OIL STATES INTERNATIONAL, INC
Form 10-K
February 28, 2007

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, 2006

Commission file no. 1-16337

Oil States International, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**76-0476605**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

Three Allen Center, 333 Clay Street, Suite 4620, Houston, Texas 77002
(Address of Principal Executive Offices) (Zip Code)

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 þ No o

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 o No þ

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

90 days. Yes þ No o

Indicate by check mark 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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant:

Voting common stock (as of June 30, 2006)	$ 1,648,810,748

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

As of February 9, 2007 Common Stock, par value $.01 per share 49,298,922 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement for the 2007 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 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 including the risk factors discussed therein and the financial statement line item discussions set forth in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations 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 state 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 acquisitions, 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.

Where, in any forward-looking statement, 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 gas;
- fluctuations in the prices of oil and gas;
- the level of drilling activity;
- the level of offshore oil and gas developmental activities;
- general economic conditions;
- our ability to find and retain skilled personnel;
- the availability of capital; and
- the other factors identified under the captions Risks Related to Our Business Generally and Risks Related to Our Operations that follow.

Item 1. ***Business***

Our Company

Oil States International, Inc. (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. We operate 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, South America and Southeast Asia. Our customers include many of the major and independent oil and gas companies and other oilfield service companies. We operate in three principal business segments offshore products, tubular services and well site services and have established a leadership position in each.

Available Information

The Company maintains a website with the address 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 (SEC). 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. Copies of such documents will be sent to shareholders free of charge upon written request of the corporate secretary at the address shown on the cover page of this Form 10-K.

In accordance with New York Stock Exchange (NYSE) Rules, on May 26, 2006, the Company filed the annual certification by our CEO that, as of the date of the certification, the Company was in compliance with the NYSE s corporate governance listing standards.

Our Background

Oil States International, Inc. was originally incorporated in July 1995. In July 2000, Oil States International, Inc., including its principal operating subsidiaries, Oil States Industries, Inc. (Oil States Industries), HWC Energy Services, Inc. (HWC), PTI Group Inc. (PTI) and Sooner Inc. (Sooner) entered into a Combination Agreement (the Combination Agreement) providing that, concurrently with the closing of our initial public offering, HWC, PTI and Sooner would merge with wholly owned subsidiaries of Oil States (the Combination). As a result, HWC, PTI and Sooner became wholly owned subsidiaries of Oil States in February 2001. 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.

Acquisitions

Since the completion of our initial public offering in February 2001, we have completed 31 acquisitions for total consideration of $355 million. Acquisitions of other oil service businesses have been an important aspect of our growth strategy and plans to increase shareholder value.

In 2002, we acquired six businesses for total consideration of approximately $72.1 million. Three of these businesses were rental tool companies added to our well site services segment. An elastomer molding company, certain assets and related liabilities of a subsea pipeline equipment and repair services company and an offshore crane manufacturer and crane repair service provider were acquired and became part of our offshore products segment.

In 2003, we spent $16.8 million to acquire five businesses. Three of the businesses were rental tool companies acquired for a total consideration of $10.5 million. The acquired rental tool companies conduct operations in South Texas and Louisiana and were combined with our existing rental tool business within our well site services segment. The remaining two businesses, acquired for aggregate consideration of $6.3 million, were combined with our offshore products segment.

In 2004, we acquired six rental tool businesses, a tubular distribution business and a small tooling line for total consideration of $89.1 million. In January 2004, we acquired the stock of five related rental tool companies for

$36.6 million and in April 2004 we acquired the assets of a rental tool business for $4.8 million. In May 2004, we purchased an oil country tubular goods (OCTG) distribution business for $47.2 million. In October 2004, we acquired a tooling product line into our offshore products segment for $0.5 million.

In 2005, we completed nine acquisitions for total consideration of $158.6 million. In our well site services segment we acquired a Wyoming based land drilling company, five related entities providing wellhead isolation equipment and services, and a Canadian manufacturer of work force accommodations. Our tubular services segment acquired a Texas based OCTG distributor, and our offshore products segment acquired a small product line.

In August 2006, we acquired three drilling rigs operating in West Texas for total consideration of $14.0 million, including a note payable to the seller of $0.5 million. The rigs acquired, which are classified as part of our capital expenditures in 2006, were added to our existing West Texas drilling fleet in our drilling services business.

Workover Services Business Transaction

Effective March 1, 2006, we completed a transaction to combine our workover services business with Boots & Coots International Well Control, Inc. (AMEX: WEL) (Boots & Coots) in exchange for 26.5 million shares of Boots & Coots common stock and senior subordinated promissory notes totaling $21.2 million. Our workover services business was part of our well site services segment prior to the combination.

As a result of the closing of the transaction, we acquired approximately 26.5 million shares of Boots & Coots common stock, which currently represent 44.6% of its outstanding common stock. The senior subordinated promissory notes received in the transaction bear a fixed annual interest rate of 10% and mature four and one half years from the closing of the transaction. In connection with this transaction, we also entered into a Registration Rights Agreement requiring Boots & Coots to file a shelf registration statement within 30 days for all of the Boots & Coots shares we received in the transaction and also allowing us certain rights to include our shares of common stock of Boots & Coots in a registration statement filed by Boots & Coots. The shelf registration statement has been filed by Boots & Coots and was declared effective in the fourth quarter of 2006. The transaction terms also allowed us to designate three additional members to Boots & Coots existing five-member Board of Directors. All three directors designated by us have joined the Boots & Coots Board of Directors as of January 1, 2007.

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

On February 9, 2007, Boots & Coots announced it had filed a registration statement to sell 26 million shares of common stock including 13 million shares we own. The closing price of Boots & Coots common stock on the date of the announcement was $2.26. We own a total of 26.5 million shares of Boots & Coots common stock with a carrying value of $1.31 per share as of December 31, 2006. There can be no assurance about the timing of this announced stock sale or whether this transaction will ultimately take place.

Our Industry

We operate in the oilfield services industry and provide a broad range of products and services to our customers through our offshore products, tubular services and well site services business segments. Demand for our products and services is cyclical and substantially dependent upon activity levels in the oil and gas industry, particularly our customers willingness to spend capital on the exploration and development of oil and gas reserves. Demand for our products and services by our customers is highly sensitive to current and expected oil and natural gas prices. See Note 14 to our 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 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.

Our Well Site Services businesses, which are significantly affected by the North American rig count, saw decreased activity in 2002 and early 2003 and saw increasing activity from 2003 through 2006. Acquisitions and capital expenditures made in this segment have created additional growth opportunities. In addition, the increased activity supporting oil sands developments in northern Alberta, Canada by our work force accommodations, catering and logistics business in this segment have had a positive impact on this segment s overall trends.

Our Offshore Products segment, which is more influenced by deepwater development activity and rig construction and repair, experienced increased activity during 2003 as we shipped projects from our backlog which had increased in 2002. In 2004, activity in this segment slowed; however, backlog has increased significantly from 2004 to 2006 and is at record high levels currently, which has resulted in improved operating results during 2005 and 2006.

Our Tubular Services business is influenced by some of the same factors as our Well Site Services. In addition, during 2004 and 2005, this segment was positively affected in a significant manner by increasing prices for steel products, including the OCTG we sell. During 2006, prices for steel products remained comparatively stable compared to the previous two years.

Well Site Services

Overview

During the year ended December 31, 2006, we generated approximately 34% of our revenue and 61% 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 establish and maintain the flow of oil and gas from a well throughout its lifecycle and to accommodate personnel in remote locations. Our services include drilling services, rental equipment, work force accommodations, catering and logistics services and modular building construction services. We use our fleet of drilling rigs, rental equipment and work force accommodation facilities to serve our customers at well sites and project development locations. Our products and services are used in both onshore and offshore applications throughout the exploration, development, production and abandonment phases of a well s life. Additionally, our work force accommodations, catering and logistics services are employed to support work forces in a variety of mining and related natural resource applications as well as forest fire fighting and disaster relief efforts.

Well Site Services Market

Demand for our drilling rigs, rental equipment and work force accommodations, catering and logistics services has historically been tied to the level of activity by oil and gas explorationists and producers. 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

Drilling Services. Our drilling services business is located in Odessa, Texas, Wooster, Ohio and Casper, Wyoming and provides drilling services for shallow to medium depths ranging from 2,000 to 11,500 feet. Drilling services are typically used during the exploration and development stages of a field. We have a total of 32 semi-automatic drilling rigs with hydraulic pipe handling booms and lift capacities ranging from 200,000 to 300,000 pounds. Twenty of these drilling rigs are located in Odessa, Texas, eight in the Rocky Mountains region and four are located in Wooster, Ohio. On December 31, 2006, 25 rigs were working or under contract. Utilization increased slightly from 87.8% in 2005 to 90.0% in 2006. We have assembled seven of our new rigs that have been added to our fleet during 2003 through 2006 in our Odessa, Texas facility with components purchased from specialty vendors. Two additional rigs were under construction in Odessa, Texas at December 31, 2006, both of which are expected to commence two-year contracts with an independent E&P company in the Rocky Mountains region by July and September 2007. In August 2006, we acquired three drilling rigs from Eagle Rock Drilling which were added to our existing West Texas drilling fleet. We may continue to add rigs depending upon our market outlook.

We market our drilling services directly to a diverse customer base, consisting of both major and independent oil companies. During 2005 we switched from billing on a footage basis to billing on a dayrate basis for many of our drilling rigs. Under a daywork drilling contract, the customer pays for certain costs that the Company would normally provide when drilling on a footage basis, and the customer assumes more risk than on a footage basis. Depending on market conditions and availability of drilling rigs, we may see changes in pricing, utilization and contract terms, which could include requests for footage contracts. The land drilling business is highly fragmented and consists of a small number of large companies and many smaller companies.

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

- wireline and coiled tubing pressure control equipment;
- wellhead isolation equipment;
- pipe recovery systems;
- thru-tubing fishing services;
- gravel pack operations on well bores; and,
- surface control equipment and down-hole tools utilized by coiled tubing operators.

Our rental equipment is used during the exploration, development, production and abandonment stages. As of December 31, 2006, we provided rental equipment at 53 U.S. distribution points in Texas, Louisiana, Oklahoma, Arkansas, Mississippi, New Mexico, Wyoming, California, Colorado, North Dakota, Utah, Canada, Mexico and Argentina. We provide rental equipment on a day 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.

Work Force Accommodations, Catering and Logistics and Modular Building Construction. We are a large provider of integrated products and services to support workers in remote locations, including work force accommodations, food services, remote site management services and modular building construction. We provide complete design, manufacture, installation, operation and redeployment logistics services for oil and gas drilling, oil sands development in the Fort McMurray region of Northern Canada, offshore construction and diamond mining in Northern Canada. We have also provided these services for other mining ventures throughout the world, pipeline construction, forestry and firefighting operations, disaster relief services and support services for military operations on a worldwide basis. Our work force products and service operations are primarily focused in Canada and the Gulf of Mexico although, in the past, we have also performed catering and facilities management services in other international areas including the Middle East, Europe, Asia and South America. During the peak of our operating season, we typically provide these services in over 200 separate locations with separate location populations ranging from 20 to 2,000 persons. Much of our business line growth and profitability in 2005 and 2006 has been generated from capital investments that we have made in accommodations that support our customers who are developing prospects in the oil sands region of Canada. During 2005 and 2006, we invested capital of $56.5 million in two lodges which accommodate up to 1,548 personnel in the oil sands region. Furthermore, 33% of our planned capital expenditures in 2007 are expected to be spent on accommodations supporting oil sands projects in the Fort McMurray region. We design, construct and install a variety of portable modular buildings, including housing, kitchens, recreational units and offices for lease or sale to the Canadian and Gulf of Mexico markets. Our designers work closely with our clients to build structures that best serve their needs.

Offshore Products

Overview

During the year ended December 31, 2006, we generated approximately 20% of our revenue and 18% 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 have other lower margin products and services such as fabrication and inspection services. Our products and services are used in both shallow and deepwater producing regions and include flex-element technology, advanced connector systems, blow-out preventor stack integration and repair services, deepwater mooring and lifting systems, offshore equipment and installation services and subsea pipeline products. We have facilities in Arlington, Houston and Lampasas, Texas; Houma, Louisiana; Tulsa, Oklahoma; Scotland; Brazil; England; Singapore and Thailand 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 construction. As demand for oil and gas increases and related drilling and production increases in offshore areas throughout the world, particularly in deeper water, we expect spending on these activities to increase.

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

Products and Services

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

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

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

- flexible bearings and connector products;
- subsea pipeline products;
- marine winches, mooring and lifting systems and rig equipment;
- conductor casing connections and pipe;
- drilling riser repair services;
- blowout preventor 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®, to the offshore oil and gas industry. We also supply connections and fittings that join lengths of large diameter conductor or casing used in offshore drilling operations. FlexJoints® are flexible bearings that permit movement of riser pipes or tension leg platform tethers under high tension and pressure. They are used on drilling, production and export risers and are used increasingly as offshore production moves to deeper water areas. Drilling riser systems provide the vertical conduit between the floating drilling vessel and the subsea wellhead. Through the drilling riser, equipment is

guided into the well and drilling fluids are returned to the surface. Production riser systems provide the vertical conduit from the subsea wellhead to the floating production platform. Oil and gas flows to the surface for processing through the production riser. Export risers provide the vertical conduit from the floating production platform to the subsea export pipelines. FlexJoints® 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® tether bearings are used at the top and bottom connections of each of the tethers, and our Merlin connectors are used to join shorter pipe sections to form long pipes offshore. A Spar is a floating vertical cylindrical structure which is approximately six to seven times longer

than its diameter and is anchored in place. Our FlexJoints® are also used to attach the steel catenary risers to a Spar or FPSO and for use on import or export risers.

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

- forged steel Y-shaped connectors for joining two pipelines into one;
- pressure-balanced safety joints for protecting pipelines 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.

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

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

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

Marine Winches, Mooring and Lifting Systems and Rig Equipment. We design, engineer and manufacture marine winches, mooring and lifting systems and rig equipment. Our Skagit® winches are specifically designed for mooring floating and semi-submersible drilling rigs and positioning pipelay and derrick barges, anchor handling boats and jack-ups, 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 preventor handling equipment. Our engineering teams, manufacturing capability and service technicians who install and service our products provide our customers with a broad range of equipment and services to support their operations. Aftermarket service and support of our installed base of equipment to our customers is also an important source of revenues to us.

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

Other Products and Services. We provide equipment for securing subsea structures and offshore platform jackets, including our Hydra-Lok® hydraulic system. The Hydra-Lok® tool, which has been successfully used at depths of 3,000 feet, does not require diver intervention or guide lines.

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

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;

metal-elastomeric FlexJoints® used in a variety of military 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 $349.3 million at December 31, 2006, compared to $110.7 million at December 31, 2005 and $97.5 million at December 31, 2004. We expect the majority of our backlog at December 31, 2006 to be completed in 2007. 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. Although our backlog is an important indicator of future offshore products shipments and revenues, 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 and Southeast Asia.

