

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-16337

OIL STATES INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of
incorporation or organization)

76-0476605
(I.R.S. Employer
Identification No.)

Three Allen Center, 333 Clay Street, Suite 3460,
Houston, Texas
(Address of principal executive offices)

77002
(Zip Code)

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

None
(Former name, former address and former fiscal year,
if changed since last report)

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

YES NO

The Registrant had 48,335,502 shares of common stock outstanding as of May 13, 2002.

OIL STATES INTERNATIONAL, INC.

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	THREE MONTHS ENDED MARCH 31, 2001		
	THREE MONTHS ENDED MARCH 31, 2002 CONSOLIDATED -----	PRO FORMA (1) -----	CONSOLIDATED AND COMBINED -----
Revenues	\$ 150,600	\$ 191,494	\$ 142,977
Costs and expenses:			
Cost of sales	120,153	153,321	108,179
Selling, general and administrative expenses	12,228	13,437	12,304
Depreciation expense	5,233	5,058	4,996
Amortization expense	75	1,960	1,368
Other operating income	(283)	(135)	(135)
	-----	-----	-----
	137,406	173,641	126,712
	-----	-----	-----
Operating income	13,194	17,853	16,265
Interest expense	(1,047)	(2,970)	(3,228)
Interest income	108	316	294
Other income	314	264	264
	-----	-----	-----
Income before income taxes, minority interest, and extraordinary item	12,569	15,463	13,595
Income tax expense	(2,766)	(231)	(180)
Minority interest in income of combined companies and consolidated subsidiaries	5	--	(1,600)
	-----	-----	-----
Net income before extraordinary item	9,808	15,232	11,815
Extraordinary loss on debt restructuring, net of income taxes	--	(784)	(784)
	-----	-----	-----
Net income	9,808	14,448	11,031
Preferred dividends	--	--	(41)
	-----	-----	-----
Net income attributable to common shares	\$ 9,808	\$ 14,448	\$ 10,990
	=====	=====	=====
Basic earnings (loss) per share:			
Earnings per share before extraordinary item	\$.20	\$.32	\$.32
Extraordinary loss on debt restructuring, net of income taxes	--	(.02)	(.02)
Basic net income per share20	.30	.30
Diluted earnings (loss) per share:			
Earnings per share before extraordinary item	\$.20	\$.32	\$.31
Extraordinary loss on debt restructuring, net of income taxes	--	(.02)	(.02)
Diluted net income per share20	.30	.29
Weighted average number of common shares outstanding:			
Basic	48,233	48,156	36,418
Diluted	48,637	48,634	38,337

(1) See detailed pro forma statement of income and related footnotes on pages 10 to 13 of this Form 10-Q.

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

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS	MARCH 31,	DECEMBER 31,
	2002	2001
	-----	-----
	(UNAUDITED)	
Current assets:		
Cash and cash equivalents.....	\$ 3,336	\$ 4,982
Accounts receivable, net.....	104,036	116,790
Inventories, net.....	76,469	76,917
Prepaid expenses and other current assets.....	4,427	3,932

Total current assets.....	188,268	202,621
Property, plant, and equipment, net.....	147,639	150,090
Goodwill, net.....	172,991	172,235
Other noncurrent assets.....	5,439	4,937
Total assets.....	\$ 514,337	\$529,883

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities.....	\$ 74,533	\$ 83,528
Income taxes.....	3,906	4,267
Current portion of long-term debt.....	732	3,894
Deferred revenue.....	5,710	2,646
Other current liabilities.....	1,569	509
Total current liabilities.....	86,450	94,844
Long-term debt.....	57,722	73,939
Deferred income taxes.....	7,837	8,436
Postretirement healthcare benefits.....	5,503	5,570
Other liabilities.....	3,009	2,897
Total liabilities.....	160,521	185,686
Stockholders' equity:		
Common stock.....	483	483
Additional paid-in capital.....	326,143	326,031
Retained (earnings).....	34,518	24,710
Accumulated other comprehensive loss.....	(7,328)	(7,027)
Total stockholders' equity.....	353,816	344,197
Total liabilities and stockholders' equity.....	\$ 514,337	\$529,883

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	CONSOLIDATED	CONSOLIDATED AND COMBINED
Cash flows from operating activities:		
Net income before extraordinary item	\$ 9,808	\$ 11,815
Adjustments to reconcile net income from continuing operations to net cash from operating activities:		
Minority interest, net of distributions	(5)	1,600
Depreciation and amortization	5,308	6,364
Deferred income tax provision	(909)	(4,577)
Other, net	813	257
Changes in working capital	7,169	(26,468)
Net cash flows provided by (used in) operating activities	22,184	(11,009)
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(1,405)	(2,120)
Capital expenditures	(3,568)	(4,660)
Proceeds from sale of equipment	573	2,425
Cash acquired in Sooner acquisition	--	4,894
Other, net	32	(40)
Net cash flows provided by (used in) investing activities	(4,368)	499
Cash flows from financing activities:		
Borrowings/(repayments) under revolving credit facility	(15,965)	19,953
Debt repayments	(3,559)	(64,038)

Preferred stock dividends	--	(844)
Proceeds from issuance of common stock	15	84,200
Repurchase of preferred stock	--	(21,775)
Payment of offering and financing costs	--	(4,511)
Other, net	(43)	(1,665)
	-----	-----
Net cash flows provided by (used in) financing activities	(19,552)	11,320
Effect of exchange rate changes on cash	253	(102)
	-----	-----
Net increase in cash and cash equivalents from continuing operations	(1,483)	708
Net cash provided by (used in) discontinued operations	(163)	155
Cash and cash equivalents, beginning of year	4,982	4,821
	-----	-----
Cash and cash equivalents, end of period	\$ 3,336	\$ 5,684
	=====	=====

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

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OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED, COMBINED AND PRO FORMA FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Oil States International, Inc. (Oil States or the Company) and its consolidated subsidiaries since February 14, 2001. On February 14, 2001, the Company acquired the three companies (HWC Energy Services, Inc. - HWC; PTI Group, Inc. - PTI and Sooner Inc. - Sooner) previously reported in the Combined and Pro Forma financial statements presented herein. The combined financial statements include the activities of Oil States, HWC and PTI, collectively the Controlled Group for the period prior to February 14, 2001, utilizing reorganization accounting. The reorganization accounting method, which yields results similar to the pooling of interests method, has been used in the preparation of the combined financial statements of the Controlled Group (entities under common control of SCF-III L.P. (SCF-III), a private equity fund that focuses on investments in the energy industry). Under this method of accounting, the historical financial statements of HWC and PTI are combined with Oil States for the period until February 14, 2001 when Oil States, HWC and PTI merged and Oil States acquired Sooner in exchange for its common stock. After February 14, 2001, the consolidated financial statements of Oil States include the results of all its subsidiaries including HWC, PTI and Sooner. The combined financial statements have been adjusted to reflect minority interests in the Controlled Group. All significant intercompany accounts and transactions between the consolidated entities have been eliminated in the accompanying consolidated, combined and pro forma financial statements.

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

The financial statements included in this report should be read in conjunction with Oil States' audited financial statements and accompanying notes included in its 2001 Form 10-K, filed under the Securities Exchange Act of 1934, as amended.

2. NEW ACCOUNTING PRONOUNCEMENT - GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 142 - "Goodwill and Other Intangible Assets" (FAS No. 142). In connection with the adoption of FAS No. 142, the Company ceased amortizing goodwill. Also, as required by this statement, the Company has

completed its evaluation of goodwill for potential impairment. No provision for goodwill impairment was required based on the evaluation performed.

