain focused on industry inventory levels, future drilling and completion activity and OCTG prices.

We completed three acquisitions described below in the fourth quarter of 2010.

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On December 30, 2010, we acquired all of the ordinary shares of The MAC Services Group Limited (The MAC), through a Scheme of Arrangement (the Scheme) under the Corporations Act of Australia. Headquartered in Sydney, Australia, The MAC supplies accommodations services to the coal mining, construction and resource industries. The MAC currently has 5,210 rooms in six locations in Queensland and Western Australia. Under the terms of the Scheme, each shareholder of The MAC received \$3.95 (A\$3.90) per share in cash. This price represents a total purchase price of \$638 million, net of cash acquired plus debt assumed of \$87 million. The Company funded the acquisition with cash on hand and borrowings available under our new five-year, \$1.05 billion senior secured bank facilities. See Note 8 to the Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on our senior secured bank facilities. The MAC's operations will be reported as part of our accommodations segment.

On December 20, 2010, we also acquired all of the operating assets of Mountain West Oilfield Service and Supplies, Inc. and Ufford Leasing LLC (Mountain West) for total consideration of \$47.1 million and estimated contingent consideration of \$4.0 million. Headquartered in Vernal, Utah, with operations in the Rockies and the Bakken Shale region, Mountain West provides remote site workforce accommodations to the oil and gas industry. Mountain West has been included in the accommodations segment since its date of acquisition.

On October 5, 2010, we purchased all of the equity of Acute Technological Services, Inc. (Acute) for total consideration of \$30.0 million. Headquartered in Houston, Texas and with operations in Brazil, Acute provides metallurgical and welding innovations to the oil and gas industry in support of critical, complex subsea component manufacturing and deepwater riser fabrication on a global basis. Acute has been included in the offshore products segment since its date of acquisition.

We funded the Acute and Mountain West acquisitions using cash on hand and our then existing credit facility.

Accounting for the three acquisitions made in 2010 has not been finalized and is subject to adjustments during the purchase price allocation period, which is not expected to exceed a period of one year from the respective acquisition dates.



**Table of Contents****Consolidated Results of Operations (in millions)**

|  | 2010       | 2009       | Years Ended<br>December 31,<br>Variance<br>2010 vs. 2009 |       | 2008       | Variance<br>2009 vs. 2008 |       |  |
|--|------------|------------|--|-------|------------|---------------------------|-------|--|
|  |            |            | \$   | %     |            | \$                        | %     |  |
| Revenues   |            |            |  |       |            |                           |       |  |
| Well Site Services   |            |            |  |       |            |                           |       |  |
| Rental Tools   | \$ 343.0   | \$ 234.1   | \$ 108.9   | 47%   | \$ 355.8   | \$ (121.7)                | (34)% |  |
| Drilling and Other   | 133.2      | 71.2       | 62.0   | 87%   | 177.4      | (106.2)                   | (60)% |  |
| Total Well Site Services   | 476.2      | 305.3      | 170.9  | 56%   | 533.2      | (227.9)                   | (43)% |  |
| Accommodations   | 537.7      | 481.4      | 56.3   | 12%   | 427.1      | 54.3                      | 13%   |  |
| Offshore Products  | 428.9      | 509.4      | (80.5)   | (16)% | 528.2      | (18.8)                    | (4)%  |  |
| Tubular Services   | 969.2      | 812.2      | 157.0  | 19%   | 1,460.0    | (647.8)                   | (44)% |  |
| Total  | \$ 2,412.0 | \$ 2,108.3 | \$ 303.7   | 14%   | \$ 2,948.5 | \$ (840.2)                | (28)% |  |
| Product costs; Service and other costs ( Cost of sales and service ) |            |            |  |       |            |                           |       |  |
| Well Site Services   |            |            |  |       |            |                           |       |  |
| Rental Tools   | \$ 220.1   | \$ 169.6   | \$ 50.5  | 30%   | \$ 207.3   | \$ (37.7)                 | (18)% |  |
| Drilling and Other   | 105.5      | 58.2       | 47.3   | 81%   | 114.2      | (56.0)                    | (49)% |  |
| Total Well Site Services   | 325.6      | 227.8      | 97.8   | 43%   | 321.5      | (93.7)                    | (29)% |  |
| Accommodations   | 314.4      | 278.7      | 35.7   | 13%   | 245.6      | 33.1                      | 13%   |  |
| Offshore Products  | 316.5      | 377.1      | (60.6)   | (16)% | 394.2      | (17.1)                    | (4)%  |  |
| Tubular Services   | 917.8      | 756.6      | 161.2  | 21%   | 1,273.7    | (517.1)                   | (41)% |  |
| Total  | \$ 1,874.3 | \$ 1,640.2 | \$ 234.1   | 14%   | \$ 2,235.0 | \$ (594.8)                | (27)% |  |
| Gross margin   |            |            |  |       |            |                           |       |  |
| Well Site Services   |            |            |  |       |            |                           |       |  |
| Rental Tools   | \$ 122.9   | \$ 64.5    | \$ 58.4  | 91%   | \$ 148.5   | \$ (84.0)                 | (57)% |  |
| Drilling and Other   | 27.7       | 13.0       | 14.7   | 113%  | 63.2       | (50.2)                    | (79)% |  |
| Total Well Site Services   | 150.6      | 77.5       | 73.1   | 94%   | 211.7      | (134.2)                   | (63)% |  |
| Accommodations   | 223.3      | 202.7      | 20.6   | 10%   | 181.5      | 21.2                      | 12%   |  |
| Offshore Products  | 112.4      | 132.3      | (19.9)   | (15)% | 134.0      | (1.7)                     | (1)%  |  |
| Tubular Services   | 51.4       | 55.6       | (4.2)  | (8)%  | 186.3      | (130.7)                   | (70)% |  |
| Total  | \$ 537.7   | \$ 468.1   | \$ 69.6  | 15%   | \$ 713.5   | \$ (245.4)                | (34)% |  |
| Gross margin as a percentage of revenues                             |            |            |  |       |            |                           |       |  |

|                          |     |     |     |
|--------------------------|-----|-----|-----|
| Well Site Services       |     |     |     |
| Rental Tools             | 36% | 28% | 42% |
| Drilling and Other       | 21% | 18% | 36% |
| Total Well Site Services | 32% | 25% | 40% |
| Accommodations           | 42% | 42% | 42% |
| Offshore Products        | 26% | 26% | 25% |
| Tubular Services         | 5%  | 7%  | 13% |
| Total                    | 22% | 22% | 24% |

**YEAR ENDED DECEMBER 31, 2010 COMPARED TO YEAR ENDED DECEMBER 31, 2009**

We reported net income attributable to Oil States International, Inc. for the year ended December 31, 2010 of \$168.0 million, or \$3.19 per diluted share. These results compare to net income of \$59.1 million, or \$1.18 per diluted share, reported for the year ended December 31, 2009. The net income for 2009 included an after tax loss of

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\$81.2 million, or approximately \$1.62 per diluted share, on the impairment of goodwill in our rental tools reporting unit.

*Revenues.* Consolidated revenues increased \$303.7 million, or 14%, in 2010 compared to 2009.

Our well site services revenues increased \$170.9 million, or 56%, in 2010 compared to 2009. This increase was primarily due to increased rental tool revenues and significantly increased rig utilization in our drilling services operations. Our rental tool revenues increased \$108.9 million, or 47%, primarily due to increased demand for completion services with the increase in the U.S. rig count, a more favorable mix of higher value rentals, increased rental tool utilization and improved pricing. Our drilling services revenues increased \$62.0 million, or 87%, in 2010 compared to 2009 primarily as a result of increased utilization of our rigs. Utilization of our drilling rigs increased from an average of approximately 37% in 2009 to an average of approximately 71% in 2010.

Our accommodations segment reported revenues in 2010 that were \$56.3 million, or 12%, above 2009. The increase in accommodations revenue resulted from increased activity at our large accommodation facilities supporting oil sands development activities in northern Alberta, Canada, the expansion of two of these facilities and the strengthening of the Canadian dollar versus the U.S. dollar, partially offset by a \$63 million decrease in third-party accommodations manufacturing revenues.

Our offshore products revenues decreased \$80.5 million, or 16%, in 2010 compared to 2009. This decrease was primarily due to lower starting backlog levels, a decrease in subsea pipeline revenues and rig and vessel equipment revenues driven principally by reductions in our customers' spending caused by deferrals and delays of deepwater development projects and capital upgrades.

Tubular services revenues increased \$157.0 million, or 19%, in 2010 compared to 2009. This increase was a result of an increase in tons shipped from 330,800 in 2009 to 502,800 in 2010 driven by increased drilling activity, an increase of 172,000 tons, or 52%, partially offset by a 22% decrease in realized revenues per ton shipped in 2010.

*Cost of Sales and Service.* Our consolidated cost of sales increased \$234.1 million, or 14%, in 2010 compared to 2009. This increase was primarily as a result of increased cost of sales at our tubular services segment of \$161.2 million, or 21%, an increase at our well site services segment of \$97.8 million, or 43% and an increase at our accommodations segment of \$35.7 million, or 13%, partially offset by a decrease in cost of sales at our offshore products segment of \$60.6 million, or 16%. Our consolidated gross margin as a percentage of revenues was 22% in both 2010 and 2009.

Our well site services cost of sales increased \$97.8 million, or 43%, in 2010 compared to 2009 as a result of a \$50.5 million, or 30%, increase in rental tools services cost of sales and a \$47.3 million, or 81%, increase in drilling services cost of sales. Our well site services segment gross margin as a percentage of revenues increased from 25% in 2009 to 32% in 2010. Our rental tool gross margin as a percentage of revenues increased from 28% in 2009 to 36% in 2010 primarily due to a more favorable mix of higher value rentals and improved pricing along with improved fixed cost absorption as a result of increased rental tool utilization. Our drilling services gross margin as a percentage of revenues increased from 18% in 2009 to 21% in 2010 primarily due to the increase in drilling activity levels.

Our accommodations cost of sales increased \$35.7 million, or 13%, in 2010 compared to 2009 primarily as a result of increased activity at our large accommodation facilities supporting oil sands development activities in northern Alberta, Canada, the expansion of two of these facilities and the strengthening of the Canadian dollar versus the U.S. dollar, partially offset by a decrease in third-party accommodations manufacturing and installation costs. Our accommodations segment gross margin as a percentage of revenues was 42% in 2009 and 2010.

Our offshore products cost of sales decreased \$60.6 million, or 16%, in 2010 compared to 2009 primarily due to a decrease in subsea pipeline and rig and vessel equipment costs. Our offshore products segment gross margin as a percentage of revenues was 26% in both 2009 and 2010.

Tubular services segment cost of sales increased \$161.2 million, or 21%, in 2010 compared to 2009 primarily as a result of an increase in tons shipped driven by increased drilling activity, partially offset by lower priced OCTG inventory being sold. Our tubular services gross margin as a percentage of revenues decreased from 7% in 2009 to 5% in 2010 primarily due to a larger portion of service related costs expensed on certain program work.

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*Selling, General and Administrative Expenses.* Selling, general and administrative (SG&A) expense increased \$11.6 million, or 8%, in 2010 compared to 2009 due primarily to an increased accrual for incentive bonuses, increased salaries, wages and benefits and an increase in our accommodations SG&A expenses as a result of the strengthening of the Canadian dollar versus the U.S. dollar. SG&A was 6.3% of revenues in 2010 compared to 6.6% of revenues in 2009.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$6.1 million, or 5%, in 2010 compared to 2009 due primarily to capital expenditures made during the previous twelve months largely related to our Canadian accommodations business, partially offset by decreased depreciation in our drilling services business where several major assets have become fully-depreciated.

*Impairment of Goodwill.* We recorded a goodwill impairment of \$94.5 million, before tax, in 2009. The impairment was the result of our assessment of several factors affecting our rental tools reporting unit. We did not record an impairment of goodwill in 2010.

*Operating Income.* Consolidated operating income increased \$136.9 million, or 115%, in 2010 compared to 2009 primarily as a result of the \$94.5 million pre-tax goodwill impairment loss recognized in the second quarter of 2009, a \$67.6 million increase in operating income from our well site services segment (excluding the goodwill impairment) primarily due to increased U.S. completion activity, the more favorable mix of higher value rentals, improved pricing and increased rental tool utilization in our rental tools operation and increased utilization of our rigs in our drilling services business, partially offset by a \$20.4 million decrease in operating income from our offshore products segment. Operating income in 2010 included \$7.0 million of transaction costs related to the three acquisitions made during the year.

*Interest Expense and Interest Income.* Net interest expense increased \$0.6 million, or 4%, in 2010 compared to 2009 due to an increase in non-cash interest expense related to the write-off of the remaining balance of debt issuance costs for our prior revolving credit facility, partially offset by reduced average debt levels in 2010. The weighted average interest rate on the Company's credit facilities was 3.6% in 2010 compared to 1.5% in 2009. Interest income increased as a result of increased cash balances in interest bearing accounts partially offset by the repayment during the first quarter of 2009 of a note receivable from Boots & Coots International Well Control, Inc. (Boots & Coots).

*Income Tax Expense.* Our income tax provision for 2010 totaled \$72.0 million, or 29.9% of pretax income, compared to \$46.1 million, or 43.6% of pretax income, for 2009. The effective tax rate in 2009 was impacted by a significant portion of the goodwill impairment loss recognized during the period being non-deductible for tax purposes. Excluding the goodwill impairment, the effective tax rate for 2009 would have approximated 29.7%.

**YEAR ENDED DECEMBER 31, 2009 COMPARED TO YEAR ENDED DECEMBER 31, 2008**

We reported net income for the year ended December 31, 2009 of \$59.1 million, or \$1.18 per diluted share. These results compare to net income of \$218.9 million, or \$4.26 per diluted share, reported for the year ended December 31, 2008. The net income in 2009 included an after tax loss of \$81.2 million, or approximately \$1.62 per diluted share, on the impairment of goodwill in our rental tools reporting unit. Net income in 2008 included an after tax loss of \$79.8 million, or approximately \$1.55 per diluted share, on the impairment of goodwill in our tubular services and drilling reporting units. See Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K. Net income in 2008 also included an after tax gain of \$3.6 million, or approximately \$0.07 per diluted share, on the sale of 11.51 million shares of common stock of Boots & Coots.

*Revenues.* Consolidated revenues decreased \$840.2 million, or 28%, in 2009 compared to 2008.

Our well site services revenues decreased \$227.9 million, or 43%, in 2009 compared to 2008. This decrease was primarily due to reductions in both activity and pricing from the Company's North American drilling and rental tool operations as a result of the 42% year-over-year decrease in the North American rig count.

Our accommodations segment reported revenues in 2009 that were \$54.3 million, or 13%, above 2008. The increase in the accommodations revenue resulted from the expansion of our large accommodation facilities supporting oil sands development activities in northern Alberta, Canada and increased third-party accommodations

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manufacturing revenues, partially offset by lower accommodations activities in support of conventional oil and natural gas drilling activity in Canada and the weakening of the Canadian dollar versus the U.S. dollar.

Our rental tool revenues decreased \$121.7 million, or 34%, in 2009 compared to 2008 primarily due to lower rental tool utilization and pricing primarily as a result of significantly reduced completion activity in the U.S. and greater competition.

Our drilling services revenues decreased \$106.2 million, or 60%, in 2009 compared to 2008 primarily as a result of reduced utilization and pricing in all of our drilling operating regions. Our land drilling utilization averaged 36.7% during 2009 compared to 82.4% in 2008.

Our offshore products revenues decreased \$18.8 million, or 4%, in 2009 compared to 2008. This decrease was primarily due to a decrease in bearing and connectors revenue due to deepwater development project award delays and a decrease in elastomer revenues as a result of reduced drilling and completion activity in North America. These decreases were partially offset by an increase in subsea pipeline revenues.

Tubular services revenues decreased \$647.8 million, or 44%, in 2009 compared to 2008 as a result of a 46% decrease in tons shipped in 2009, resulting from fewer wells drilled and completed in the period, partially offset by a 2% increase in average selling prices. Although OCTG prices decreased throughout 2009, our average sales price realized increased from 2008 due to sales commitments made in 2008 that extended into 2009.

*Cost of Sales and Service.* Our consolidated cost of sales decreased \$594.8 million, or 27%, in 2009 compared to 2008 primarily as a result of decreased cost of sales at tubular services of \$517.1 million, or 41%, and at well site services of \$93.7 million, or 29%. Our overall gross margin as a percentage of revenues declined from 24% in 2008 to 22% in 2009 primarily due to lower margins realized in our tubular services and well site services segments during 2009.

Our well site services segment gross margin as a percentage of revenues declined from 40% in 2008 to 25% in 2009. Our rental tool gross margin as a percentage of revenues declined from 42% in 2008 to 28% in 2009 primarily due to significant reductions in drilling and completion activity in both the U.S. and Canada, which negatively impacted pricing and demand for our equipment and services. In addition, a portion of our rental tool costs do not change proportionately with changes in revenue, leading to reduced gross margin percentages. Our drilling services cost of sales decreased \$56.0 million, or 49%, in 2009 compared to 2008 as a result of significantly reduced rig utilization and pricing in each of our drilling operating areas, which led to significant cost reductions. This decline in drilling activity levels also resulted in our drilling services gross margin as a percentage of revenues decreasing from 36% in 2008 to 18% in 2009.

Our accommodations cost of sales included a \$45.8 million increase in third-party accommodations manufacturing and installation costs, which were only partially offset by a reduction in costs stemming from the implementation of cost saving measures in response to the lower conventional oil and natural gas drilling activity levels in Canada and the weakening of the Canadian dollar versus the U.S. dollar. Our accommodations segment gross margin as a percentage of revenues was 42% in 2008 and 2009.

Our offshore products segment gross margin as a percentage of revenues was essentially flat (25% in 2008 compared to 26% in 2009).

Tubular services segment cost of sales decreased by \$517.1 million, or 41%, as a result of lower tonnage shipped partially offset by higher priced OCTG inventory being sold. Our tubular services gross margin as a percentage of revenues decreased from 13% in 2008 to 7% in 2009 due to excess industry-wide OCTG inventory levels in 2009

resulting in lower margins.