Customers and Competitors

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

Tubular Services

Overview

During the year ended December 31, 2006, we generated approximately 46% of our revenue and 21% of our operating income, before corporate charges, from our tubular services segment. Through this segment, 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, remediation, logistical and inventory services; and

offer e-commerce pricing, ordering, tracking and financial reporting capabilities.

We serve a customer base ranging from major oil 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 2006, we purchased from a single domestic supplier 46% of the tubular goods we distributed and from three domestic suppliers approximately 79% of such tubular goods.

OCTG Market

Our tubular services segment primarily distributes casing and tubing. Casing forms the structural wall in oil and gas wells to provide support, control pressure and prevent caving 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 gas to the surface, may be replaced during the life of a producing well.

A key indicator of domestic demand for OCTG is the average number of drilling rigs operating in the United States. The OCTG market at any point in time is also affected by the level of inventories maintained by manufacturers, distributors and end users. Demand for tubular products is positively impacted by increased drilling of deeper, horizontal and offshore wells. Deeper wells require incremental tubular footage and enhanced mechanical capabilities to ensure the integrity of the well. Premium tubulars are used in horizontal drilling to withstand the increased bending and compression loading associated with a horizontal well. Operators typically specify premium tubulars for the completion of offshore wells.

Products and Services

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

In this business, inventory management is critical to our success. We maintain on-the-ground inventory in approximately 60 yards located in the United States, giving us the flexibility to fill our customers orders from our own stock or directly from the manufacturer. We have a proprietary inventory management system, designed specifically for the OCTG industry, that enables us to track our product shipments down to the individual joint of pipe.

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 and has more than 1,400 pipe racks and two double-ended thread lines. We have exclusive use of a permanent third-party inspection center within the facility. The facility also includes indoor chrome storage capability and patented pipe cleaning machines.

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

Other Facilities. We also offer tubular services at our facilities in Midland, Texas and Godley, Texas which were added in the Phillips acquisition. 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 13 developed acres and is serviced by a rail spur. Independent third party inspection companies operate within these facilities.

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 arrangements. Although our alliances are generally not as profitable as the spot market and can 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 to other countries, including Brazil, Cameroon, Chad, Columbia, Congo, Ecuador, Egypt, Equatorial Guinea, Gabon, Germany, Guatemala, Hungary, Netherlands, Russia, Scotland, Trinidad, Tunisia and Venezuela.

Customers, Suppliers and Competitors

Our three largest end-user customers in the tubular distribution market in 2006 were ConocoPhillips, ChevronTexaco Corporation and Chesapeake Energy Corporation. Our three largest suppliers were U.S. Steel Group, Lone Star Steel and Tenaris Global Services USA Corporation (formerly Maverick Tube Corporation). Although we have a leading market share position in tubular services distribution, the market is highly fragmented. Our main competitors in tubular distribution are privately owned distributors including Premier Pipe L.P., Red Man Pipe & Supply Co., Inc., Bourland and Leverich and Pipeco Services.

Employees

As of December 31, 2006, we had approximately 5,124 full-time employees, 33% of whom are in our offshore products segment, 64% 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 688 employees located in Canada and the United Kingdom as of December 31, 2006. We believe relations with our employees are good.

Government Regulation

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

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

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

Our operations are subject to numerous foreign, federal, state and local environmental laws and regulations governing the 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, assessment of administrative and civil penalties, and even criminal prosecution. We believe that we are in substantial compliance with applicable environmental laws and regulations. Further, we do not anticipate that compliance with existing environmental laws and regulations will have a material effect on our consolidated financial statements. However, there can be no assurance that substantial costs for compliance will not be

incurred in the future. Moreover, it is possible that other developments, such as the adoption of stricter environmental laws, regulations and enforcement policies or more stringent enforcement of existing environmental laws and regulations, could result in additional costs or liabilities that we cannot currently quantify.

We generate wastes, including hazardous wastes, that are subject to the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. The United States Environmental Protection Agency, or

EPA, and state agencies have limited the approved methods of disposal for some types of hazardous and nonhazardous wastes. Some wastes handled by us in our field service activities that currently are exempt from treatment as hazardous wastes may in the future be designated as hazardous wastes under RCRA or other applicable statutes. This would subject us to more rigorous and costly operating and disposal requirements.

With regard to our U.S. operations, the federal Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, also know 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 disposed of or arranged for the disposal of the hazardous substances at the site where the release occurred. Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We currently have operations 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 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 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 stormwater, 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.

Some of our operations also result in emissions of regulated air pollutants. The federal Clean Air Act 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.

In response to recent studies suggesting that emissions of certain gases may be contributing to warming of the Earth s atmosphere, many foreign nations, including Canada, have agreed to limit emissions of these gases, generally referred to as greenhouse gases, pursuant to the United Nations Framework Convention on Climate Change, also known as the Kyoto Protocol . Methane, a primary component of natural gas, and carbon dioxide a byproduct of the burning of fossil fuels, are examples of greenhouse gases. Although the United States is not participating in the Kyoto Protocol, the current session of Congress is considering climate change legislation, with

multiple bills having already been introduced in the Senate that propose to restrict greenhouse gas emissions. By comparison, several states have already adopted legislation, regulations and/or regulatory initiatives to reduce emissions of greenhouse gases. Also, on November 29, 2006, the U.S. Supreme Court heard arguments on a case appealed from the U.S. Circuit Court of Appeals for the District Columbia, Massachusetts, et al. v. EPA, in which the appellate court held that the U.S. Environmental Protection Agency had discretion under the federal Clean Air Act to refuse to regulate carbon dioxide emissions from mobile sources. Passage of climate change legislation by Congress or a Supreme Court reversal of the appellate decision could result in federal regulation of carbon dioxide emissions and other greenhouse gases. Also, any federal or state restrictions on emissions of greenhouse gases that may be imposed in areas of the United States in which we conduct business could adversely affect our operations and demand for our services.

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, there is no assurance that this trend of compliance will continue in the future or that such compliance will not be material. For instance, any future restrictions on emissions of greenhouse gases that are imposed in foreign countries in which we operate, such as in Canada, pursuant to the Kyoto Protocol or other locally enforceable requirements could adversely affect demand for our services.

Item 1A. ***Risk Factors***

Risks Related to Our Business Generally

Decreased oil and gas industry expenditure levels will adversely affect our results of operations.

We depend upon the oil and gas industry and its ability and willingness to make expenditures which are directly affected by trends in oil and natural gas prices. 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 natural gas 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 product prices. Prices for oil and natural gas 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 could materially adversely affect 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. Such lower activity levels could materially adversely affect our revenue and profitability. Many factors affect the supply and demand for oil and gas and therefore influence product prices, including:

- the level of production;
- the levels of oil and gas inventories;
- the expected cost of developing new reserves;
- the actual cost of finding and producing oil and gas;
- the availability of attractive oil and 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;

depletion rates;

the level of drilling activity;

global weather conditions and natural disasters;

worldwide economic activity including growth in underdeveloped countries, including 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 gas exploration, production, refining or transportation assets;

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

the timing and extent of alternative energy sources, including liquefied natural gas (LNG);

environmental regulation; and

tax policies.

Extended periods of low oil prices or unsuccessful exploration results may decrease deepwater exploration and production activity and adversely affect our business. Similarly, any such extended periods of low oil prices could adversely affect the level of expenditures for oil sands development and production in Canada.

Our offshore products segment depends on exploration and production expenditures in deepwater areas. Because deepwater projects are more capital intensive and take longer to generate first production than shallow water and onshore projects, the economic analyses conducted by exploration and production companies typically assume lower prices for production from such projects to determine economic viability over the long term. The economic analyses conducted by exploration and production companies for very large oil sands developments are similar to those performed for deepwater projects with respect to oil price assumptions. Perceptions of longer-term lower oil prices by these companies can reduce or defer major expenditures given the long-term nature of many large scale development projects, which could adversely affect our revenues and profitability.

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

Oil 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. We have experienced in the past, and we may experience in the future, significant fluctuations in operating results based on these changes.

We do business in international jurisdictions whose regulatory environments and compliance regimes differ from those in the United States. Our business may suffer because our efforts to comply with United States laws and regulations could restrict our ability to do business in international jurisdictions, relative to our competitors who are not subject to United States laws and regulations.

Our international business operations include projects in countries where governmental corruption has been known to exist and where our competitors who are not subject to United States laws and regulations, such as the Foreign Corrupt Practices Act, can gain competitive advantages over us by securing business awards, licenses or other preferential treatment in those jurisdictions using methods that United States law 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. 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.

While we and our subsidiaries are committed to conducting business in a legal and ethical manner, there is a risk of violating the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption regulations that generally prohibit

the making of improper payments to foreign officials for the purpose of obtaining or retaining business. Violations of these laws could result in monetary penalties against us or our subsidiaries and could damage our reputation and, therefore, our ability to do business.

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

Many of the products that we sell, especially in our offshore products segment, are complex and highly engineered and often must perform in harsh conditions. We believe that our success depends upon our ability to

employ and retain technical personnel with the ability to design, utilize and enhance these products. In addition, our ability to expand our operations depends in part on our ability to increase our skilled labor force. The demand for skilled workers is high, and the supply is limited. We have already experienced high demand and increased wages for labor forces serving our well site services segment, notably in our accommodations business in Canada. Significant increases in the wages paid by competing employers could further result in a reduction of our skilled labor force, increases in the wage rates that we must pay or both. When these events occur, our cost structure increases and our growth potential could be impaired.

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.

U.S. law currently restricts imports of low-cost tubular goods from a number of foreign countries into the U.S. tubular goods market. If these restrictions were to be lifted or if the level of imported low-cost tubular goods were to otherwise increase, our tubular services segment could be adversely affected to the extent that we then have higher-cost tubular goods in inventory 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 a material 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 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.

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

Our drilling operations and our offshore products business 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.

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

issuance of administrative, civil and criminal penalties;

denial or revocation of permits or other authorizations;

reduction or cessation in operations; and

performance of site investigatory, remedial or other corrective actions.

We may not have adequate insurance for potential liabilities.

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

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

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

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

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

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

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.

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

We sell our products and services in competitive markets. In some of our business segments, we compete with the oil and gas industry s largest oilfield services providers. These companies have greater financial resources than we do. Our business will be adversely affected to the extent that these providers are successful in reducing purchases of our products and services.

Risks Related to Our Operations

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

Our operations are directly affected by seasonal differences in weather in the areas in which we operate, most notably in Canada and the Gulf of Mexico. A portion of our Canadian work force accommodations, catering and logistics 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 third quarters. Our operations in the Gulf of Mexico are also affected by weather patterns. Weather conditions in the Gulf Coast region generally result in higher drilling activity in the spring, summer and fall months with the lowest activity in the winter months. In addition, summer and fall drilling activity can be restricted due to hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast. For example, during 2005, a significant disruption occurred in oil and gas drilling and production operations in the U.S. Gulf of Mexico due to damage inflicted by hurricanes Katrina and Rita. 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.

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

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

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

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.

If we have to write off a significant amount of goodwill, our earnings will be negatively affected.

As of December 31, 2006, goodwill represented approximately 21% 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 indicate that the carrying amount will not be recoverable (see Note 6 to our Consolidated Financial Statements included in this Annual Report on Form 10-K).

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

During 2006, we purchased from a single domestic supplier approximately 46% of the tubular goods we distributed and from three domestic suppliers approximately 79% of such tubular goods. We do not have contracts with any of these suppliers. If we were to lose any of these suppliers or if production at one or more of the suppliers were interrupted, our tubular services segment and our overall business, financial condition and results of operations could be adversely affected. If the extent of the loss or interruption were sufficiently large, the impact on us would be material.

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.

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.

Item 2. ***Properties***

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

Location	Approximate Square Footage/Acreage	Description
United States:		
Houston, Texas (lease)	9,342	Principal executive offices
Arlington, Texas	11,264	Offshore products business office
Arlington, Texas	55,853	Offshore products manufacturing facility
Arlington, Texas (lease)	63,272	Offshore products manufacturing facility
Arlington, Texas	44,780	Elastomer technology center for offshore products
Arlington, Texas	60,000	Molding and aerospace facilities for offshore products
Houston, Texas (lease)	25,638	Offshore products business office
Houston, Texas	25 acres	Offshore products manufacturing facility and yard
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	170,500	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	13 acres	Tubular yard
Crosby, Texas	109 acres	Tubular yard
Belle Chasse, Louisiana (own and lease)	427,020	Accommodations manufacturing facility and yard for well site services
Odessa, Texas	7,847	Office and warehouse in support of drilling operations for well site services
Wooster, Ohio (leased)	6,400	Office and warehouse in support of drilling operations for well site services
Casper, Wyoming	7 acres	Office, shop and yard in support of drilling operations
Billings, Montana (lease)	12 acres	Office, shop and yard in support of drilling operations
Alvin, Texas	36,150	Rental tool warehouse for well site services
Oklahoma City, Oklahoma	4 acres	Rental tool warehouse, shop and office for well site services
Broussard, Louisiana	18,875	Rental tool warehouse for well site services
International:		
Aberdeen, Scotland (lease)	4.5 acres	Offshore products manufacturing facility and yard
Bathgate, Scotland	3 acres	Offshore products manufacturing facility and yard
Barrow-in-Furness, England (own and lease)	90,000	Offshore products service facility and yard

Singapore, Asia (lease)	43,514	Offshore products manufacturing facility
Macae, Brazil (lease)	6 acres	Offshore products manufacturing facility and yard
Rayong Province, Thailand (lease)	10,000	Offshore products service facility
Nisku, Alberta	8.58 acres	Accommodations manufacturing facility for well site services
Nisku, Alberta (lease)	10.24 acres	Accommodations manufacturing facility for well site services
Spruce Grove, Alberta	15,000	Accommodations facility and equipment yard for well site services
Grande Prairie, Alberta	14.69 acres	Accommodations facility and equipment yard for well site services
Grimshaw Alberta (lease)	20 acres	Accommodations equipment yard for well site services
Edmonton, Alberta	33 acres	Accommodations manufacturing facility for well site services
Edmonton, Alberta (lease)	72,456	Accommodations office and warehouse for well site services
Red Deer, Alberta	35,000	Rental tool business office for well site services

We have six tubular sales offices and a total of 53 rental tool supply and distribution points in Texas, Louisiana, New Mexico, Mississippi, Oklahoma, Wyoming, California, Colorado, North Dakota, Utah, Arkansas, 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.

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.