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Changes in the carrying amount of goodwill for the three months ended March 31, 2002, are as follows (in thousands):

	OFFSHORE PRODUCTS -----	WELLSITE SERVICES -----	TUBULAR SERVICES -----	TOTAL -----
Balance as of January 1, 2002	\$ 41,585	\$ 81,156	\$ 49,494	\$ 172,235
Goodwill acquired	--	808	--	808
Impairment losses	--	--	--	--
Foreign currency translation and other changes	(101)	(36)	85	(52)
	-----	-----	-----	-----
Balance as of March 31, 2002	\$ 41,484	\$ 81,928	\$ 49,579	\$ 172,991
	=====	=====	=====	=====

The following tables present what reported income before extraordinary items and net income would have been in all periods presented exclusive of amortization expense recognized in those periods related to goodwill.

	FOR THE THREE MONTHS ENDED		
	MARCH 31, 2002	MARCH 31, 2001	
	(THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
	CONSOLIDATED -----	PRO FORMA -----	CONSOLIDATED AND COMBINED -----
Reported net income before extraordinary item	\$ 9,808	\$ 15,232	\$ 11,815
Add: Goodwill amortization	--	1,879	1,288
Adjusted net income before extraordinary item	\$ 9,808	\$ 17,111	\$ 13,103
	=====	=====	=====
Basic earnings per share:			
Reported net income before extraordinary item	\$.20	\$.32	\$.32
Goodwill amortization	--	.04	.04
Adjusted net income before extraordinary item	\$.20	\$.36	\$.36
	=====	=====	=====
Diluted earnings per share:			
Reported net income before extraordinary item	\$.20	\$.32	\$.31
Goodwill amortization	--	.03	.03
Adjusted net income before extraordinary item	\$.20	\$.35	\$.34
	=====	=====	=====

3. INITIAL PUBLIC OFFERING, MERGER TRANSACTIONS AND REFINANCING

On February 9, 2001, the Company began trading its common stock on the New York Stock Exchange under the symbol "OIS" pursuant to completion of its initial public offering (the Offering). On February 14, 2001, the Company closed the business combination and the Offering thereby acquiring the minority interests in PTI and HWC and 100% of the Sooner operations. The Company recorded additional goodwill of \$61.9 million as a result of the acquisition of these minority interests.

Concurrent with the Offering, the Company acquired Sooner for \$69.5 million. The Company exchanged 7,597,152 shares of its common stock for all of the outstanding common shares of Sooner. The Company accounted for the acquisition using the purchase method of accounting and recorded approximately \$40 million in goodwill.

Concurrent with the closing of the Offering, the Company issued 4,275,555 shares of common stock to SCF-III and SCF-IV L.P. (SCF-IV) in exchange for approximately \$36.0 million of indebtedness of Oil States and Sooner which was held by SCF-III and SCF-IV (the SCF Exchange).

With the proceeds received in the Offering, the Company repaid \$43.7 million of outstanding subordinated debt of the Controlled Group and Sooner, redeemed \$21.8 million of preferred stock of Oil States, paid accrued interest on subordinated debt and accrued dividends on preferred stock aggregating \$7.1 million, and repurchased common

stock from non-accredited shareholders and shareholders holding pre-emptive stock purchase rights for \$1.6 million. The balance of the proceeds were used to reduce amounts outstanding under bank lines of credit.

On February 14, 2001, the Company entered into a \$150 million senior secured revolving credit facility. This new credit facility replaced existing bank credit facilities.

In connection with the debt refinancing discussed above, the Company incurred prepayment penalties and wrote-off unamortized debt issue costs totaling \$0.8 million which is reported as an extraordinary item.

4. DETAILS OF SELECTED BALANCE SHEET ACCOUNTS

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

	MARCH 31, 2002 ----	DECEMBER 31, 2001 ----
Accounts receivable:		
Trade.....	\$ 98,140	\$115,726
Unbilled revenue.....	6,708	2,674
Other.....	1,381	1,123
Allowance for doubtful accounts.....	(2,193)	(2,733)
	-----	-----
	\$ 104,036	\$116,790
	=====	=====

	MARCH 31, 2002 ----	DECEMBER 31, 2001 ----
Inventories:		
Tubular goods.....	\$ 38,020	\$41,882
Other finished goods and purchased products.....	17,689	20,024
Work in process.....	16,405	12,012
Raw materials.....	9,698	8,696
	-----	-----
Total inventories.....	81,812	82,614
Inventory reserves.....	(5,343)	(5,697)
	-----	-----
	\$ 76,469	\$76,917
	=====	=====

	ESTIMATED USEFUL LIFE -----	MARCH 31, 2002 ----	DECEMBER 31, 2001 ----
Property, plant and equipment:			
Land.....		\$ 4,157	\$ 4,163

Buildings and leasehold improvements.....	2-50 years	28,396	27,505
Machinery and equipment.....	2-15 years	147,838	147,183
Rental tools.....	3-10 years	25,852	24,876
Office furniture and equipment.....	1-10 years	10,952	10,667
Vehicles.....	2-5 years	5,669	6,197
Construction in progress.....		300	1,033
		-----	-----
Total property, plant and equipment.....		223,164	221,624
Less: Accumulated depreciation.....		(75,525)	(71,534)
		-----	-----
		\$ 147,639	\$150,090
		=====	=====

	MARCH 31,	DECEMBER 31,
	2002	2001
	----	----
Accounts payable and accrued liabilities:		
Trade accounts payable.....	\$ 48,431	\$52,386
Accrued compensation.....	6,610	10,317
Accrued insurance.....	3,392	3,498
Accrued interest.....	243	248
Accrued taxes, other than income taxes.....	2,413	3,314
Reserves related to discontinued operations, current portion.	4,862	4,976
Postretirement healthcare benefits current portion.....	1,100	1,100
Other.....	7,482	7,689
	-----	-----
	\$ 74,533	\$83,528
	=====	=====

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5. 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 and Wellsite Services and, since the acquisition of Sooner, 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.

Financial information by industry segment for each of the three-month periods ended March 31, 2002 and 2001 is summarized in the following table (in thousands):

	OFFSHORE PRODUCTS	WELLSITE SERVICES	TUBULAR SERVICES	CORPORATE AND ELIMINATIONS	TOTAL
	-----	-----	-----	-----	-----
MARCH 31, 2002					
Revenues from unaffiliated customers	\$ 32,737	\$ 66,593	\$ 51,270	\$ --	\$ 150,600
	=====	=====	=====	=====	=====
EBITDA	4,361	15,227	117	(1,203)	18,502
	=====	=====	=====	=====	=====
Depreciation and amortization ...	1,345	3,807	144	12	5,308
	=====	=====	=====	=====	=====
Operating income (loss)	3,016	11,420	(27)	(1,215)	13,194
	=====	=====	=====	=====	=====
Capital expenditures	1,381	2,142	45	--	3,568
	=====	=====	=====	=====	=====
Total assets	\$ 142,358	\$ 248,202	\$ 120,098	\$ 3,679	\$ 514,337
	=====	=====	=====	=====	=====
MARCH 31, 2001 (Consolidated and Combined)					
Revenues from unaffiliated customers.....	\$ 29,501	\$ 69,155	\$ 44,321	\$ --	\$ 142,977
	=====	=====	=====	=====	=====
EBITDA	1,787	19,879	2,101	(1,138)	22,629
	=====	=====	=====	=====	=====
Depreciation and amortization ...	1,610	4,076	202	476	6,364
	=====	=====	=====	=====	=====