*Selling, General and Administrative Expenses.* SG&A expense decreased \$3.8 million, or 3%, in 2009 compared to 2008 due primarily to decreases in accrued incentive bonuses. In addition, our costs decreased as a result of the implementation of cost saving measures, including headcount reductions and reductions in overhead costs such as travel and entertainment, professional fees and office expenses, in response to industry conditions. SG&A was 6.6% of revenues in 2009 compared to 4.9% of revenues in 2008 due to the significant decline in our revenues during 2009.



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*Depreciation and Amortization.* Depreciation and amortization expense increased \$15.5 million, or 15%, in 2009 compared to 2008 due primarily to capital expenditures made during the previous twelve months.

*Impairment of Goodwill.* We recorded a pre-tax goodwill impairment in the amount of \$94.5 million in 2009. The impairment was the result of our assessment of several factors affecting our rental tools reporting unit. We recorded a pre-tax goodwill impairment in the amount of \$85.6 million in 2008. The impairment was the result of our assessment of several factors affecting our tubular services and drilling reporting units. See Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

*Operating Income.* Consolidated operating income decreased \$265.0 million, or 69%, in 2009 compared to 2008 primarily as a result of a decrease in operating income from our rental tool services and tubular operations.

*Gain on Sale of Investment.* We reported a gain on the sale of investment of \$6.2 million in 2008. The sale related to our investment in Boots & Coots common stock.

*Interest Expense and Interest Income.* Net interest expense decreased by \$5.1 million, or 26%, in 2009 compared to 2008 due to reduced debt levels and lower LIBOR interest rates applicable to borrowings under our revolving credit facilities. The weighted average interest rate on the Company's revolving credit facilities was 1.5% in 2009 compared to 3.9% in 2008. Interest income decreased as a result of the repayment in 2009 of a note receivable due from Boots & Coots and reduced cash balances in interest bearing accounts.

*Equity in Earnings of Unconsolidated Affiliates.* Our equity in earnings of unconsolidated affiliates is \$2.6 million, or 64%, lower in 2009 than in 2008 primarily due to the sale, in August of 2008, of our remaining investment in Boots & Coots.

*Income Tax Expense.* Our income tax provision for the year ended December 31, 2009 totaled \$46.1 million, or 43.6% of pretax income, compared to \$154.2 million, or 41.3% of pretax income, for the year ended December 31, 2008. The higher effective tax rate in both years was primarily due to the impairment of goodwill, the majority of which was not deductible for tax purposes. Absent the goodwill impairment in 2009, our effective tax rate was favorably influenced by lower statutory rates applicable to our foreign sourced income.

## ***Liquidity and Capital Resources***

Our primary liquidity needs are to fund capital expenditures, which in the past have included expanding our accommodations facilities, expanding and upgrading our offshore products manufacturing facilities and equipment, increasing and replacing rental tool assets, adding drilling rigs, funding new product development and general working capital needs. In addition, capital has been used to fund strategic business acquisitions. Our primary sources of funds have been cash flow from operations and proceeds from borrowings. See Note 8 to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Cash totaling \$230.9 million was provided by operations during the year ended December 31, 2010 compared to cash totaling \$453.4 million provided by operations during the year ended December 31, 2009. During 2010, \$100.0 million was used to fund working capital, primarily due to increased investments in working capital for our tubular services and rental tool businesses and lower taxes payable, partially offset by a reduction in accounts receivable at our offshore products segment. In contrast, during 2009, \$176.0 million was provided from net working capital reductions, primarily due to a reduction in accounts receivable and lower inventory levels, especially in our tubular services segment.

Cash was used in investing activities during the years ended December 31, 2010 and 2009 in the amount of \$889.7 million and \$102.6 million, respectively. During the year ended December 31, 2010, we spent cash totaling \$709.6 million, net of cash acquired, to acquire The MAC Services Group Limited in Sydney, Australia to expand our accommodations business internationally, Mountain West Oilfield Service and Supplies, Inc. in Vernal, Utah, an accommodations business servicing the U.S. Rockies and the Bakken Shale region, and Acute Technological Services, Inc. in Houston, Texas, a provider of welding services to the energy industry worldwide for both onshore and offshore activities. The Company funded the acquisition of The MAC with cash on hand and borrowings available under our new five-year, \$1.05 billion senior secured bank facilities. We funded the Acute and Mountain West acquisitions using cash on hand and our then existing credit facility. See Note 8 to the Consolidated Financial

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Statements included in this Annual Report on Form 10-K. There were no significant acquisitions made by the Company during the year ended December 31, 2009. Capital expenditures totaled \$182.2 million and \$124.5 million during the years ended December 31, 2010 and 2009, respectively. Capital expenditures in both years consisted principally of purchases of assets for our accommodations and well site services segments, and in particular for accommodations investments made in support of Canadian oil sands developments. In 2009, we received \$21.2 million from Boots & Coots in full satisfaction of a note receivable due us.

We currently expect to spend a total of approximately \$536 million for capital expenditures during 2011 to expand our Canadian oil sands and Australian mining accommodations facilities, to fund our other product and service offerings, and for maintenance and upgrade of our equipment and facilities. We expect to fund these capital expenditures with cash available, internally generated funds and borrowings under our revolving credit facilities. The foregoing capital expenditure budget does not include any funds for opportunistic acquisitions, which the Company could pursue depending on the economic environment in our industry and the availability of transactions at prices deemed attractive to the Company.

Net cash of \$649.0 million was provided by financing activities during the year ended December 31, 2010, primarily as a result of borrowings under our new \$1.05 billion credit facilities. Net cash of \$296.8 million was used in financing activities during the year ended December 31, 2009, primarily as a result of free cash flow being used to pay off all amounts outstanding under our revolving credit facility.

We believe that cash on hand, cash flow from operations and available borrowings under our credit facilities will be sufficient to meet our liquidity needs in the coming twelve months. If our plans or assumptions change, or are inaccurate, or if we make further acquisitions, we may need to raise additional capital. Acquisitions have been, and our management believes acquisitions will continue to be, a key element of our business strategy. The timing, size or success of any acquisition effort and the associated potential capital commitments are unpredictable and uncertain. We may seek to fund all or part of any such efforts with proceeds from debt and/or equity issuances. Our ability to obtain capital for additional projects to implement our growth strategy over the longer term will depend upon our future operating performance, financial condition and, more broadly, on the availability of equity and debt financing. Capital availability will be affected by prevailing conditions in our industry, the economy, the financial markets and other factors, many of which are beyond our control. In addition, such additional debt service requirements could be based on higher interest rates and shorter maturities and could impose a significant burden on our results of operations and financial condition, and the issuance of additional equity securities could result in significant dilution to stockholders.

*Stock Repurchase Program.* On August 27, 2010, the Company announced that its Board of Directors authorized \$100 million for the repurchase of the Company's common stock, par value \$.01 per share. The authorization replaced the prior share repurchase authorization, which expired on December 31, 2009. The Company presently has approximately 50.8 million shares of common stock outstanding. The Board of Directors authorization is limited in duration and expires on September 1, 2012. Subject to applicable securities laws, such purchases will be at such times and in such amounts as the Company deems appropriate. As of December 31, 2010, we had not repurchased any shares pursuant to this board authorization.

*Credit Facilities.* On December 10, 2010, we replaced our existing bank credit facility with \$1.05 billion in senior credit facilities governed by the Amended and Restated Credit Agreement (Credit Agreement). The new facilities increased the total commitments available from \$500 million under the previous facilities to \$1.05 billion. In connection with the execution of the Credit Agreement, the Total U.S. Commitments (as defined in the Credit Agreement) were increased from U.S. \$325 million to U.S. \$700 million (including \$200 million in term loans), and the total Canadian Commitments (as defined in the Credit Agreement) were increased from U.S. \$175 million to U.S. \$350 million (including \$100 million in term loans). The maturity date of the Credit Agreement is December 10, 2015. We currently have 19 lenders in our Credit Agreement with commitments ranging from \$26.6 million to

\$150 million. While we have not experienced, nor do we anticipate, any difficulties in obtaining funding from any of these lenders at this time, the lack of or delay in funding by a significant member of our banking group could negatively affect our liquidity position.

The Credit Agreement, which governs our credit facilities, contains customary financial covenants and restrictions, including restrictions on our ability to declare and pay dividends. Specifically, we must maintain an

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interest coverage ratio, defined as the ratio of consolidated EBITDA, to consolidated interest expense of at least 3.0 to 1.0 and our maximum leverage ratio, defined as the ratio of total debt to consolidated EBITDA, of no greater than 3.5 to 1.0 in 2011, 3.25 to 1.0 in 2012 and 3.0 to 1.0 thereafter. Each of the factors considered in the calculations of ratios are defined in the Credit Agreement. EBITDA and consolidated interest as defined, exclude goodwill impairments, debt discount amortization and other non-cash charges. As of December 31, 2010, we were in compliance with our debt covenants and expect to continue to be in compliance during 2011. Borrowings under the Credit Agreement are secured by a pledge of substantially all of our assets and the assets of our subsidiaries. Our obligations under the Credit Agreement are guaranteed by our significant subsidiaries. Borrowings under the Credit Agreement accrue interest at a rate equal to either LIBOR or another benchmark interest rate (at our election) plus an applicable margin based on our leverage ratio (as defined in the Credit Agreement). We must pay a quarterly commitment fee, based on our leverage ratio, on the unused commitments under the Credit Agreement. During the year 2010, our applicable margin over LIBOR ranged from 0.5% to 2.5% and it was 2.5% as of December 31, 2010. Our weighted average interest rate paid under the Credit Agreement was 3.6% during the year ended December 31, 2010 and 1.5% for the year ended December 31, 2009.

As of December 31, 2010, we had \$710.2 million outstanding under the Credit Agreement (including \$300 million in term loans) and an additional \$22.1 million of outstanding letters of credit, leaving \$317.7 million available to be drawn under the facilities. We also have an Australian floating rate credit facility supporting our Australian accommodations business that provides for an aggregate borrowing capacity of \$75.9 million (A\$75 million) under which \$25.3 million (A\$25.0 million) was outstanding as of December 31, 2010. Our total debt represented 35.9% of our total debt and shareholder's equity at December 31, 2010 compared to 10.6% at December 31, 2009.

*Contingent Convertible Notes.* In June 2005, we sold \$175 million aggregate principal amount of 23/8% contingent convertible notes due 2025. The notes provide for a net share settlement, and therefore may be convertible, under certain circumstances, into a combination of cash, up to the principal amount of the notes, and common stock of the company, if there is any excess above the principal amount of the notes, at an initial conversion price of \$31.75 per share. Shares underlying the notes were included in the calculation of diluted earnings per share during the year because our stock price exceeded the initial conversion price of \$31.75 during the period. The terms of the notes require that our stock price in any quarter, for any period prior to July 1, 2023, be above 120% of the initial conversion price (or \$38.10 per share) for at least 20 trading days in a defined period before the notes are convertible. If a note holder chooses to present their notes for conversion during a future quarter prior to the first put/call date in July 2012, they would receive cash up to \$1,000 for each 23/8% note plus Company common stock for any excess valuation over \$1,000 using the conversion rate of the 23/8% notes of 31.496 multiplied by the Company's average common stock price over a ten trading day period following presentation of the 23/8% Notes for conversion. For a more detailed description of our 23/8% contingent convertible notes, please see Note 8 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

As of December 31, 2010, we had classified the \$175.0 million principal amount of our 23/8% Contingent Convertible Senior Notes (23/8% Notes), net of unamortized discount, as a current liability because certain contingent conversion thresholds based on the Company's stock price were met at that date and, as a result, note holders could present their notes for conversion during the quarter following the December 31, 2010 measurement date. For a description of these thresholds, please see Note 8 to the Consolidated Financial Statements included in this Annual Report on Form 10-K. 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 common stock during the prescribed measurement periods. As of December 31, 2010, the recent trading prices of the 23/8% Notes exceeded their conversion value due to the remaining imbedded conversion option of the holder. Based on recent trading patterns of the 23/8% Notes, we do not currently expect any significant amount of the 23/8% Notes to convert over the next twelve months.



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*Contractual Cash Obligations.* The following summarizes our contractual obligations at December 31, 2010 (in thousands):

| <b>December 31, 2010</b>                | <b>Total</b> | <b>Due in less than 1 year</b> | <b>Due in 1-3 years</b> | <b>Due in 3 - 5 years</b> | <b>Due after 5 years</b> |
|---|--------------|--------------------------------|-------------------------|---------------------------|--------------------------|
| Contractual obligations:                |              |                                |                         |                           |                          |
| Total debt, including capital leases(1) | \$ 912,907   | \$ 18,067                      | \$ 251,457              | \$ 635,782                | \$ 7,601                 |
| Non-cancelable operating leases         | 42,234       | 10,198                         | 15,872                  | 9,498                     | 6,666                    |
| Purchase obligations                    | 401,393      | 401,393                        |                         |                           |                          |
| Total contractual cash obligations      | \$ 1,356,534 | \$ 429,658                     | \$ 267,329              | \$ 645,280                | \$ 14,267                |

- (1) Excludes interest on debt. We cannot predict with any certainty the amount of interest due on our revolving debt due to the expected variability of interest rates and principal amounts outstanding. If we assume interest payment amounts are calculated using the outstanding principal balances, interest rates and foreign currency exchange rates as of December 31, 2010 and include applicable commitment fees, estimated interest payments on our credit facilities and 23/8% Notes would be \$29.7 million due in less than one year, \$50.7 million due in one to three years and \$39.8 million due in three to five years. In the case of our outstanding term loans, applicable principal pay down amounts have been reflected in the interest payment calculations. See Note 8 the Consolidated Financial Statements included in this Annual Report on Form 10-K for additional for additional information on our credit facilities.

Our debt obligations at December 31, 2010 are included in our consolidated balance sheet, which is a part of our Consolidated Financial Statements included in this Annual Report on Form 10-K. We have assumed the conversion of our 23/8% Contingent Convertible Notes due in 2025 in 2012, the first put call date for these notes. We have not entered into any material leases subsequent to December 31, 2010.

**Off-Balance Sheet Arrangements**

As of December 31, 2010, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

**Tax Matters**

Our primary deferred tax assets at December 31, 2010, are related to employee benefit costs for our Equity Participation Plan, deductible goodwill, inventory allowance for obsolescence, foreign tax credit carryforwards and \$5.6 million in available federal net operating loss carryforwards, or regular tax net operating losses (NOLs), as of that date. The regular tax NOLs will expire in varying amounts after 2011 if they are not first used to offset taxable income that we generate. Our ability to utilize a portion of the available regular tax NOLs is currently limited under Section 382 of the Internal Revenue Code due to a change of control that occurred during 1995. We currently believe that substantially all of our regular tax NOLs will be utilized. The Company has utilized all federal alternative minimum tax net operating loss carryforwards.

Our income tax provision for the year ended December 31, 2010 totaled \$72.0 million, or 29.9% of pretax income, compared to \$46.1 million, or 43.6% of pretax income, for the year ended December 31, 2009. The effective tax rate in 2009 was impacted by a significant portion of the goodwill impairment loss recognized during the period being

non-deductible for tax purposes. Excluding the goodwill impairment, the effective tax rate for 2009 would have approximated 29.7%.

There are a number of legislative proposals to change the United States tax laws related to multinational corporations. These proposals are in various stages of discussion. It is not possible at this time to predict how these proposals would impact our business or whether they could result in increased tax costs.



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### **Critical Accounting Policies**

In our selection of critical accounting policies, our objective is to properly reflect our financial position and results of operations in each reporting period in a manner that will be understood by those who utilize our financial statements. Often we must use our judgment about uncertainties.

There are several critical accounting policies that we have put into practice that have an important effect on our reported financial results.

### ***Accounting for Contingencies***

We have contingent liabilities and future claims for which we have made estimates of the amount of the eventual cost to liquidate these liabilities or claims. These liabilities and claims sometimes involve threatened or actual litigation where damages have been quantified and we have made an assessment of our exposure and recorded a provision in our accounts to cover an expected loss. Other claims or liabilities have been estimated based on our experience in these matters and, when appropriate, the advice of outside counsel or other outside experts. Upon the ultimate resolution of these uncertainties, our future reported financial results will be impacted by the difference between our estimates and the actual amounts paid to settle a liability. Examples of areas where we have made important estimates of future liabilities include litigation, taxes, interest, insurance claims, warranty claims, contract claims and discontinued operations.

### ***Tangible and Intangible Assets, including Goodwill***

Our goodwill totaled \$475.2 million, or 15.8%, of our total assets, as of December 31, 2010. Our other intangible assets totaled \$139.4 million, or 4.6%, of our total assets, as of December 31, 2010. The assessment of impairment on long-lived assets, intangibles and investments in unconsolidated subsidiaries, is conducted whenever changes in the facts and circumstances indicate a loss in value has occurred. The determination of the amount of impairment would be based on quoted market prices, if available, or upon our judgments as to the future operating cash flows to be generated from these assets throughout their estimated useful lives. Our industry is highly cyclical and our estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows and our determination of whether a decline in value of our investment has occurred, can have a significant impact on the carrying value of these assets and, in periods of prolonged down cycles, may result in impairment losses.

We review each reporting unit, as defined in current accounting standards regarding goodwill and other intangible assets to assess goodwill for potential impairment. Our reporting units include rental tools, drilling, accommodations, offshore products and tubular services. There is no remaining goodwill in our drilling or tubular services reporting units subsequent to the full impairment of goodwill at those reporting units as of December 31, 2008. As part of the goodwill impairment analysis, we estimate the implied fair value of each reporting unit (IFV) and compare the IFV to the carrying value of such unit (the Carrying Value). Because none of our reporting units has a publically quoted market price, we must determine the value that willing buyers and sellers would place on the reporting unit through a routine sale process (a Level 3 fair value measurement). In our analysis, we target an IFV that represents the value that would be placed on the reporting unit by market participants, and value the reporting unit based on historical and projected results throughout a cycle, not the value of the reporting unit based on trough or peak earnings. We utilize, depending on circumstances, trading multiples analyses, discounted projected cash flow calculations with estimated terminal values and acquisition comparables to estimate the IFV. The IFV of our reporting units is affected by future oil and natural gas prices, anticipated spending by our customers, and the cost of capital. If the carrying amount of a reporting unit exceeds its IFV, goodwill is considered to be potentially impaired and additional analysis in accordance with current accounting standards is conducted to determine the amount of impairment, if any. At the date of our annual goodwill impairment test, the IFV s of our offshore products, accommodations and rental tools reporting units

exceeded their carrying values by 240%, 231% and 158%, respectively.