On February 18, 2005, we announced that we had conducted an internal investigation prompted by the discovery of over billings totaling approximately $400,000 by one of our subsidiaries (the Subsidiary) to a government owned oil company in South America. The over billings were detected by the Company during routine financial review procedures, and appropriate financial statement adjustments were included in our previously reported fourth quarter 2004 results. We and independent counsel retained by our Audit Committee conducted separate investigations consisting of interviews and a thorough examination of the facts and circumstances in this matter. We voluntarily reported the results of our investigation to the Securities and Exchange Commission (the SEC) and fully cooperated with requests for information received from the SEC. On October 31, 2005, our counsel received a Wells Notice from the SEC staff indicating that it made a preliminary decision to recommend that the SEC bring a civil action against the Company alleging violations of provisions of the Securities and Exchange Act of 1934 (the Act) relating to the maintenance of books, records and internal accounting controls and procedures as set forth in Sections 13(b)(2)(A) and (B) of the Act. The Company reached a settlement agreement with the SEC on April 27, 2006. The Company consented to an Order by the SEC (the Order), without admitting or denying the findings in the Order, that required the Company to cease and desist from committing or causing violations of the books and records and internal control provisions of the Act. The settlement did not require the Company to pay a monetary penalty.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

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 49,298,922 shares of common stock outstanding as of February 9, 2007, including 256,787 shares of common stock issuable upon exercise of exchangeable shares of one of our Canadian subsidiaries. These exchangeable shares, which were issued to certain former shareholders of PTI in the Combination, are intended to have characteristics essentially equivalent to our common stock prior to the exchange. For purposes of this Annual Report on Form 10-K, we have treated the shares of

common stock issuable upon exchange of the exchangeable shares as outstanding. The approximate number of record holders of our common stock as of February 9, 2007 was 50. 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 9, 2007 was $29.47 per share.

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

	Sales Price	
	High	**Low**
2005:		
First Quarter	22.35	17.35
Second Quarter	26.00	19.29
Third Quarter	39.22	24.89
Fourth Quarter	37.57	29.01
2006:		
First Quarter	42.20	31.34
Second Quarter	43.87	29.15
Third Quarter	35.27	25.00
Fourth Quarter	35.61	25.08
2007:		
First Quarter (through February 9, 2007)	32.05	26.92

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. 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. During the first quarter of 2005, our Board of Directors authorized the repurchase of up to $50 million of our common stock, par value $.01 per share, over a two year period. On August 25, 2006, an additional $50 million was approved for the repurchase program and the duration of the program was extended to August 31, 2008. Through February 9, 2007, we have repurchased 1,824,432 shares of our common stock for $50.0 million under the repurchase program, leaving $50 million available for future share repurchases.

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 which represent an industry composite of the Company s peer group, for the period from December 31, 2001 to December 31, 2006. The graph and chart show the value at the dates indicated of $100 invested at December 31, 2001 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 (OSX)**

Oil States International - NYSE

	Cumulative Total Return					
	12/01	**12/02**	**12/03**	**12/04**	**12/05**	**12/06**
OIL STATES INTERNATIONAL, INC	$ 100.00	$ 141.76	$ 153.19	$ 211.98	$ 348.13	$ 354.18
S & P 500	100.00	77.90	100.24	111.15	116.61	135.03
PHLX OIL SERVICE SECTOR (OSX)	100.00	91.27	105.49	142.69	214.08	242.69

* $100 invested on 12/31/01 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

Equity Compensation Plans

The information relating to our equity compensation plans required by Item 5 is incorporated by reference to such information as set forth in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters contained herein.

Unregistered Sales of Equity Securities and Use of Proceeds

None

Purchases of Equity Securities by the Issuer and Affiliated Purchases

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Share Repurchase Program	Approximate Dollar Value of Shares Remaining to be Purchased Under the Share Repurchase Program
October 1, 2006 October 31, 2006			1,524,432	$ 59,916,900
November 1, 2006 November 30, 2006			1,524,432	$ 59,916,900
December 1, 2006 December 30, 2006	300,000	$ 32.92	1,824,432	$ 50,030,463(1)
Total	300,000	$ 32.92	1,824,432	$ 50,030,463

(1) On March 2, 2005, we announced a share repurchase program of up to $50,000,000 over a two year period. On August 25, 2006, we announced the authorization of an additional $50,000,000 and the extension of the program to August 31, 2008.

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, 2006. 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

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(In thousands, except per share amounts)				
Statements of Operations Data:					
Revenues	$ 1,923,357	$ 1,531,636	$ 971,012	$ 723,681	$ 616,848
Costs and Expenses					
Product costs, service and other costs	1,467,988	1,206,187	774,638	573,114	487,053
Selling, general and administrative	107,216	84,672	64,810	57,710	51,791
Depreciation and amortization	54,340	46,704	35,988	27,905	23,312
Other operating expense (income)	(4,124)	(488)	460	(215)	132
Operating income	297,937	194,561	95,116	65,167	54,560
Interest expense	(19,389)	(13,903)	(7,667)	(7,930)	(4,863)
Interest income	2,506	475	363	389	469
Equity in earnings of unconsolidated affiliates	7,148	1,276	361	354	293
Sale of workover services business	11,250				
Other income	2,195	98	595	674	574
Income before income taxes	301,647	182,507	88,768	58,654	51,033
Income tax expense(1)	(104,013)	(60,694)	(29,406)	(14,222)	(11,357)
Net income	$ 197,634	$ 121,813	$ 59,362	$ 44,432	$ 39,676
Net income per common share					
Basic	$ 3.99	$ 2.47	$ 1.20	$ 0.92	$ 0.82
Diluted	$ 3.89	$ 2.41	$ 1.19	$ 0.90	$ 0.81
Average shares outstanding					
Basic	49,519	49,344	49,329	48,529	48,286
Diluted	50,773	50,479	50,027	49,215	48,890

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Other Data:					
EBITDA, as defined(2)	$ 372,870	$ 242,639	$ 132,060	$ 94,100	$ 78,739
Capital expenditures, including capitalized interest	129,591	83,392	60,041	41,261	26,086
Net cash provided by operating activities	137,367	33,398	97,167	58,703	45,375
Net cash used in investing activities, including capital expenditures	(114,248)	(229,881)	(137,713)	(54,902)	(89,428)
Net cash provided by (used in) financing activities	(11,201)	195,269	38,816	4,319	50,381

	At December 31,				
	2006	2005	2004	2003	2002
Balance Sheet Data:					
Cash and cash equivalents	$ 28,396	$ 15,298	$ 19,740	$ 19,318	$ 11,118
Total current assets	783,989	663,744	435,184	288,077	255,806
Net property, plant and equipment	358,716	310,452	227,343	194,136	167,146
Total assets	1,571,094	1,342,872	933,612	717,186	644,216
Long-term debt and capital leases, excluding current portion	391,729	402,109	173,887	136,246	133,292
Total stockholders equity	839,836	633,984	530,024	455,111	387,579

(1) Our effective tax rate was affected by our net operating loss carry forwards in certain of the periods presented.

(2) The term EBITDA as defined consists of net income plus interest, 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.

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:

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Net income	$ 197,634	$ 121,813	$ 59,362	$ 44,432	$ 39,676
Depreciation and amortization	54,340	46,704	35,988	27,905	23,312
Interest expense, net	16,883	13,428	7,304	7,541	4,394
Income taxes	104,013	60,694	29,406	14,222	11,357
EBITDA, as defined	$ 372,870	$ 242,639	$ 132,060	$ 94,100	$ 78,739

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 offshore products, tubular services and well site services business segments. Demand for our products and services is cyclical and substantially dependent upon activity levels in the oil and gas industry, particularly our customers willingness to spend capital on the exploration for and development of oil and gas reserves. Demand for our products and services by our customers is highly sensitive to current and expected oil and natural gas prices. Generally, our tubular services and well site services segments respond more rapidly to shorter-term movements in oil and natural gas prices than our offshore products segment. Our offshore products segment provides highly engineered and technically designed products for offshore oil and gas development and production systems and facilities. Sales

of our offshore products and services depend upon the development of offshore production systems, repairs and upgrades of existing offshore drilling rigs and construction of new offshore drilling rigs. In this segment, we are particularly influenced by deepwater drilling and production activities, which are driven largely by our customers longer-term outlook for oil prices. Through our tubular services segment, we distribute a broad range of casing and tubing. Sales and gross margins of our tubular services segment depend upon the overall level of drilling activity, the types of wells being drilled (for example, deepwater wells usually require higher priced seamless alloy tubulars) and the level of OCTG inventory and pricing. Historically, tubular services gross margin expands during periods of rising OCTG prices and contracts during periods of decreasing OCTG prices. In our well site services business segment, we provide land drilling services, work force accommodations, catering and logistics services and rental tools. Demand for our drilling services is driven by land drilling activity in Texas, New Mexico, Ohio and in the Rocky Mountains area in the U.S. Our rental tools and services depend primarily upon the level of drilling, completion and workover activity in the U.S. and Canada. Our accommodations business is conducted primarily in Canada and its activity levels have historically been driven by oil and gas drilling and mining activities. However, we have seen increased demand in our work force accommodation business as a result of oil sands development activities in Northern Alberta, Canada. Effective March 1, 2006, we completed a transaction to combine our workover services business with Boots & Coots which resulted in our acquiring a 45.6% equity interest in Boots & Coots (see Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K).

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

	Average Rig Count for Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
U.S. Land	1,559	1,294	1,093	924	718
U.S. Offshore	90	89	97	108	113
Total U.S.	1,649	1,383	1,190	1,032	831
Canada	470	458	369	372	266
Total North America	2,119	1,841	1,559	1,404	1,097

The average North American rig count for the year ended December 31, 2006 increased by 278 rigs, or 15.1%, compared to the year ended December 31, 2005. This overall increase in activity, while tempered somewhat by flat activity levels in the U.S. Gulf of Mexico, contributed to increased revenues in our tubular services and well site services segments in 2006. The North American rig count and related oil service activity has remained at high levels generally, although the Canadian rig count in 2007 to-date is down 11.4% from the comparable period in 2006.

Our well site services segment results for the year 2006 also benefited from capital spending, which aggregated $117.4 million in the year ended December 31, 2006, the acquisition of Elenburg on February 1, 2005 for total consideration of $22.1 million, the acquisition of Stinger on May 1, 2005 and June 1, 2005 for total consideration of $96.1 million and the impact of increased activity levels and pricing gains in certain business lines.

On June 2, 2005 we acquired all of the outstanding stock of Phillips Casing and Tubing, L.P. (Phillips) for total consideration of $31.2 million. This acquisition resulted in increased OCTG inventory and revenues from the date of acquisition. Our tubular services segment shipped 481,900 tons of OCTG in 2006 (118,400 tons in the fourth quarter of 2006) compared to 405,300 tons in 2005 (118,600 tons in the fourth quarter of 2005). Our tubular services segment also benefited in the past year from a 20.5% year over year increase in average U.S. land drilling activity.

Management believes that, based on the current economic environment, oil and gas producers will continue to explore for and develop oil and gas reserves at an active pace in spite of a decline in current U.S. domestic natural gas prices, which reflect high storage levels compared to the prior five year historical range, given their longer term views of supply and demand fundamentals. Management estimates that approximately 60% of the Company s revenues are dependent on North American natural gas drilling and completion activity. We estimate that our

profitability is more evenly impacted by oil price driven activity and natural gas price driven activity. Our customers have increased their spending and commitments for deepwater offshore exploration and development which has benefited our offshore products segment. Our customers have also announced significant levels of expenditures for oil sands related projects in Canada. However, there can be no assurance that these trends will continue and there is a risk that lower energy prices for sustained periods could negatively impact drilling and completion activity and, correspondingly, reduce oil and gas expenditures. Such a decline would be adverse to our business. In addition, particularly in our well site services segment, we must continue to monitor industry capacity additions in relationship to our own capital expenditures and expected returns, considering project risks and expected cash flows from such investments. In tubular services, we continue to monitor industry wide OCTG inventory levels, mill shipments, OCTG pricing and our inventory turnover levels.

Consolidated Results of Operations

	Year Ended December 31,						
			Variance 2006 vs. 2005			Variance 2005 vs. 2004	
	2006	2005	$	%	2004	$	%
Revenues							
Well site services							
Accommodations	$ 314.0	$ 287.3	$ 26.7	9%	$ 190.0	$ 97.3	51%
Rental Tools	200.6	134.8	65.8	49%	66.9	67.9	101%
Drilling and Other	134.5	86.7	47.8	55%	46.4	40.3	87%
Workover Services	8.6	39.9	(31.3)	(78)%	33.6	6.3	19%
Total Well Site Services	657.7	548.7	109.0	20%	336.9	211.8	63%
Offshore Products	389.7	271.2	118.5	44%	206.8	64.4	31%
Tubular services	876.0	711.7	164.3	23%	427.3	284.4	67%
Total	$ 1,923.4	$ 1,531.6	$ 391.8	26%	$ 971.0	$ 560.6	58%
Product costs; Service and other costs (Cost of sales and service)							
Well site services							
Accommodations	$ 208.6	$ 221.1	$ (12.5)	(6)%	$ 134.5	$ 86.6	64%
Rental Tools	94.4	68.4	26.0	38%	36.5	31.9	87%
Drilling and Other	69.1	53.9	15.2	28%	31.8	22.1	69%
Workover Services	5.3	28.1	(22.8)	(81)%	25.9	2.2	8%
Total Well Site Services	377.4	371.5	5.9	2%	228.7	142.8	62%
Offshore Products	293.9	209.5	84.4	40%	169.2	40.3	24%
Tubular services	796.7	625.2	171.5	27%	376.7	248.5	66%
Total	$ 1,468.0	$ 1,206.2	$ 261.8	22%	$ 774.6	$ 431.6	56%

	Year Ended December 31,						
			Variance 2006 vs. 2005			Variance 2005 vs. 2004	
	2006	2005	$	%	2004	$	%
Gross margin							
Well site services							
Accommodations	$ 105.4	$ 66.2	$ 39.2	59%	$ 55.5	$ 10.7	19%
Rental Tools	106.2	66.4	39.8	60%	30.4	36.0	118%
Drilling and Other	65.4	32.8	32.6	99%	14.6	18.2	125%
Workover Services	3.3	11.8	(8.5)	(72)%	7.7	4.1	53%
Total Well Site Services	280.3	177.2	103.1	58%	108.2	69.0	64%
Offshore Products	95.8	61.7	34.1	55%	37.6	24.1	64%
Tubular services	79.3	86.5	(7.2)	(8)%	50.6	35.9	71%
Total	$ 455.4	$ 325.4	$ 130.0	40%	$ 196.4	$ 129.0	66%
Gross margin as a percent of revenues							
Well site services							
Accommodations	34%	23%			29%		
Rental Tools	53%	49%			45%		
Drilling and Other	49%	38%			31%		
Workover Services	38%	30%			23%		
Total Well Site Services	43%	32%			32%		
Offshore Products	25%	23%			18%		
Tubular services	9%	12%			12%		
Total	24%	21%			20%		

We reported net income for the year ended December 31, 2006 of $197.6 million, or $3.89 per diluted share. These results compare to $121.8 million, or $2.41 per diluted share, reported for the year ended December 31, 2005 and $59.4 million, or $1.19 per diluted share, for the year ended December 31, 2004. With continuing strong activity and contributions from acquisitions and capital investments, we recognized year-over-year growth in revenues of 26% in 2006 and 58% 2005. Net income in 2006 included the recognition of a non-cash, pre-tax gain of $11.3 million, or an after-tax gain of $0.12 per diluted share, on the sale of the Company s workover services business to Boots & Coots.