Operating income (loss)	177	15,803	1,898	(1,613)	16,265
Capital expenditures	800	3,721	139	--	4,660
Total assets	\$ 136,821	\$ 222,795	\$ 131,273	\$ 65,356	\$ 556,245

6. COMPREHENSIVE INCOME

Comprehensive income for the three months ended March 31, 2002 and 2001 was as follows (in thousands):

	THREE MONTHS ENDED MARCH 31	
	2002	2001
	----	----
Comprehensive income:		
Net income.....	\$ 9,808	\$ 11,031
Cumulative translation adjustment.....	(301)	(3,074)
Total comprehensive income.....	\$ 9,507	\$ 7,957

7. COMMITMENTS AND CONTINGENCIES

The Company is involved in various claims, lawsuits and other proceedings relating to a wide variety of matters. While uncertainties are inherent in the final outcome of such matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management believes that the resolution of such uncertainties and the incurrence of such costs will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company is aware that certain energy service companies that have in the past used asbestos in connection with the manufacture of equipment or otherwise in the operation of their business have become the subject of increased asbestos related litigation. Certain subsidiaries of the Company have been named as defendants in four cases by plaintiffs seeking damages, including punitive damages, alleging that our subsidiaries have responsibility for four individuals developing mesothelioma, asbestosis, lung cancer or other lung diseases as a result of exposure to asbestos. Although these are the only cases that management is aware that are pending or threatened against the Company or its subsidiaries involving allegations relating to asbestos exposure, there can be no assurance that other asbestos related claims will not be made. Based on management's preliminary investigation, management does not believe that these cases or future claims relating to asbestos exposure will have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

UNAUDITED PRO FORMA CONSOLIDATED AND COMBINED FINANCIAL STATEMENT

The consolidated financial statements of Oil States International, Inc. reflect the Company's financial position, results of operations and changes in stockholders' equity for periods subsequent to February 14, 2001, the date of our initial public offering and the combination of Oil States International, Inc. (Oil States), HWC Energy Services, Inc. (HWC) and PTI Group Inc. (PTI) (collectively, the Controlled Group), among other things.

As more fully described below, and in footnotes that follow, the combined financial statements reflect the financial position, results of operations and changes in stockholders' equity of the predecessor entities that now comprise Oil States International, Inc. based on reorganization accounting. The pro forma financial information that follows reflect our historical consolidated or combined statements of operations, depending upon the period

involved, and give effect to the pro forma transactions and adjustments more fully described below.

The following tables set forth unaudited pro forma consolidated and combined financial information for Oil States giving effect to:

- o the combination of Oil States, HWC and PTI as entities under the common control of SCF-III L.P. (SCF III), based upon reorganization accounting, which yields results similar to pooling of interest accounting, effective from the dates each of these entities became controlled by SCF III;
- o the conversion of the common stock held by the minority interests of each entity in the Controlled Group into shares of our common stock, based on the purchase method of accounting;
- o the conversion of all of the outstanding common stock of Sooner Inc. (Sooner) into shares of our common stock, based on the purchase method of accounting; and
- o the exchange of 4,275,555 shares of our common stock for \$36.0 million of debt of Sooner and Oil States; and
- o our sale of 10,000,000 shares of common stock in our initial public offering (the Offering) and the application of the net proceeds totaling \$84.1 million. With the proceeds received in the Offering, the Company repaid \$43.7 million of outstanding subordinated debt of the Controlled Group and Sooner, redeemed \$21.8 million of preferred stock of Oil States, paid accrued interest on subordinated debt and accrued dividends on preferred stock aggregating \$7.1 million, and repurchased common stock from non-accredited shareholders and shareholders holding pre-emptive stock purchase rights for \$1.6 million. The balance of the proceeds was used to reduce amounts outstanding under bank lines of credit.

The unaudited pro forma consolidated and combined financial statements do not purport to be indicative of the results that would have been obtained had the transactions described above been completed on the indicated dates or that may be obtained in the future. The unaudited pro forma combined financial statements should be read in conjunction with the historical consolidated and combined financial statements and notes thereto included in our Annual Report on Form 10-K.

PRO FORMA CONSOLIDATED AND COMBINED STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2001
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	PRO FORMA					COMBINED AND CONSOLIDATED, ACQUISITIONS AND OFFERING
	CONSOLIDATED AND COMBINED GROUP	SOONER INC. (PERIOD FROM JAN. 1, 2001 TO FEB. 14, 2001)	SOONER INC. ADJUSTMENTS (NOTE 2)	MINORITY INTEREST ADJUSTMENTS (NOTE 3)	OFFERING ADJUSTMENTS (NOTES 1 AND 4)	
Revenue.....	\$ 142,977	\$ 48,517	\$	\$	\$	\$191,494
Expenses						
Costs of sales.....	108,179	45,142				153,321
Selling, general and administrative.....	12,304	1,133				13,437
Depreciation and amortization.....	6,364	188	331	135		7,018
Other expense (income).....	(135)					(135)
Operating income (loss).....	16,265	2,054	(331)	(135)		17,853
Interest income.....	294	22				316
Interest expense.....	(3,228)	(585)			843 (A)	(2,970)
Other income.....	264	--				264
Earnings before income taxes...	13,595	1,491	(331)	(135)	843	15,463
Income tax (expense) benefit....	(180)	(542)			491 (C)	(231)
Net income (loss) before minority interests.....	13,415	949	(331)	(135)	1,334	15,232

Minority interests, net of taxes	(1,600)	--			1,600	--
Net income (loss) before extraordinary item.....	11,815	949	(331)	(135)	2,934	15,232
Extraordinary loss on debt restructuring.....	(784)	--				(784)
Net income (loss).....	11,031					14,448
Preferred dividends.....	(41)	--			41 (B)	--
Net income attributable to common shares.....	\$ 10,990	\$ 949	\$ (331)	\$ (135)	\$2,975	\$ 14,448
Net income per common share....						
Basic.....	\$.30					\$.30
Diluted.....	\$.29					\$.30
Average shares outstanding.....						
Basic.....	36,418					48,156
Diluted.....	38,337					48,634

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OIL STATES INTERNATIONAL, INC.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED AND
COMBINED FINANCIAL STATEMENTS

Basis of Presentation

The purchase method of accounting has been used to reflect the acquisition of the minority interests of each company in the Controlled Group concurrent with the closing of the Offering. The purchase price is based on the fair value of the shares owned by the minority interests, valued at the initial public offering price of \$9.00 per share. Under this accounting method, the excess of the purchase price over the fair value of the assets and liabilities allocable to the minority interests acquired has been reflected as goodwill. Where book value of minority interests exceeded the purchase price, such excess reduced property, plant and equipment. For purposes of the pro forma combined financial statements, the goodwill recorded in connection with this transaction is being amortized over 20 years using the straight-line method based on management's evaluation of the nature and duration of customer relationships and considering competitive and technological developments in the industry. Note, however, that accounting for goodwill will change prospectively under new accounting pronouncements (See Note 3 to Consolidated and Combined Financial Statements in the Company's Form 10-K for the year ended December 31, 2001).

