

OIL STATES INTERNATIONAL, INC
Form 10-K
February 19, 2019

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

Form 10-K

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission file no. 001-16337

Oil States International, Inc.
(Exact name of registrant as specified in its charter)
Delaware 76-0476605
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Three Allen Center, 333 Clay Street, Suite 4620, Houston, Texas 77002
(Address of principal executive offices and zip code)

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

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

Yes No

As of June 30, 2018, the aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant was \$1,899,035,183.

As of February 18, 2019, the number of shares of common stock outstanding was 60,498,465.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the 2019 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 Annual Report on Form 10 K, are incorporated by reference into Part III of this Annual Report on Form 10 K.

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PART I

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K and other statements we make contain certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Actual results could differ materially from those projected in the forward-looking statements as a result of a number of important factors, including incorrect or changed assumptions. For a discussion of known material factors that could affect our results, please refer to “Part I, Item 1. Business,” “Part I, Item 1A. Risk Factors,” “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk” below.

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,” “proposed,” “should,” “seek,” and other similar words. Such statements may relate to our future financial position, budgets, capital expenditures, projected costs, plans and objectives of management for future operations and possible future strategic transactions. Actual results frequently differ from assumed facts and such differences can be material, depending upon the circumstances.

While we believe we are providing forward-looking statements expressed in good faith and on a reasonable basis, there can be no assurance that actual results will not differ from such forward looking statements. The following are 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 supply of and demand for oil and natural gas;
- fluctuations in the current and future prices of oil and natural gas;
- the cyclical nature of the oil and natural gas industry;
- the level of exploration, drilling and completion activity;
- the financial health of our customers;
- the impact on certain major U.S. areas in which we operate of pipeline take away capacity constraints;
- the availability of and access to attractive oil and natural gas field prospects, which may be affected by governmental actions or actions of other parties which may restrict drilling and completion activities;
- the level of offshore oil and natural gas developmental activities;
- general global economic conditions;
- the ability of the Organization of Petroleum Exporting Countries (“OPEC”) to set and maintain production levels and pricing;
- global weather conditions and natural disasters;
- changes in tax laws and regulations;
- the impact of tariffs and duties on imported raw materials and exported finished goods;
- impact of environmental matters, including future environmental or climate change regulations which may result in increased operating costs or reduced commodity demand globally;
- our ability to find and retain skilled personnel;
- negative outcome of litigation, threatened litigation or government proceedings;
- fluctuations in currency exchange rates;
- physical, digital, cyber, internal and external security breaches;
- the availability and cost of capital;
- our ability to complete the integration of acquired businesses and achieve the expected accretion in earnings; and
- the other factors identified in “Part I, Item 1A. Risk Factors.”

Should one or more of these risks or uncertainties materialize, or should the assumptions on which our forward-looking statements are based prove incorrect or change, actual results may differ materially from those expected, estimated or projected. In addition, the factors identified above may not necessarily be 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. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no responsibility to publicly release the result of any revision of our

forward-looking statements after the date they are made.

In addition, in certain places in this Annual Report on Form 10-K, we refer to information and reports published by third parties that purport to describe trends or developments in the energy industry. The Company does so for the convenience of our stockholders and in an effort to provide information available in the market that will assist the Company's investors in better understanding the market environment in which the Company operates. However, the Company specifically disclaims any responsibility for the accuracy and completeness of such information and undertakes no obligation to update such information.

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Item 1. Business

Our Company

Oil States International, Inc., through its subsidiaries, is a global oilfield products and services company serving the drilling, completion, subsea, production and infrastructure sectors of the oil and gas industry. Our manufactured products include highly engineered capital equipment as well as products consumed in the drilling, well construction and production of oil and gas. Through our acquisition of GEODynamics, Inc. ("GEODynamics"), we are a leading researcher, developer and manufacturer of engineered solutions to connect the wellbore with the formation in oil and gas well completions. Oil States is headquartered in Houston, Texas with manufacturing and service facilities strategically located across the globe. Our customers include many national oil and natural gas companies, major and independent oil and natural gas companies, onshore and offshore drilling companies and other oilfield service companies. We operate through three business segments – Well Site Services, Downhole Technologies and Offshore/Manufactured Products – and maintain a leadership position with certain of our product and service offerings in each segment. In this Annual Report on Form 10 K, references to the "Company" or "Oil States" or to "we," "us," "our," and similar terms are to Oil States International, Inc. and its consolidated subsidiaries.