Revenues. Consolidated revenues increased $391.8 million in 2006 as a result of increased well site services revenues of $109.0 million, or 20%; increased offshore products revenues of $118.5 million, or 44%; and increased tubular services revenues of $164.3 million, or 23%. Consolidated revenues increased $560.6 million in 2005 compared to 2004 as a result of increased well site services revenues of $211.8 million, or 63%; increased offshore products revenues of $64.4 million, or 31%, and increased tubular services revenues of $284.4 million, or 67%.

Well site services revenues increased in both 2006 and 2005 due to year-over-year improvements in North American drilling and completion activity, contributions from capital expenditures in both years and acquisitions. These increases were partially offset by the sale of the hydraulic workover business completed in the first quarter of 2006. In addition, prices realized for our rental tools and our drilling and other services improved in 2006 and 2005 compared to prior years, and we experienced increased activity in support of the oil sands developments in Canada in 2005.

Offshore products revenues increased in both 2006 and 2005 due to increased deepwater development spending and capital equipment upgrades by our customers.

Our offshore products backlog totaled $349.3 million at December 31, 2006, $110.7 million at December 31, 2005 and $97.5 million at December 31, 2004. We believe that the deepwater construction and development business is characterized by lengthy projects and a long lead-time order cycle. While changes in backlog levels from one period to the next do not necessarily evidence a long-term trend, we believe activity levels in our offshore

products segment will increase in future periods, given the growth in our backlog, when compared to year end 2005 and 2004 levels.

Tubular services revenues increased 23% in 2006 compared to 2005 due to increased U.S. drilling activity and contributions from an acquisition that closed in June 2005. For the year ended December 31, 2006, tons shipped increased by 19% compared to the same period in 2005. Our average OCTG selling prices increased 3.5% from the year 2005 to the year 2006. Tubular services revenues increased 67% in 2005 compared to 2004 due to increased industry demand, higher OCTG prices and contributions from acquisitions completed in May 2004 and June 2005. Our average OCTG selling prices increased 40% from the year 2004 to the year 2005.

Cost of Sales and Service. Our consolidated cost of sales and services increased $261.8 million, or 22%, in 2006 compared to 2005 as a result of increases at well site services of $5.9 million, or 2%, at offshore products of $84.4 million, or 40%, and at tubular services of $171.5 million, or 27%. Our consolidated cost of sales and services increased $431.6 million, or 56%, in 2005 compared to 2004 as a result of increases at well site services of $142.8 million, or 62%, at offshore products of $40.3 million, or 24%, and at tubular services of $248.5 million, or 66%. Generally, the increases in our cost of sales and services in both 2006 and 2005 were in line with our increases in revenues resulting in consistent consolidated gross margins.

The increase in cost of sales and services at our tubular services business in 2006 compared to 2005 was slightly higher than the increase in revenues for the same period due to an increase in relatively low margin carbon grade sales when compared to premium grade OCTG sales and less frequent OCTG mill price increases in 2006 when compared to 2005.

Accommodations cost of sales and services decreased for the year ended December 31, 2006 compared to 2005 and increased for the year ended December 31, 2005 compared to 2004. In 2005, a large fabrication project was delivered to a customer on a sale basis. In 2004 and 2006, our revenues consisted of a higher mix of service revenue which has a lower cost element.

Selling, General and Administrative Expenses. Selling, general and administrative expenses (SG&A) increased $22.5 million, or 26.6%, in the year ended December 31, 2006 compared to the same period in 2005. During the year ended December 31, 2006, SG&A totaled $107.2 million, or 5.6% of revenues, compared to SG&A of $84.7 million, or 5.5% of revenues, for the year ended December 31, 2005. Increased SG&A expense associated with acquisitions, higher ad valorem taxes for OCTG inventory, increased incentive compensation accruals, and higher stock compensation costs due, in part, to the adoption of SFAS 123R were the primary factors causing the increased SG&A in 2006 compared to 2005.

SG&A increased $19.9 million, or 30.6%, in 2005 compared to the same period in 2004. During the year ended December 31, 2005, SG&A totaled $84.7 million, or 5.5% of revenues, compared to SG&A of $64.8 million, or 6.7% of revenues, for the year ended December 31, 2004. Increased SG&A expense associated with acquisitions completed since 2004, higher ad valorem taxes for increased levels of OCTG inventory, increased incentive compensation expense, and higher professional fees associated with Sarbanes-Oxley compliance were the primary factors causing increased SG&A in 2005 compared to 2004.

Depreciation and Amortization. Depreciation and amortization expense increased $7.6 million, or 16.3%, in the year ended December 31, 2006 compared to the same period in 2005. Depreciation and amortization expense increased $10.7 million, or 29.8%, in 2005 compared to 2004. Depreciation and amortization expense increased in 2006 and 2005 due primarily to acquisitions and capital expenditures.

Operating Income. Consolidated operating income increased $103.4 million, or 53%, in 2006 compared to 2005 as a result of increases at well site services of $90.7 million, or 87%, and at offshore products of $29.4 million, or 111%, which were partially offset by decreased tubular services operating income of $8.4 million, or 11%. Consolidated operating income increased $99.5 million, or 105%, in 2005 compared to 2004 as a result of increases at well site services of $49.2 million, or 89%, at offshore products of $19.3 million, or 268%, and at tubular services of $34.0 million, or 83%.

Interest Expense and Interest Income. Interest expense increased $5.5 million, or 39.5%, for the year ended December 31, 2006 compared to the year ended December 31, 2005. Interest expense increased $6.2 million, or

81.3%, for the year ended December 31, 2005 compared to the year ended December 31, 2004. Interest expense increased due to higher debt levels resulting from acquisitions and capital expenditures, combined with higher interest rates. The weighted average interest rate on the Company s revolving credit facility was 6.4% for 2006, 4.7% for 2005 and 3.6% for 2004. Interest income increased in 2006 primarily because of the notes receivable resulting from the sale of our hydraulic workover business (see Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K).

Equity in Earnings of Unconsolidated Affiliates. Our equity in earnings of unconsolidated affiliates is higher in 2006 than 2005 primarily because of the sale of our workover services business and resultant interest in Boots & Coots common stock, which we account for under the equity method (see Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K). Our equity in earnings of unconsolidated affiliates increased in 2005 compared to 2004 due primarily to an equity affiliate in the OCTG business that experienced higher profitability in 2005 compared to 2004.

Income Tax Expense. Our income tax provision for the year ended December 31, 2006 totaled $104.0 million, or 34.5% of pretax income, compared to $60.7 million, or 33.3% of pretax income, for the year ended December 31, 2005 and $29.4 million, or 33.1% of pretax income during the year ended December 31, 2004. See Management s Discussion and Analysis of Financial Condition and Results of Operations Tax Matters discussion below.

Liquidity and Capital Resources

Our primary liquidity needs are to fund capital expenditures, such as expanding our accommodations facilities, expanding and upgrading our manufacturing facilities and equipment, adding drilling rigs and increasing and replacing rental tool assets, funding new product development and funding general working capital needs. In addition, capital is needed to fund strategic business acquisitions. Our primary sources of funds have been cash flow from operations, proceeds from borrowings under our bank facilities and proceeds from our $175 million convertible note offering in 2005 (see Note 8 to Consolidated Financial Statements included in this Annual Report on Form 10-K).

Cash totaling $137.4 million was provided by operations during the year ended December 31, 2006 compared to cash totaling $33.4 million provided by operations during the year ended December 31, 2005. During 2006, $95.1 million was used to fund working capital due in part to increases in receivables and inventories in our offshore products segment given the growth in activity.

Cash was used in investing activities during the years ended December 31, 2006 and 2005 in the amount of $114.2 million and $229.9 million, respectively. Capital expenditures, including capitalized interest, totaled $129.1 million and $83.4 million during the years ended December 31, 2006 and 2005, respectively. Capital expenditures in both years consisted principally of purchases of assets for our well site services segment. Capital expenditures for wellsite services in 2006 included $59.5 million in accommodations, $32.6 million in drilling services (including $13.1 million for the acquisition of three drilling rigs from Eagle Rock Drilling) and $24.5 million in rental tools. In 2005, we spent $36.8 million in accommodations, $14.0 million in drilling services and $19.8 million in rental tools. In addition, we completed various acquisitions totaling $147.6 million net of cash acquired, during 2005.

On February 1, 2005, we completed the acquisition of Elenburg Exploration Company, Inc. (Elenburg), a Wyoming based land drilling company for cash consideration of $21.3 million, net of cash acquired and including transaction costs, but excluding a note payable to the former owners of $0.8 million. At the time of acquisition, Elenburg owned and operated 7 rigs which provided shallow land drilling services in Montana, Wyoming, Colorado, and Utah.

Effective May 1, 2005 we acquired Stinger Wellhead Protection, Inc., certain affiliated companies and related intellectual property and, effective June 1, 2005, we completed the acquisition of Stinger s international operations (collectively, Stinger) for cash consideration of $84.7 million, net of cash acquired and including transaction costs, but excluding a note payable to the former owners of $5.0 million. Stinger provides wellhead isolation equipment and services through its 30 locations in the United States, Canada, Central and South America. Stinger s patented equipment is utilized during pressure pumping operations and isolates the customers blow-out preventers or

wellheads from the pressure and abrasion experienced during the fracturing process of an oil or gas well. The Stinger acquisition expanded our rental tool and services capabilities, especially in the pressure pumping market.

On June 2, 2005, we purchased Phillips Casing and Tubing, L.P. (Phillips) for cash consideration of $31.2 million, including transaction costs. Phillips distributes OCTG primarily carbon ERW (electronic resistance welded) pipe, from its facilities in Midland and Godley, Texas.

On June 6, 2005, we acquired Noble Structures, Inc. for cash consideration of $7.9 million, including transaction costs, but excluding a note payable of $0.8 million. The acquisition expanded our accommodations manufacturing capabilities in Canada in order to meet increased demand for remote site facilities, principally in the oil sands region.

The cash consideration paid for all of our acquisitions in the period was initially funded utilizing our existing bank credit facility and a $25 million bridge loan. The bridge loan was subsequently repaid with proceeds from the 23/8% convertible notes sold in June 2005 (see Note 8 to the Consolidated Financial Statements included in this annual report on Form 10-K).

On February 9, 2007, Boots & Coots announced it had filed a registration statement to sell 26 million shares of common stock including 13 million shares we own. The closing price of Boots & Coots common stock on the date of the announcement was $2.26. We own a total of 26.5 million shares of Boots & Coots common stock with a carrying value of $1.31 per share as of December 31, 2006. There can be no assurance about the timing of this announced stock sale or whether this transaction will ultimately take place.

We currently expect to spend a total of approximately $203 million for capital expenditures during 2007 to expand our product and service offering, and for maintenance and upgrade of our equipment and facilities. We expect to fund these capital expenditures with internally generated funds and proceeds from borrowings under our revolving credit facilities.

Net cash of $11.2 million was used in financing activities during the year ended December 31, 2006, primarily as a result of treasury stock purchases and debt repayments partially offset by proceeds from stock option exercises. A total of $195.3 million was provided by financing activities during the year ended December 31, 2005, primarily as a result of our issuance of $175.0 million of contingent convertible senior notes (see Note 8 to the Consolidated Financial Statements included in this Annual Report on Form 10-K).

During the first quarter of 2005, our Board of Directors authorized the repurchase of up to $50 million of our common stock, par value $.01 per share, over a two year period. On August 25, 2006, an additional $50 million was approved and the duration of the program was extended to August 31, 2008. Through December 31, 2006, a total of $50 million of our stock (1,824,432 shares), has been repurchased under this program, leaving a total of up to approximately $50 million remaining available under the program.

On December 5, 2006, we amended our existing credit agreement dated as of October 30, 2003 (the Credit Agreement). The amendment to the Credit Agreement increased the total commitments under the Credit Agreement from $325 million to $400 million and extended the maturity of the Credit Agreement to December 5, 2011. The Credit Agreement permits the Company incremental borrowings of up to $100 million under the Credit Agreement, subject to lender approval, on the same terms and conditions. The Credit Agreement, which governs our credit facility, contains customary financial covenants and restrictions, including restrictions on our ability to declare and pay dividends. 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 2006, our applicable margin over LIBOR ranged from 0.75% to 1.25% and it was 0.75% as of December 31, 2006. Our weighted average interest rate paid under the Credit Agreement was 6.2% during the year ended December 31, 2006 and 4.6% for the year ended December 31, 2005.

As of December 31, 2006, we had $215.4 million outstanding under the Credit Facility and an additional $10.7 million of outstanding letters of credit, leaving $173.9 million available to be drawn under the facility. In addition, we have other floating rate bank credit facilities in the U.S. and the U.K. that provide for an aggregate borrowing capacity of $9.0 million. As of December 31, 2006, we had $1.0 million outstanding under these other facilities and an additional $0.6 million of outstanding letters of credit leaving $7.4 million available to be drawn under these facilities. Our total debt represented 32.2% of the total of debt and shareholder s equity at December 31, 2006.

We believe that cash 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. However, there is no assurance that we will be able to raise additional funds or be able to raise such funds on favorable terms.

The following summarizes our contractual obligations at December 31, 2006 (in thousands):

December 31, 2006	Total	Due in Less Than 1 Year	Due in 1-3 Years	Due in 3 - 5 Years	Due After 5 Years
Contractual obligations:					
Total debt, including capital leases	$ 398,602	$ 6,873	$ 339	$ 216,390	$ 175,000
Non-cancelable operating leases	26,409	5,824	11,066	2,182	7,337
Purchase obligations	97,864	93,307	4,557		
Total contractual cash obligations	$ 522,875	$ 106,004	$ 15,962	$ 218,572	$ 182,337

Our debt obligations at December 31, 2006 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 not entered into any material leases subsequent to December 31, 2006.

Off-Balance Sheet Arrangements

As of December 31, 2006, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Tax Matters

Our primary deferred tax asset, which totaled $8.2 million at December 31, 2006, is related to $23.4 million in available federal net operating loss carryforwards, or NOLs, as of that date. The NOLs will expire in varying amounts during the years 2010 through 2011 if they are not first used to offset taxable income that we generate. Our ability to utilize a significant portion of the 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 NOL s will be utilized.

Our income tax provision for the year ended December 31, 2006 totaled $104.0 million, or 34.5% of pretax income. During the year ended December 31, 2006, the Company recognized a tax benefit triggered by employee exercises of stock options totaling $5.0 million. Such benefit was credited to additional paid-in capital. Our income tax provision for the year ended December 31, 2005 totaled $60.7 million, or 33.3% of pretax income. The income tax provision for

the year 2005 included a $4.7 million income tax benefit related to the reversal of substantially all of the remaining valuation allowance applied against NOLs which were recorded as of the prior year end.

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.

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, fines, penalties, interest, warranty claims, contract claims and discontinued operations.

The assessment of impairment on long-lived assets, including goodwill 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, which is other than a temporary decline in value, 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 an other than temporary 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 charges.

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.

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.

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.

Since the adoption of SFAS No. 123R, 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.

Recent Accounting Pronouncements

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an acceptable alternative.