As part of our process to assess goodwill for impairment, we also compare the total market capitalization of the Company to the sum of the IFV s of all of our reporting units to assess the reasonableness of the IFV s in the aggregate.

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For our intangible assets, when facts and circumstances indicate a loss in value has occurred, we compare the carrying value of the intangible asset to the fair value of the intangible asset. For intangible assets that we amortize, we review the useful life of the intangible asset and evaluate each reporting period whether events and circumstances warrant a revision to the remaining useful life. We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

### ***Revenue and Cost Recognition***

We recognize revenue and profit as work progresses on long-term, fixed price contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. We follow this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income or expense in the period in which the facts and circumstances that give rise to the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period in which losses are determined.

### ***Valuation Allowances***

Our valuation allowances, especially related to potential bad debts in accounts receivable and to obsolescence or market value declines of inventory, involve reviews of underlying details of these assets, known trends in the marketplace and the application of historical factors that provide us with a basis for recording these allowances. If market conditions are less favorable than those projected by management, or if our historical experience is materially different from future experience, additional allowances may be required. We have, in past years, recorded a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized (see Note 10 Income Taxes in the Consolidated Financial Statements included in this Annual Report on Form 10-K and Tax Matters herein).

### ***Estimation of Useful Lives***

The selection of the useful lives of many of our assets requires the judgments of our operating personnel as to the length of these useful lives. Should our estimates be too long or short, we might eventually report a disproportionate number of losses or gains upon disposition or retirement of our long-lived assets. We believe our estimates of useful lives are appropriate.

### ***Stock Based Compensation***

Since the adoption of the accounting standards regarding share-based payments, we are required to estimate the fair value of stock compensation made pursuant to awards under our 2001 Equity Participation Plan (Plan). An initial estimate of fair value of each stock option or restricted stock award determines the amount of stock compensation expense we will recognize in the future. To estimate the value of stock option awards under the Plan, we have selected a fair value calculation model. We have chosen the Black Scholes closed form model to value stock options awarded under the Plan. We have chosen this model because our option awards have been made under straightforward and consistent vesting terms, option prices and option lives. Utilizing the Black Scholes model requires us to estimate the length of time options will remain outstanding, a risk free interest rate for the estimated period options are assumed to be outstanding, forfeiture rates, future dividends and the volatility of our common stock. All of these assumptions affect the amount and timing of future stock compensation expense recognition. We will continually monitor our actual experience and change assumptions for future awards as we consider appropriate.

*Income Taxes*

In accounting for income taxes, we are required by the provisions of current accounting standards regarding the accounting for uncertainty in income taxes, to estimate a liability for future income taxes. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize

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liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

### ***Recent Accounting Pronouncements***

In October 2009, the FASB issued an accounting standards update that modified the accounting and disclosures for revenue recognition in a multiple-element arrangement. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption was permitted), modify the criteria for recognizing revenue in multiple-element arrangements and the scope of what constitutes a non-software deliverable. The Company early adopted this standard. The impact of these amendments was not material to the Company's reported results.

In December 2009, the FASB issued an accounting standards update which amends previously issued accounting guidance for the consolidation of variable interest entities (VIEs). These amendments require a qualitative approach to identifying a controlling financial interest in a VIE, and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. These amendments are effective for annual reporting periods beginning after November 15, 2009. Adoption of this standard had no effect on our financial condition, results of operations or cash flows.

In January 2010, the FASB issued an accounting standards update which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. These amendments were effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. We do not expect the adoption of these amendments to have a material impact on our disclosures.

In December 2010, the FASB issued an accounting standards update on disclosures of supplementary pro forma information for business combinations. These amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. These amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. These amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We have early adopted the provisions of this amendment in 2010 and they are reflected in our pro forma disclosures.

### **ITEM 7A. *Quantitative And Qualitative Disclosures About Market Risk***

*Interest Rate Risk.* We have credit facilities that are subject to the risk of higher interest charges associated with increases in interest rates. As of December 31, 2010, we had floating rate obligations totaling approximately \$735.6 million drawn under our credit facilities. These floating-rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating interest rate were to increase by 1% from December 31, 2010 levels, our consolidated interest expense would increase by a total of approximately \$7.4 million annually.

*Foreign Currency Exchange Rate Risk.* Our operations are conducted in various countries around the world and we receive revenue from these operations in a number of different currencies. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in (i) currencies other than the U.S. dollar, which is our functional currency, or (ii) the functional currency of our subsidiaries, which is not necessarily the U.S. dollar. In order to mitigate the effects of exchange rate risks in areas outside the United States, we generally pay a portion of our expenses in local currencies and a substantial portion of our contracts provide for

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collections from customers in U.S. dollars. During 2010, our realized foreign exchange losses were \$1.1 million and are included in other operating (income) expense in the consolidated statements of income.

### **Item 8. *Financial Statements and Supplementary Data***

Our Consolidated Financial Statements and supplementary data of the Company appear on pages 62 through 90 of this Annual Report on Form 10-K and are incorporated by reference into this Item 8. Selected quarterly financial data is set forth in Note 15 to our Consolidated Financial Statements, which is incorporated herein by reference.

### **Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

There were no changes in or disagreements on any matters of accounting principles or financial statement disclosure between us and our independent auditors during our two most recent fiscal years or any subsequent interim period.

### **Item 9A. *Controls and Procedures***

#### **(i) Evaluation of Disclosure Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010 at the reasonable assurance level.

Pursuant to section 906 of The Sarbanes-Oxley Act of 2002, our Chief Executive Officer and Chief Financial Officer have provided certain certifications to the SEC. These certifications accompanied this report when filed with the Commission, but are not set forth herein.

#### **(ii) Internal Control Over Financial Reporting**

##### ***(a) Management's annual report on internal control over financial reporting.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States (GAAP). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving their control objectives.



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Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2010 was conducted. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment we believe that, as of December 31, 2010, the Company’s internal control over financial reporting is effective based on those criteria.

***(b) Attestation report of the registered public accounting firm.***

The attestation report of Ernst & Young LLP, the Company’s independent registered public accounting firm, on the Company’s internal control over financial reporting is set forth in this Annual Report on Form 10-K on Page 64 and is incorporated herein by reference.

***(c) Changes in internal control over financial reporting.***

During the Company’s fourth fiscal quarter ended December 31, 2010, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) or in other factors which have materially affected our internal control over financial reporting, or are reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. *Other Information***

There was no information required to be disclosed in a report on Form 8-K during the fourth quarter of 2010 that was not reported on a Form 8-K during such time.

**PART III**

**Item 10. *Director, Executive Officers and Corporate Governance***

(1) Information concerning directors, including the Company’s audit committee financial expert, appears in the Company’s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, under Election of Directors. This portion of the Definitive Proxy Statement is incorporated herein by reference.

(2) Information with respect to executive officers appears in the Company’s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, under Executive Officers of the Registrant. This portion of the Definitive Proxy Statement is incorporated herein by reference.

(3) Information concerning Section 16(a) beneficial ownership reporting compliance appears in the Company’s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders, under Section 16(a) Beneficial Ownership Reporting Compliance. This portion of the Definitive Proxy Statement is incorporated herein by reference.

**Item 11. *Executive Compensation***

The information required by Item 11 hereby is incorporated by reference to such information as set forth in the Company’s Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by Item 12 hereby is incorporated by reference to such information as set forth in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by Item 13 hereby is incorporated by reference to such information as set forth in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders.

**Table of Contents****Item 14. *Principal Accountant Fees and Services***

Information concerning principal accountant fees and services and the audit committee's preapproval policies and procedures appear in the Company's Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders under the heading "Fees Paid to Ernst & Young LLP" and is incorporated herein by reference.

**PART IV****Item 15. *Exhibits, Financial Statement Schedules***

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

(1) *Financial Statements*: Reference is made to the index set forth on page 62 of this Annual Report on Form 10-K.

(2) *Financial Statement Schedules*: No schedules have been included herein because the information required to be submitted has been included in the Consolidated Financial Statements or the Notes thereto, or the required information is inapplicable.

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

(b) Index of Exhibits

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 2.1                | Scheme Implementation Deed, dated October 15, 2010, by and between Oil States International, Inc. and The MAC Services Group Limited (incorporated by reference to Exhibit 2.1 to Oil States Current Report on Form 8-K, as filed with the Commission on October 15, 2010 (File No. 001-16337)).  |
| 3.1                | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).   |
| 3.2                | Third Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on March 13, 2009 (File No. 001-16337)).  |
| 3.3                | Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)). |
| 4.1                | Form of common stock certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, as filed with the Commission on November 7, 2000 (File No. 333-43400)).   |
| 4.2                | Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).  |
| 4.3                | First Amendment to the Amended and Restated Registration Rights Agreement dated May 17, 2002 (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for  |

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the year ended December 31, 2002, as filed with the Commission on March 13, 2003 (File No. 001-16337)).

- 4.4 Registration Rights Agreement dated as of June 21, 2005 by and between Oil States International, Inc. and RBC Capital Markets Corporation (incorporated by reference to Exhibit 4.4 to Oil States Current Report on Form 8-K as filed with the Commission on June 23, 2005 (File No. 001-16337)).
- 4.5 Indenture dated as of June 21, 2005 by and between Oil States International, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 to Oil States Current Report on Form 8-K as filed with the Commission on June 23, 2005 (File No. 001-16337)).

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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 4.6                | Global Notes representing \$175,000,000 aggregate principal amount of 23/8% Contingent Convertible Senior Notes due 2025 (incorporated by reference to Section 2.2 of Exhibit 4.5 to Oil States Current Reports on Form 8-K as filed with the Commission on June 23, 2005 and July 13, 2005 (File No. 001-16337)).  |
| 10.1               | Combination Agreement dated as of July 31, 2000 by and among Oil States International, Inc., HWC Energy Services, Inc., Merger Sub-HWC, Inc., Sooner Inc., Merger Sub-Sooner, Inc. and PTI Group Inc. (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1, as filed with the Commission on August 10, 2000 (File No. 333-43400)).  |
| 10.2               | Plan of Arrangement of PTI Group Inc. (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).  |
| 10.3               | Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).  |
| 10.4               | Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).   |
| 10.5**             | Second Amended and Restated 2001 Equity Participation Plan effective March 30, 2009 (incorporated by reference to Exhibit 10.5 to Oil States Current Report on Form 8-K, as filed with the Commission on April 2, 2009 (File No. 001-16337)).   |
| 10.6**             | Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 5, 2004 (File No. 001-16337)).   |
| 10.7**             | Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).   |
| 10.8**             | Executive Agreement between Oil States International, Inc. and Cindy B. Taylor (incorporated by Reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).   |
| 10.9**             | Form of Change of Control Severance Plan for Selected Members of Management (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-1, as filed with the Commission on December 12, 2000 (File No. 333-43400)).   |
| 10.10              | Credit Agreement, dated as of October 30, 2003, among Oil States International, Inc., the Lenders named therein and Wells Fargo Bank Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2003, as filed with the Commission on November 12, 2003 (File No. 001-16337)). |
| 10.10A             | Incremental Assumption Agreement, dated as of May 10, 2004, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12A to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2004, as filed with the Commission on August 4, 2004 (File No. 001-16337)).  |



**Table of Contents**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.10B             | Amendment No. 1, dated as of January 31, 2005, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12B to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)).   |
| 10.10C             | Amendment No. 2, dated as of December 5, 2006, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, N.A., as Lead Arranger, U.S. Administrative Agent and U.S. Collateral Agent; and The Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Capital One N.A. and Royal Bank of Canada, as Co-Syndication Agents and JP Morgan Chase Bank, N.A. and Calyon New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12C to the Company's Current Report on Form 8-K, as filed with the SEC on December 8, 2006 (File No. 001-16337)).  |
| 10.10D             | Incremental Assumption Agreement, dated as of December 13, 2007, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12D to the Company's Current Report on Form 8-K, as filed with the SEC on December 18, 2007 (File No. 001-16337)).  |
| 10.10E             | Amendment No. 3, dated as of October 1, 2009, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, N.A., as Lead Arranger, U.S. Administrative Agent and U.S. Collateral Agent; and The Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Capital One N.A. and Royal Bank of Canada, as Co-Syndication Agents and JP Morgan Chase Bank, N.A. and Calyon New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.11E to the Company's Current Report on Form 8-K, as filed with the Commission on October 2, 2009 (File No. 001-16337)).   |
| 10.10F             | Amended and Restated Credit Agreement, dated as of December 10, 2010, among Oil States International, Inc., PTI Group Inc., PTI Premium Camp Services Ltd., as borrowers, the lenders named therein and Wells Fargo Bank, N.A., as Administrative Agent, U.S. Collateral Agent, the U.S. Swing Line Lender and an Issuing Bank; and Royal Bank of Canada, as Canadian Administrative Agent, Canadian Collateral Agent and the Canadian Swing Line Lender; JP Morgan Chase Bank, N.A., as Syndication Agent and Wells Fargo Securities, LLC, RBC Capital Markets and JP Morgan Securities, LLC, as Co-Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on December 20, 2010 (File No. 001-16337)). |
| 10.11**            | Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, as filed with the Commission on November 5, 2004 (File No. 001-16337)).   |
| 10.12**            | Form of Director Stock Option Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)).  |
| 10.13**            | Form of Employee Non Qualified Stock Option Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.19 to the Company's Annual Report  |

on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)).

10.14\*\* Form of Restricted Stock Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)).



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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.15**            | Non-Employee Director Compensation Summary (incorporated by reference to Exhibit 10.21 to the Company's Report on Form 8-K as filed with the Commission on November 15, 2006 (File No. 001-16337)).   |
| 10.16**            | Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Cragg) (incorporated by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the Commission on April 29, 2005 (File No. 001-16337)).                                       |
| 10.17**            | Form of Non-Employee Director Restricted Stock Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.22 to the Company's Report of Form 8-K, as filed with the Commission on May 24, 2005 (File No. 001-16337)).  |
| 10.18**            | Executive Agreement between Oil States International, Inc. and named executive officer (Bradley Dodson) effective October 10, 2006 (incorporated by reference to Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the Commission on November 3, 2006 (File No. 001-16337)). |
| 10.19**            | Executive Agreement between Oil States International, Inc. and named executive officer (Ron R. Green) effective May 17, 2007 (incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed with the Commission on August 2, 2007 (File No. 001-16337)).              |
| 10.20**            | Amendment to the Executive Agreement of Cindy Taylor, effective January 1, 2009 (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).  |
| 10.21**            | Amendment to the Executive Agreement of Bradley Dodson, effective January 1, 2009 (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).  |
| 10.22**            | Amendment to the Executive Agreement of Christopher Cragg, effective January 1, 2009 (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).   |
| 10.23**            | Amendment to the Executive Agreement of Ron Green, effective January 1, 2009 (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).   |
| 10.24**            | Amendment to the Executive Agreement of Robert Hampton, effective January 1, 2009 (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).  |
| 10.25**            | Executive Agreement between Oil States International, Inc. and named executive officer (Charles Moses), effective March 4, 2010 (incorporated by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, as filed with the Commission on April 30, 2010 (File No. 001-16337)).          |
| 10.26**            | Call Option Agreement, dated October 15, 2010, by and between Marley Holdings Pty Limited and PTI Holding Company 2 Pty Limited (incorporated by reference to Exhibit 10.1 to Oil States Current Report on Form 8-K, as filed with the Commission on October 5, 2010 (File No. 001-16337)).   |
| 21.1*              | List of subsidiaries of the Company.  |

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- 23.1\* Consent of Independent Registered Public Accounting Firm.
- 24.1\* Powers of Attorney for Directors.
- 31.1\* Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
- 31.2\* Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 32.1***            | Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934. |
| 32.2***            | Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934. |
| 101.INS***         | XBRL Instance Document   |
| 101.SCH***         | XBRL Taxonomy Extension Schema Document  |
| 101.CAL***         | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB***         | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE***         | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Filed herewith

\*\* Management contracts or compensatory plans or arrangements

\*\*\* Furnished herewith.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OIL STATES INTERNATIONAL, INC.

By /s/ CINDY B. TAYLOR  
Cindy B. Taylor  
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on February 22, 2011.

| <b>Signature</b>          | <b>Title</b>  |
|---------------------------|---|
| /s/ STEPHEN A. WELLS*     | Chairman of the Board   |
| Stephen A. Wells          |   |
| /s/ CINDY B. TAYLOR       | Director, President & Chief Executive Officer<br>(Principal Executive Officer)                |
| Cindy B. Taylor           |   |
| /s/ BRADLEY J. DODSON     | Senior Vice President, Chief Financial Officer and Treasurer<br>(Principal Financial Officer) |
| Bradley J. Dodson         |   |
| /s/ ROBERT W. HAMPTON     | Senior Vice President Accounting and Corporate<br>Secretary (Principal Accounting Officer)    |
| Robert W. Hampton         |   |
| /s/ MARTIN A. LAMBERT*    | Director  |
| Martin A. Lambert         |   |
| /s/ S. JAMES NELSON, JR.* | Director  |
| S. James Nelson, Jr.      |   |
| /s/ MARK G. PAPA*         | Director  |
| Mark G. Papa              |   |
| /s/ GARY L. ROSENTHAL*    | Director  |

Gary L. Rosenthal

/s/ CHRISTOPHER T. SEAVER\*

Director

Christopher T. Seaver

/s/ DOUGLAS E. SWANSON\*

Director

Douglas E. Swanson

/s/ WILLIAM T. VAN KLEEF\*

Director

William T. Van Kleeef

\*By: /s/ BRADLEY J. DODSON

Bradley J. Dodson, pursuant to a power of attorney filed as Exhibit 24.1 to this Annual Report on Form 10-K

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 2.1                | Scheme Implementation Deed, dated October 15, 2010, by and between Oil States International, Inc. and The MAC Services Group Limited (incorporated by reference to Exhibit 2.1 to Oil States Current Report on Form 8-K, as filed with the Commission on October 15, 2010 (File No. 001-16337)).   |
| 3.1                | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).  |
| 3.2                | Third Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the Commission on March 13, 2009 (File No. 001-16337)).   |
| 3.3                | Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).  |
| 4.1                | Form of common stock certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, as filed with the Commission on November 7, 2000 (File No. 333-43400)).  |
| 4.2                | Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).   |
| 4.3                | First Amendment to the Amended and Restated Registration Rights Agreement dated May 17, 2002 (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 13, 2003 (File No. 001-16337)).   |
| 4.4                | Registration Rights Agreement dated as of June 21, 2005 by and between Oil States International, Inc. and RBC Capital Markets Corporation (incorporated by reference to Exhibit 4.4 to Oil States Current Report on Form 8-K as filed with the Commission on June 23, 2005 (File No. 001-16337)).  |
| 4.5                | Indenture dated as of June 21, 2005 by and between Oil States International, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.5 to Oil States Current Report on Form 8-K as filed with the Commission on June 23, 2005 (File No. 001-16337)).   |
| 4.6                | Global Notes representing \$175,000,000 aggregate principal amount of 23/8% Contingent Convertible Senior Notes due 2025 (incorporated by reference to Section 2.2 of Exhibit 4.5 to Oil States Current Reports on Form 8-K as filed with the Commission on June 23, 2005 and July 13, 2005 (File No. 001-16337)).   |
| 10.1               | Combination Agreement dated as of July 31, 2000 by and among Oil States International, Inc., HWC Energy Services, Inc., Merger Sub-HWC, Inc., Sooner Inc., Merger Sub-Sooner, Inc. and PTI Group Inc. (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1, as filed with the Commission on August 10, 2000 (File No. 333-43400)). |
| 10.2               | Plan of Arrangement of PTI Group Inc. (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).   |
| 10.3               |  |

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- Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).
- 10.4 Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).
- 10.5\*\* Second Amended and Restated 2001 Equity Participation Plan effective March 30, 2009 (incorporated by reference to Exhibit 10.5 to Oil States' Current Report on Form 8-K, as filed with the Commission on April 2, 2009 (File No. 001-16337)).