Available Information

The Company's Internet website is www.oilstatesintl.com. The Company makes available, free of charge through its website, its Annual Report on Form 10 K, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K, its proxy statement, Forms 3, 4 and 5 filed on behalf of directors and executive officers, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (the "SEC"). The Company is not including the information contained on the Company's website or any other website as a part of, or incorporating it by reference into, this Annual Report on Form 10 K or any other filing the Company makes with the SEC. The filings are also available through the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330.

Additionally, these filings are available on the Internet at www.sec.gov. The Board of Directors of the Company (the "Board") has documented its governance practices by adopting several corporate governance policies. These governance policies, including the Company's Corporate Governance Guidelines, Corporate Code of Business Conduct and Ethics and Financial Code of Ethics for Senior Officers, as well as the charters for the committees of the Board (Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee) may also be viewed at the Company's website. The financial code of ethics applies to our principal executive officer, principal financial officer, principal accounting officer and other senior officers. Copies of such documents will be provided to stockholders without charge upon written request to the corporate secretary at the address shown on the cover page of this Annual Report on Form 10 K.

Our Business Strategy

We have historically grown our product and service offerings organically, through capital spending, and also through strategic acquisitions. Our investments are focused in growth areas and on areas where we expect to be able to expand market share through technology and where we believe we can achieve an attractive return on our investment. As part of our long-term strategy, we continue to review complementary acquisitions, invest in research and development and make organic capital expenditures to enhance our cash flows, leverage our cost structure and increase our stockholders' returns. For additional discussion of our business strategy, please read "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Recent Developments

In addition to capital spending, we have invested in acquisitions of businesses complementary to our growth strategy. Our acquisition strategy has allowed us to leverage our existing and acquired products and services into new geographic locations and has expanded the breadth of our technology and product offerings while allowing us to leverage our cost structure. We have made strategic and complementary acquisitions in each of our business segments in recent years.

On December 12, 2017 we entered into an agreement to acquire GEODynamics, which provides oil and gas perforation systems and downhole tools in support of completion, intervention, wireline and well abandonment operations. On January 12, 2018, we closed the acquisition of GEODynamics for total consideration of approximately

\$615 million (the "GEODynamics Acquisition"), consisting of (i) \$295 million in cash (net of cash acquired), (ii) approximately 8.66 million shares of our common stock and (iii) an unsecured \$25 million promissory note. In connection with the GEODynamics Acquisition, we completed several financing transactions to extend the maturity of our debt, while also providing us with the flexibility to repay outstanding borrowings under our revolving credit facility with anticipated future cash flows from operations.

On January 30, 2018, we sold \$200 million aggregate principal amount of our 1.50% convertible senior notes due 2023 (the "Notes") through a private placement to qualified institutional buyers. We received net proceeds from the offering of the Notes of approximately \$194 million, after deducting issuance costs. We used the net proceeds to repay a portion of the borrowings outstanding under our revolving credit facility (the "Revolving Credit Facility"), substantially all of which were drawn to fund the cash portion of the purchase price paid for GEODynamics. Concurrently with the Notes offering, we amended our Revolving Credit Facility (the "Amended Revolving Credit Facility") to extend the maturity date to January 2022, permit the issuance of the Notes and provide for up to \$350 million in borrowing capacity.

On February 28, 2018, we acquired Falcon Flowback Services, LLC ("Falcon"), a full service provider of flowback and well testing services for the separation and recovery of fluids, solid debris and proppant used during hydraulic fracturing operations. Falcon provides additional scale and diversity to our Completion Services operations in key shale plays in the United States. The acquisition price was \$84.2 million in cash. The Falcon acquisition was funded with borrowings under our Amended Revolving Credit Facility.