We adopted Statement of Financial Accounting Standards No. 123R (SFAS 123R) effective January 1, 2006. This pronouncement requires 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. Prior to the adoption of SFAS 123R, this accounting treatment was optional with pro forma disclosures required. We adopted SFAS 123R using the modified prospective transition method (see Note 13 to the Consolidated Financial Statements included in this Annual Report on Form 10-K).

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. Among other changes, this Statement requires retrospective application for voluntary changes in accounting principles, unless it is impractical to do so. Guidance is provided on how to account for changes when retrospective application is impractical. This Statement is effective on a prospective basis beginning January 1, 2006.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company plans to adopt the provisions of SFAS 157 in 2008 and, when adopted, does not expect the adoption of SFAS 157 to have a material impact on its results from operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN 48 requires companies to meet a more-likely-than-not threshold (i.e. greater than 50 percent likelihood of a tax position being sustained under examination) prior to recording a benefit for their tax position. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact this interpretation will have on its results from operations or financial position.

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

Interest Rate Risk. We have long-term debt and revolving lines of credit subject to the risk of loss associated with movements in interest rates. As of December 31, 2006, we had floating rate obligations totaling approximately $215.4 million for amounts borrowed under our revolving 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, 2006 levels, our consolidated interest expense would increase by a total of approximately $2.2 million annually.

Foreign Currency Exchange Rate Risk. Our operations are conducted in various countries around the world in a number of different currencies. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in currencies other than the U.S. dollar, which is our functional currency,

or the functional currency of our subsidiaries, which is not necessarily the U.S. dollar. In order to mitigate the effects of exchange rate risks, we generally pay a portion of our expenses in local currencies and a substantial portion of our contracts provide for collections from customers in U.S. dollars. During 2006, our realized foreign exchange losses were $0.4 million and are included in other operating expense (income) 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 43 through 74 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). 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, 2006 in ensuring that material information was accumulated and communicated to management, and made known to our Chief Executive Officer and Chief Financial Officer, on a timely basis to allow disclosure as required in this Annual Report on Form 10-K.

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 Securities and Exchange Commission. 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.

The Company s management report on internal control over financial reporting is set forth in this Annual Report on Form 10-K on Page 43 and is incorporated herein by reference.

(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 management s assessment of the effectiveness of the Company s internal control over financial reporting and the effectiveness of the Company s internal control over financial reporting is set forth in this Annual Report on Form 10-K on Page 45 and is incorporated herein by reference.

(c) Changes in internal control over financial reporting.

There was no change in the Company s internal control over financial reporting during the Company s fourth fiscal quarter ended December 31, 2006 that has materially affected, or is reasonably likely to affect, the Company s 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 2006 that was not reported on a Form 8-K during such time.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

(1) Information concerning directors, including the Company s audit committee financial expert, appears in the Company s Definitive Proxy Statement for the 2007 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 2007 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 2007 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 2007 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 2007 Annual Meeting of Stockholders.

The table below provides information relating to our equity compensation plans as of December 31, 2006:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security			

holders	2,420,552	$	18.73	2,173,103
Equity compensation plans not approved by security holders*	N/A		N/A	N/A
Total	2,420,552	$	18.73	2,173,103

We do not have any equity compensation plans not approved by our stockholders.

Item 13. ***Certain Relationships and Related Transactions***

The information required by Item 13 hereby is incorporated by reference to such information as set forth in the Company s Definitive Proxy Statement for the 2007 Annual Meeting of Stockholders.

Item 14. ***Principal Accounting 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 2007 Annual Meeting of Stockholders under the heading Fees Paid to Ernst & Young LLP and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and 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 45 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*

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.3	Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
4.1	Form of common stock certificate (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 (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).
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).
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 Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).

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 Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).
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 hereof) (incorporated by reference to Oil States Current Reports on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005 and July 13, 2005).

Exhibit No.	Description
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 (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).
10.3	Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.4	Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.5**	2001 Equity Participation Plan as amended and restated effective February 16, 2005 (incorporated by reference to Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Commission on March 2, 2006).
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).
10.7**	Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.8**	Executive Agreement between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.8 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.9**	Executive Agreement between Oil States International, Inc. and Cindy B. Taylor (incorporated by Reference to Exhibit 10.9 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.10**	Form of Executive Agreement between Oil States International, Inc. and Named Executive Officer (Mr. Hughes) (incorporated by reference to Exhibit 10.10 of the Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.11**	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 (File No. 333-43400)).
10.12	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 11, 2003.)
10.12A	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).

Exhibit No.	Description
10.12B	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).
10.12C	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 filed with the Securities and Exchange Commission on December 7, 2006).
10.13A**	Restricted Stock Agreement, dated February 8, 2001, between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.13A to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2001, as filed with the Commission on May 15, 2001).
10.13B**	Restricted Stock Agreement, dated February 22, 2001, between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.13B to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2002, as filed with the Commission on May 15, 2002).
10.14**	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).
10.15**	Form of Executive Agreement between Oil States International, Inc. and named Executive Officer (Mr. Slator) (incorporated by reference to Exhibit 10.16 to the Company s Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 1, 2002).
10.16**	Douglas E. Swanson contingent option award dated as of February 11, 2002 (incorporated by reference to Exhibit 10.17 to the Company s Quarterly Report on Form 10-Q for the three months ended September 30, 2002 as filed with the Commission on November 13, 2002).
10.17**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Trahan) (incorporated by reference to Exhibit 10.16 to the Company s Quarterly Report on Form 10-Q for the three months ended June 30, 2002, as filed with the Commission on August 13, 2002).
10.18**	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).
10.19**	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).
10.20**	

	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 November 15, 2006).
10.21**	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 May 24, 2005).
10.22**	Form of 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).

Exhibit No.	Description
10.23**	Form of Non-Employee Director Restricted Stock Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 22.2 to the Company s Report of Form 8-K, as filed with the Commission on May 24, 2005).
10.24**	Form of 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 10Q for the quarter ended September 30, 2006, as filed with the Commission on November 3, 2006).
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.

* Filed herewith

** Management contracts or compensatory plans or arrangements

*** Furnished herewith.

SIGNATURES

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

OIL STATES INTERNATIONAL, INC.

By: /s/ DOUGLAS E. SWANSON
Douglas E. Swanson
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 28, 2007.

Signature	Title
/s/ STEPHEN A. WELLS*	Chairman of the Board
Stephen A. Wells	
/s/ DOUGLAS E. SWANSON	Director, Chief Executive Officer (Principal Executive Officer)
Douglas E. Swanson	
/s/ BRADLEY J. DODSON	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
Bradley J. Dodson	
/s/ ROBERT W. HAMPTON	Senior Vice President Accounting and Secretary(Principal Accounting Officer)
Robert W. Hampton	
MARTIN LAMBERT*	Director
Martin Lambert	
S. JAMES NELSON, JR.*	Director
S. James Nelson, Jr.	
MARK G. PAPA*	Director
Mark G. Papa	
GARY L. ROSENTHAL*	Director

Gary L. Rosenthal

WILLIAM T. VAN KLEEF* Director

William T. Van Kleef

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The management of Oil States International, Inc. and subsidiaries (Oil States International, Inc. or the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Oil States International, Inc. s internal control system was designed to provide reasonable assurance to the Company s management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Oil States International, Inc. s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2006. 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, 2006, the Company s internal control over financial reporting is effective based on those criteria.

Oil States International, Inc. s independent registered public accounting firm has audited our assessment and the effectiveness of the Company s internal control over financial reporting. This report appears on Page 45.

OIL STATES INTERNATIONAL, INC.
Houston, Texas

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 (the Company) as of December 31, 2006 and 2005, 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, 2006. 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 the Company at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2006 the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, 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 23, 2007 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 23, 2007

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 management s assessment, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting, that Oil States International, Inc. and subsidiaries (Oil States International, Inc., or the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of 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, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, 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, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of the Company as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders equity and other comprehensive income and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 23, 2007 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 23, 2007

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2006	2005	2004
	(In thousands, except per share amounts)		
Revenues:			
Product	$ 1,232,149	$ 946,907	$ 607,387
Service and other	691,208	584,729	363,625
	1,923,357	1,531,636	971,012
Costs and expenses:			
Product costs	1,082,379	808,833	521,152
Service and other costs	385,609	397,354	253,486
Selling, general and administrative expenses	107,216	84,672	64,810
Depreciation and amortization expense	54,340	46,704	35,988
Other operating expense (income)	(4,124)	(488)	460
	1,625,420	1,337,075	875,896
Operating income	297,937	194,561	95,116
Interest expense	(19,389)	(13,903)	(7,667)
Interest income	2,506	475	363
Equity in earnings of unconsolidated affiliates	7,148	1,276	361
Sale of workover services business	11,250		
Other income	2,195	98	595
Income before income taxes	301,647	182,507	88,768
Income tax provision	(104,013)	(60,694)	(29,406)
Net income attributable to common shares	$ 197,634	$ 121,813	$ 59,362
Basic net income per share	$ 3.99	$ 2.47	$ 1.20
Diluted net income per share	$ 3.89	$ 2.41	$ 1.19
Weighted average number of common shares outstanding (in thousands):			
Basic	49,519	49,344	49,329
Diluted	50,773	50,479	50,027

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2006	2005
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,396	$ 15,298
Accounts receivable, net	351,701	274,070
Inventories, net	386,182	360,926
Prepaid expenses and other current assets	17,710	13,450
Total current assets	783,989	663,744
Property, plant and equipment, net	358,716	310,452
Goodwill, net	331,804	339,703
Investments in unconsolidated affiliates	38,079	2,265
Other noncurrent assets	58,506	26,708
Total assets	$ 1,571,094	$ 1,342,872
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 199,842	$ 214,504
Income taxes	11,376	7,023
Current portion of long-term debt	6,873	3,901
Deferred revenue	58,645	34,046
Other current liabilities	3,680	3,223
Total current liabilities	280,416	262,697
Long-term debt	391,729	402,109
Deferred income taxes	38,020	35,259
Other liabilities	21,093	8,823
Total liabilities	731,258	708,888
Stockholders equity:		
Common stock, $.01 par value, 200,000,000 shares authorized, 49,296,740 shares and 49,179,258 shares issued and outstanding, respectively	511	504
Additional paid-in capital	372,043	350,667
Retained earnings	487,627	289,993
Accumulated other comprehensive income	30,183	23,137
Common stock held in treasury at cost, 1,863,800 and 1,214,432 shares, respectively	(50,528)	(30,317)

Total stockholders equity	839,836	633,984
Total liabilities and stockholders equity	$ 1,571,094	$ 1,342,872

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

	Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
			(In thousands)			
Balance, December 31, 2003	492	333,855	108,818		12,289	(343)
Net income			59,362	$ 59,362		
Currency translation adjustment				10,470	10,470	
Comprehensive income				$ 69,832		
Exercise of stock options, including tax benefit	4	4,792				
Amortization of restricted stock compensation		109				
Stock sold in deferred compensation plan						26
Other		150				
Balance, December 31, 2004	496	338,906	168,180		22,759	(317)
Net income			121,813	$ 121,813		
Currency translation adjustment				418	418	
Other comprehensive loss				(40)	(40)	
Comprehensive income				$ 122,191		
Exercise of stock options, including tax benefit	8	11,204				
Amortization of restricted stock compensation		557				
Stock acquired for cash						(30,000)
Balance, December 31, 2005	504	350,667	289,993		23,137	(30,317)
Net income			197,634	$ 197,634		
Currency translation adjustment				7,016	7,016	

Other comprehensive income				30	30	
Comprehensive income				$ 204,680		
Exercise of stock options, including tax benefit	7	13,494				
Amortization of restricted stock compensation		1,949				
Restricted stock award		140				(303)
Stock option expense		5,647				
Stock acquired for cash						(19,970)
Stock sold in deferred compensation plan		146				62
Balance, December 31, 2006	$ 511	$ 372,043	$ 487,627		$ 30,183	$ (50,528)

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2006	2005	2004
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 197,634	$ 121,813	$ 59,362
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	54,340	46,704	35,988
Deferred income tax provision (credit)	755	(3,082)	6,870
Excess tax benefits from share-based payment arrangements	(5,007)		
Tax benefit of option exercises		3,660	1,117
Non-cash gain on sale of workover services business	(11,250)		
Provision for loss on accounts receivable	1,475	877	419
Deferred financing cost amortization	1,251	872	490
Loss (gain) on disposal of assets	(7,707)	970	(378)
Equity in earnings of unconsolidated subsidiaries	(7,148)	(1,276)	(180)
Non-cash compensation charge	7,595	558	109
Other, net	562	546	(200)
Changes in operating assets and liabilities, net of effect from acquired businesses:			
Accounts receivable	(88,429)	(49,861)	(56,120)
Inventories	(22,569)	(128,087)	(41,587)
Accounts payable and accrued liabilities	(18,593)	39,206	67,251
Taxes payable	11,621	(2,505)	2,559
Other current assets and liabilities, net	22,837	3,003	21,467
Net cash flows provided by operating activities	137,367	33,398	97,167
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired	(99)	(147,608)	(80,806)
Cash balances of workover services business sold	(4,366)		
Capital expenditures, including capitalized interest	(129,090)	(83,392)	(60,041)
Proceeds from sale of buildings and equipment	20,907	2,275	3,197
Other, net	(1,600)	(1,156)	(63)
Net cash flows used in investing activities	(114,248)	(229,881)	(137,713)
Cash flows from financing activities:			
Revolving credit borrowings (repayments)	(6,617)	49,885	43,900
Contingent convertible notes issued		175,000	
Bridge loan and other borrowings		25,000	102
Debt repayments	(2,284)	(25,641)	(8,934)
Issuance of common stock	8,509	7,552	3,968
Purchase of treasury stock	(15,056)	(30,000)	

Excess tax benefits from share based payment arrangements	5,007		
Payment of financing costs	(580)	(6,527)	(81)
Other, net	(180)		(139)
Net cash flows provided by (used in) financing activities	(11,201)	195,269	38,816
Effect of exchange rate changes on cash	1,350	(2,555)	2,737
Net increase in cash and cash equivalents from continuing operations	13,268	(3,769)	1,007
Net cash used in discontinued operations operating activities	(170)	(673)	(585)
Cash and cash equivalents, beginning of year	15,298	19,740	19,318
Cash and cash equivalents, end of year	$ 28,396	$ 15,298	$ 19,740

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. On February 14, 2001, the Company acquired three companies (HWC Energy Services, Inc. HWC; 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 is principally comprised of the following entities and their respective subsidiaries.

Oil States Industries, Inc.

Oil States Industries, Inc. (OSI), which comprises our offshore products segment, is a subsidiary of Oil States and is a leading designer and manufacturer of a diverse range of products for offshore platforms, subsea pipelines, and defense and general industrial applications. Major product lines include flexible bearings, advanced connectors, winches, mooring and lifting systems, services for installing and removing offshore platforms, downhole production equipment, and custom molded products. Sales are made primarily to major oil companies, large and small independent oil and gas companies, drilling contractors, and well service and workover operators on a worldwide basis. OSI has facilities in Arlington, Houston and Lampasas, Texas; Houma, Louisiana; Tulsa, Oklahoma; Scotland; Brazil; England; Singapore and Thailand.