The purchase method of accounting also has been used to reflect the acquisition of the outstanding common stock of Sooner concurrent with the closing of the Offering. The purchase price is based on the fair value of the shares of Sooner, valued at the initial public offering price of \$9.00 per share. The excess of the purchase price over the fair value of the assets and liabilities of Sooner has been reflected as goodwill. For purposes of the pro forma combined financial statements, the goodwill recorded in connection with this transaction is being amortized over 15 years using the straight-line method based on management's evaluation of the nature and duration of customer relationships and considering competitive and technological developments in the industry. Note, however, that accounting for goodwill will change prospectively under new accounting pronouncements (See Note 3 to Consolidated and Combined Financial Statements in the Company's Form 10-K for the year ended December 31, 2001). The unaudited pro forma statements of operations for the three months ended March 31, 2001, include the historical financial statements of Sooner, adjusted for the effects of purchase accounting, as presented below.

NOTE 1. COMBINING ADJUSTMENTS

Minority interest in (income) loss and related tax effect of the Controlled Group are presented below (in thousands):

	OIL STATES	HWC	PTI	TOTAL
	-----	---	---	-----
Period from January 1, 2001 to February 14, 2001.....	\$72	\$ (129)	\$ (1,543)	\$ (1,600)
	===	=====	=====	=====

NOTE 2. ACQUISITION OF SOONER

To reflect the acquisition of all outstanding common shares of Sooner in exchange for 7,597,152 shares of Oil States common stock valued at the estimated offering price per share of \$9.00 (in millions):

Purchase price.....	\$ 69.5 (1)
Less: fair value of net assets acquires.....	29.7

Goodwill.....	\$ 39.8
	=====
Amortization for the period from January 1, 2001 to February 14, 2001.....	\$ 33
	=====

(1) The purchase price for Sooner includes the estimated fair value of Sooner stock options (\$1.1 million) converted into Oil States stock options.

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Certain reclassifications have been made to conform the presentation of Sooner's financial statements to the Controlled Group.

NOTE 3. ACQUISITION OF MINORITY INTERESTS

To reflect the acquisition of the minority interests of each company in the Controlled Group in exchange for shares of Oil States common stock and elimination of the historical amounts reflected for the combined group (in millions, except share and per share information):

	OIL STATES	HWC	PTI	COMBINED
	-----	-----	-----	-----
Common stock issued to minority interests.....	1,418,729	1,359,603	4,204,058	6,982,390
Estimated offering price per share.....	\$ 9.00	9.00	\$ 9.00	\$ 9.00
	-----	-----	-----	-----
Purchase price of the minority interests.....	\$ 12.8	\$ 12.2	\$ 37.8	\$ 62.8
Minority interests in fair value of net assets acquired.....	13.8	7.7	15.9	37.4
	-----	-----	-----	-----
Additional goodwill.....	\$ (1.0)	\$ 4.5	\$ 21.9	\$ 25.4
	=====	=====	=====	=====
Amortization of the additional goodwill for the period from January 1, 2001 to February 14, 2001.....	\$ (.015)	\$.020	\$.130	\$.135
	=====	=====	=====	=====

NOTE 4. OFFERING

- (A) To adjust interest expense for debt repaid with Offering proceeds and as a result of the exchange of shares for subordinated debt.
- (B) To eliminate preferred stock dividends due to the redemption of the preferred stock.
- (C) To adjust income tax expense for the reduction of deferred taxes due to the formation of the combined group.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with our Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements based on our current expectations, assumptions, estimates and projections about us and our industry. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these forward-looking statements as a result of certain factors, as more fully described under "Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995" in "Item 1, Business" and elsewhere in our Annual Report on Form 10-K. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statements, even if new information becomes available or other events occur in the future.

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 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. 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 drilling rigs and construction of new drilling rigs. In this segment, we are particularly influenced by deepwater drilling and production activities. Through our tubular services division, we distribute premium tubing and casing. Sales of tubular products and services depend upon the overall level of drilling activity and the mix of wells being drilled. Demand for tubular products is positively impacted by increased drilling of deeper horizontal and offshore wells that generally require premium tubulars and connectors, large diameter pipe and longer and additional tubular and casing strings. In our well site services business segment, we provide hydraulic well control services, pressure control equipment and rental tools and remote site accommodations, catering and logistics services. Demand for our well site services depends upon the level of worldwide drilling and workover activity.

Energy and oilfield service activities are highly cyclical depending upon crude oil and natural gas pricing, among other things. Beginning in late 1996 and continuing through the early part of 1998, stabilization of oil and gas prices led to increases in drilling activity as well as the refurbishment and new construction of drilling rigs. In the second half of 1998, crude oil prices declined substantially and reached levels below \$11 per barrel in early 1999. With this decline in pricing, many of our customers substantially reduced their capital spending and related activities. This industry downturn continued through most of 1999. The rig count in the United States and Canada, as measured by Baker Hughes Incorporated, fell from 1,481 rigs in February 1998 to 559 rigs in April 1999. This downturn in activity had a material adverse effect on demand for our products and services, and the results of our operations decreased significantly. The price of crude oil and natural gas increased over 1999 levels in 2000 and 2001 due to improved demand for oil, supply reductions by OPEC member countries and reductions in natural gas storage levels. That improvement in crude oil and natural gas pricing led to increases in the rig count in 2000 and the first half of 2001, particularly in Canada and the United States, where the rig count reached a high of 1,698 rigs in February 2001. The average North American rig count was 1,263 and 1,498 during 2000 and 2001, respectively. Crude oil and natural gas prices decreased significantly from levels reached in early 2001 by the end of 2001. The economic slowdown in the United States and the rest of the world, moderate weather and the resultant increased inventories of oil and gas, especially in the United States, contributed to those price declines. With those price reductions, our customers have responded with decreased drilling activity and spending on exploration and development. As of March 31, 2002, the rig count in the United States and Canada, as measured by Baker Hughes, was 1,012, a decline of 40.4% from the high reached in February 2001 and a decline of 13.1% from 1,165 rigs working at December 29, 2001.

We have a diversified product and service offering which has exposure throughout the oil and gas cycle. Demand for our tubular services is highly

correlated to movements in the rig count in the United States and began to weaken with the overall deterioration of industry fundamentals since the first quarter of 2001. Certain of our well site services businesses have decreased in the first quarter of 2002 when the United States rig count declined 7.0%

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compared to the fourth quarter of 2001 and 27.9% compared to the first quarter of 2001. Although the Canadian rig count increased seasonally in the first quarter of 2002 on average by 100 rigs or 36.3% compared to the fourth quarter of 2001, it has decreased 133 rigs or 26.1% compared to the first quarter of 2001. Recently, oil and gas prices have increased and rig counts in the U.S. have begun to increase. The U.S. rig count reached its lowest level since 1999 when it totaled 738 rigs on April 15, 2002. The U.S. rig count has risen since then and totaled 812 as of May 10, 2002.

We believe that our offshore products segment lagged the general market recovery in 2000 and 2001 because its sales primarily relate to offshore construction and production facility development which generally occur later in the exploration and development cycle. Worldwide offshore construction and development activity is improving currently and we expect it to increase substantially as construction activity in the shallow water regions of the Gulf of Mexico resumes and as the industry increasingly pursues deeper water drilling and development projects. Backlog in our offshore products segment increased from \$38.1 million at March 31, 2001 to \$72.4 million at December 31, 2001 and \$84.3 million at March 31, 2002. Approximately 95% of our backlog as of March 31, 2002 is expected to be completed by December 31, 2002.