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.6**             | Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 5, 2004 (File No. 001-16337)).  |
| 10.7**             | Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).  |
| 10.8**             | Executive Agreement between Oil States International, Inc. and Cindy B. Taylor (incorporated by Reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001 (File No. 001-16337)).  |
| 10.9**             | Form of Change of Control Severance Plan for Selected Members of Management (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-1, as filed with the Commission on December 12, 2000 (File No. 333-43400)).  |
| 10.10              | Credit Agreement, dated as of October 30, 2003, among Oil States International, Inc., the Lenders named therein and Wells Fargo Bank Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2003, as filed with the Commission on November 12, 2003 (File No. 001-16337)).          |
| 10.10A             | Incremental Assumption Agreement, dated as of May 10, 2004, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12A to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2004, as filed with the Commission on August 4, 2004 (File No. 001-16337)).   |
| 10.10B             | Amendment No. 1, dated as of January 31, 2005, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12B to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)). |
| 10.10C             | Amendment No. 2, dated as of December 5, 2006, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, N.A., as Lead Arranger, U.S. Administrative Agent and U.S. Collateral Agent; and The Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Capital One N.A. and Royal Bank of Canada, as Co-Syndication Agents and JP Morgan Chase Bank, N.A. and Calyon New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12C to the Company's Current Report on Form 8-K, as filed with the SEC on December 8, 2006 (File No. 001-16337)).  |
| 10.10D             | Incremental Assumption Agreement, dated as of December 13, 2007, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12D to the Company's Current Report on Form 8-K, as filed with the SEC on December 18, 2007 (File No. 001-16337)).  |
| 10.10E             |  |



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Amendment No. 3, dated as of October 1, 2009, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, N.A., as Lead Arranger, U.S. Administrative Agent and U.S. Collateral Agent; and The Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Capital One N.A. and Royal Bank of Canada, as Co-Syndication Agents and JP Morgan Chase Bank, N.A. and Calyon New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.11E to the Company's Current Report on Form 8-K, as filed with the Commission on October 2, 2009 (File No. 001-16337)).

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.10F             | Amended and Restated Credit Agreement, dated as of December 10, 2010, among Oil States International, Inc., PTI Group Inc., PTI Premium Camp Services Ltd., as borrowers, the lenders named therein and Wells Fargo Bank, N.A., as Administrative Agent, U.S. Collateral Agent, the U.S. Swing Line Lender and an Issuing Bank; and Royal Bank of Canada, as Canadian Administrative Agent, Canadian Collateral Agent and the Canadian Swing Line Lender; JP Morgan Chase Bank, N.A., as Syndication Agent and Wells Fargo Securities, LLC, RBC Capital Markets and JP Morgan Securities, LLC, as Co-Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on December 20, 2010 (File No. 001-16337)). |
| 10.11**            | Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, as filed with the Commission on November 5, 2004 (File No. 001-16337)).   |
| 10.12**            | Form of Director Stock Option Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)).  |
| 10.13**            | Form of Employee Non Qualified Stock Option Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)).  |
| 10.14**            | Form of Restricted Stock Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005 (File No. 001-16337)).   |
| 10.15**            | Non-Employee Director Compensation Summary (incorporated by reference to Exhibit 10.21 to the Company's Report on Form 8-K as filed with the Commission on November 15, 2006 (File No. 001-16337)).  |
| 10.16**            | Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Cragg) (incorporated by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the Commission on April 29, 2005 (File No. 001-16337)).  |
| 10.17**            | Form of Non-Employee Director Restricted Stock Agreement under the Company's 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.22 to the Company's Report of Form 8-K, as filed with the Commission on May 24, 2005 (File No. 001-16337)).   |
| 10.18**            | Executive Agreement between Oil States International, Inc. and named executive officer (Bradley Dodson) effective October 10, 2006 (incorporated by reference to Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the Commission on November 3, 2006 (File No. 001-16337)).  |
| 10.19**            | Executive Agreement between Oil States International, Inc. and named executive officer (Ron R. Green) effective May 17, 2007 (incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed with the Commission on August 2, 2007 (File No. 001-16337)).   |
| 10.20**            | Amendment to the Executive Agreement of Cindy Taylor, effective January 1, 2009 (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).   |

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- 10.21\*\* Amendment to the Executive Agreement of Bradley Dodson, effective January 1, 2009 (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).
- 10.22\*\* Amendment to the Executive Agreement of Christopher Cragg, effective January 1, 2009 (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 10.23**            | Amendment to the Executive Agreement of Ron Green, effective January 1, 2009 (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).  |
| 10.24**            | Amendment to the Executive Agreement of Robert Hampton, effective January 1, 2009 (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Commission on February 20, 2009 (File No. 001-16337)).   |
| 10.25**            | Executive Agreement between Oil States International, Inc. and named executive officer (Charles Moses), effective March 4, 2010 (incorporated by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, as filed with the Commission on April 30, 2010 (File No. 001-16337)). |
| 10.26**            | Call Option Agreement, dated October 15, 2010, by and between Marley Holdings Pty Limited and PTI Holding Company 2 Pty Limited (incorporated by reference to Exhibit 10.1 to Oil States' Current Report on Form 8-K, as filed with the Commission on October 5, 2010 (File No. 001-16337)).   |
| 21.1*              | List of subsidiaries of the Company.   |
| 23.1*              | Consent of Independent Registered Public Accounting Firm.  |
| 24.1*              | Powers of Attorney for Directors.  |
| 31.1*              | Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.   |
| 31.2*              | Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.   |
| 32.1***            | Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934.   |
| 32.2***            | Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934.   |
| 101.INS***         | XBRL Instance Document   |
| 101.SCH***         | XBRL Taxonomy Extension Schema Document  |
| 101.CAL***         | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB***         | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE***         | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Filed herewith

\*\* Management contracts or compensatory plans or arrangements

\*\*\* Furnished herewith.

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Stockholders of Oil States International, Inc.:**

We have audited the accompanying consolidated balance sheets of Oil States International, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oil States International, Inc. and subsidiaries at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Oil States International, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas  
February 22, 2011

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Stockholders of Oil States International, Inc.:**

We have audited Oil States International, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Oil States International, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Oil States International, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Oil States International, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated February 22, 2011 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas  
February 22, 2011



Table of Contents**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

|   | <b>Year Ended December 31,</b>                  |              |              |
|---|---|--------------|--------------|
|   | <b>2010</b>                                     | <b>2009</b>  | <b>2008</b>  |
|   | <b>(In thousands, except per share amounts)</b> |              |              |
| Revenues:   |   |              |              |
| Product   | \$ 1,282,212                                    | \$ 1,279,181 | \$ 1,874,262 |
| Service and other   | 1,129,772                                       | 829,069      | 1,074,195    |
|   | 2,411,984                                       | 2,108,250    | 2,948,457    |
| Costs and expenses:   |   |              |              |
| Product costs   | 1,147,427                                       | 1,109,769    | 1,594,139    |
| Service and other costs   | 726,867   | 530,429      | 640,835      |
| Selling, general and administrative expenses  | 150,865   | 139,293      | 143,080      |
| Depreciation and amortization expense   | 124,202   | 118,108      | 102,604      |
| Impairment of goodwill  |   | 94,528       | 85,630       |
| Acquisition related expenses  | 6,959   |              |              |
| Other operating (income) / expense  | 82  | (2,606)      | (1,586)      |
|   | 2,156,402                                       | 1,989,521    | 2,564,702    |
| Operating income  | 255,582   | 118,729      | 383,755      |
| Interest expense  | (16,274)  | (15,266)     | (23,585)     |
| Interest income   | 751   | 380          | 3,561        |
| Equity in earnings of unconsolidated affiliates   | 239   | 1,452        | 4,035        |
| Gains on sale of investment   |   |              | 6,160        |
| Other income / (expense)  | 330   | 414          | (476)        |
| Income before income taxes  | 240,628   | 105,709      | 373,450      |
| Income tax provision  | (72,023)  | (46,097)     | (154,151)    |
| Net income  | \$ 168,605                                      | \$ 59,612    | \$ 219,299   |
| Less: Net income attributable to noncontrolling interests                                       | 587   | 498          | 446          |
| Net income attributable to Oil States International, Inc.                                       | \$ 168,018                                      | \$ 59,114    | \$ 218,853   |
| Basic net income per share attributable to Oil States International, Inc. common stockholders   | \$ 3.34   | \$ 1.19      | \$ 4.41      |
| Diluted net income per share attributable to Oil States International, Inc. common stockholders | \$ 3.19   | \$ 1.18      | \$ 4.26      |
| Weighted average number of common shares outstanding (in thousands):                            |   |              |              |
| Basic   | 50,238  | 49,625       | 49,622       |
| Diluted   | 52,700  | 50,219       | 51,414       |

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

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

|   | <b>December 31,</b>                         |              |
|---|---|--------------|
|   | <b>2010</b>                                 | <b>2009</b>  |
|   | <b>(In thousands, except share amounts)</b> |              |
| <b>ASSETS</b>   |   |              |
| Current assets:   |   |              |
| Cash and cash equivalents   | \$ 96,350                                   | \$ 89,742    |
| Accounts receivable, net  | 478,739                                     | 385,816      |
| Inventories, net  | 501,435                                     | 423,077      |
| Prepaid expenses and other current assets   | 23,480                                      | 26,933       |
| Total current assets  | 1,100,004                                   | 925,568      |
| Property, plant and equipment, net  | 1,252,657                                   | 749,601      |
| Goodwill, net   | 475,222                                     | 218,740      |
| Other intangible assets, net  | 139,421                                     | 19,681       |
| Investments in unconsolidated affiliates  | 5,937                                       | 5,164        |
| Other noncurrent assets   | 42,758                                      | 13,632       |
| Total assets  | \$ 3,015,999                                | \$ 1,932,386 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |   |              |
| Current liabilities:  |   |              |
| Accounts payable and accrued liabilities  | \$ 304,739                                  | \$ 208,541   |
| Income taxes  | 4,604                                       | 14,419       |
| Current portion of long-term debt and capitalized leases  | 181,175                                     | 464          |
| Deferred revenue  | 60,847                                      | 87,412       |
| Other current liabilities   | 2,810                                       | 4,387        |
| Total current liabilities   | 554,175                                     | 315,223      |
| Long-term debt and capitalized leases   | 731,732                                     | 164,074      |
| Deferred income taxes   | 81,198                                      | 55,332       |
| Other noncurrent liabilities  | 19,961                                      | 15,691       |
| Total liabilities   | 1,387,066                                   | 550,320      |
| Stockholders' equity:   |   |              |
| Oil States International, Inc. stockholders' equity:  |   |              |
| Common stock, \$.01 par value, 200,000,000 shares authorized, 54,108,011 shares and 53,047,082 shares issued, respectively, and 50,838,863 shares and 49,814,964 shares outstanding, respectively | 541   | 531          |
| Additional paid-in capital  | 508,429                                     | 468,428      |
| Retained earnings   | 1,128,133                                   | 960,115      |
| Accumulated other comprehensive income  | 84,549                                      | 44,115       |

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|   |              |              |
|---|--------------|--------------|
| Common stock held in treasury at cost, 3,269,148 and 3,232,118 shares, respectively | (93,746)     | (92,341)     |
| Total Oil States International, Inc. stockholders' equity                           | 1,627,906    | 1,380,848    |
| Noncontrolling interest   | 1,027        | 1,218        |
| Total stockholders' equity  | 1,628,933    | 1,382,066    |
| Total liabilities and stockholders' equity  | \$ 3,015,999 | \$ 1,932,386 |

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

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**AND COMPREHENSIVE INCOME**

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Comprehensive<br>Income<br>(In thousands) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Noncontrolling<br>Interest |
|--|-----------------|----------------------------------|----------------------|---|---|-------------------|----------------------------|
| <b>Balance, December 31,<br/>2007</b>                            | \$ 522          | \$ 430,540                       | \$ 682,148           |   | \$ 73,036   | \$ (81,535)       | \$ 347                     |
| Net income   |                 |                                  | 218,853              | \$ 218,853                                |   |                   | 446                        |
| Currency translation<br>adjustment                               |                 |                                  |                      | (101,365)                                 | (101,365)   |                   | (59)                       |
| Unrealized gain on<br>marketable securities,<br>net of tax       |                 |                                  |                      | 2,028                                     | 2,028   |                   |                            |
| Reclassification<br>adjustment, net of tax                       |                 |                                  |                      | (2,028)                                   | (2,028)   |                   |                            |
| Other comprehensive<br>loss                                      |                 |                                  |                      | (80)                                      | (80)  |                   |                            |
| Comprehensive income   |                 |                                  |                      | \$ 117,408                                |   |                   |                            |
| Dividends paid   |                 |                                  |                      |   |   |                   | (213)                      |
| Exercise of stock<br>options, including tax<br>benefit           | 4               | 12,292                           |                      |   |   |                   |                            |
| Amortization of<br>restricted stock<br>compensation              |                 | 5,371                            |                      |   |   |                   |                            |
| Surrender of stock to<br>pay taxes on restricted<br>stock awards |                 |                                  |                      |   |   | (863)             |                            |
| Stock option expense   |                 | 5,537                            |                      |   |   |                   |                            |
| Stock acquired for cash  |                 |                                  |                      |   |   | (9,434)           |                            |
| Other  |                 | (7)                              |                      |   |   | 1                 |                            |
| <b>Balance, December 31,<br/>2008</b>                            | \$ 526          | \$ 453,733                       | \$ 901,001           |   | \$ (28,409)   | \$ (91,831)       | \$ 521                     |
| Net income   |                 |                                  | 59,114               | \$ 59,114                                 |   |                   | 498                        |
| Currency translation<br>adjustment                               |                 |                                  |                      | 72,548                                    | 72,548  |                   | 199                        |
| Other comprehensive<br>loss                                      |                 |                                  |                      | (24)                                      | (24)  |                   |                            |

|  |        |            |              |            |           |             |          |            |
|--|--------|------------|--------------|------------|-----------|-------------|----------|------------|
| Comprehensive income                                       |        |            |              |            |           |             |          | \$ 131,638 |
| Exercise of stock options, including tax benefit           | 2      | 3,146      |              |            |           |             |          |            |
| Amortization of restricted stock compensation              |        | 6,008      |              |            |           |             |          |            |
| Surrender of stock to pay taxes on restricted stock awards | 3      | (3)        |              |            |           |             | (511)    |            |
| Stock option expense                                       |        | 5,542      |              |            |           |             |          |            |
| Other  |        | 2          |              |            |           |             | 1        |            |
| <b>Balance, December 31, 2009</b>                          | \$ 531 | \$ 468,428 | \$ 960,115   |            | \$ 44,115 | \$ (92,341) | \$ 1,218 |            |
| Net income   |        |            | 168,018      | \$ 168,018 |           |             | 587      |            |
| Currency translation adjustment                            |        |            |              | 40,274     | 40,274    |             | 25       |            |
| Other comprehensive income                                 |        |            |              | 160        | 160       |             |          |            |
| Comprehensive income                                       |        |            |              |            |           |             |          | \$ 208,452 |
| Dividends paid   |        |            |              |            |           |             |          | (803)      |
| Exercise of stock options, including tax benefit           | 9      | 27,380     |              |            |           |             |          |            |
| Amortization of restricted stock compensation              |        | 6,592      |              |            |           |             |          |            |
| Surrender of stock to pay taxes on restricted stock awards | 2      | (2)        |              |            |           |             | (1,406)  |            |
| Stock option expense                                       |        | 6,028      |              |            |           |             |          |            |
| Other  | (1)    | 3          |              |            |           |             | 1        |            |
| <b>Balance, December 31, 2010</b>                          | \$ 541 | \$ 508,429 | \$ 1,128,133 |            | \$ 84,549 | \$ (93,746) | \$ 1,027 |            |