See Note 5, "Business Acquisitions" and Note 7, "Long-term Debt" to the Consolidated Financial Statements included in this Annual Report on Form 10 K for further discussion of these acquisitions and financing transactions.

Our Industry

We principally operate in the oilfield services industry and provide a broad range of products and services to our customers through each of our business segments. See Note 14, "Segments and Related Information," to the Consolidated Financial Statements included in "Part II, Item 8. Financial Statements and Supplementary Data" for financial information by segment along with a geographical breakout of revenues and long-lived assets for each of the three years in the period ended December 31, 2018. Demand for our products and services is cyclical and substantially dependent upon activity levels in the oil and natural gas industry, particularly our customers' willingness to invest capital on the exploration for and development of crude oil and natural gas reserves. Our customers' capital spending programs are generally based on their outlook for near-term and long-term commodity prices, economic growth, commodity demand and estimates of resource production. As a result, demand for our products and services is largely sensitive to expectations with respect to future crude oil and natural gas prices.

Our consolidated results of operations in 2018 include contributions from the GEODynamics and Falcon acquisitions completed in the first quarter of 2018 and reflect the impact of industry trends and customer spending activities, which were directed toward growth in the U.S. shale play regions with a general slowing of investments in deepwater markets globally since the start of a prolonged industry downturn in 2014.

Our historical financial results reflect the cyclical nature of the oilfield services industry – witnessed by periods of increasing and decreasing activity in each of our operating segments. The severe industry downturn that started in the second half of 2014 continued into 2017. This prolonged industry downturn has been characterized by materially reduced capital investments made by our customers, lower rig counts, lower completion activity, lower crude oil prices and other negative industry events. The industry decline was very rapid in the U.S. shale plays given the general lack of long-term contracts or backlog in these regions of operations. The U.S. rig count declined 79% from the peak in 2014 before bottoming in May of 2016. While the average U.S. rig count increased by 18% in 2018 from the 2017 average, activity levels in 2017 and 2018 were still well below 2014 levels. This significant activity decline had a material negative effect on the results of our Well Site Services segment before activities began to recover in the second half of 2017 and 2018. Our Offshore/Manufactured Products segment was also negatively impacted by the industry downturn but our results of operations declined at a slower pace given higher levels of backlog that existed at the beginning of 2014. Despite an initially slower decline in revenues and operating income when compared to our Well Site Services segment, our Offshore/Manufactured Products backlog declined materially from 2014 to 2018. This negatively impacted our results, particularly those tied to major deepwater projects. During the fourth quarter of 2018, the price of crude oil fell approximately 40% – with West Texas Intermediate crude oil closing at \$45 per barrel on December 28, 2018. This precipitous decline in crude oil prices had a moderately negative impact on our fourth quarter 2018 consolidated results of operations, particularly those tied to activity in the U.S. shale play regions. We expect further customer-driven activity declines in early 2019 as customers reassess their budgets and plans in light of lower commodity prices. If the current pricing environment for crude oil does not improve or declines further, our

customers may be required to further reduce their capital expenditures. This may cause additional declines in the demand for, and prices of, our products and services, which would adversely affect our future results of operations, cash flows and financial position. For additional information about activities in each of our segments, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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Our Well Site Services segment is primarily affected by drilling and completion activity in the United States, including the Gulf of Mexico, and, to a lesser extent, Canada and the rest of the world. U.S. drilling and completion activity and, in turn, our Well Site Services results, are particularly sensitive to near-term fluctuations in commodity prices given the call-out nature of our operations in the segment. While there have been notable improvements in recent quarters, our Well Site Services segment continues to be negatively affected by the material decline in crude oil prices from the levels seen in 2014.