Management believes that fundamental oil and gas supply and demand factors will lead to increased drilling activity in North America over time. However, the timing of any such recovery is uncertain. We view the recent increases in actual and forecasted oil and natural gas prices as an important step towards increased demand for oilfield service activity. Although the diversified nature of our businesses is expected to moderate the impact of North American drilling activity declines, we are expecting a 15 -- 20% revenue decline in 2002 compared to pro forma 2001 levels based upon our forecast of energy prices and drilling activity levels.

The Combination

Prior to the Offering in February 2001, SCF-III, L.P. owned majority interests in Oil States, HWC and PTI, and SCF-IV, L.P. owned a majority interest in Sooner. L. E. Simmons & Associates, Incorporated is the ultimate general partner of SCF-III, L.P. and SCF-IV, L.P. L.E. Simmons, the chairman of our board of directors, is the sole shareholder of L.E. Simmons & Associates, Incorporated. Concurrently with the closing of our initial public offering, the Combination closed and HWC, PTI and Sooner merged with wholly owned subsidiaries of Oil States. As a result, HWC, Sooner and PTI became our wholly owned subsidiaries.

The financial results of Oil States, HWC and PTI have been combined for the three years in the period ended December 31, 2000 as well as the beginning of calendar 2001 until February 14, 2001 using reorganization accounting, which yields results similar to the pooling of interests method. The combined results of Oil States, HWC and PTI form the basis for the discussion of our results of operations for those periods. The operations of Oil States, HWC and PTI represent two of our business segments, offshore products and well site services. Concurrent with the closing of our initial public offering on February 14, 2001, Oil States acquired Sooner, and the acquisition was accounted for using the purchase method of accounting. The pro forma financial statements for the quarter ended March 31, 2001 reflect the acquisition of Sooner effective as of January 1, 2001. Following the acquisition of Sooner, we reported under three business segments.

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RESULTS OF OPERATIONS (IN MILLIONS, EXCEPT MARGIN PERCENTAGES)

PRO FORMA THREE MONTHS ENDED
MARCH 31,

	2002 ----- CONSOLIDATED -----	2001 ----- PRO FORMA -----	2001 ----- CONSOLIDATED AND COMBINED -----
Revenues			
Well Site Services.....	\$ 66.6	\$ 69.2	\$ 69.2
Offshore Products.....	32.7	29.5	29.5
Tubular Services.....	51.3	92.8	44.3
	-----	-----	-----
Total.....	\$ 150.6 =====	\$ 191.5 =====	\$ 143.0 =====
Gross Margin			
Well Site Services.....	\$ 20.0	\$ 25.5	\$ 25.5
Offshore Products.....	8.2	6.3	6.3
Tubular Services.....	2.2	6.6	3.2
Corporate/Other.....	--	(.2)	(.2)
	-----	-----	-----
Total.....	\$ 30.4 =====	\$ 38.2 =====	\$ 34.8 =====
Gross Margin as a Percent of Revenues			
Well Site Services.....	30.0%	36.8%	36.8%
Offshore Products.....	25.1%	21.4%	21.4%
Tubular Services.....	4.3%	7.1%	7.2%
Total.....	20.2%	19.9%	24.3%
Operating Income (Loss)			
Well Site Services.....	\$ 11.4	\$ 15.8	\$ 15.8
Offshore Products.....	3.0	.2	.2
Tubular Services.....	--	3.9	1.9
Corporate/Other.....	(1.2)	(2.1)	(1.6)
	-----	-----	-----
Total.....	\$ 13.2 =====	\$ 17.8 =====	\$ 16.3 =====

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO PRO FORMA THREE MONTHS ENDED
MARCH 31, 2001

Revenues. Revenues decreased \$40.9 million, or 21.4%, to \$150.6 million during the current quarter compared to pro forma revenues of \$191.5 million during the quarter ended March 31, 2001. Tubular Services revenues decreased \$41.5 million, or 44.7%, in the three months ended March 31, 2002 compared to pro forma revenues in the three months ended March 31, 2001 as a result of reduced drilling activity in the U.S. Well Site Services revenues declined \$2.6 million, or 3.8%, and Offshore Products revenues increased \$3.2 million, or 10.8%, during the same period. Well Site Services revenues declined compared to the prior year primarily due to lower drilling and workover activity in North America. Offshore Products revenues increased as a result of greater activity supporting offshore production facility construction.

Cost of Sales. Cost of sales decreased by \$33.2 million, or 21.6%, to \$120.2 million in the three months ended March 31, 2002 compared to \$153.3 million in the three month period ended March 31, 2001. Decreased Tubular Services revenues were the principal reason for the corresponding decrease in cost of sales during the period. Tubular Services cost of sales decreased from \$86.2 million in the first quarter of 2001 to \$49.1 million in the first quarter of 2002, a decrease of \$37.1 million, or 43.0%.

Gross Margin. Our gross margins, which we calculate before a deduction for depreciation expense, decreased \$7.8 million, or 20.4%, from \$38.2 million in the three months ended March 31, 2001 to \$30.4 million in the three months ended March 31, 2002. Well Site Services gross margins decreased \$5.5 million, or 21.6%, to \$20 million in the three months ended March 31, 2002 compared to the three months ended March 31, 2001. Within our Well Site Services segment, shallow drilling and specialty rental tool businesses' gross margins declined \$1.1 million, or 50%, and \$0.8 million, or 19.3%, respectively, in the three months ended March 31, 2002 compared to the three months ended March 31, 2001 as a result of lower utilization and pricing for our drilling and rental tool assets. Also in Well Site Services, our remote accommodations, catering and logistics services and modular building

construction services gross margins decreased by \$3.6 million, or 21.1%, in the three months ended March 31, 2002 compared to the three months ended March 31, 2001 because a greater mix of revenues were generated from our lower-margin catering and modular building construction activities and because of lower U.S. Gulf of Mexico rental revenues.

Offshore Products gross margins increased \$1.9 million, or 23.2%, from \$6.3 million in the three months ended March 31, 2001 to \$8.2 million in the three months ended March 31, 2002 primarily due to increased revenues and a favorable mix of our higher-margin connector products versus our lower-margin fabrication work. Tubular Services gross margins declined to \$2.2 million, or 4.3% of Tubular Services revenues in the three months ended March 31, 2002 compared to \$6.6 million, or 7.1% of Tubular Services revenues, in the three months ended March 31, 2001 as a result of decreased oil and gas company drilling which decreased demand for our Tubular products and services.

Selling, General and Administrative Expenses. During the three months ended March 31, 2002, selling, general and administrative expenses (SG&A) totaled \$12.2 million compared to SG&A of \$13.4 million on a pro forma basis for the three months ended March 31, 2001. Special nonrecurring severance and restructuring costs totaling \$0.7 million were charged to SG&A in the first three months of 2002. These increased costs were more than offset by cost containment measures taken because of lower activity levels in 2002 compared to 2001 and the absence of certain nonrecurring charges, totaling \$0.3 million, in our remote site accommodations business that were recorded during the three months ended March 31, 2001.

Depreciation and Amortization. Depreciation expense increased \$0.2 million in the first quarter 2002 compared to the first quarter 2001 due primarily to capital expenditures made in our Well Site Services segment during 2001. Amortization expense decreased from \$2.0 million in the first quarter 2001 to \$0.1 million in the first quarter 2002 due to the adoption of a new accounting standard that discontinued goodwill amortization (See Note 2 to Financial Statements contained herein).