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

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2010</b>                    | <b>2009</b> | <b>2008</b> |
|  | <b>(In thousands)</b>          |             |             |
| Cash flows from operating activities:  |                                |             |             |
| Net income   | \$ 168,605                     | \$ 59,612   | \$ 219,299  |
| Adjustments to reconcile net income to net cash provided by operating activities:    |                                |             |             |
| Depreciation and amortization  | 124,202                        | 118,108     | 102,604     |
| Deferred income tax provision (benefit)  | 20,590                         | (15,126)    | 13,692      |
| Excess tax benefits from share-based payment arrangements                            | (4,029)                        |             | (3,429)     |
| Loss on impairment of goodwill   |                                | 94,528      | 85,630      |
| Losses (gains) on sale of investment and disposals of assets                         | 211                            | (325)       | (6,270)     |
| Equity in earnings of unconsolidated subsidiaries, net of dividends                  | (143)                          | (1,452)     | (2,983)     |
| Non-cash compensation charge   | 12,620                         | 11,550      | 10,908      |
| Accretion of debt discount   | 7,249                          | 6,749       | 6,283       |
| Other, net   | 1,583                          | 3,693       | 3,254       |
| Changes in operating assets and liabilities, net of effect from acquired businesses: |                                |             |             |
| Accounts receivable  | (61,835)                       | 205,627     | (155,897)   |
| Inventories  | (75,416)                       | 200,469     | (281,971)   |
| Accounts payable and accrued liabilities   | 82,032                         | (168,758)   | 143,479     |
| Taxes payable  | (22,468)                       | (38,428)    | 66,616      |
| Other current assets and liabilities, net  | (22,279)                       | (22,885)    | 56,249      |
| Net cash flows provided by operating activities                                      | 230,922                        | 453,362     | 257,464     |
| Cash flows from investing activities:  |                                |             |             |
| Capital expenditures, including capitalized interest                                 | (182,207)                      | (124,488)   | (247,384)   |
| Acquisitions of businesses, net of cash acquired                                     | (709,575)                      | 18          | (29,835)    |
| Proceeds from sale of investment and collection of notes receivable                  |                                | 21,166      | 27,381      |
| Proceeds from sale of buildings and equipment  | 2,734                          | 2,839       | 4,390       |
| Other, net   | (632)                          | (2,143)     | (646)       |
| Net cash flows used in investing activities  | (889,680)                      | (102,608)   | (246,094)   |
| Cash flows from financing activities:  |                                |             |             |
| Revolving credit borrowings (repayments), net  | 347,129                        | (294,760)   | 1,474       |
| Term loan borrowings   | 300,955                        |             |             |
| Debt and capital lease repayments  | (487)                          | (4,961)     | (4,960)     |
| Issuance of common stock from share based payment arrangements                       | 23,361                         | 3,460       | 8,868       |
| Purchase of treasury stock   |                                |             | (9,563)     |
| Excess tax benefits from share based payment arrangements                            | 4,029                          |             | 3,429       |
| Payment of financing costs   | (24,548)                       |             | (39)        |
| Other, net   | (1,407)                        | (512)       | (875)       |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Net cash flows provided by (used in) financing activities                       | 649,032   | (296,773) | (1,666)   |
| Effect of exchange rate changes on cash   | 16,477    | 5,695     | (9,802)   |
| Net increase (decrease) in cash and cash equivalents from continuing operations | 6,751     | 59,676    | (98)      |
| Net cash used in discontinued operations operating activities                   | (143)     | (133)     | (295)     |
| Cash and cash equivalents, beginning of year                                    | 89,742    | 30,199    | 30,592    |
| Cash and cash equivalents, end of year  | \$ 96,350 | \$ 89,742 | \$ 30,199 |

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



**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Organization and Basis of Presentation**

The Consolidated Financial Statements include the accounts of Oil States International, Inc. (Oil States or the Company) and its consolidated subsidiaries. Investments in unconsolidated affiliates, in which the Company is able to exercise significant influence, are accounted for using the equity method. The Company's operations prior to 2001 were conducted by Oil States Industries, Inc. (OSI). On February 14, 2001, the Company acquired three companies (Oil States Energy Services, Inc. (OSES) (formerly known as HWC Energy Services, Inc.); PTI Group, Inc. (PTI) and Sooner Inc. (Sooner)). All significant intercompany accounts and transactions between the Company and its consolidated subsidiaries have been eliminated in the accompanying Consolidated Financial Statements.

The Company, through its subsidiaries, is a leading provider of specialty products and services to oil and gas drilling and production companies throughout the world. Through its accommodations business, the Company also serves other natural resource markets, principally in Australia. It operates in a substantial number of the world's active oil and gas producing regions, including the Gulf of Mexico, U.S. onshore, West Africa, the North Sea, Canada, Australia, South America, Southeast Asia and India. The Company operates in four principal business segments: accommodations, offshore products, well site services and tubular services.

**2. Summary of Significant Accounting Policies*****Cash and Cash Equivalents***

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

***Fair Value of Financial Instruments***

The Company's financial instruments consist of cash and cash equivalents, investments, receivables, payables, and debt instruments. The Company believes that the carrying values of these instruments, other than our fixed rate contingent convertible senior subordinated notes, on the accompanying consolidated balance sheets approximate their fair values.

The fair value of our 23/8% Notes is estimated based on a quoted price in an active market (a Level 1 fair value measurement). The carrying and fair values of these notes are as follows (in thousands):

|                            | Interest Rate | At December 31,        |            |                        |            |
|----------------------------|---------------|------------------------|------------|------------------------|------------|
|                            |               | 2010<br>Carrying Value | Fair Value | 2009<br>Carrying Value | Fair Value |
| Principal amount due 2025  | 2 3/8%        | \$ 175,000             | \$ 354,057 | \$ 175,000             | \$ 243,653 |
| Less: unamortized discount |               | 11,892                 |            | 19,141                 |            |
| Net value                  |               | \$ 163,108             | \$ 354,057 | \$ 155,859             | \$ 243,653 |

As of December 31, 2010, the estimated fair value of the Company's debt outstanding under its credit facilities was estimated to be at fair value.

As of December 31, 2010, the Company had approximately \$96.4 million of cash and cash equivalents and \$317.7 million of the Company's \$1.05 billion U.S. and Canadian credit facilities available for future financing needs. The Company also had availability totaling \$50.6 million under its Australian credit facility.

***Inventories***

Inventories consist of tubular and other oilfield products, manufactured equipment, spare parts for manufactured equipment, raw materials and supplies and materials for the construction of remote accommodation facilities. Inventories include raw materials, labor, subcontractor charges and manufacturing overhead and are

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

carried at the lower of cost or market. The cost of inventories is determined on an average cost or specific-identification method.

***Property, Plant, and Equipment***

Property, plant, and equipment are stated at cost or at estimated fair market value at acquisition date if acquired in a business combination, and depreciation is computed, for assets owned or recorded under capital lease, using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

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

***Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price for acquired businesses over the allocated fair value of the related net assets after impairments, if applicable. Goodwill is stated net of accumulated amortization of \$10.9 million at December 31, 2010 and \$10.7 million at December 31, 2009.

We evaluate goodwill for impairment annually and when an event occurs or circumstances change to suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the implied fair value (IFV) of the reporting unit. Our reporting units with goodwill remaining include offshore products, accommodations and rental tools, after the 100% impairment of goodwill associated with our tubular services and drilling reporting units discussed in Note 7 to these Consolidated Financial Statements. The IFV of the reporting units are estimated using an analysis of trading multiples of comparable companies to our reporting units. We also utilize discounted projected cash flows and acquisition multiples analyses in certain circumstances. We discount our projected cash flows using a long-term weighted average cost of capital for each reporting unit based on our estimate of investment returns that would be required by a market participant. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second step is performed to determine the amount of impairment, if any. We conduct our annual impairment test in December of each year.

For our intangible assets, when facts and circumstances indicate a loss in value has occurred, we compare the carrying value of the intangible asset to the fair value of the intangible asset. For intangible assets that we amortize, we review the useful life of the intangible asset and evaluate each reporting period whether events and circumstances warrant a revision to the remaining useful life. We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

See Note 7 Goodwill and Other Intangible Assets.

***Impairment of Long-Lived Assets***

In compliance with current accounting standards regarding the accounting for the impairment or disposal of long-lived assets at the asset group level, the recoverability of the carrying values of property, plant and equipment is assessed at a minimum annually, or whenever, in management's judgment, events or changes in circumstances indicate that the carrying value of such asset groups may not be recoverable based on estimated future cash flows. If this assessment indicates that the carrying values will not be recoverable, as determined based on undiscounted cash flows over the remaining useful lives, an impairment loss is recognized. The impairment loss equals the excess of the carrying value over the fair value of the asset. The fair value of the asset is based on prices of similar assets, if

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

available, or discounted cash flows. Based on the Company's review, the carrying values of its asset groups are recoverable, and no impairment losses have been recorded for the periods presented.

***Foreign Currency and Other Comprehensive Income***

Gains and losses resulting from balance sheet translation of foreign operations where a foreign currency is the functional currency are included as a separate component of accumulated other comprehensive income within stockholders' equity representing substantially all of the balances within accumulated other comprehensive income. Remeasurements of intercompany loans denominated in a different currency than the functional currency of the entity that are of a long-term investment nature are recognized as comprehensive income within stockholders' equity. Gains and losses resulting from balance sheet remeasurements of assets and liabilities denominated in a different currency than the functional currency, other than intercompany loans that are of a long-term investment nature, are included in the consolidated statements of income as incurred.

***Foreign Exchange Risk***

A portion of revenues, earnings and net investments in foreign affiliates are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing expected local currency revenues in relation to local currency costs and local currency assets in relation to local currency liabilities. Foreign exchange risk is also managed through foreign currency denominated debt. The Company had no currency contracts outstanding at December 31, 2010, December 31, 2009 or December 31, 2008. Net gains or losses from foreign currency exchange contracts that are designated as hedges would be recognized in the income statement to offset the foreign currency gain or loss on the underlying transaction. Foreign exchange gains and losses associated with our operations have totaled a \$1.1 million loss in 2010, a \$0.3 million loss in 2009 and a \$1.6 million gain in 2008 and were included in other operating income.

***Interest Capitalization***

Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets estimated useful lives. For the years ended December 31, 2010 and December 31, 2009, \$0.2 million and \$0.1 million were capitalized, respectively. There was no interest capitalized during the year ended December 31, 2008.

***Revenue and Cost Recognition***

Revenue from the sale of products, not accounted for utilizing the percentage-of-completion method, is recognized when delivery to and acceptance by the customer has occurred, when title and all significant risks of ownership have passed to the customer, collectability is probable and pricing is fixed and determinable. Our product sales terms do not include significant post delivery obligations. For significant projects, revenues are recognized under the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract (cost-to-cost method). Billings on such contracts in excess of costs incurred and estimated profits are classified as deferred revenue. Management believes this method is the most appropriate measure of progress on large contracts. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. In drilling services and rental tool services, revenues are recognized based on a periodic (usually daily) rental rate or when the services are rendered. Proceeds from customers for the cost of oilfield rental equipment that is damaged or lost downhole are reflected as gains or losses on the disposition of assets. For drilling services contracts

based on footage drilled, we recognize revenues as footage is drilled. Revenues exclude taxes assessed based on revenues such as sales or value added taxes.

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

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Income Taxes***

The Company follows the liability method of accounting for income taxes in accordance with current accounting standards regarding the accounting for income taxes. Under this method, deferred income taxes are recorded based upon the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets or liabilities are recovered or settled.

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

In accordance with current accounting standards, the Company records a valuation allowance in each reporting period when management believes that it is more likely than not that any deferred tax asset created will not be realized. Management will continue to evaluate the appropriateness of the valuation allowance in the future based upon the operating results of the Company.

In accounting for income taxes, we are required by the provisions of current accounting standards regarding the accounting for uncertainty in income taxes to estimate a liability for future income taxes. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

***Receivables and Concentration of Credit Risk, Concentration of Suppliers***

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

The Company purchased 72% of its oilfield tubular goods from three suppliers in 2010, with the largest supplier representing 56% of its purchases in the period. The loss of any significant supplier in the tubular services segment could adversely affect it.

***Allowances for Doubtful Accounts***

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. If a trade receivable is deemed to be uncollectible, such receivable is charged-off against the allowance for doubtful accounts. The Company considers the following factors when determining if collection of revenue is reasonably assured: customer credit-worthiness, past transaction history with the customer, current economic industry trends, customer solvency and changes in customer payment terms. If the Company has no previous experience with the customer, the Company typically obtains reports from various credit

organizations to ensure that the customer has a history of paying its creditors. The Company may also request financial information, including financial statements or other documents to ensure that the customer has the means of making payment. If these factors do not indicate collection is reasonably assured, the Company would require a prepayment or other arrangement to support revenue recognition and recording of a trade receivable. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required.



**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Earnings per Share***

The Company's basic earnings per share (EPS) amounts have been computed based on the average number of common shares outstanding, including 1,757 shares of common stock as of December 31, 2010 and 101,757 shares as of December 31, 2009, issuable upon exercise of exchangeable shares of one of the Company's Canadian subsidiaries. These exchangeable shares, which were issued to certain former shareholders of PTI Group Inc. in connection with the Company's IPO and the combination of PTI into the Company, are intended to have characteristics essentially equivalent to the Company's common stock prior to the exchange. We have treated the shares of common stock issuable upon exchange of the exchangeable shares as outstanding. All shares of restricted stock awarded under the Company's Equity Participation Plan are included in the Company's basic and fully diluted shares as such restricted stock shares vest.

Diluted EPS amounts include the effect of the Company's outstanding stock options and restricted stock shares under the treasury stock method. In addition, shares assumed issued upon conversion of the Company's 23/8% Contingent Convertible Senior Subordinated Notes averaged 1,647,321, 202,820 and 1,270,433 during the years ended December 31, 2010, December 31, 2009 and December 31, 2008, respectively, and are included in the calculation of fully diluted shares outstanding and fully diluted earnings per share.

***Stock-Based Compensation***

Current accounting standards regarding share-based payments require companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is estimated using option-pricing models. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period. During the years ended December 31, 2010, 2009 and 2008, the Company recognized non-cash general and administrative expenses for stock options and restricted stock awards totaling \$12.6 million, \$11.5 million and \$10.9 million, respectively. The Company accounts for assets held in a Rabbi Trust for certain participants under the Company's deferred compensation plan in accordance with current accounting standards. See Note 12.

***Guarantees***

The Company applies current accounting standards regarding guarantor's accounting and disclosure requirements for guarantees, including indirect indebtedness of others, for the Company's obligations under certain guarantees.

Pursuant to these standards, the Company is required to disclose the changes in product warranty liabilities. Some of our products in our offshore products and accommodations businesses are sold with a warranty, generally ranging from 12 to 18 months. Parts and labor are covered under the terms of the warranty agreement. Warranty provisions are based on historical experience by product, configuration and geographic region.

Changes in the warranty liabilities were as follows (in thousands):

| <b>Year Ended</b>   |             |
|---------------------|-------------|
| <b>December 31,</b> |             |
| <b>2010</b>         | <b>2009</b> |

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|                               |          |          |
|-------------------------------|----------|----------|
| Beginning balance             | \$ 2,169 | \$ 1,966 |
| Provisions for warranty       | 1,314    | 2,819    |
| Consumption of liabilities    | (1,924)  | (2,808)  |
| Translation and other changes | 17       | 192      |
| Ending balance                | \$ 1,576 | \$ 2,169 |

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Current warranty provisions are typically related to the current year's sales, while warranty consumption is associated with payments to service the warranty obligations.

During the ordinary course of business, the Company also provides standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by either the Company or its subsidiaries. As of December 31, 2010, the maximum potential amount of future payments that the Company could be required to make under these guarantee agreements was approximately \$22.2 million. The Company has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of a few such estimates include the costs associated with the disposal of discontinued operations, including potential future adjustments as a result of contractual agreements, revenue and income recognized on the percentage-of-completion method, estimate of the Company's share of earnings from equity method investments, the valuation allowance recorded on net deferred tax assets, warranty, inventory and allowance for doubtful accounts. Actual results could differ from those estimates.

***Discontinued Operations***

Prior to our initial public offering in February 2001, we sold businesses and reported the operating results of those businesses as discontinued operations. Existing liabilities related to the discontinued operations as of December 31, 2010 and 2009 represent an estimate of the remaining contingent liabilities associated with the Company's exit from those businesses.

**3. Details of Selected Balance Sheet Accounts**

Additional information regarding selected balance sheet accounts at December 31, 2010 and 2009 is presented below (in thousands):

|                           | <b>2010</b> | <b>2009</b> |
|---------------------------|-------------|-------------|
| Accounts receivable, net: |             |             |
| Trade                     | \$ 365,988  | \$ 287,148  |
| Unbilled revenue          | 113,389     | 102,527     |
| Other                     | 3,462       | 1,087       |
| Total accounts receivable | 482,839     | 390,762     |

|                                 |            |            |
|---------------------------------|------------|------------|
| Allowance for doubtful accounts | (4,100)    | (4,946)    |
|                                 | \$ 478,739 | \$ 385,816 |

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|   | <b>2010</b>       | <b>2009</b>       |
|---|-------------------|-------------------|
| Inventories, net:                           |                   |                   |
| Tubular goods                               | \$ 332,720        | \$ 265,717        |
| Other finished goods and purchased products | 71,266            | 66,489            |
| Work in process                             | 45,662            | 43,729            |
| Raw materials                               | 60,241            | 55,421            |
| Total inventories                           | 509,889           | 431,356           |
| Allowance for obsolescence                  | (8,454)           | (8,279)           |
|   | <b>\$ 501,435</b> | <b>\$ 423,077</b> |

|                                      | <b>Estimated<br/>Useful Life</b> | <b>2010</b>         | <b>2009</b>       |
|--------------------------------------|----------------------------------|---------------------|-------------------|
| Property, plant and equipment, net:  |                                  |                     |                   |
| Land                                 |                                  | \$ 43,411           | \$ 19,426         |
| Buildings and leasehold improvements | 1-40 years                       | 193,617             | 165,526           |
| Machinery and equipment              | 2-29 years                       | 311,217             | 301,900           |
| Accommodations assets                | 3-15 years                       | 840,002             | 383,332           |
| Rental tools                         | 4-10 years                       | 166,245             | 151,050           |
| Office furniture and equipment       | 1-10 years                       | 36,325              | 29,817            |
| Vehicles                             | 2-10 years                       | 82,783              | 72,142            |
| Construction in progress             |                                  | 113,773             | 65,652            |
| Total property, plant and equipment  |                                  | 1,787,373           | 1,188,845         |
| Accumulated depreciation             |                                  | (534,716)           | (439,244)         |
|                                      |                                  | <b>\$ 1,252,657</b> | <b>\$ 749,601</b> |

Depreciation expense was \$121.6 million, \$114.7 million and \$99.0 million in the years ended December 31, 2010, 2009 and 2008, respectively.

|   | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| Accounts payable and accrued liabilities: |             |             |
| Trade accounts payable                    | \$ 224,543  | \$ 145,200  |
| Accrued compensation                      | 47,760      | 35,834      |
| Insurance liabilities                     | 8,615       | 8,133       |

|  |            |            |
|--|------------|------------|
| Accrued taxes, other than income taxes         | 4,887      | 4,216      |
| Liabilities related to discontinued operations | 2,268      | 2,411      |
| Other  | 16,666     | 12,747     |
|  | \$ 304,739 | \$ 208,541 |

#### 4. Recent Accounting Pronouncements

In October 2009, the FASB issued an accounting standards update that modified the accounting and disclosures for revenue recognition in a multiple-element arrangement. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption was permitted), modify the criteria for recognizing revenue in multiple-element arrangements and the scope of what constitutes a non-software deliverable. The

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company early adopted this standard. The impact of these amendments was not material to the Company's reported results.