PTI Group, Inc.

PTI, which is part of our well site services segment, is located in Alberta, Canada and is a supplier of integrated housing, food, site management and logistics support services to remote sites utilized by extractive and other industries primarily in Canada, Europe, the Middle East and the United States.

Oil States Energy Services, Inc. (formerly, HWC Energy Services, Inc.)

Oil States Energy Services, Inc. (OSES), which is part of our well site services segment, provides drilling services and rental equipment to the oil and gas industry. In West Texas, Ohio, and the Rocky Mountains area, OSES operates, through its subsidiaries Capstar Drilling, L.P. and Elenburg Exploration Company, shallow to medium depth drilling rigs with automated pipe handling capabilities. Specialty Rental Tools and Supply, L.P., a subsidiary of OSES, provides rental equipment for drilling and workover operations in Texas, Louisiana, Mississippi, New Mexico, Oklahoma, Arkansas and Wyoming. Stinger Wellhead Protection, Inc. and affiliates (Stinger), a subsidiary of OSES, provides wellhead isolation equipment and services in the U.S., Canada, South America and Central America.

Sooner, Inc.

Sooner, which comprises our tubular services segment, is a distributor of oilfield tubular products with operations located primarily in the United States. The majority of sales are to large fully integrated and independent oil companies headquartered in the U.S.

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.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Financial Instruments

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

The fair value of our 23/8% contingent convertible senior notes is estimated based on prices quoted from third-party financial institutions. The carrying and fair values of these notes are as follows (in thousands):

		December 31,			
		2006		2005	
	Interest Rate	Carrying Value	Fair Value	Carrying Value	Fair Value
23/8% contingent convertible senior notes due 2025	23/8%	$ 175,000	$ 218,094	$ 175,000	$ 212,741

Inventories

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

Goodwill represents the excess of the purchase price for acquired businesses over the allocated value of the related net assets. Goodwill is stated net of accumulated amortization of $17.4 million at December 31, 2006 and $18.3 million at December 31, 2005.

Impairment of Long-Lived Assets

In compliance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets 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 assets 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 available, or discounted cash flows. Based on the Company s review, the carrying value of its assets are recoverable and no impairment losses have been recorded for the periods presented.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Gains and losses resulting from balance sheet translation of foreign operations where the U.S. dollar is the functional currency are included in the consolidated statements of 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 the use of derivative financial instruments and foreign currency denominated debt. These financial instruments serve to protect net income against the impact of the translation into U.S. dollars of certain foreign exchange denominated transactions. The financial instruments employed to manage foreign exchange risk consisted of forward exchange contracts with notional amounts of $1.5 million at December 31, 2005. The Company had no such contracts outstanding at December 31, 2006 or December 31, 2004. Net gains or losses from foreign currency exchange contracts that are designated as hedges are recognized in the income statement to offset the foreign currency gain or loss on the underlying transaction. Exchange gains and losses have totaled $0.4 million loss in 2006, a $0.2 million gain in 2005 and a $1.3 million loss in 2004 and are included in other operating expense (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 year ended December 31, 2006, $0.1 million was capitalized. No interest was capitalized in 2005 or 2004.

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, collectibility is probable and pricing is fixed and determinable. Our product sales terms do not include significant post delivery obligations. For significant projects built to customer specifications, revenues are recognized under the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract (cost-to-cost method). 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.

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

When the Company s earnings from foreign subsidiaries are considered to be indefinitely reinvested, no provision for 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 SFAS No. 109, the Company records a valuation reserve in each reporting period when management believes that it is more likely than not that any deferred tax asset created will not be realized. Management will continue to evaluate the appropriateness of the reserve in the future based upon the operating results of the Company.

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 major new and existing customers financial condition and, generally, the Company does not require significant collateral from its domestic customers.

We purchased 79% of our oilfield tubular goods from three suppliers in 2006, with the largest supplier representing 46% of our purchases in the period. The loss of any significant supplier in our tubular services segment could adversely affect us.

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 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.

Earnings per Share

The Company s basic income per share (EPS) amounts have been computed based on the average number of common shares outstanding, including 256,787 and 267,348 shares of common stock as of December 31, 2006 and 2005, respectively, 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 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. Diluted EPS amounts include the effect of the

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s outstanding stock options under the treasury stock method. All shares of restricted stock awarded under the Company s Equity Participation Plan are included in the Company s fully diluted shares.

Shares assumed issued upon conversion of the Company s 23/8% Contingent Convertible Notes averaged 391,434 and 87,210 during the years ended December 31, 2006 and December 31, 2005, respectively, and are included in the calculation of fully diluted earnings per share.

Stock-Based Compensation

We adopted Statement of Financial Accounting Standards No. 123R (SFAS 123R) effective January 1, 2006. This pronouncement requires 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. Prior to the adoption of SFAS 123R, this accounting treatment was optional with pro forma disclosures required. During the year ended December 31, 2006, the Company recognized non-cash general and administrative expenses for stock options and restricted stock awards totaling $7.6 million. Prior to the adoption of SFAS 123R, only shares of restricted stock awarded under the Equity Participation Plan were considered to be compensatory in nature. Accordingly, the Company recognized non-cash general and administrative expenses for restricted stock awards that totaled $0.6 million and $0.1 million in the years ended December 31, 2005 and 2004, respectively. An additional $0.1 million was recognized in 2004 for a stock option performance award. The Company accounts for assets held in a rabbi trust for certain participants under the Company s deferred compensation plan in accordance with EITF 97-14. See Note 13.

Guarantees

The Company applies FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, including Indirect Indebtedness of Others, for the Company s obligations under certain guarantees.

Pursuant to FIN 45, the Company is required to disclose the changes in product warranty reserves. Some of our products in our offshore products and accommodations businesses are sold with a warranty, generally between 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 reserves were as follows (in thousands):

	Year Ended December 31,	
	2006	**2005**
Beginning balance	$ 1,527	$ 2,040
Provisions for warranty	4,222	3,676
Consumption of reserves	(4,109)	(4,305)
Translation and other changes	16	116

Ending balance	$ 1,656	$ 1,527

Current warranty provisions are typically related to the current year s sales, while warranty consumption is associated with current and prior year s net sales. During 2004, the Company recorded a $1.0 million increase in its warranty reserves related to a potential warranty claim associated with an international subsea pipeline project installed during 2000 in addition to smaller accruals of a more recurring nature. The international subsea pipeline project warranty issue was settled in 2005 for an amount approximately equal to the amount reserved for this issue.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2006, the maximum potential amount of future payments that the Company could be required to make under these guarantee agreements was approximately $11.3 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.

Reclassifications

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of a few such estimates include the costs associated with the disposal of discontinued operations, including potential future adjustments as a result of contractual agreements, revenue and income recognized on the percentage-of-completion method, estimate of the Company s share of earnings from equity method investments, the valuation allowance recorded on net deferred tax assets, warranty, inventory and bad debt reserves. 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 reserves related to the discontinued operations as of December 31, 2006 and 2005 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, 2006 and 2005 is presented below (in thousands):

	2006	2005
Accounts receivable:		
Trade	$ 269,136	$ 236,936
Unbilled revenue	83,782	36,789

Other	1,726	2,514
Allowance for doubtful accounts	(2,943)	(2,169)
	$ 351,701	$ 274,070

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2006	2005
Inventories:		
Tubular goods	$ 261,785	$ 274,232
Other finished goods and purchased products	50,095	35,716
Work in process	45,848	30,288
Raw materials	35,642	26,412
Total inventories	393,370	366,648
Inventory reserves	(7,188)	(5,722)
	$ 386,182	$ 360,926

	Estimated Useful Life	2006	2005
Property, plant and equipment:			
Land		$ 9,112	$ 9,576
Buildings and leasehold improvements	5-50 years	77,853	60,049
Machinery and equipment	2-20 years	326,977	292,713
Rental tools	1-10 years	64,178	72,327
Office furniture and equipment	1-10 years	18,832	16,231
Vehicles	4-10 years	31,541	26,035
Construction in progress		18,811	22,283
Total property, plant and equipment		547,304	499,214
Less: Accumulated depreciation		(188,588)	(188,762)
		$ 358,716	$ 310,452

Depreciation expense was $50.5 million, $43.3 million and $33.7 million in the years ended December 31, 2006, 2005 and 2004, respectively.

	2006	2005
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 142,204	$ 168,445
Accrued compensation	29,058	22,529
Accrued insurance	5,836	4,820
Accrued taxes, other than income taxes	3,317	4,354

Reserves related to discontinued operations	3,357	3,527
Other	16,070	10,829
	$ 199,842	$ 214,504

4. Recent Accounting Pronouncements

We adopted Statement of Financial Accounting Standards No. 123R (SFAS 123R) effective January 1, 2006. This pronouncement requires 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. Prior to the adoption

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of SFAS 123R, this accounting treatment was optional with pro forma disclosures required. We adopted SFAS 123R using the modified prospective transition method. See Note 13.

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. Among other changes, this Statement requires retrospective application for voluntary changes in accounting principles, unless it is impractical to do so. Guidance is provided on how to account for changes when retrospective application is impractical. This Statement was effective beginning January 1, 2006.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company plans to adopt the provisions of SFAS 157 in 2008 and does not expect the adoption of SFAS 157 to have a material impact on its results from operations or financial position.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN 48 requires companies to meet a more-likely-than-not threshold (i.e. greater than 50 percent likelihood of a tax position being sustained under examination) prior to recording a benefit for their tax position. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact this interpretation will have on its results from operations or financial position.

5. Earnings Per Share (EPS)

	2006	2005	2004
	(In thousands, except per share data)		
Basic earnings per share:			
Net income	$ 197,634	$ 121,813	$ 59,362
Weighted average number of shares outstanding	49,519	49,344	49,329
Basic earnings per share	$ 3.99	$ 2.47	$ 1.20
Diluted earnings per share:			
Net income	$ 197,634	$ 121,813	$ 59,362
Weighted average number of shares outstanding (basic)	49,519	49,344	49,329
Effect of dilutive securities:			
Options on common stock	807	973	662
23/8% contingent convertible notes	391	87	
Restricted stock	56	75	36
Total shares and diluted securities	50,773	50,479	50,027

Diluted earnings per share	$ 3.89	$ 2.41	$ 1.19

6. Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). In connection with the adoption of SFAS No. 142, the Company ceased amortizing goodwill. Under SFAS No. 142, goodwill is no longer amortized but is tested for impairment using a fair value approach, at the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. We have six reporting units as of December 31, 2006, a decrease of one since December 31, 2005 due to the sale of our workover services business (See Note 7). Goodwill is allocated to each of the reporting units based on actual acquisitions made by the Company and its subsidiaries. We would recognize an impairment charge for any amount by which the carrying amount of a reporting unit s goodwill exceeds the unit s fair value. The Company uses comparative market multiples to establish fair values. The Company has never recognized a goodwill impairment.

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 and written down to fair value as required. No provision for impairment was required based on the evaluations performed.

Changes in the carrying amount of goodwill for the year ended December 31, 2006 and 2005 are as follows (in thousands):

	Offshore Products	Wellsite Services	Tubular Services	Total
Balance as of December 31, 2004	$ 75,582	$ 130,860	$ 51,604	$ 258,046
Goodwill acquired	2	69,320	10,799	80,121
Foreign currency translation and other changes	(662)	2,586	(388)	1,536
Balance as of December 31, 2005	74,922	202,766	62,015	339,703
Goodwill acquired				
Foreign currency translation and other changes	794	(9,131)(1)	438	(7,899)
Balance as of December 31, 2006	$ 75,716	$ 193,635	$ 62,453	$ 331,804

(1) Effective March 1, 2006, the Company sold its workover services business See Note 7. A total of $9,340 of goodwill was removed in connection with the workover services business sold and considered in the calculation of the gain recognized in that transaction. The remainder of this change for well site services relates to foreign currency and other changes.

The portion of goodwill deductible for tax purposes totals approximately $1.3 million at December 31, 2006. The following table presents the total amount assigned and the total amount amortized for major intangible asset classes as of December 31, 2006 and 2005 (in thousands):

	December 31, 2006	December 31, 2005

	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets				
Non-compete agreements	$ 14,644	$ 9,279	$ 14,282	$ 6,206
Patents and other	7,824	1,713	7,784	981
	$ 22,468	$ 10,992	$ 22,066	$ 7,187

Intangible assets, other than goodwill, are included within Other noncurrent assets in the Consolidated Balance Sheet. The weighted average remaining amortization period for all intangible assets, other than goodwill and indefinite lived intangibles, is 6.5 years and 6.7 years as of December 31, 2006 and 2005, respectively. Total amortization expense is expected to be $3.6 million, $2.2 million, $1.6 million, $0.8 million and $0.4 million in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2007, 2008, 2009, 2010 and 2011, respectively. Amortization expense was $3.9 million, $3.4 million and $2.3 million in the years ended December 31, 2006, 2005 and 2004, respectively.

7. Workover Services Business Transaction, Investment in Boots & Coots and Notes Receivable from Boots & Coots

Effective March 1, 2006, we completed a transaction to combine our workover services business with Boots & Coots in exchange for 26.5 million shares of Boots & Coots common stock and senior subordinated promissory notes totaling $21.2 million. Our workover services business was part of our well site services segment prior to the combination.

As a result of the closing of the transaction, we acquired approximately 45.6% of the outstanding common stock of Boots & Coots. Stock issued by Boots & Coots subsequent to March 1, 2006 has reduced the Company s ownership percentage to 44.6% at December 31, 2006. The senior subordinated promissory notes received in the transaction bear a fixed annual interest rate of 10% and mature four and one half years from the closing of the transaction. The notes are included in Other Noncurrent Assets in the Consolidated Balance Sheet. In connection with this transaction, we also entered into a Registration Rights Agreement requiring Boots & Coots to file a shelf registration statement within 30 days for all of the Boots & Coots shares we received in the transaction and also allowing us certain rights to include our shares of common stock of Boots & Coots in a registration statement filed by Boots & Coots. The shelf registration statement has been filed by Boots & Coots and was declared effective in the fourth quarter of 2006. The transaction terms also allowed us to designate three additional members to Boots & Coots existing five-member Board of Directors. All three directors designated by us have joined the Boots & Coots Board of Directors as of January 1, 2007.