Operating Income. Our operating income represents revenues less (i) cost of sales, (ii) selling, general and administrative expenses and (iii) depreciation and amortization expense plus other operating income. Our operating income decreased \$4.6 million, or 25.8%, to \$13.2 million for the three months ended March 31, 2002 from \$17.8 million in the three month period ended March 31, 2001. Well Site Services operating income decreased from \$15.8 million during the three months ended March 31, 2001 to \$11.4 million for the three months ended March 31, 2002. Offshore Products operating income increased from \$0.2 million during the three months ended March 31, 2001 to \$3.0 million for the three months ended March 31, 2002. Tubular Services operating income was approximately break-even for the three months ended March 31, 2002 compared to operating income of \$3.9 million during 2001. The accounting change affecting goodwill amortization for our company impacted "Corporate / Other" operating income and contributed to the operating loss being reduced from \$2.1 million in 2001 to an operating loss of \$1.2 million in the three months ended March 31, 2002.

Interest Expense. Interest expense decreased \$1.9 million, or 64.0%, to \$1.0 million for the quarter ended March 31, 2002 compared to \$2.9 million for the quarter ended March 31, 2001. Decreased interest expense is attributable to lower debt levels and interest rates.

Income Tax Expense. Income tax expense totaled \$2.8 million, or 22.0% of pretax income, in the three months ended March 31, 2002 compared with \$0.2 million, or 1.5% of pretax income, in the three months ended March 31, 2001. Decreased amounts of net operating loss carryforwards available to offset currently taxable income has resulted in a higher estimated annual effective tax rate for the year 2002 compared to 2001.

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Refer to Pro Forma Statement of Operations and Related Footnotes on Pages 10 to 14 of this Form 10Q for details of pro forma adjustments made to the Company's consolidated and combined statement of operations for the three month

period ended March 31, 2001.

Differences between the March 31, 2001 Consolidated and Combined Statement of Operations and the March 31, 2001 Pro Forma Consolidated and Combined Statement of Operations appearing on Page 3 and Page 12 can be

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summarized as follows:

1. The Pro Forma Consolidated and Combined Statement of Operations include the results of operations for Sooner for the period from January 1, 2001 until its acquisition date of February 14, 2001. Sooner's revenues, gross margin, gross margin as a percent of revenues and operating income during this period were \$48.5 million, \$3.4 million, 7.0% and \$2.0 million, respectively.
2. The Pro Forma Consolidated and Combined Statement of Operations include an additional \$0.3 million of goodwill amortization related to the Sooner acquisition.
3. The Pro Forma Consolidated and Combined Statement of Operations include an additional \$0.1 million of Sooner minority interests in income for the period.
4. The Pro Forma Consolidated and Combined Statement of Operations include adjustments to decrease interest expense by \$0.9 million, eliminate minority interests in earnings totaling \$1.6 million and eliminate preferred stock dividends of \$0.04 million in the first three months of 2001 to reflect the pro forma impact of the Offering and the Combination as if each had occurred at the beginning of the period. Additionally, the related income tax effect for these adjustments was \$0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs are to fund capital expenditures, such as expanding and upgrading our manufacturing facilities and equipment, increasing our rental tool and workover assets, increasing our accommodation units, funding new product development and to fund 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 private and public debt and equity offerings.

Cash was provided by (used in) operations during the three months ended March 31, 2002 and 2001 in the amounts of \$22.2 million and (\$11.0) million, respectively. Cash provided by operations in 2002 was generated by our net income and lower working capital invested in our tubular services segment, partially offset by the seasonal use of working capital in our Canadian operations. During the three months ended March 31, 2001, there were significant investments in working capital as a result of tubular inventory increases and relatively high Canadian seasonal working capital needs.

Cash was used by investing activities in the amount of \$4.4 million during the three months ended March 31, 2002 primarily as a result of capital expenditures which totaled \$3.6 million and one rental tool acquisition made in our well site services segment totaling \$1.4 million, partially offset by cash proceeds from asset sales.

Capital expenditures totaled \$3.6 million and \$4.7 million during the three months ended March 31, 2002 and 2001, respectively. Capital expenditures during both these periods consisted principally of purchases of assets for our well site services businesses. We currently expect to spend a total of approximately \$22.8 million during 2002 to upgrade our equipment and facilities and expand our product and service offerings. We expect to fund these capital expenditures with internally generated funds.

Net cash of \$19.6 million was used in financing activities during the three months ended March 31, 2002, primarily as a result of elective debt repayments under our bank credit facility.

As of March 31, 2002, we had \$50.8 million outstanding under our debt facility and an additional \$7.1 million of outstanding letters of credit,

leaving \$92.1 million available to be drawn under the facility. In addition, we have another floating rate bank credit facility in the UK that had a balance of \$2.4 million at March 31, 2002. Our total debt represented 14.2% of our total capitalization at March 31, 2002.

We believe that cash from operations and available borrowings under our credit facility will be sufficient to meet our liquidity needs for the foreseeable future. If our plans or assumptions change or are inaccurate, or we make any 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.

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TAX MATTERS

For the year ended December 31, 2001, we had deferred tax assets, net of deferred tax liabilities, of approximately \$19.7 million for federal income tax purposes before application of valuation allowances. Our primary deferred tax assets are net operating loss carry forwards, or NOLs, which total approximately \$93.7 million. A valuation allowance is currently provided against the majority of our NOLs. The NOLs expire over a period through 2020. Our NOLs are currently limited under Section 382 of the Internal Revenue Code due to a change of control that occurred during 1995. However in 2002, approximately \$40 million of NOLs are available for use currently if sufficient income is generated.

Our 2001 effective tax rate approximated 4%. This low effective tax rate was due to the partial utilization of net operating losses which benefited the consolidated group after the merger. We currently estimate our 2002 effective tax rate will be approximately 22%.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (the Statements), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company has applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statements is expected to result in an increase in net income of approximately \$8.0 million (\$.16 per diluted share) per year. During the first quarter of 2002, the Company performed the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002. The Company has completed its evaluation of goodwill and indefinite lived intangible assets and there was no impairment of assets recorded.

In June of 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement is effective for fiscal years beginning after June 15, 2002 and the Company expects to adopt the Statement effective January 1, 2003. It is expected that this Statement will have an immaterial effect on the Company's consolidated financial statements.

In August of 2001 the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company was required to adopt this Statement effective January 1, 2002 and it did not have an impact on the consolidated financial statements.

ITEM 3. 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.

Currently, we have floating rate obligations totaling approximately \$53.2 million for amounts borrowed under our revolving lines of credit. 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 March 31, 2002 levels, our combined interest expense would increase by a total of approximately \$0.5 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 change due to movements in foreign currency exchange rates when transactions are denominated in currencies other than the U.S. dollar, which is our functional currency. 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. As of March 31, 2002, we had Canadian dollar-denominated debt totaling approximately \$18.8 million. We had no interest rate hedges or forward foreign exchange contracts at March 31, 2002.