In December 2009, the FASB issued an accounting standards update which amends previously issued accounting guidance for the consolidation of variable interest entities (VIEs). These amendments require a qualitative approach to identifying a controlling financial interest in a VIE, and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. These amendments are effective for annual reporting periods beginning after November 15, 2009. Adoption of this standard had no effect on our financial condition, results of operations or cash flows.

In January 2010, the FASB issued an accounting standards update which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. These amendments were effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. We do not expect the adoption of these amendments to have a material impact on our disclosures.

In December 2010, the FASB issued an accounting standards update on disclosures of supplementary pro forma information for business combinations. These amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. These amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. These amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We have early adopted the provisions of this amendment in 2010 and they are reflected in our pro forma disclosures.

**5. Acquisitions and Supplemental Cash Flow Information**

Components of cash used for acquisitions as reflected in the consolidated statements of cash flows for the years ended December 31, 2010, 2009 and 2008 are summarized as follows (in thousands):

|  | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|-------------|
| Fair value of assets acquired including intangibles and goodwill | \$ 850,557  | \$ 3,112    | \$ 32,543   |
| Liabilities assumed  | (119,386)   | (411)       | (2,604)     |
| Noncash consideration  | (7,966)     | (379)       |             |
| Cash acquired  | (13,630)    | (2,340)     | (104)       |
| Cash used in acquisition of businesses                           | \$ 709,575  | \$ (18)     | \$ 29,835   |

**2010**

On December 30, 2010, we acquired all of the ordinary shares of The MAC Services Group Limited (The MAC), through a Scheme of Arrangement (the Scheme) under the Corporations Act of Australia. The MAC is headquartered in Sydney, Australia and supplies accommodations services to the coal mining, construction and resource industries. As a result of the acquisition, we will significantly expand our existing accommodations business and will strategically position ourselves in the growing Australian natural resources market. The MAC currently has 5,210 rooms in six locations in Queensland and, to a lesser extent, Western Australia. Under the terms of the Scheme, each shareholder of The MAC received \$3.95 (A\$3.90) per share in cash for a total purchase price of \$638 million, net of cash acquired plus debt assumed of \$87 million. The Company funded the acquisition with cash



**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on hand and borrowings available under our new five-year, \$1.05 billion senior secured bank facilities. See Note 8 for additional information on our senior secured bank facilities. Prospectively, The MAC's operations will be reported as part of our accommodations segment.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

|  |            |
|--|------------|
| Cash and cash equivalents                | \$ 12,279  |
| Accounts receivable                      | 18,971     |
| Inventories and other current assets     | 2,800      |
| Property, plant and equipment            | 387,579    |
| Intangible assets                        | 104,500    |
| Other noncurrent assets                  | 5,110      |
| <br>                                     |            |
| Total identifiable assets acquired       | 531,239    |
| Accounts payable and accrued liabilities | (10,130)   |
| Current portion of long-term debt        | (519)      |
| Other current liabilities                | (2,301)    |
| Long-term debt                           | (86,506)   |
| Deferred income taxes                    | (13,513)   |
| Other noncurrent liabilities             | (142)      |
| <br>                                     |            |
| Total liabilities assumed                | (113,111)  |
| <br>                                     |            |
| Net identifiable assets acquired         | 418,128    |
| Goodwill                                 | 231,974    |
| <br>                                     |            |
| Net assets acquired                      | \$ 650,102 |

Goodwill has been recorded based on the amount by which the purchase price exceeds the fair value of the net assets acquired. None of the goodwill is expected to be deductible for income tax purposes. The fair value of the property, plant and equipment, intangible assets and related deferred taxes is provisional pending receipt of the final valuations for those assets. Fair values of property, plant and equipment and intangible assets were determined based on Level 3 measurements. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utilities, was used, as appropriate, for property, plant and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the asset, less an allowance for loss in value due to depreciation. The income approach was primarily used to value the intangible assets, consisting primarily of customer relationships and the brand. The income approach indicates value for a subject asset based on present value of cash flows projected to be generated by the asset. Projected cash flows are discounted at a required market rate of return that reflects the relative risk of achieving the cash flows and the time value of money.

Of the \$104.5 million of acquired intangible assets, \$9.7 million was provisionally assigned to The MAC's brand name recognition which is not subject to amortization and \$94.8 million was provisionally assigned to customer contract

and relationship assets which are estimated at a useful life of 10 years. As noted earlier, the fair value of the acquired identifiable intangible assets is provisional pending receipt of the final valuations for these assets.

The Company recognized \$6.6 million of acquisition costs that were expensed during the year ended December 31, 2010. These costs are included in Acquisition related expenses on the consolidated statement of income. Given the December 30, 2010 acquisition date, no revenues or earnings of The MAC are included in the Company's consolidated statement of income for the year ended December 31, 2010.

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following unaudited pro forma supplemental financial information presents the consolidated results of operations of the Company and The MAC as if the acquisition of The MAC had occurred on January 1, 2009. The Company has adjusted historical financial information to give effect to pro forma items that are directly attributable to the acquisition and expected to have a continuing impact on the consolidated results. These items include adjustments to record the incremental amortization and depreciation expense related to the increase in fair values of the acquired assets, interest expense related to borrowings under the Company's senior credit facilities to fund the acquisition and to reclassify certain items to conform to the Company's financial reporting presentation. The unaudited pro forma does not purport to be indicative of the results of operations had the transaction occurred on the date indicated or of future results for the combined entities (in thousands, except per share data):

|  | <b>Year Ended<br/>December 31,</b> |              |
|--|------------------------------------|--------------|
|  | <b>2010</b>                        | <b>2009</b>  |
|  | <b>(Unaudited)</b>                 |              |
| Revenues   | \$ 2,527,330                       | \$ 2,195,761 |
| Net income attributable to Oil States International, Inc.                              | 165,284                            | 60,000       |
| Net income per share attributable to Oil States International, Inc common stockholders |                                    |              |
| Basic  | \$ 3.29                            | \$ 1.21      |
| Diluted  | \$ 3.14                            | \$ 1.19      |

Included in the pro forma results above for the years ended December 31, 2010 and 2009 are depreciation of the increased fair value of property, plant and equipment acquired as part of The MAC, totaling \$5.3 million and \$4.6 million, respectively, net of tax, or \$0.10 and \$0.09, respectively, per diluted share, amortization expense for intangibles acquired as part of the purchase of The MAC, totaling \$5.5 million and \$4.7 million, respectively, net of tax, or \$0.10 and \$0.09, respectively, per diluted share and interest expense of \$10.4 million and \$10.6 million, respectively, net of tax, or \$0.20 and \$0.21, respectively, per diluted share. The year ended December 31, 2010 pro forma results also include The MAC acquisition costs of approximately \$13.3 million (\$4.2 million recorded on the Company's books and \$9.1 million recorded on The MAC's books), net of tax, or \$0.25 per diluted share.

On December 20, 2010, we also acquired all of the operating assets of Mountain West Oilfield Service and Supplies, Inc. and Ufford Leasing LLC (Mountain West) for total consideration of \$47.1 million and estimated contingent consideration of \$4.0 million. Headquartered in Vernal, Utah, with operations in the Rockies and the Bakken Shale region, Mountain West provides remote site workforce accommodations to the oil and gas industry. Mountain West has been included in the accommodations segment since its date of acquisition.

On October 5, 2010, we purchased all of the equity of Acute Technological Services, Inc. (Acute) for total consideration of \$30.0 million. Headquartered in Houston, Texas and with operations in Brazil, Acute provides metallurgical and welding innovations to the oil and gas industry in support of critical, complex subsea component manufacturing and deepwater riser fabrication on a global basis. Acute has been included in the offshore products segment since its date of acquisition.

We funded the Acute and Mountain West acquisitions using cash on hand and our then existing credit facility.

Accounting for the three acquisitions made in 2010 has not been finalized and is subject to adjustments during the purchase price allocation period, which is not expected to exceed a period of one year from the respective acquisition dates.

The acquisitions of Acute and Mountain West were not material to the Company's Consolidated Financial Statements, and, therefore, the Company does not present pro forma information for these acquisitions.

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2009**

In June 2009, we acquired the 51% majority interest in a venture we had previously accounted for under the equity method. The business acquired supplies accommodations and other services to mining operations in Canada. Consideration paid for the business was \$2.3 million in cash and estimated contingent consideration of \$0.3 million. The operations of this business have been included in the accommodations segment since the date of acquisition.

**2008**

On February 1, 2008, we purchased all of the equity of Christina Lake Enterprises Ltd., the owners of an accommodations lodge (Christina Lake Lodge) in the Conklin area of Alberta, Canada. Christina Lake Lodge provides lodging and catering in the southern area of the oil sands region. Consideration for the lodge consisted of \$6.9 million in cash, net of cash acquired, including transaction costs, funded from borrowings under the Company's existing credit facility, and the assumption of certain liabilities. The Christina Lake Lodge has been included in the accommodations segment since the date of acquisition.

On February 15, 2008, we acquired a waterfront facility on the Houston ship channel for use in our offshore products segment. The new waterfront facility expanded our ability to manufacture, assemble, test and load out larger subsea production and drilling rig equipment thereby expanding our capabilities. The consideration for the facility was approximately \$22.9 million in cash, including transaction costs, funded from borrowings under the Company's existing credit facility. The operations of this business have been included in the offshore products segment since the date of acquisition.

**Supplemental Cash Flow Information**

Cash paid during the years ended December 31, 2010, 2009 and 2008 for interest and income taxes was as follows (in thousands):

|   | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|-------------|
| Interest (net of amounts capitalized)   | \$ 7,303    | \$ 7,549    | \$ 16,265   |
| Income taxes, net of refunds  | \$ 75,303   | \$ 102,759  | \$ 70,441   |
| Non-cash investing activities:  |             |             |             |
| Building capital lease  | \$          | \$          | 8,304       |
| Non-cash financing activities:  |             |             |             |
| Borrowings and assumption of liabilities for business and asset acquisition and related intangibles | \$ 7,966    | \$ 379      | \$          |

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Earnings Per Share (EPS)**

|   | <b>2010</b>                                  | <b>2009</b> | <b>2008</b> |
|---|--|-------------|-------------|
|   | <b>(In thousands, except per share data)</b> |             |             |
| <b>Basic earnings per share:</b>                          |  |             |             |
| Net income attributable to Oil States International, Inc. | \$ 168,018                                   | \$ 59,114   | \$ 218,853  |
| Weighted average number of shares outstanding             | 50,238                                       | 49,625      | 49,622      |
| Basic earnings per share                                  | \$ 3.34                                      | \$ 1.19     | \$ 4.41     |
| <b>Diluted earnings per share:</b>                        |  |             |             |
| Net income attributable to Oil States International, Inc. | \$ 168,018                                   | \$ 59,114   | \$ 218,853  |
| Weighted average number of shares outstanding (basic)     | 50,238                                       | 49,625      | 49,622      |
| Effect of dilutive securities:                            |  |             |             |
| Options on common stock                                   | 630  | 290         | 419         |
| 23/8% Convertible Senior Subordinated Notes               | 1,647  | 203         | 1,271       |
| Restricted stock awards and other                         | 185  | 101         | 102         |
| Total shares and dilutive securities                      | 52,700                                       | 50,219      | 51,414      |
| Diluted earnings per share                                | \$ 3.19                                      | \$ 1.18     | \$ 4.26     |

Our calculations of diluted earnings per share for the years ended December 31, 2010, 2009 and 2008 exclude 364,345 shares, 1,505,619 shares and 721,298 shares, respectively, issuable pursuant to outstanding stock options and restricted stock awards, due to their antidilutive effect.

**7. Goodwill and Other Intangible Assets**

The Company does not amortize goodwill but tests for impairment using a fair value approach, at the reporting unit level. A reporting unit is the operating segment, or a business one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by management at the component level. The Company had three reporting units with goodwill as of December 31, 2010. There is no remaining goodwill in our drilling or tubular services reporting units subsequent to the full impairment of goodwill at those reporting units as of December 31, 2008. Goodwill is allocated to each of the reporting units based on actual acquisitions made by the Company and its subsidiaries. The Company recognizes an impairment loss for any amount by which the carrying amount of a reporting unit's goodwill exceeds the unit's fair value. The Company uses, as appropriate in the current circumstance, comparative market multiples, discounted cash flow calculations and acquisition comparables to establish the unit's fair value (a Level 3 fair value measurement).

The Company amortizes the cost of other intangibles over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are reviewed for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested for impairment annually, and written down to fair value as required. As of December 31, 2010, no provision for impairment of other intangible assets was required based on the evaluations performed.

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 are as follows (in thousands):

|  | Well Site Services |                          |            | Accommodations | Offshore<br>Products | Tubular<br>Services | Total      |
|--|--------------------|--------------------------|------------|----------------|----------------------|---------------------|------------|
|  | Rental<br>Tools    | Drilling<br>and<br>Other | Subtotal   |                |                      |                     |            |
| Balance as of<br>December 31, 2008                   |                    |                          |            |                |                      |                     |            |
| Goodwill   | \$ 166,841         | \$ 22,767                | \$ 189,608 | \$ 53,526      | \$ 85,074            | \$ 62,863           | \$ 391,071 |
| Accumulated<br>Impairment Losses                     |                    | (22,767)                 | (22,767)   |                |                      | (62,863)            | (85,630)   |
|  | 166,841            |                          | 166,841    | 53,526         | 85,074               |                     | 305,441    |
| Goodwill acquired                                    |                    |                          |            | 337            |                      |                     | 337        |
| Foreign currency<br>translation and other<br>changes | 2,470              |                          | 2,470      | 4,495          | 525                  |                     | 7,490      |
| Goodwill impairment                                  | (94,528)           |                          | (94,528)   |                |                      |                     | (94,528)   |
|  | 74,783             |                          | 74,783     | 58,358         | 85,599               |                     | 218,740    |
| Balance as of<br>December 31, 2009                   |                    |                          |            |                |                      |                     |            |
| Goodwill   | 169,311            | 22,767                   | 192,078    | 58,358         | 85,599               | 62,863              | 398,898    |
| Accumulated<br>Impairment Losses                     | (94,528)           | (22,767)                 | (117,295)  |                |                      | (62,863)            | (180,158)  |
|  | 74,783             |                          | 74,783     | 58,358         | 85,599               |                     | 218,740    |
| Goodwill acquired                                    |                    |                          |            | 239,080        | 15,242               |                     | 254,322    |
| Foreign currency<br>translation and other<br>changes | 723                |                          | 723        | 1,624          | (187)                |                     | 2,160      |
|  | 75,506             |                          | 75,506     | 299,062        | 100,654              |                     | 475,222    |
| Balance as of<br>December 31, 2010                   |                    |                          |            |                |                      |                     |            |
| Goodwill   | 170,034            | 22,767                   | 192,801    | 299,062        | 100,654              | 62,863              | 655,380    |
| Accumulated<br>Impairment Losses                     | (94,528)           | (22,767)                 | (117,295)  |                |                      | (62,863)            | (180,158)  |
|  | \$ 75,506          | \$                       | \$ 75,506  | \$ 299,062     | \$ 100,654           | \$                  | \$ 475,222 |

The increase in goodwill in 2010 was due to acquisitions completed during the fourth quarter of 2010. See Note 5 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Current accounting standards prescribe a two-step method for determining goodwill impairment. The Company has historically employed a trading multiples valuation method to determine fair value of its reporting units. Given the market turmoil caused by the global economic recession and credit market disruption in the second half of 2008, the Company augmented its valuation methodology in 2008 and 2009 to include discounted cash flow valuations of its reporting units based on the expected cash flows of such units.

The following table presents the total amount assigned and the total accumulated amortization for major intangible asset classes as of December 31, 2010 and 2009 (in thousands):

|                                  | <b>December 31, 2010</b>             |                                     | <b>December 31, 2009</b>             |                                     |
|----------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                                  | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> |
| Amortizable intangible assets    |                                      |                                     |                                      |                                     |
| Customer contracts/relationships | \$ 127,124                           | \$ 3,848                            | \$ 16,128                            | \$ 2,636                            |
| Non-compete agreements           | 5,117                                | 3,704                               | 6,656                                | 5,946                               |
| Patents and other                | 18,080                               | 3,348                               | 9,612                                | 4,133                               |
|                                  | \$ 150,321                           | \$ 10,900                           | \$ 32,396                            | \$ 12,715                           |



**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The weighted average remaining amortization period for all intangible assets, other than goodwill and indefinite lived intangibles, was 9.6 years and 11.5 years as of December 31, 2010 and 2009, respectively. Total amortization expense is expected to be \$13.1 million, \$12.9 million, \$12.5 million, \$12.5 million and \$12.4 million in 2011, 2012, 2013, 2014 and 2015, respectively. Amortization expense was \$2.6 million, \$3.4 million and \$3.6 million in the years ended December 31, 2010, 2009 and 2008, respectively.