The transaction resulted in a non-cash pretax gain of $20.7 million of which $9.4 million has not been recognized in accordance with the guidance in Emerging Issues Task Force Issue No. 01-2 covering gain recognition involving non-cash transactions and retained equity interests. After the gain adjustment and income taxes, the transaction had a $5.9 million, or $0.12 per diluted share, impact on net income and earnings per share, respectively, in the first quarter of 2006. We account for our investment in Boots & Coots utilizing the equity method of accounting. Differences between Boots & Coots total book equity after the transaction, net to the Company s interest, and the carrying value of our investment in Boots & Coots are principally attributable to the unrecognized gain on the sale of the workover services business and to goodwill. At December 31, 2006, our investment in Boots & Coots totaled $34.6 million and is included within Investments in unconsolidated affiliates in the Consolidated Balance Sheet. The aggregate market value of Boots & Coots shares owned as of December 31, 2006 was $59.3 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Long-term Debt

As of December 31, 2006 and 2005, long-term debt consisted of the following (in thousands):

	2006	2005
US revolving credit facility, with available commitments up to $300 million; secured by substantially all of our assets; commitment fee on unused portion ranged from 0.25% to 0.375% per annum in 2006 and 2005; variable interest rate payable monthly based on prime or LIBOR plus applicable percentage; weighted average rate was 6.4% for 2006 and 4.7% for 2005	$ 186,200	$ 179,600
Canadian revolving credit facility, with available commitments up to $100 million; secured by substantially all of our assets; variable interest rate payable monthly based on the Canadian prime rate or Bankers Acceptance discount rate plus applicable percentage; weighted average rate was 5.4% for 2006 and 4.3% for 2005	29,177	42,885
23/8% contingent convertible senior notes due 2025	175,000	175,000
Subordinated unsecured notes payable to sellers of businesses, interest ranging from 5% to 6%, maturing in 2006 and 2007	6,689	7,493
Other revolving bank debt, with available commitments up to $5 million, weighted average rate was 8.25% for 2006	978	
Obligations under capital leases	515	509
Other notes payable in monthly installments of principal and interest at various interest rates	43	523
Total debt	398,602	406,010
Less: current maturities	6,873	3,901
Total long-term debt	$ 391,729	$ 402,109

Scheduled maturities of combined long-term debt as of December 31, 2006, are as follows (in thousands):

2007	$ 6,873
2008	157
2009	109
2010	73
2011	216,390
Thereafter	175,000
	$ 398,602

The Company s capital leases consist primarily of plant facilities and equipment. The value of capitalized leases and the related accumulated depreciation totaled $1.0 million and $0.5 million, respectively, at December 31, 2006. The value of capitalized leases and the related accumulated depreciation totaled $2.2 million and $1.3 million, respectively, at December 31, 2005.

23/8% Contingent Convertible Senior Notes

On June 15, 2005, the Company 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 the year because the Company s stock price exceeded the initial conversion price of $31.75 during the period. The terms of the notes require that the Company s 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. Assuming the stock price contingency feature is met and the holders of the notes elect to convert when the stock price is $38.10 per share, the Company would be required to deliver $175 million in cash plus accrued interest and approximately 919,000 shares of common stock. The notes were not callable by the Company or convertible by the note holders at anytime in 2006. 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. The notes were so registered in November 2005. If the Company does not keep the registration statement effective for approximately the next eighteen months, additional contingent interest would have to be paid to the note holders, subject to certain provisions. The maximum amount of contingent interest that could potentially inure to the note holders during such time period is not material to the consolidated financial position or the results of operations of the Company.

The Company utilized $30 million of the net proceeds of the offering on June 15, 2005 to repurchase 1,183,432 shares of its common stock and the remaining portion of the net proceeds to repay a $25.0 million bridge loan and to repay approximately $66.0 million of borrowings under its senior secured credit facility. Net proceeds of the additional notes sold in July 2005, totaling $48.5 million, were utilized to repay borrowings under the Company s senior secured credit facility.

On May 11, 2005 the Company borrowed $25 million under a bridge loan with a bank which was due in 2010. The loan was unsecured and was repaid in full on June 21, 2005. The average interest rate on this bridge loan for the period it was outstanding was 6.0%.

Revolving Credit Facility

On December 5, 2006, the Company amended its Credit Agreement dated October 30, 2003. The Company s credit facility totals $400 million. Under this senior secured revolving credit facility with a group of banks, up to $100 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 facility matures on December 5, 2011. The Credit Agreement permits the Company incremental borrowings of up to $100 million under the Credit Agreement, subject to lender approval, on the same terms and conditions. Amounts borrowed under this facility 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 0.5% to 1.25%; 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 0.175% to 0.25% per year are paid on the undrawn portion of the facility, depending upon our leverage ratio.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The credit facility is guaranteed by all of the Company s active domestic subsidiaries and, in some cases, the Company s Canadian and other foreign subsidiaries. The credit facility is secured by a first priority lien on all the Company s inventory, accounts receivable and other material tangible and intangible assets, as well as those of 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.

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

As of December 31, 2006, we had $215.4 million outstanding under this facility and an additional $10.7 million of outstanding letters of credit leaving $173.9 million available to be drawn under the facility.

On January 11, 2005 the Company renewed its overdraft credit facility providing for borrowings totaling £2.0 million for UK operations. Interest is payable quarterly at a margin of 1.5% per annum over the bank s variable base rate. All borrowings under this facility are payable on demand. No amounts were outstanding under this facility at December 31, 2006. Letters of credit totaling £0.3 million were outstanding as of December 31, 2006, leaving £1.7 million available to be drawn under this facility.

The Company maintains an additional revolving credit facility with a bank. A total of $1.0 million was outstanding under this facility as of December 31, 2006. This facility consists of a swing line with a bank, borrowings under which are used for working capital efficiencies.

9. Retirement Plans

The Company sponsors defined contribution plans. Participation in these plans is available to substantially all employees. The Company recognized expense of $5.4 million, $4.3 million and $3.1 million, respectively, related to its various defined contribution plans during the years ended December 31, 2006, 2005 and 2004, respectively.

10. Income Taxes

Consolidated pre-tax income for the years ended December 31, 2006, 2005 and 2004 consisted of the following (in thousands):

	2006	2005	2004
US operations	$ 206,288	$ 124,368	$ 56,827
Foreign operations	95,359	58,139	31,941
Total	$ 301,647	$ 182,507	$ 88,768

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the income tax provision for the years ended December 31, 2006, 2005 and 2004 consisted of the following (in thousands):

	2006	2005	2004
Current:			
Federal	$ 69,849	$ 40,385	$ 5,218
State	4,172	3,621	1,929
Foreign	30,193	19,770	15,308
	104,214	63,776	22,455
Deferred:			
Federal	3,017	(2,451)	4,492
State	(762)	(1,274)	506
Foreign	(2,456)	643	1,953
	(201)	(3,082)	6,951
Total Provision	$ 104,013	$ 60,694	$ 29,406

The provision for taxes differs from an amount computed at statutory rates as follows for the years ended December 31, 2006, 2005 and 2004 (in thousands):

	2006	2005	2004
Federal tax expense at statutory rates	$ 105,576	$ 63,877	$ 31,069
Foreign income tax rate differential	(2,880)	244	1,917
Reduced foreign tax rates	(2,168)		
Nondeductible expenses	149	440	1,953
State tax expense, net of federal benefits	2,051	2,314	1,583
Domestic manufacturing deduction	(872)	(365)	
Manufacturing and processing profits deduction			(1,204)
Adjustment of valuation allowance		(4,681)	(6,928)
Dividend income foreign affiliate	1,542		
Gain on sale of affiliated company stock	1,405		
Other, net	(790)	(1,135)	1,016
Net income tax provision	$ 104,013	$ 60,694	$ 29,406

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The significant items giving rise to the deferred tax assets and liabilities as of December 31, 2006 and 2005 are as follows (in thousands):

	2006	2005
Deferred tax assets:		
Net operating loss carryforward	$ 8,198	$ 9,753
Allowance for doubtful accounts	897	603
Inventory reserves	3,384	2,495
Employee benefits	6,905	3,883
Intangibles	564	257
Other reserves	282	227
Deferred revenue	1,995	
Other	2,183	2,469
Gross deferred tax asset	24,408	19,687
Less: valuation allowance	(421)	(421)
Net deferred tax asset	23,987	19,266
Deferred tax liabilities:		
Depreciation	(42,495)	(44,926)
Deferred revenue		(395)
Inventory	(1,241)	(1,644)
Accrued liabilities	(1,913)	(1,766)
Basis difference of investments	(7,681)	
Other	(3,904)	(3,567)
Deferred tax liability	(57,234)	(52,298)
Net deferred tax liability	$ (33,247)	$ (33,032)

Reclassifications of the Company s deferred tax balance based on net current items and net non-current items as of December 31, 2006 and 2005 are as follows (in thousands):

	2006	2005
Assets		
Current deferred tax asset	$ 4,773	$ 2,227
Long term deferred tax liability	(38,020)	(35,259)
Net deferred tax liability	$ (33,247)	$ (33,032)

Our primary deferred tax asset, which totaled $8.2 million at December 31, 2006, is related to $23.4 million in available federal net operating loss carryforwards, or NOLs, as of that date. The NOLs will expire in varying amounts during the years 2010 through 2011 if they are not first used to offset taxable income that we generate. Our ability to utilize a significant portion of the available 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 NOLs will be utilized. The Company has federal alternative minimum tax net operating loss carryforwards of $6.0 million, which will expire in the years 2011 through 2020.

Our income tax provision for the year ended December 31, 2006 totaled $104.0 million, or 34.5% of pretax income. During the year ended December 31, 2006, the Company recognized a tax benefit triggered by employee exercises of stock options totaling $5.0 million. Such benefit was credited to additional paid-in capital. Our income

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

tax provision for the year ended December 31, 2005 totaled $60.7 million, or 33.3% of pretax income. The income tax provision for the year 2005 included a $4.7 million income tax benefit related to the reversal of substantially all of the remaining valuation allowance applied against NOLs which were recorded as of the prior year end.

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 $260 million at December 31, 2006 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.

During the fourth quarter of 2006, the Internal Revenue Service (the IRS) began an audit of the Company s 2004 consolidated federal income tax return. We are in the early stages of this audit and information has been supplied, as requested.

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, 2006, 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.

11. Supplemental Cash Flow Information

Cash paid during the years ended December 31, 2006, 2005 and 2004 for interest and income taxes was as follows (in thousands):

	2006	2005	2004
Interest (net of amounts capitalized)	$ 17,262	$ 10,589	$ 6,840
Income taxes, net of refunds	$ 92,620	$ 62,130	$ 18,892
Non-cash investing activities:			
Receipt of stock and notes for hydraulic workover services business in merger transaction, net of unrecognized gain of $9.4 million (See Note 7)	$ 50,105	$	$
Non-cash financing activities:			
Borrowings and assumption of liabilities for business and asset acquisition and related intangibles	$ 514	$ 6,554	$ 4,637
Acquisition of treasury stock with settlement date in 2007	4,913		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of cash used for acquisitions as reflected in the consolidated statements of cash flows for the years ended December 31, 2006, 2005 and 2004 are summarized as follows (in thousands):

	2006	2005	2004
Fair value of assets acquired and goodwill	$ 99	$ 192,589	$ 93,094
Liabilities assumed		(32,052)	(5,825)
Noncash consideration		(6,554)	(4,637)
Less: cash acquired		(6,375)	(1,826)
Cash used in acquisition of businesses	$ 99	$ 147,608	$ 80,806

In January 2004, we completed the acquisition of several related rental tool companies for $36.6 million. The companies, based in South Texas are leading providers of thru-tubing services and ancillary equipment rentals. These companies have been combined with our rental tool subsidiary, and report through the well site services segment. We completed an additional acquisition of a rental tool company in April 2004 for $4.8 million. In May 2004, we purchased the oil country tubular goods (OCTG) distribution business of Hunting Energy Services, L.P., a wholly-owned affiliate of Hunting plc, for $47.2 million, including a purchase price adjustment settled in October 2004. In connection with the transaction, we purchased Hunting s U.S. tubular inventory, assumed certain customer contracts and entered into supply and distribution relationships with Hunting for the future. Hunting s distribution operations were merged into our tubular services segment. In October 2004, our offshore products segment acquired a small business for $0.5 million which has become part of our existing elastomers business.

On February 1, 2005, the Company completed the acquisition of Elenburg Exploration Company, Inc. (Elenburg), a Wyoming based land drilling company for cash consideration of $22.1 million, including transaction costs, plus a note payable to the former owners of $0.8 million. At the date of acquisition, Elenburg owned and operated 7 rigs which provided shallow land drilling services in Montana, Wyoming, Colorado, and Utah. The Elenburg acquisition allowed us to expand our drilling business into different geographic areas. The operations of Elenburg have been included in the drilling services business within the well site services segment.

Effective May 1, 2005 and June 1, 2005 we acquired Stinger Wellhead Protection, Inc., certain affiliated companies and related intellectual property, (collectively, Stinger) for consideration of $96.1 million, including transaction costs and a note payable to the former owners of $5.0 million. Stinger provides wellhead isolation equipment and services through its 30 locations in the United States, Canada, Central and South America. Stinger s patented equipment is utilized during pressure pumping operations and isolates the customers blow-out preventers or wellheads from the pressure and abrasion experienced during the fracturing process of an oil or gas well. The Stinger acquisition expanded our rental tool and services capabilities, especially in the pressure pumping market. The operations of Stinger have been included in the rental tools business within the well site services segment.

On June 2, 2005, we purchased Phillips Casing and Tubing, L.P. (Phillips) for cash consideration of $31.2 million, net of cash acquired and including transaction costs. Phillips distributes OCTG primarily carbon ERW (electronic resistance welded) pipe, from its facilities in Midland and Godley, Texas. The operations of Phillips have been combined with our tubular services segment.

On June 6, 2005, we acquired Noble Structures, Inc. (Noble) for cash consideration of $8.7 million, plus a note payable of $0.8 million. The acquisition expanded the Company s accommodation manufacturing capabilities in Canada in order to meet increased demand for remote site facilities, principally in the oil sands region. The operations of Noble have been included in the accommodations business within our well site services segment.

In December 2005, we acquired a product line into our offshore products segment for cash consideration of $0.4 million.

In August 2006, we acquired three drilling rigs operating in West Texas from Eagle Rock Drilling for total consideration of $14.0 million, including a note payable to the seller of $0.5 million. The rigs acquired, which are

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

classified as part of our capital expenditures in 2006, were added to our existing West Texas drilling fleet in our drilling services business.

12. 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, 2006, are as follows (in thousands):

	Operating Leases
2007	$ 5,824
2008	4,522
2009	3,707
2010	2,837
2011	2,182
Thereafter	7,337
Total	$ 26,409

Rental expense under operating leases was $6.7 million, $5.7 million and $4.5 million for the years ended December 31, 2006, 2005 and 2004, 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.

On February 18, 2005, the Company announced that it had conducted an internal investigation prompted by the discovery of over billings totaling approximately $400,000 by one of its subsidiaries (the Subsidiary) to a government owned oil company in South America. The over billings were detected by the Company during routine financial review procedures, and appropriate financial statement adjustments were included in its previously reported fourth quarter 2004 results. We and independent counsel retained by our Audit Committee conducted separate investigations consisting of interviews and a thorough examination of the facts and circumstances in this matter. We voluntarily reported the results of our investigation to the Securities and Exchange Commission (the SEC) and we fully

cooperated with requests for information received from the SEC. On October 31, 2005, the Company s counsel received a Wells Notice from the staff of the SEC indicating that it made a preliminary decision to recommend that the SEC bring a civil action against the Company alleging violations of provisions of the Securities and Exchange Act of 1934 (the Act) relating to the maintenance of books, records and internal accounting controls and procedures as set forth in Sections 13(b)(2)(A) and (B) of the Act. The Company reached a settlement agreement with the SEC on April 27, 2006. The Company consented to an Order by the SEC (the Order), without admitting or denying the findings in the Order, that required the Company to cease and desist from committing or causing violations of the books and records and internal control provisions of the Act. The settlement did not require the Company to pay a monetary penalty.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Stock-Based Compensation

We adopted SFAS 123R effective January 1, 2006. This pronouncement requires 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. Prior to the adoption of SFAS 123R, this accounting treatment was optional with pro forma disclosures required. We adopted SFAS 123R using the modified prospective transition method, which is explained below.