Similar to our Well Site Services segment, demand for our Downhole Technologies segment products is predominantly tied to the level of oil and natural gas exploration and production activity on land in the United States. The primary driver for this activity is the price of crude oil and, to a lesser extent, natural gas. Activity levels have been, and we expect will continue to be, highly correlated with hydrocarbon commodity prices. Over recent years, our industry experienced increased customer spending in crude oil and liquids-rich exploration and development in the North American shale plays utilizing horizontal drilling and completion techniques. According to rig count data published by Baker Hughes, a GE company ("Baker Hughes"), the U.S. oil rig count peaked in October 2014 at 1,609 rigs but has declined materially since late 2014 due to much lower crude oil prices, totaling 885 rigs as of December 31, 2018 (with the U.S. oil rig count having troughed at 316 rigs in May 2016, which was the lowest oil rig count during this current cyclical downturn). As of December 31, 2018, oil-directed drilling accounted for 82% of the total U.S. rig count – with the balance being natural gas related. The total U.S. rig count has increased 679 rigs, or 168%, since troughing in May of 2016, largely due to improved crude oil prices, decreased service costs and enhanced technologies applied in the shale play regions of the United States.

Demand for the products and services supplied by our Offshore/Manufactured Products segment is generally driven by both the longer-term outlook for commodity prices and changes in land-based drilling and completion activity. During 2013 and 2014, we benefited from high crude oil prices resulting in very active bidding and quoting activity for our Offshore/Manufactured Products segment. However, the decline in crude oil prices that began in 2014 and continued into 2017, coupled with the relatively uncertain outlook around shorter-term and possibly longer-term commodity price improvements, have caused exploration and production companies to reevaluate their future capital expenditures in regards to deepwater projects since they are expensive to drill and complete, have long lead times to first production and may be considered uneconomical relative to the risk involved. Bidding and quoting activity for our Offshore/Manufactured Products segment continued after 2014, albeit at a substantially slower pace in the years following 2014. However, deepwater project award potential appears to be improving despite the current commodity price environment.

See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Macroeconomic Environment" for further discussion on our industry.

Well Site Services

Overview

For the years ended December 31, 2018, 2017 and 2016, our Well Site Services segment generated approximately 44%, 43% and 27%, respectively, of our consolidated revenue. Our Well Site Services segment includes a broad range of equipment and services that are used to drill for, establish and maintain the flow of oil and natural gas from a well throughout its life cycle. In this segment, our operations primarily include completion-focused equipment and services as well as land drilling services. We use our fleet of completion tools and drilling rigs to serve our customers at well sites and project development locations. Our equipment and services are used in both onshore and offshore applications throughout the drilling, completion and production phases of a well's life cycle.

Well Site Services Market

Demand for our completion and drilling services is predominantly tied to the level of oil and natural gas exploration and production activity on land in the United States. The primary driver for this activity is the price of crude oil and, to a lesser extent, natural gas. Activity levels have been, and we expect will continue to be, highly correlated with hydrocarbon commodity prices.

Completion Services

Our Completion Services operations includes the complementary Falcon business we acquired on February 28, 2018. The combined business, which is primarily marketed through the brand names Oil States Energy Services, Falcon and

Tempress, provides a wide range of services used in the onshore and offshore oil and gas industry, including:

- wellhead isolation services;
- flowback and frac valve services;
- wireline and coiled tubing support services;

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- well testing, including separators and line heaters;
- downhole extended-reach technology;
- pipe recovery systems;
- thru-tubing milling and fishing services;
- hydraulic chokes and manifolds;
- blowout preventers;
- gravel pack and sand control operations on well bores; and
- ball launching services.

Employees in our Completion Services business typically rig up and operate our equipment on the well site for our customers. Our Completion Services equipment is primarily used during the completion and production stages of a well. As of December 31, 2018, we provided completion services through approximately 45 distribution locations serving our customers in the United States, including the Gulf of Mexico, Canada and other international markets. We typically provide our services and equipment based on daily rates which vary depending on the type of equipment and the length of the job. Billings to our customers typically separate charges for our equipment from charges for our field technicians. We own patents or have patents pending covering some of our technology, particularly in our wellhead isolation equipment and downhole extended-reach technology product lines. Our customers in the Completion Services business include major, independent and private oil and gas companies and other large oilfield service companies. No customer in this segment represented more than 10% of our total consolidated revenue in any period presented. Competition in the Completion Services business is widespread and includes many smaller companies, although we also compete with the larger oilfield service companies for certain equipment and services.