**8. Long-term Debt**

As of December 31, 2010 and 2009, long-term debt consisted of the following (in thousands):

|   | 2010       | 2009       |
|---|------------|------------|
| US revolving credit facility, which matures December 10, 2015, with available commitments up to \$500 million; secured by substantially all of our assets; commitment fee on unused portion ranged from 0.375% per annum to 0.500% in 2010 and 0.175% per annum in 2009; variable interest rate payable monthly based on prime or LIBOR plus applicable percentage; weighted average rate was 3.5% for 2010 and 1.4% for 2009   | \$ 345,600 | \$         |
| US term loan, which matures December 10, 2015, of \$200 million; 1.25% of aggregate principal repayable per quarter in 2011, 2.5% per quarter thereafter; secured by substantially all of our assets; variable interest rate payable monthly based on prime or LIBOR plus applicable percentage; weighted average rate was 3.5% for 2010  | 200,000    |            |
| Canadian revolving credit facility, which matures on December 10, 2015, with available commitments up to \$250 million; secured by substantially all of our assets; commitment fee on unused portion ranged from 0.175% per annum to 0.500% in 2010 and 0.175% per annum in 2009; variable interest rate payable monthly based on the Canadian prime rate or Bankers Acceptance discount rate plus applicable percentage; weighted average rate was 3.6% for 2010 and 1.9% for 2009 | 62,538     |            |
| Canadian term loan, which matures December 10, 2015, of \$100 million; 1.25% of aggregate principal repayable per quarter in 2011, 2.5% per quarter thereafter; secured by substantially all of our assets; variable interest rate payable monthly based on prime or LIBOR plus applicable percentage; weighted average rate was 4.5% for 2010  | 100,955    |            |
| 23/8% contingent convertible senior subordinated notes, net due 2025  | 163,108    | 155,859    |
| Australian revolving credit facility, which matures on October 15, 2013, of A\$75 million; secured by substantially all of our assets; variable interest rate payable monthly based on the Australian prime rate plus applicable percentage   | 25,305     |            |
| Subordinated unsecured notes payable to sellers of businesses, interest rate of 6%, which mature in 2012  | 4,000      |            |
| Capital lease obligations and other debt  | 11,401     | 8,679      |
| Total debt  | 912,907    | 164,538    |
| Less: Current maturities  | 181,175    | 464        |
| Total long-term debt  | \$ 731,732 | \$ 164,074 |



**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Scheduled maturities of combined long-term debt as of December 31, 2010, are as follows (in thousands):

|            |                   |
|------------|-------------------|
| 2011       | \$ 181,175        |
| 2012       | 32,618            |
| 2013       | 55,731            |
| 2014       | 30,375            |
| 2015       | 605,407           |
| Thereafter | 7,601             |
|            | <b>\$ 912,907</b> |

The Company's capital leases consist primarily of plant facilities, an office building and equipment. The value of capitalized leases and the related accumulated depreciation totaled \$11.5 million and \$2.7 million, respectively, at December 31, 2010. The value of capitalized leases and the related accumulated depreciation totaled \$9.6 million and \$1.3 million, respectively, at December 31, 2009.

***23/8% Contingent Convertible Senior Notes***

In June, 2005, we sold \$125 million aggregate principal amount of 23/8% contingent convertible senior notes due 2025 through a placement to qualified institutional buyers pursuant to the SEC's Rule 144A. The Company granted the initial purchaser of the notes a 30-day option to purchase up to an additional \$50 million aggregate principal amount of the notes. This option was exercised in July 2005 and an additional \$50 million of the notes were sold at that time.

The notes are senior unsecured obligations of the Company and bear interest at a rate of 23/8% per annum. The notes mature on July 1, 2025, and may not be redeemed by the Company prior to July 6, 2012. Holders of the notes may require the Company to repurchase some or all of the notes on July 1, 2012, 2015, and 2020. The notes provide for a net share settlement, and therefore may be convertible, under certain circumstances, into a combination of cash, up to the principal amount of the notes, and common stock of the company, if there is any excess above the principal amount of the notes, at an initial conversion price of \$31.75 per share. Shares underlying the notes were included in the calculation of diluted earnings per share during periods when our average stock price exceeded the initial conversion price of \$31.75 per share. The terms of the notes require that our stock price in any quarter, for any period prior to July 1, 2023, be above 120% of the initial conversion price (or \$38.10 per share) for at least 20 trading days in a defined period before the notes are convertible. If a note holder chooses to present their notes for conversion during a future quarter prior to the first put/call date in July 2012, they would receive cash up to \$1,000 for each 23/8% note plus Company common stock for any excess valuation over \$1,000 using the conversion rate of the 23/8% notes of 31.496 multiplied by the Company's average common stock price over a ten trading day period following presentation of the 23/8% Notes for conversion. As of December 31, 2010, these contingent conversion thresholds were met and, as a result, we have assumed the conversion of the notes during the first quarter of 2011 in our schedule of debt maturities above. In connection with the note offering, the Company agreed to register the notes within 180 days of their issuance and to keep the registration effective for up to two years subsequent to the initial issuance of the notes.

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents the carrying amount of our 23/8% Notes in our consolidated balance sheets (in thousands):

|   | <b>December 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|------------------------------|------------------------------|
| Carrying amount of the equity component in additional paid-in capital | \$ 28,449                    | \$ 28,449                    |
| Principal amount of the liability component                           | \$ 175,000                   | \$ 175,000                   |
| Less: Unamortized discount  | 11,892                       | 19,141                       |
| Net carrying amount of the liability                                  | \$ 163,108                   | \$ 155,859                   |

The effective interest rate was 7.17% for our 23/8% Notes. Interest expense on the notes, excluding amortization of debt issue costs, was as follows (in thousands):

|                  | <b>Year Ended December 31,</b> |             |             |
|------------------|--------------------------------|-------------|-------------|
|                  | <b>2010</b>                    | <b>2009</b> | <b>2008</b> |
| Interest expense | \$ 11,405                      | \$ 10,905   | \$ 10,440   |

**As of December 31, 2010**

|   |            |
|---|------------|
| Remaining period over which discount will be amortized                        | 1.5 years  |
| Conversion price  | \$ 31.75   |
| Number of shares to be delivered upon conversion(1)                           | 2,781,265  |
| Conversion value in excess of principal amount (in thousands)                 | \$ 178,251 |
| Derivative transactions entered into in connection with the convertible notes | None       |

(1) Calculation is based on the Company's December 31, 2010 closing stock price of \$64.09.

***Credit Facilities***

On December 10, 2010, we replaced our existing bank credit facility with senior credit facilities governed by the Amended and Restated Credit Agreement. The Company's credit facilities currently total \$1.05 billion of available commitments consisting of revolving borrowings, up to \$750 million, and term borrowings, of \$300 million. The Company borrowed all of the term commitment in connection with the acquisition of The MAC. Under these senior secured revolving credit facilities with a group of banks, up to \$350 million is available in the form of loans denominated in Canadian dollars and may be made to the Company's principal Canadian operating subsidiaries. The facilities mature on December 10, 2015. Amounts borrowed under these facilities bear interest, at the Company's

election, at either:

a variable rate equal to LIBOR (or, in the case of Canadian dollar denominated loans, the Bankers' Acceptance discount rate) plus a margin ranging from 2.0% to 3.0%; or

an alternate base rate equal to the higher of the bank's prime rate and the federal funds effective rate (or, in the case of Canadian dollar denominated loans, the Canadian Prime Rate).

Commitment fees ranging from 0.375% to 0.50% per year are paid on the undrawn portion of the facilities, depending upon our leverage ratio.

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

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Credit Agreement, which governs our credit facilities, contains customary financial covenants and restrictions, including restrictions on our ability to declare and pay dividends. Specifically, we must maintain an interest coverage ratio, defined as the ratio of consolidated EBITDA, to consolidated interest expense of at least 3.0 to 1.0 and our maximum leverage ratio, defined as the ratio of total debt to consolidated EBITDA of no greater than 3.5 to 1.0 in 2011, 3.25 to 1.0 in 2012 and 3.0 to 1.0 thereafter. Each of the factors considered in the calculations of ratios are defined in the Credit Agreement. EBITDA and consolidated interest as defined, exclude goodwill impairments, debt discount amortization and other non-cash charges. As of December 31, 2010, we were in compliance with our debt covenants and expect to continue to be in compliance during 2011. The credit facilities also contain negative covenants that limit the Company's ability to borrow additional funds, encumber assets, pay dividends, sell assets and enter into other significant transactions.

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

As of December 31, 2010, we had \$710.2 million outstanding under these facilities and an additional \$22.1 million of outstanding letters of credit, leaving \$317.7 million available to be drawn under the facilities.

We also have an Australian floating rate credit facility supporting our Australian accommodations business that provides for an aggregate borrowing capacity of \$75.9 million (A\$75 million) under which \$25.3 million (A\$25.0 million) was outstanding as of December 31, 2010.

**9. Retirement Plans**

The Company sponsors defined contribution plans. Participation in these plans is available to substantially all employees. The Company recognized expense of \$7.7 million, \$7.3 million and \$8.4 million, respectively, related to its various defined contribution plans during the years ended December 31, 2010, 2009 and 2008, respectively.

**10. Income Taxes**

Consolidated pre-tax income (loss) for the years ended December 31, 2010, 2009 and 2008 consisted of the following (in thousands):

|                    | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|--------------------|-------------|-------------|-------------|
| US operations      | \$ 68,921   | \$ (41,354) | \$ 220,236  |
| Foreign operations | 171,707     | 147,063     | 153,214     |
| Total              | \$ 240,628  | \$ 105,709  | \$ 373,450  |

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of the income tax provision for the years ended December 31, 2010, 2009 and 2008 consisted of the following (in thousands):

|                 | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|-----------------|-------------|-------------|-------------|
| Current:        |             |             |             |
| Federal         | \$ 25,237   | \$ 12,403   | \$ 94,082   |
| State           | 1,122       | 674         | 5,097       |
| Foreign         | 44,249      | 45,700      | 37,639      |
|                 | 70,608      | 58,777      | 136,818     |
| Deferred:       |             |             |             |
| Federal         | (1,572)     | (15,239)    | 10,259      |
| State           | (58)        | (566)       | 1,241       |
| Foreign         | 3,045       | 3,125       | 5,833       |
|                 | 1,415       | (12,680)    | 17,333      |
| Total Provision | \$ 72,023   | \$ 46,097   | \$ 154,151  |

The provision for taxes differs from an amount computed at statutory rates as follows for the years ended December 31, 2010, 2009 and 2008 consisted (in thousands):

|  | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|-------------|
| Federal tax expense at statutory rates     | \$ 84,220   | \$ 36,998   | \$ 130,552  |
| Effect of foreign income tax, net          | (12,796)    | (12,162)    | (10,570)    |
| Nondeductible goodwill                     |             | 18,373      | 24,317      |
| Nondeductible acquisition costs            | 2,315       |             |             |
| Other nondeductible expenses               | 1,454       | 1,518       | 2,586       |
| State tax expense, net of federal benefits | 1,017       | 127         | 3,800       |
| Domestic manufacturing deduction           | (978)       | (80)        | (1,212)     |
| Uncertain tax positions adjustments        | (1,036)     | 1,139       | 2,868       |
| Other, net                                 | (2,173)     | 184         | 1,810       |
| Net income tax provision                   | \$ 72,023   | \$ 46,097   | \$ 154,151  |

**Table of Contents****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The significant items giving rise to the deferred tax assets and liabilities as of December 31, 2010 and 2009 are as follows (in thousands):

|   | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| Deferred tax assets:                      |             |             |
| Net operating loss carryforward           | \$ 1,976    | \$ 3,532    |
| Allowance for doubtful accounts           | 752         | 1,294       |
| Allowance for Inventory obsolescence      | 4,775       | 3,802       |
| Employee benefits                         | 11,823      | 8,889       |
| Deductible goodwill and other intangibles | 10,870      | 12,568      |
| Other                                     | 3,467       | 1,746       |
| Foreign tax credit carryover              | 1,259       | 1,900       |
| Other                                     | 3,872       | 2,399       |
| Gross deferred tax asset                  | 38,794      | 36,130      |
| Less: valuation allowance                 | 421         | 421         |
| Net deferred tax asset                    | 38,373      | 35,709      |
| Deferred tax liabilities:                 |             |             |
| Depreciation                              | (88,872)    | (77,402)    |
| Deferred revenue                          | (1,466)     | (1,309)     |
| Intangibles                               | (13,568)    |             |
| Accrued liabilities                       | (1,132)     | (543)       |
| Lower of cost or market                   | (3,846)     | (5,849)     |
| Convertible notes                         | (4,218)     | (6,766)     |
| Other                                     | (3,289)     | (2,685)     |
| Deferred tax liability                    | (116,391)   | (94,554)    |
| Net deferred tax liability                | \$ (78,018) | \$ (58,845) |

Reclassifications of the Company's deferred tax balance based on net current items and net non-current items as of December 31, 2010 and 2009 are as follows (in thousands):

|                                  | <b>2010</b> | <b>2009</b> |
|----------------------------------|-------------|-------------|
| Current deferred tax liability   | \$ (1,462)  | \$ (3,513)  |
| Long-term deferred tax liability | (76,556)    | (55,332)    |
| Net deferred tax liability       | \$ (78,018) | \$ (58,845) |



Our primary deferred tax assets at December 31, 2010, are related to employee benefit costs for our Equity Participation Plan, deductible goodwill, allowance for inventory obsolescence, foreign tax credit carryforwards and \$5.6 million in available federal net operating loss carryforwards, or regular tax NOLs, as of that date. The regular tax NOLs will expire in varying amounts after the year 2011 if they are not first used to offset taxable income that we generate. Our ability to utilize a portion of the available regular tax NOLs is currently limited under Section 382 of the Internal Revenue Code due to a change of control that occurred during 1995. We currently believe that substantially all of our regular tax NOLs will be utilized. The Company has utilized all federal alternative minimum tax net operating loss carryforwards.

Our income tax provision for the year ended December 31, 2010 totaled \$72.0 million, or 29.9% of pretax income, compared to \$46.1 million, or 43.6% of pretax income, for the year ended December 31, 2009. The

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

effective tax rate in 2009 was impacted by a significant portion of the goodwill impairment loss recognized during the period being non-deductible for tax purposes. Excluding the goodwill impairment, the effective tax rate for 2009 would have approximated 29.7%.

Appropriate U.S. and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted in the near future. The cumulative amount of undistributed earnings of foreign subsidiaries that the Company intends to permanently reinvest and upon which no deferred US income taxes have been provided is \$658 million at December 31, 2010 the majority of which has been generated in Canada. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to US income taxes (subject to adjustment for foreign tax credits) and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings after consideration of available foreign tax credits.

The American Jobs Creation Act of 2004 that was signed into law in October 2004 introduced a requirement for companies to disclose any penalties imposed on them or any of their consolidated subsidiaries by the IRS for failing to satisfy tax disclosure requirements relating to reportable transactions. During the year ended December 31, 2010, no penalties were imposed on the Company or its consolidated subsidiaries for failure to disclose reportable transactions to the IRS.

The Company files tax returns in the jurisdictions in which they are required. All of these returns are subject to examination or audit and possible adjustment as a result of assessments by taxing authorities. The Company believes that it has recorded sufficient tax liabilities and does not expect the resolution of any examination or audit of its tax returns would have a material adverse effect on its operating results, financial condition or liquidity.

An examination of the Company's consolidated U.S. federal tax return for the year 2004 by the Internal Revenue Service was completed during the third quarter of 2007. No significant adjustments were proposed as a result of this examination. Tax years subsequent to 2007 remain open to U.S. federal tax audit and, because of NOLs utilized by the Company, years from 1994 to 2002 remain subject to federal tax audit with respect to NOLs available for tax carryforward. Our Canadian subsidiaries' federal tax returns subsequent to 2006 are subject to audit by Canada Revenue Agency.

In June 2006, the FASB issued a new accounting standard, which clarifies the accounting and disclosure for uncertain tax positions, as defined. 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 interpretation seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes.

The Company adopted the provisions of this new accounting standard on January 1, 2007. The total amount of unrecognized tax benefits as of December 31, 2010 was \$3.0 million. Of this amount, \$2.4 million of the unrecognized tax benefits that, if recognized, would affect the effective tax rate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of the Company's provision for income taxes. As of December 31, 2010 and 2009, the Company had accrued \$2.7 million and \$2.8 million, respectively, of interest expense and penalties.



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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

|  | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|-------------|
| Balance as of January 1st                      | \$ 4,031    | \$ 4,274    | \$ 2,536    |
| Additions for tax positions of prior years     | 128         | 2,136       | 2,270       |
| Reductions for tax positions of prior years    |             |             | (214)       |
| Lapse of the Applicable Statute of Limitations | (1,115)     | (2,379)     | (318)       |
| Balance as of December 31st                    | \$ 3,044    | \$ 4,031    | \$ 4,274    |

It is reasonably possible that the amount of unrecognized tax benefits will change during the next twelve months due to the closing of the statute of limitations and that change, if it were to occur, could have a favorable impact on our results of operation.

**11. Commitments and Contingencies**

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

Minimum future operating lease obligations in effect at December 31, 2010, are as follows (in thousands):

|            | <b>Operating<br/>Leases</b> |
|------------|-----------------------------|
| 2011       | \$ 10,198                   |
| 2012       | 8,630                       |
| 2013       | 7,242                       |
| 2014       | 6,117                       |
| 2015       | 3,381                       |
| Thereafter | 6,666                       |
| Total      | \$ 42,234                   |

Rental expense under operating leases was \$12.9 million, \$10.4 million and \$9.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company is a party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, products, employees and other matters, including warranty and product liability claims and occasional claims by individuals alleging exposure to hazardous materials as a result of its products or operations. Some of these claims relate to matters occurring prior to its acquisition of

businesses, and some relate to businesses it has sold. In certain cases, the Company is entitled to indemnification from the sellers of businesses, and in other cases, it has indemnified the buyers of businesses from it. Although the Company can give no assurance about the outcome of pending legal and administrative proceedings and the effect such outcomes may have on it, management believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

## **12. Stock-Based Compensation**

Current accounting standards require companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is estimated using option-pricing models. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period.