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PART II -- OTHER INFORMATION

ITEM 1. 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 claims relating to matters occurring prior to our acquisition of businesses and also relating 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 these or any other 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 insurance, will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

The Company is aware that certain energy service companies that have in the past used asbestos in connection with the manufacture of equipment or otherwise in the operation of their business have become the subject of increased asbestos related litigation. Certain subsidiaries of the Company have been named as defendants in four cases by plaintiffs seeking damages, including punitive damages, alleging that our subsidiaries have responsibility for four individuals developing mesothelioma, asbestosis, lung cancer or other lung diseases as a result of exposure to asbestos. Although these are the only cases that management is aware that are pending or threatened against the Company or its subsidiaries involving allegations relating to asbestos exposure, there can be no assurance that other asbestos related claims will not be made. Based on management's preliminary investigation, management does not believe that these cases or future claims relating to asbestos exposure will have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 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

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EXHIBIT NO. -----	DESCRIPTION -----
	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 of Oil States' Registration Statement No. 333-43400 on Form S-1).
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).
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 of Oil States' Registration Statement No. 333-43400 on Form S-1).
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 (incorporated by reference to Exhibit 10.5 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).

- 10.6** -- Form of Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 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 other Named Executive Officers (Messrs. Hughes and Chaddick) (incorporated by reference to Exhibit 10.10 of Oil States' Registration Statement No. 333-43400 on Form S-1).
- 10.11** -- Form of Change of Control Severance Plan for Selected Members of Management (incorporated by reference to Exhibit 10.11 of Oil States' Registration Statement No. 333-43400 on Form S-1).

EXHIBIT NO. -----	DESCRIPTION -----
10.12	-- Credit Agreement among Oil States International, Inc., PTI Group Inc., the Lenders named therein, Credit Suisse First Boston, Credit Suisse First Boston Canada, Hibernia National Bank and Royal Bank of Canada (incorporated by reference to Exhibit 10.12 of Oil States' Registration Statement No. 333-43400 on Form S-1).
10.13A**	-- Restricted Stock Agreement, dated February 8, 2001, between Oil States International, Inc. and Douglas E. Swanson.
10.13B**	-- Restricted Stock Agreement, dated February 22, 2001, between Oil States International, Inc. and Douglas E. Swanson.
10.14**	-- Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 of Oil States' Registration Statement No. 333-43400 on Form S-1).
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 10K for the year ended December 31, 2001, as filed With the Commission on March 4, 2002.
10.16*,**	-- Form of Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Trahan).
16.1	-- Letter Regarding Change in Certifying Accountant (incorporated by reference to Exhibit 16.1 of Oil

States' Registration Statement No. 333-43400 on Form S-1).

21.1 -- List of subsidiaries of the Company (incorporated by reference to Exhibit 21.1 of Oil States' Registration Statement No. 333-43400 on Form S-1).

* Filed herewith

** Management contracts or compensatory plans or arrangements.

(b) REPORTS ON FORM 8-K. No reports on Form 8-K were filed during the period covered by this report.

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SIGNATURES

Pursuant to the requirements 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.

Date: May 15, 2002 By /s/ CINDY B. TAYLOR

Cindy B. Taylor
Senior Vice President, Chief Financial
Officer and Treasurer
(Principal Financial Officer)

Date: May 15, 2002 By /s/ ROBERT W. HAMPTON

Robert W. Hampton
Vice President -- Finance and Accounting
and Secretary (Principal
Accounting Officer)

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EXHIBIT INDEX

EXHIBIT NO.

DESCRIPTION

10.16 -- Form of Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Trahan).

EXECUTIVE AGREEMENT

This Executive Agreement ("Agreement") between Oil States International, Inc., a Delaware corporation (the "Company"), and Jay Trahan (the "Executive") is made and entered into effective as of March 8, 2002 (the "Effective Date").

WHEREAS, Executive is a key executive of the Company or a subsidiary;
and

WHEREAS, the Company believes it to be in the best interests of its stockholders to attract, retain and motivate key executives and ensure continuity of management; and

WHEREAS, it is in the best interest of the Company and its stockholders if the key executives can approach material business development decisions objectively and without concern for their personal situation; and

WHEREAS, the Company recognizes that the possibility of a Change of Control (as defined below) of the Company may result in the departure of key executives to the detriment of the Company and its stockholders; and

WHEREAS, the Board of Directors of the Company has authorized this Agreement and certain similar agreements in order to retain and motivate key management and to ensure continuity of key management;

THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Executive agree as follows:

1. TERM OF AGREEMENT

- A. This Agreement shall commence on the Effective Date and, subject to the provisions for earlier termination in this Agreement, shall continue in effect through the third anniversary of the Effective Date; provided, however, commencing on the Effective Date and on each day thereafter, the term of this Agreement shall automatically be extended for one additional day unless the Board of Directors of the Company shall give written notice to Executive that the term shall cease to be so extended in which event the Agreement shall terminate on the third anniversary of the date such notice is given.
- B. Notwithstanding anything in this Agreement to the contrary, this Agreement, if in effect on the date of a Change of Control, shall automatically be extended for the 24-month period following the Change of Control.
- C. Termination of this Agreement shall not alter or impair any rights of Executive arising hereunder on or before such termination.

2. CERTAIN DEFINITIONS

- A. "Cause" shall mean:
 - (i) Executive's conviction of (or plea of nolo contendere to) a felony, dishonesty or a breach of trust as regards the Company or any subsidiary;
 - (ii) Executive's commission of any act of theft, fraud, embezzlement or misappropriation against the Company or any subsidiary that is materially injurious to the Company or such subsidiary regardless of whether a criminal conviction is obtained;

- (iii) Executive's willful and continued failure to devote substantially all of his business time to the Company's business affairs (excluding failures due to illness, incapacity, vacations, incidental civic activities and incidental personal time) which failure is not remedied within a reasonable time after written demand is delivered by the Company, which demand specifically identifies the manner in which the Company believes that Executive has failed to devote substantially all of his business time to the Company's business affairs; or
- (iv) Executive's unauthorized disclosure of confidential information of the Company that is materially injurious to the Company.

For purposes of this definition, no act, or failure to act, on Executive's part shall be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interest of the Company.

B. "Change of Control" shall mean any of the following:

- (i) any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate, SCF III, L.P., SCF IV, L.P., or any affiliate of SCF-III, L.P. or SCF-IV, L.P. or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), acquires "beneficial ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 35% or more of the combined voting power of the Company's then outstanding securities; provided, however, that if the Company engages in a merger or consolidation in which the Company or surviving entity in such merger or consolidation becomes a subsidiary of another entity, then references to the Company's then outstanding securities shall be deemed to refer to the outstanding securities of such parent entity;

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- (ii) a change in the composition of the Board, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (i) are directors of the Company as of the Effective Date, or (ii) are elected, or nominated for election, to the Board with the affirmative votes of at least two-thirds of the Incumbent Directors at the time of such election or nomination, but Incumbent Director shall not include an individual whose election or nomination occurs as a result of either (1) an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or (2) an actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board of Directors of the Company;
- (iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being

converted into voting securities of the surviving entity (or if the surviving entity is or shall become a subsidiary of another entity, then such parent entity)) more than 50% of the combined voting power of the voting securities of the Company (or such surviving entity or parent entity, as the case may be) outstanding immediately after such merger or consolidation;

- (iv) the stockholders of the Company approve a plan of complete liquidation of the Company; or
- (v) the sale or disposition (other than a pledge or similar encumbrance) by the Company of all or substantially all of the assets of the Company other than to a subsidiary or subsidiaries of the Company.

C. "Date of Termination" shall mean the date the Notice of Termination is given unless such termination is by Executive in which event the Date of Termination shall not be less than 30 days following the date the Notice of Termination is given. Further, a Notice of Termination given by Executive due to a Good Reason event that is corrected by the Company before the Date of Termination shall be void.