SFAS 123R is effective for all stock options we grant beginning January 1, 2006. For those stock option awards granted prior to January 1, 2006, but for which the vesting period is not complete, we used the modified prospective transition method permitted by SFAS 123R. Under this method of accounting, the remaining unamortized value of non-vested options will be expensed over the remaining vesting period using the grant-date fair values. Our options typically vest in equal annual installments over a four year service period. Expense related to an option grant is recognized on a straight line basis over the specific vesting period for those options.

The fair value of options is determined at the grant date using a Black-Scholes option pricing model, which requires us to make several assumptions, including risk-free interest rate, dividend yield, volatity and expected term. 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 2006 was based on a formula considering the vesting period and term of the options awarded as permitted by U.S. Securities and Exchange Commission regulations.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes stock option activity for each of the three years ended December 31, 2006:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)	Aggregate Intrinsic Value (Thousands)
Balance at December 31, 2003	2,680,743	9.70	6.0	$ 11,802
Granted	911,000	13.75		
Exercised	(426,187)	8.96		
Forfeited	(226,758)	11.39		
Balance at December 31, 2004	2,938,798	10.93	5.5	$ 24,754
Granted	674,375	21.44		
Exercised	(784,904)	9.62		
Forfeited	(134,208)	16.80		
Balance at December 31, 2005	2,694,061	13.65	4.9	48,564
Granted	515,000	35.17		
Exercised	(728,759)	11.68		
Forfeited	(58,000)	17.70		
Expired	(1,750)	10.63		
Balance at December 31, 2006	2,420,552	18.73	4.7	34,173
Exercisable at December 31, 2004	958,375	9.31	5.1	9,766
Exercisable at December 31, 2005	916,807	9.89	4.9	20,027
Exercisable at December 31, 2006	1,107,432	12.26	4.8	22,113

The total intrinsic value of options exercised during 2006, 2005 and 2004 were $18.3 million, $13.1 million and $3.0 million, respectively. Cash received by the Company from option exercises during the 2006, 2005 and 2004 totaled $8.5 million, $7.5 million and $4.0 million, respectively.

The weighted average fair values of options granted during 2006, 2005, and 2004 were $12.89, $8.32, and $5.18 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2006, 2005, and 2004, respectively: risk-free weighted interest rates of 4.6%, 3.9%, and 3.1%, no expected dividend yield, expected lives of 4.3, 5.0, and 5.0 years, and an expected volatility of 37%, 37% and 37%.

The following table summarizes information for stock options outstanding at December 31, 2006:

	Options Outstanding	Options Exercisable

Range of Exercise Prices	Number Outstanding as of 12/31/2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of 12/31/2006	Weighted Average Exercise Price
$ 8.00 - $10.51	388,947	4.73	$ 8.4123	388,947	$ 8.4123
$11.49 - $11.49	406,287	6.16	$ 11.4900	286,475	$ 11.4900
$11.65 - $13.00	60,000	6.00	$ 12.2708	51,250	$ 12.1951
$13.70 - $13.70	460,875	3.16	$ 13.7000	204,125	$ 13.7000
$14.31- $15.36	50,000	5.79	$ 14.4550	25,000	$ 14.4550
$21.08 - $42.88	1,054,443	4.65	$ 28.1000	151,635	$ 21.3191
$ 8.00 - $42.88	2,420,552	4.69	$ 18.7325	1,107,432	$ 12.2618

At December 31, 2006, a total of 2,173,103 shares were available for future grant under the Stock Option Plan.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2006, we granted restricted stock awards totaling 113,787 shares valued at a total of $3.9 million. A total of 24,250 of these awards vest in four equal annual installments, 61,400 of these awards vest in two equal annual installments and the remaining 28,137 awards vest after one year. All options awarded in 2006 had a term of six years and were granted with exercise prices at the grant date closing market price. During 2006, a total of 223,379 outstanding options and awards held by 9 participants (7 of which were employed in our workover services business which was sold in March 2006) had their vesting accelerated and $1.3 million of additional stock compensation expense was recorded as a result of the accelerated vesting. The total fair value of restricted stock awards vesting during the year ended December 31, 2006, was $1.2 million. A total of 56,952 shares of restricted stock were awarded in 2005 with an aggregate value of $1.2 million. No restricted stock awards were made in 2004.

Impact of Adoption of SFAS 123R. Stock based compensation pre-tax expense recognized under SFAS 123R in the year ended December 31, 2006 totaled $7.6 million, or $0.10 per basic and diluted share. For the year ended December 31, 2005, our stock compensation expense related primarily to restricted stock awards and totaled $558,000. At December 31, 2006, $10.3 million of compensation cost related to unvested stock options and restricted stock awards attributable to future performance had not yet been recognized.

The following table illustrates the pro forma effect on net income and income per share for the years ended December 31, 2005 and 2004 had we applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation (in thousands except per share amounts):

	2005	2004
Net income, as reported	$ 121,813	$ 59,362
Deduct total stock-based employee compensation expense determined under SFAS 123, net of tax	(2,638)	(2,478)
Pro forma net income	$ 119,175	$ 56,884
Net income per share as reported:		
Basic	$ 2.47	$ 1.20
Diluted	$ 2.41	$ 1.19
Pro Forma net income per share as if fair value method had been applied to all awards:		
Basic	$ 2.42	$ 1.15
Diluted	$ 2.36	$ 1.14

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 all or a portion of their directors fees and/or salary and annual bonuses, as applicable, and it permits the Company to make discretionary contributions to any employee s account. Since inception of the Plan, this discretionary contribution provision has been limited to a matching of the employee participants contribution on a basis equivalent to matching permitted under the Company s 401(k) Retirement Savings Plan. All contributions to the participants accounts vest immediately. 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.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2006, the balance of the assets in the Trust totaled $5.7 million, including 24,897 shares of common stock of the Company reflected as treasury stock at a value of $0.3 million. The Company accounts for the Deferred Compensation Plan in accordance with EITF 97-14, 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 market value. The Company accounts for these investments in accordance with SFAS No. 115, 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 sheet. The market value of the assets held by the Trust, exclusive of the market value of the shares of the Company s common stock that are reflected as treasury stock, at December 31, 2006 was $5.5 million and is classified as Other noncurrent assets in the consolidated balance sheet. Amounts payable to the plan participants at December 31, 2006, including the market value of the shares of the Company s common stock that are reflected as treasury stock, was $6.3 million and is classified as Other liabilities in the consolidated balance sheet.

In accordance with EITF 97-14, all market 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 market 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 market value of the Company s common stock held by the Trust, the Company recorded net compensation expense adjustments of $28.3 thousand in 2006, $0.4 million in 2005 and $0.2 million in 2004.

14. Segment and Related Information

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has identified the following reportable segments: offshore products, wellsite services and tubular services. The Company s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial information by industry segment for each of the three years ended December 31, 2006, 2005 and 2004, 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 from Unaffiliated Customers	Depreciation and Amortization	Operating Income (Loss)	Capital Expenditures	Total Assets
2006					
Well Site Services					
Accommodations	$ 313,966	$ 16,637	$ 73,643	$ 59,542	$ 304,331
Rental tools	200,609	16,998	65,167	24,521	264,012
Drilling and Other(1)	134,524	8,032	54,620	33,071	163,520
Workover services(1)	8,544	650	1,922	263	
Total Well Site Services	657,643	42,317	195,352	117,397	731,863
Offshore Products	389,684	10,734	55,957	9,533	393,134
Tubular Services	876,030	1,170	66,486	2,598	423,782
Corporate and Eliminations		119	(19,858)	63	22,315
Total	$ 1,923,357	$ 54,340	$ 297,937	$ 129,591	$ 1,571,094
2005					
Well Site Services					
Accommodations	$ 287,340	$ 12,464	$ 39,701	$ 36,790	$ 245,080
Rental tools	134,820	13,638	35,078	19,809	246,614
Drilling and Other(1)	86,706	5,800	25,167	14,007	78,555
Workover services(1)	39,885	3,972	4,747	2,375	45,595
Total Well Site Services	548,751	35,874	104,693	72,981	615,844
Offshore Products	271,197	9,842	26,552	9,507	283,882
Tubular Services	711,688	922	74,887	462	422,500
Corporate and Eliminations		66	(11,571)	442	20,646
Total	$ 1,531,636	$ 46,704	$ 194,561	$ 83,392	$ 1,342,872
2004					
Well Site Services					
Accommodations	$ 189,998	$ 9,288	$ 33,634	$ 31,143	$ 195,476
Rental tools	66,917	9,835	10,724	11,068	122,243
Drilling and Other(1)	46,435	3,281	10,468	7,534	35,557
Workover services(1)	33,557	3,873	640	2,151	47,953

Total Well Site Services	336,907	26,277	55,466	51,896	401,229
Offshore Products	206,791	8,966	7,225	7,829	279,361
Tubular Services	427,314	680	40,928	258	243,339
Corporate and Eliminations		65	(8,503)	58	9,683
Total	$ 971,012	$ 35,988	$ 95,116	$ 60,041	$ 933,612

(1) Subsequent to March 1, 2006, the effective date of the sale of our workover services business (See Note 7), we have classified our equity interest in Boots & Coots and the notes receivable acquired in the transaction as Drilling and Other .

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial information by geographic segment for each of the three years ended December 31, 2006, 2005 and 2004, is summarized below in thousands. Revenues in the US include export sales. Revenues are attributable to countries based on the location of the entity selling the products or performing the services. Total assets are attributable to countries based on the physical location of the entity and its operating assets and do not include intercompany balances.

	United States	Canada	United Kingdom	Other Non-US	Total
2006					
Revenues from unaffiliated customers	$ 1,488,065	$ 300,461	$ 101,849	$ 32,982	$ 1,923,357
Long-lived assets	479,883	226,131	16,458	8,936	731,408
2005					
Revenues from unaffiliated customers	$ 1,137,160	$ 281,541	$ 67,853	$ 45,082	$ 1,531,636
Long-lived assets	463,454	179,869	14,606	21,199	679,128
2004					
Revenues from unaffiliated customers	$ 726,046	$ 171,378	$ 39,831	$ 33,757	$ 971,012
Long-lived assets	364,341	104,921	17,940	11,226	498,428

No customers accounted for more than 10% of the Company s revenues in any of the years ended December 31, 2006, 2005 and 2004. Equity in net income of unconsolidated affiliates is not included in operating income.

15. Quarterly Financial Information (Unaudited)

The following table summarizes quarterly financial information for 2006 and 2005 (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Revenues	$ 496,231	$ 463,359	$ 479,463	$ 484,303
Gross profit*	117,998	109,673	116,456	111,241
Net income	52,916	45,305	50,052	49,361
Basic earnings per share	1.08	0.91	1.01	1.00
Diluted earnings per share	1.04	0.88	0.99	0.98
2005				
Revenues	$ 331,946	$ 358,469	$ 394,140	$ 447,081
Gross profit*	71,293	73,758	85,873	94,526
Net income	25,289	24,851	30,308	41,365
Basic earnings per share	0.51	0.50	0.62	0.84
Diluted earnings per share:	0.50	0.49	0.60	0.82

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 operations.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Valuation Allowances

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

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions (net of recoveries)	Translation and Other, Net	Balance at End of Period
Year Ended December 31, 2006:					
Allowance for doubtful accounts receivable	$ 2,169	$ 1,562	$ (833)	$ 45	$ 2,943
Reserve for inventories	5,722	1,349	(113)	230	7,188
Reserves related to discontinued operations	3,527		(170)		3,357
Year Ended December 31, 2005:					
Allowance for doubtful accounts receivable	$ 1,523	$ 877	$ (489)	$ 258	$ 2,169
Reserve for inventories	4,899	1,333	(424)	(86)	5,722
Reserves related to discontinued operations	4,200		(673)		3,527
Year Ended December 31, 2004:					
Allowance for doubtful accounts receivable	$ 2,021	$ 419	$ (938)	$ 21	$ 1,523
Reserve for inventories	5,279	109	(610)	121	4,899
Reserves related to discontinued operations	4,785		(585)		4,200

Exhibit Index

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.3	Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
4.1	Form of common stock certificate (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 (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).
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).
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 Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).
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 Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).
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 hereof) (incorporated by reference to Oil States Current Reports on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005 and July 13, 2005).
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 (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).
10.3	Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.4	Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.5**	2001 Equity Participation Plan as amended and restated effective February 16, 2005 (incorporated by reference to Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Commission on March 2, 2006).

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).
10.7**	Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.8**	Executive Agreement between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.8 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).

Exhibit No.	Description
10.9**	Executive Agreement between Oil States International, Inc. and Cindy B. Taylor (incorporated by Reference to Exhibit 10.9 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.10**	Form of Executive Agreement between Oil States International, Inc. and Named Executive Officer (Mr. Hughes) (incorporated by reference to Exhibit 10.10 of the Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.11**	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 (File No. 333-43400)).
10.12	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 11, 2003.)
10.12A	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).
10.12B	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).
10.12C	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 filed with the Securities and Exchange Commission on December 7, 2006).
10.13A**	Restricted Stock Agreement, dated February 8, 2001, between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.13A to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2001, as filed with the Commission on May 15, 2001).
10.13B**	Restricted Stock Agreement, dated February 22, 2001, between Oil States International, Inc. and Douglas E. Swanson (incorporated by reference to Exhibit 10.13B to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2002, as filed with the Commission on May 15, 2002).

10.14**	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).
10.15**	Form of Executive Agreement between Oil States International, Inc. and named Executive Officer (Mr. Slator) (incorporated by reference to Exhibit 10.16 to the Company s Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Commission on March 1, 2002).
10.16**	Douglas E. Swanson contingent option award dated as of February 11, 2002 (incorporated by reference to Exhibit 10.17 to the Company s Quarterly Report on Form 10-Q for the three months ended September 30, 2002 as filed with the Commission on November 13, 2002).

Exhibit No.	Description
10.17**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Trahan) (incorporated by reference to Exhibit 10.16 to the Company s Quarterly Report on Form 10-Q for the three months ended June 30, 2002, as filed with the Commission on August 13, 2002).
10.18**	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).
10.19**	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).
10.20**	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 November 15, 2006).
10.21**	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 May 24, 2005).
10.22**	Form of 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).
10.23**	Form of Non-Employee Director Restricted Stock Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 22.2 to the Company s Report of Form 8-K, as filed with the Commission on May 24, 2005).
10.24**	Form of 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 10Q for the quarter ended September 30, 2006, as filed with the Commission on November 3, 2006).
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.

* Filed herewith

** Management contracts or compensatory plans or arrangements

*** Furnished herewith.