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The fair value of each option grant is estimated on the date of grant using a Black-Scholes option pricing model that uses the assumptions noted in the following table. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to do so in the future. The expected market price volatility of our common stock is based on an estimate made by us that considers the historical and implied volatility of our common stock as well as a peer group of companies over a time period equal to the expected term of the option. The expected life of the options awarded in 2008, 2009 and 2010 was based on a formula considering the vesting period and term of the options awarded.

|                                  | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|----------------------------------|-------------|-------------|-------------|
| Risk-free weighted interest rate | 2.1%        | 1.8%        | 2.6%        |
| Expected life (in years)         | 4.3         | 4.3         | 4.3         |
| Expected volatility              | 55%         | 55%         | 37%         |

The following table summarizes stock option activity for each of the three years ended December 31, 2010:

|                              | <b>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Contractual<br/>Life<br/>(Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(Thousands)</b> |
|------------------------------|----------------|--|--|--|
| Balance at December 31, 2007 | 1,929,007      | 24.25  | 4.2  | 19,947   |
| Granted                      | 565,250        | 37.19  |  |  |
| Exercised                    | (412,529)      | 21.50  |  |  |
| Forfeited                    | (134,312)      | 30.92  |  |  |
| Balance at December 31, 2008 | 1,947,416      | 28.13  | 3.7  | 2,706  |
| Granted                      | 768,650        | 17.20  |  |  |
| Exercised                    | (199,615)      | 17.33  |  |  |
| Forfeited                    | (34,500)       | 32.83  |  |  |
| Balance at December 31, 2009 | 2,481,951      | 25.55  | 3.6  | 34,618   |
| Granted                      | 417,250        | 37.67  |  |  |
| Exercised                    | (866,436)      | 26.96  |  |  |
| Forfeited                    | (65,375)       | 27.75  |  |  |
| Balance at December 31, 2010 | 1,967,390      | 27.42  | 3.5  | 72,138   |

The weighted average fair values of options granted during 2010, 2009 and 2008 were \$17.13, \$7.76, and \$12.49 per share, respectively. All options awarded in 2010 had a term of six years and were granted with exercise prices at the grant date closing market price. The total intrinsic value of options exercised during 2010, 2009 and 2008 were

\$19.9 million, \$3.2 million and \$12.3 million, respectively. Cash received by the Company from option exercises during 2010, 2009 and 2008 totaled \$23.4 million, \$3.5 million and \$8.9 million, respectively. The tax benefit realized for the tax deduction from stock options exercised during 2010, 2009 and 2008 totaled \$6.1 million, \$1.2 million and \$3.7 million, respectively.

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The following table summarizes information for stock options outstanding at December 31, 2010:

| Range of Exercise Prices | Options Outstanding                 |   |                                 | Options Exercisable                 |                                 |
|--------------------------|-------------------------------------|---|---------------------------------|-------------------------------------|---------------------------------|
|                          | Number Outstanding as of 12/31/2010 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable as of 12/31/2010 | Weighted Average Exercise Price |
| \$ 8.33 - \$15.36        | 182,125                             | 2.20  | \$ 11.69                        | 178,000                             | \$ 11.60                        |
| \$ 16.65 - \$16.65       | 574,825                             | 4.12  | \$ 16.65                        | 93,363                              | \$ 16.65                        |
| \$ 21.83 - \$34.86       | 422,805                             | 2.08  | \$ 29.64                        | 272,305                             | \$ 30.90                        |
| \$ 36.53 - \$36.53       | 340,000                             | 3.13  | \$ 36.53                        | 115,500                             | \$ 36.53                        |
| \$ 36.99 - \$36.99       | 14,760                              | 2.38  | \$ 36.99                        | 11,070                              | \$ 36.99                        |
| \$ 37.67 - \$58.47       | 432,875                             | 4.96  | \$ 38.70                        | 19,375                              | \$ 50.02                        |
| \$ 8.33 - \$58.47        | 1,967,390                           | 3.50  | \$ 27.42                        | 689,613                             | \$ 25.57                        |

At December 31, 2010, a total of 1,934,315 shares were available for future grant under the Equity Participation Plan.

During 2010, we granted restricted stock awards totaling 233,493 shares valued at a total of \$9.1 million. Of the restricted stock awards granted in 2010, a total of 214,000 awards vest in four equal annual installments. A total of 192,027 shares of restricted stock were awarded in 2009 with an aggregate value of \$3.6 million. A total of 271,771 shares of restricted stock were awarded in 2008 with an aggregate value of \$11.7 million.

Stock based compensation pre-tax expense recognized in the years ended December 31, 2010, 2009 and 2008 totaled \$12.6 million, \$11.5 million and \$10.9 million, or \$0.18, \$0.13 and \$0.12 per diluted share after tax, respectively. At December 31, 2010, \$17.9 million of compensation cost related to unvested stock options and restricted stock awards attributable to future performance had not yet been recognized.

***Deferred Compensation Plan***

The Company maintains a deferred compensation plan (Deferred Compensation Plan). This plan is available to directors and certain officers and managers of the Company. The plan allows participants to defer the receipt of all or a portion of their directors' fees and/or salary and annual bonuses. Employee contributions to the Deferred Compensation Plan are matched by the Company at the same percentage as if the employee was a participant in the Company's 401k Retirement Plan and was not subject to the IRS limitations on match-eligible compensation. The Deferred Compensation Plan also permits the Company to make discretionary contributions to any employee's account. Director's contributions are not matched by the Company. Since inception of the plan, this discretionary contribution provision has been limited to a matching of the participants' contributions on a basis equivalent to matching permitted under the Company's 401(k) Retirement Savings Plan. The vesting of contributions to the participants' accounts is also equivalent to the vesting requirements of the Company's 401(k) Retirement Savings Plan. The Deferred Compensation Plan does not have dollar limits on tax-deferred contributions. The assets of the Deferred Compensation Plan are held in a Rabbi Trust (Trust) and, therefore, are available to satisfy the claims of the



Company's creditors in the event of bankruptcy or insolvency of the Company. Participants have the ability to direct the Plan Administrator to invest the assets in their accounts, including any discretionary contributions by the Company, in pre-approved mutual funds held by the Trust. Prior to November 1, 2003, participants also had the ability to direct the Plan Administrator to invest the assets in their accounts in Company common stock. In addition, participants currently have the right to request that the Plan Administrator re-allocate the portfolio of investments (i.e. cash or mutual funds) in the participants' individual accounts within the Trust. Current balances invested in Company common stock may not be further increased. Company contributions are in the form of cash. Distributions from the plan are generally made upon the participants' termination as a director and/or employee, as applicable, of the Company. Participants receive payments from the Plan in cash. At December 31, 2010, the balance of the assets

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

in the Trust totaled \$8.5 million, including 17,554 shares of common stock of the Company reflected as treasury stock at a value of \$0.2 million. The Company accounts for the Deferred Compensation Plan in accordance with current accounting standards regarding the accounting for deferred compensation arrangements where amounts earned are held in a Rabbi Trust and invested.

Assets of the Trust, other than common stock of the Company, are invested in nine funds covering a variety of securities and investment strategies. These mutual funds are publicly quoted and reported at fair value. The Company accounts for these investments in accordance with current accounting standards regarding the accounting for certain investments in debt and equity securities. The Trust also holds common shares of the Company. The Company's common stock that is held by the Trust has been classified as treasury stock in the stockholders' equity section of the consolidated balance sheets. The fair value of the assets held by the Trust, exclusive of the fair value of the shares of the Company's common stock that are reflected as treasury stock, at December 31, 2010 was \$8.3 million and is classified as Other noncurrent assets in the consolidated balance sheet. The fair value of the investments was based on quoted market prices in active markets (a Level 1 fair value measurement). Amounts payable to the plan participants at December 31, 2010, including the fair value of the shares of the Company's common stock that are reflected as treasury stock, was \$9.4 million and is classified as Other noncurrent liabilities in the consolidated balance sheet.

In accordance with current accounting standards, all fair value fluctuations of the Trust assets have been reflected in the consolidated statements of income. Increases or decreases in the value of the plan assets, exclusive of the shares of common stock of the Company, have been included as compensation adjustments in the respective statements of income. Increases or decreases in the fair value of the deferred compensation liability, including the shares of common stock of the Company held by the Trust, while recorded as treasury stock, are also included as compensation adjustments in the consolidated statements of income. In response to the changes in total fair value of the Company's common stock held by the Trust, the Company recorded net compensation expense adjustments of \$0.4 million in 2010, \$0.4 million in 2009 and (\$0.3) million in 2008.

**13. Segment and Related Information**

In accordance with current accounting standards regarding disclosures about segments of an enterprise and related information, the Company has identified the following reportable segments: well site services, accommodations, 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. Past acquisitions have been direct extensions to our business segments. Historically, the Company's accommodations business was aggregated, along with our rental tool and land drilling services business lines, into our well site services segment. However, in the time since our original identification and aggregation of our reportable segments, our accommodations business has grown at a significant rate primarily due to our increased activity supporting oil sands developments and decreased activity in support of conventional well drilling in northern Alberta, Canada. Unlike our land drilling and rental tools activities, which are significantly influenced by the current prices of oil and natural gas, demand for oil sands accommodations is influenced to a greater extent by the long-term outlook for energy prices, particularly crude oil prices, given the multi-year time frame to complete oil sands projects and the significant costs associated with development of such large-scale projects. Based on these factors, we began presenting accommodations as a separate reportable segment effective with our quarterly report on Form 10-Q for the period ended March 31, 2010. Our well site services segment now consists of our rental tool and land drilling services business lines. Prior period segment information has been restated in accordance with this change.



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Financial information by industry segment for each of the three years ended December 31, 2010, 2009 and 2008, is summarized in the following table in thousands. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

|                               | Revenues<br>from<br>unaffiliated<br>customers | Depreciation<br>and<br>amortization | Operating<br>income<br>(loss) | Equity in<br>Earnings<br>of<br>Unconsolidated<br>Affiliates | Capital<br>expenditures | Total assets |
|-------------------------------|---|-------------------------------------|-------------------------------|---|-------------------------|--------------|
| <b>2010</b>                   |   |                                     |                               |   |                         |              |
| Well Site Services            |   |                                     |                               |   |                         |              |
| Rental Tools                  | \$ 342,953                                    | \$ 40,859                           | \$ 47,326                     | \$  | \$ 42,884               | \$ 383,778   |
| Drilling and Other            | 133,214                                       | 24,149                              | 576                           |   | 10,300                  | 108,163      |
| Total Well Site Services      | 476,167                                       | 65,008                              | 47,902                        |   | 53,184                  | 491,941      |
| Accommodations                | 537,690                                       | 45,694                              | 151,417                       | (25)  | 107,347                 | 1,491,682    |
| Offshore Products             | 428,963                                       | 11,496                              | 60,664                        |   | 13,299                  | 520,944      |
| Tubular Services              | 969,164                                       | 1,301                               | 35,941                        | 264   | 7,889                   | 458,808      |
| Corporate and<br>Eliminations |   | 703                                 | (40,342)                      |   | 488                     | 52,624       |
| Total                         | \$ 2,411,984                                  | \$ 124,202                          | \$ 255,582                    | \$ 239  | \$ 182,207              | \$ 3,015,999 |
| <b>2009</b>                   |   |                                     |                               |   |                         |              |
| Well Site Services            |   |                                     |                               |   |                         |              |
| Rental Tools                  | \$ 234,121                                    | \$ 40,900                           | \$ (97,844)                   | \$  | \$ 31,915               | \$ 340,792   |
| Drilling and Other            | 71,175  | 26,343                              | (16,345)                      |   | 11,048                  | 116,555      |
| Total Well Site Services      | 305,296                                       | 67,243                              | (114,189)                     |   | 42,963                  | 457,347      |
| Accommodations                | 481,402                                       | 37,892                              | 140,665                       | 203   | 68,381                  | 573,011      |
| Offshore Products             | 509,388                                       | 10,945                              | 81,049                        |   | 12,114                  | 510,399      |
| Tubular Services              | 812,164                                       | 1,443                               | 41,758                        | 1,249   | 354                     | 360,652      |
| Corporate and<br>Eliminations |   | 585                                 | (30,554)                      |   | 676                     | 30,977       |
| Total                         | \$ 2,108,250                                  | \$ 118,108                          | \$ 118,729                    | \$ 1,452  | \$ 124,488              | \$ 1,932,386 |
| <b>2008</b>                   |   |                                     |                               |   |                         |              |
| Well Site Services            |   |                                     |                               |   |                         |              |
| Rental Tools                  | \$ 355,809                                    | \$ 35,511                           | \$ 75,787                     | \$  | \$ 75,077               | \$ 476,460   |
| Drilling and Other(1)         | 177,339                                       | 19,826                              | 17,433                        | 1,637   | 42,961                  | 176,726      |
| Total Well Site Services      | 533,148                                       | 55,337                              | 93,220                        | 1,637   | 118,038                 | 653,186      |

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|                               |              |            |            |          |            |              |
|-------------------------------|--------------|------------|------------|----------|------------|--------------|
| Accommodations                | 427,130      | 34,146     | 120,972    | 1,174    | 108,622    | 495,683      |
| Offshore Products             | 528,164      | 11,465     | 89,280     |          | 16,879     | 498,784      |
| Tubular Services              | 1,460,015    | 1,390      | 106,470    | 1,224    | 2,198      | 634,758      |
| Corporate and<br>Eliminations |              | 266        | (26,187)   |          | 1,647      | 16,107       |
| Total                         | \$ 2,948,457 | \$ 102,604 | \$ 383,755 | \$ 4,035 | \$ 247,384 | \$ 2,298,518 |

(1) Subsequent to March 1, 2006, the effective date of the sale of our workover services business, we have classified our equity interest in Boots & Coots and the notes receivable acquired in the transaction as Drilling and Other.

Financial information by geographic segment for each of the three years ended December 31, 2010, 2009 and 2008, is summarized below in thousands. Revenues in the US include export sales. Revenues are attributable to countries based on the location of the entity selling the products or performing the services. Total assets are

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attributable to countries based on the physical location of the entity and its operating assets and do not include intercompany balances.

|                                      | <b>United States</b> | <b>Canada</b> | <b>Australia</b> | <b>United Kingdom</b> | <b>Other Non-US</b> | <b>Total</b> |
|--------------------------------------|----------------------|---------------|------------------|-----------------------|---------------------|--------------|
| 2010                                 |                      |               |                  |                       |                     |              |
| Revenues from unaffiliated customers | \$ 1,708,709         | \$ 512,288    | \$               | \$ 77,180             | \$ 113,807          | \$ 2,411,984 |
| Long-lived assets                    | 639,120              | 502,322       | 724,522          | 17,275                | 28,088              | 1,911,327    |
| 2009                                 |                      |               |                  |                       |                     |              |
| Revenues from unaffiliated customers | \$ 1,460,810         | \$ 460,492    | \$               | \$ 105,222            | \$ 81,726           | \$ 2,108,250 |
| Long-lived assets                    | 541,563              | 424,523       |                  | 18,352                | 22,327              | 1,006,765    |
| 2008                                 |                      |               |                  |                       |                     |              |
| Revenues from unaffiliated customers | \$ 2,353,528         | \$ 406,176    | \$               | \$ 127,189            | \$ 61,564           | \$ 2,948,457 |
| Long-lived assets                    | 668,376              | 359,923       |                  | 17,232                | 15,425              | 1,060,956    |

No customers accounted for more than 10% of the Company's revenues in any of the years ended December 31, 2010, 2009 and 2008. Equity in net income of unconsolidated affiliates is not included in operating income.

**14. Valuation Allowances**

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

|  | <b>Balance at Beginning of Period</b> | <b>Charged to Costs and Expenses</b> | <b>Deductions (net of recoveries)</b> | <b>Translation and Other, Net</b> | <b>Balance at End of Period</b> |
|--|---------------------------------------|--------------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| Year Ended December 31, 2010:                  |                                       |                                      |                                       |                                   |                                 |
| Allowance for doubtful accounts receivable     | \$ 4,946                              | \$ 869                               | \$ (1,915)                            | \$ 200                            | \$ 4,100                        |
| Allowance for inventory obsolescence           | 8,279                                 | 1,288                                | (510)                                 | (603)                             | 8,454                           |
| Liabilities related to discontinued operations | 2,411                                 |                                      | (143)                                 |                                   | 2,268                           |
| Year Ended December 31, 2009:                  |                                       |                                      |                                       |                                   |                                 |
| Allowance for doubtful accounts receivable     | \$ 4,168                              | \$ 3,048                             | \$ (2,479)                            | \$ 209                            | \$ 4,946                        |
| Allowance for inventory obsolescence           | 6,712                                 | 2,264                                | (867)                                 | 170                               | 8,279                           |
| Liabilities related to discontinued operations | 2,544                                 |                                      | (133)                                 |                                   | 2,411                           |
| Year Ended December 31, 2008:                  |                                       |                                      |                                       |                                   |                                 |

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|   |          |          |            |        |          |
|---|----------|----------|------------|--------|----------|
| Allowance for doubtful accounts<br>receivable     | \$ 3,629 | \$ 2,821 | \$ (2,735) | \$ 453 | \$ 4,168 |
| Allowance for inventory obsolescence              | 7,549    | 1,302    | (1,597)    | (542)  | 6,712    |
| Liabilities related to discontinued<br>operations | 2,839    |          | (295)      |        | 2,544    |

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The following table summarizes quarterly financial information for 2010 and 2009 (in thousands, except per share amounts):

|                                      | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|--------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| 2010                                 |                          |                           |                          |                           |
| Revenues                             | \$ 532,345               | \$ 594,532                | \$ 588,347               | \$ 696,759                |
| Gross profit*(1)                     | 125,835                  | 125,050                   | 139,745                  | 147,060                   |
| Net income(1)                        | 40,243                   | 37,477                    | 46,346                   | 43,952                    |
| Basic earnings per share(1)          | 0.81                     | 0.75                      | 0.92                     | 0.87                      |
| Diluted earnings per share(1)        | 0.78                     | 0.71                      | 0.88                     | 0.82                      |
| 2009                                 |                          |                           |                          |                           |
| Revenues                             | \$ 667,098               | \$ 456,334                | \$ 456,103               | \$ 528,715                |
| Gross profit*                        | 146,889                  | 94,642                    | 102,258                  | 124,264                   |
| Net income (loss)(2)                 | 56,128                   | (63,486)                  | 26,579                   | 39,893                    |
| Basic earnings (loss) per share(2)   | 1.13                     | (1.28)                    | 0.54                     | 0.80                      |
| Diluted earnings (loss) per share(2) | 1.13                     | (1.28)                    | 0.53                     | 0.78                      |

- (1) The gross profit and net income in the fourth quarter of 2010 included \$6.3 million in acquisition costs related to the three acquisitions in the quarter.
- (2) The net income in the second quarter of 2009 included an after tax loss of \$81.2 million, or approximately \$1.62 per diluted share, on the impairment of goodwill.

Amounts are calculated independently for each of the quarters presented. Therefore, the sum of the quarterly amounts may not equal the total calculated for the year.

\* Represents revenues less product costs and service and other costs included in the Company's consolidated statements of income.