Drilling Services

Our Drilling Services business, which is marketed under the brand name Capstar Drilling, provides land drilling services in the United States for shallow to medium depth wells generally of less than 15,000 feet. We serve two primary markets with our Drilling Services business: the Permian Basin in West Texas and the Rocky Mountain region. Drilling services are typically used during the exploration and development stages of a field. As of December 31, 2018, we had thirty-four drilling rigs with hydraulic pipe handling booms and lift capacities ranging from 150,000 to 500,000 pounds. Twenty-four are based in the Permian Basin and ten are based in the Rocky Mountain region, although a majority of these rigs are currently stacked. Utilization of our drilling rigs averaged 30%, 29% and 12% in 2018, 2017 and 2016, respectively. Utilization improvement over this period was largely due to higher crude oil prices but has been tempered due to a shift by our customers towards newer, larger and higher horsepower rigs needed to drill extended depths and horizontal wells. We believe commodity prices should improve over the longer-term but there will be fewer wells in our depth range which could influence overall utilization of our drilling rigs.

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

Downhole Technologies

Overview

Our Downhole Technologies segment is comprised of the GEODynamics business we acquired in January 2018. GEODynamics was founded in 2004 as a researcher, developer and manufacturer of consumable engineered products used in completion applications. For the year ended December 31, 2018, our Downhole Technologies segment contributed approximately 20% of our consolidated revenue. This segment provides oil and gas perforation systems, downhole tools and services in support of completion, intervention, wireline and well abandonment operations. This segment designs, manufactures and markets its consumable engineered products to oilfield service as well as

exploration and production companies.

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Downhole Technologies Market

Similar to our Well Site Services segment, demand for our Downhole Technologies segment products is predominantly tied to the level of oil and natural gas exploration and production activity on land in the United States. The primary driver for this activity is the price of crude oil and, to a lesser extent, natural gas. Activity levels have been, and we expect will continue to be, highly correlated with hydrocarbon commodity prices. Demand for this segment's products is also influenced by continued trends toward longer lateral lengths, increased frac stages and more perforation clusters to target increased unconventional well productivity.

Products

Product and service offerings for this segment include advanced perforation technology achieved through patented and proprietary systems combined with advanced modeling and analysis tools. This expertise has led to the optimization of perforation hole size, depth, and quality of tunnels, which are key factors for maximizing the effectiveness of hydraulic fracturing. Additional offerings include proprietary toe valve and frac plug products, which are focused on zonal isolation for hydraulic fracturing of horizontal wells, and a broad range of consumable products, such as setting tools and bridge plugs, that are used in completion, intervention and decommissioning applications.

Customers and Competitors

Our customers in the Downhole Technologies segment include other oilfield services companies as well as major, independent and private oil and gas companies. No customer in this segment represented more than 10% of our total consolidated revenue in any period presented. Competition in the Downhole Technologies business is widespread and includes many smaller companies, although we also compete with the larger oilfield service companies for certain products and services.

Offshore/Manufactured Products

Overview

For the years ended December 31, 2018, 2017 and 2016, our Offshore/Manufactured Products segment generated approximately 36%, 57% and 73%, respectively, of our consolidated revenue. Through this segment, we provide technology driven highly-engineered products and services for offshore oil and natural gas production systems and facilities, as well as certain products and services to the offshore and land-based drilling and completion markets. Our products and services used primarily in deepwater producing regions include our FlexJoint® technology, advanced connector systems, high-pressure riser systems, compact valves, deepwater mooring systems, cranes, subsea pipeline products, specialty welding, fabrication, cladding and machining services, offshore installation services and inspection and repair services. In addition, we design, manufacture and market numerous other products and services used in both land and offshore drilling and completion activities and by non-oil and gas customers, including consumable downhole elastomer products that are utilized in onshore completion activities, valves and sound and vibration dampening products. We have facilities that support our Offshore/Manufactured Products segment in Arlington, Houston and Lampasas, Texas; Houma, Louisiana; Oklahoma City and Tulsa, Oklahoma; the United Kingdom; Brazil; Singapore; Thailand; Vietnam; China; the United Arab Emirates; and India.

Offshore/Manufactured Products Market

The market for products and services offered by our Offshore/Manufactured Products segment centers primarily on the development of infrastructure for offshore production facilities and their subsequent operations, exploration and drilling activities, and to a lesser extent, new rig and vessel construction, refurbishments or upgrades. Demand for oil and natural gas, and the related drilling and production in offshore areas throughout the world, particularly in deeper water, drive spending for these activities. Sales of our shorter-cycle products to land-based drilling and completion markets is driven by the level and complexity of drilling, completion and workover activity, particularly in North America.

Products and Services

In operation for more than 75 years, our Offshore/Manufactured Products segment provides a broad range of products and services for use in offshore development and drilling activities. This segment also provides products for onshore oil and natural gas, defense and general industries. Our Offshore/Manufactured Products segment is dependent in part on the industry's continuing innovation and creative applications of existing technologies. We own various patents covering some of our technology, particularly in our connector and valve product lines.

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

- flexible bearings and advanced connection systems;
- casing and conductor connections and joints;
- subsea pipeline products;
- compact ball valves, manifold system components and diverter valves;
- marine winches, mooring systems, cranes and other heavy-lift rig equipment;
- production, workover, completion and drilling riser systems and their related repair services;
- blowout preventer ("BOP") stack assembly, integration, testing and repair services;
- consumable downhole products; and
- other products and services, including welding, cladding and other metallurgical technologies.

Flexible Bearings and Advanced Connection Systems. We are the key supplier of flexible bearings, or FlexJoint® connectors, to the offshore oil and natural gas industry as well as weld-on connectors and fittings that join lengths of large diameter conductors or casing used in offshore drilling and production operations. A FlexJoint® is a flexible bearing that allows for rotational movement of a riser or tension leg platform tether while under high tension and/or pressure. When positioned at the top, bottom, or, in some cases, middle of a deepwater riser, it reduces the stress and loads on the riser while compensating for the pitch and rotational forces on the riser as the production facility or drilling rig moves with ocean forces. FlexJoint® connectors are used on drilling, production and export risers and are used increasingly as offshore production moves to deeper water. Drilling riser systems provide the vertical conduit between the floating drilling vessel and the subsea wellhead. Through the drilling riser, the drill string is guided into the well and drilling fluids are returned to the surface. Production riser systems provide the vertical conduit for the hydrocarbons from the subsea wellhead to the floating production facility. Oil and natural gas flows to the surface for processing through the production riser. Export risers provide the vertical conduit from the floating production facility to the subsea export pipelines. Our FlexJoint® connectors 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, FPSO facilities and Spars (defined below), are a significant means of producing oil and natural gas, particularly in deepwater environments. We provide many important products for the construction of these facilities. A tension leg platform ("TLP") 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 efficiently assemble the tether joints during offshore installation. An FPSO is a floating vessel, typically ship shaped, used to produce and process oil and natural gas from subsea wells. 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 FlexJoint® connectors are used to attach the various production, injection, import or export risers to all of these floating production systems.

Casing and Conductor Connections and Joints. Our advanced connection systems provide connectors used in various drilling and production applications offshore. These connectors are welded onto pipe to provide more efficient joint to joint connections with enhanced tensile and burst capabilities that exceed those of connections machined onto plain-end-pipe. Our connectors are reusable and pliable and, depending on the application, are equipped with metal-to-metal seals. We offer a suite of connectors offering differing specifications depending on the application. Our Merlin™ connectors are our premier connectors combining superior static strength and fatigue life with fast, non-rotational make-up and a slim profile. Merlin™ connectors have been used in sizes up to 60 inches (outside diameter) for applications including open-hole and tie-back casing, offshore conductor casing, pipeline risers and TLP tendons which moor the TLP to the sea floor.

These flexible bearings and advanced connector systems are primarily manufactured through our Arlington, Texas, United Kingdom and Singapore locations.