D. "Good Reason" shall mean:

- (i) a material reduction in Executive's authority, duties or responsibilities from those in effect immediately prior to the Change of Control or the assignment to Executive duties or responsibilities inconsistent in any material respect from those of Executive in effect immediately prior to the Change of Control;
- (ii) a material reduction of Executive's compensation and benefits, including, without limitation, annual base salary, annual bonus, and equity incentive

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opportunities, from those in effect immediately prior to the Change of Control;

- (iii) the Company fails to obtain a written agreement from any successor or assigns of the Company to assume and perform this Agreement as provided in Section 9 hereof; or
- (iv) the Company requires Executive, without Executive's consent, to be based at any office located more than 50 miles from the Company's offices to which Executive was based immediately prior to the Change of Control, except for travel reasonably required in the performance of Executive's duties.

Notwithstanding the above however, Good Reason shall not exist with respect to a matter unless Executive gives the Company written notice of such matter within 30 days of the date Executive knows or should reasonably have known of its occurrence. If Executive fails to give such notice timely, Executive shall be deemed to have waived all rights Executive may have under this Agreement with respect to such matter.

E. "Notice of Termination" shall mean a written notice delivered to the other party indicating the specific termination provision in this Agreement relied upon for termination of Executive's employment and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

F. "Protected Period" shall mean the 24-month period beginning on

the effective date of a Change of Control.

- G. "Target AICP" shall mean the targeted value of Executive's annual incentive compensation plan bonus for the year in which the Date of Termination occurs or the fiscal year immediately preceding the Change of Control, whichever is a greater amount.
- H. "Termination Base Salary" shall mean Executive's base salary at the rate in effect at the time the Notice of Termination is given or, if a greater amount, Executive's base salary at the rate in effect immediately prior to the Change of Control.

3. NO EMPLOYMENT AGREEMENT.

This Agreement shall be considered solely as a "severance agreement" obligating the Company to pay Executive certain amounts of compensation and to provide certain benefits in the event and only in the event of Executive's termination of employment for the specified reasons and at the times specified herein. The parties agree that this Agreement shall not be considered an employment agreement and that Executive is an "at will" employee of the Company.

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4. REGULAR SEVERANCE BENEFITS.

Subject to Section 13, if the Company terminates Executive's employment (i) other than for Cause and (ii) not during the Protected Period, Executive shall receive the following compensation and benefits from the Company:

- A. Within 15 days of the Date of Termination the Company shall pay to Executive in a lump sum, in cash, an amount equal to one times the sum of Executive's (i) Termination Base Salary and (ii) Target AICP.
- B. Notwithstanding anything in any Company stock plan or grant agreement to the contrary, all restricted shares and restricted stock units of Executive shall become 100% vested and all restrictions thereon shall lapse as of the Date of Termination and the Company shall promptly deliver such shares to Executive.
- C. For the 24-month period following the Date of Termination (the "Regular Severance Period"), the Company shall continue to provide Executive and Executive's eligible family members, based on the cost sharing arrangement between the Company and similarly situated active employees, with medical and dental health benefits and disability coverage and benefits at least equal to those which would have been provided to Executive if Executive's employment had not been terminated or, if more favorable to Executive, as in effect generally at any time during such period. Notwithstanding the foregoing, if Executive becomes eligible to receive medical, dental and disability benefits under another employer's plans during this Regular Severance Period, the Company's obligations under this Section 4C shall be reduced to the extent comparable benefits are actually received by Executive during such period, and any such benefits actually received by Executive shall be promptly reported by Executive to the Company. In the event Executive is ineligible under the terms of the Company's health and other welfare benefit plans or programs to continue to be so covered, the Company shall provide Executive with substantially equivalent coverage through other sources or will provide Executive with a lump sum payment in such amount that, after all taxes on that amount, shall be equal to the cost to Executive of providing Executive such benefit coverage. The lump sum shall be determined on a present value basis using the interest rate provided in Section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended

(the "Code") on the Date of Termination.

CHANGE OF CONTROL SEVERANCE BENEFITS

5. SEVERANCE BENEFITS. Subject to Section 13, if either (a) Executive terminates his employment during the Protected Period for a Good Reason event or (b) the Company terminates Executive's employment during the Protected Period other than for Cause, Executive shall receive the following compensation and benefits from the Company:

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- A. Within 15 days of the Date of Termination the Company shall pay to Executive in a lump sum, in cash, an amount equal to two times the sum of Executive's (i) Termination Base Salary and (ii) Target AICP.
- B. Notwithstanding anything in any Company stock plan or grant agreement to the contrary, (i) all restricted shares and restricted stock units of Executive shall become 100% vested and all restrictions thereon shall lapse as of the Date of Termination and the Company shall promptly deliver such shares to Executive and (ii) each then outstanding stock option of Executive shall become 100% exercisable and, excluding any incentive stock option granted prior to the Effective Date, shall remain exercisable for the remainder of such option's term.
- C. Executive shall be fully vested in Executive's accrued benefits under all qualified pension, nonqualified pension, profit sharing, 401(k), deferred compensation and supplemental plans maintained by the Company for Executive's benefit, except to that the extent the acceleration of vesting of such benefits would violate any applicable law or require the Company to accelerate the vesting of the accrued benefits of all participants in such plan or plans, in which event the Company shall pay Executive a lump sum amount, in cash, within 15 days following the Date of Termination, equal to the present value of such unvested accrued benefits that cannot become vested under the plan for the reasons provided above.
- D. For the 36-month period following the Date of Termination (the "COC Severance Period"), the Company shall continue to provide Executive and Executive's eligible family members, based on the cost sharing arrangement between Executive and the Company on the Date of Termination, with medical and dental health benefits and disability coverage and benefits at least equal to those which would have been provided to Executive if Executive's employment had not been terminated or, if more favorable to Executive, as in effect generally at any time during such period. Notwithstanding the foregoing, if Executive becomes eligible to receive medical, dental and disability benefits under another employer's plans during this COC Severance Period, the Company's obligations under this Section 5D shall be reduced to the extent comparable benefits are actually received by Executive during such period, and any such benefits actually received by Executive shall be promptly reported by Executive to the Company. In the event Executive is ineligible under the terms of the Company's health and other welfare benefit plans or programs to continue to be so covered, the Company shall provide Executive with substantially equivalent coverage through other sources or will provide Executive with a lump sum payment in such amount that, after all taxes on that amount, shall be equal to the cost to Executive of providing Executive such benefit coverage. The lump sum shall be determined on a present value basis using the interest rate provided in Section 1274(b)(2)(B) of the Code on the Date of Termination.
- E. Throughout the term of the COC Severance Period or until Executive accepts other employment, including as an independent contractor, with a new employer, whichever occurs

first, Executive shall be entitled to receive outplacement

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services, payable by the Company, with an aggregate cost not to exceed 15% of Executive's Termination Base Salary, with an executive outplacement service firm reasonably acceptable to the Company and Executive.

6. PARACHUTE TAX GROSS UP.

If any payment (including without limitation any imputed income) made, or benefit provided, to or on behalf of Executive pursuant to this Agreement, including any accelerated vesting or any deferred compensation or other award, in connection with a "change in control" of the Company (within the meaning of Section 280G of the Code) results in Executive being subject to the excise tax imposed by Section 4999 of the Code (or any successor or similar provision) the Company shall promptly pay Executive an additional amount in cash (the "Additional Amount") such that the net amount of all such payments and benefits received by Executive after paying all applicable taxes (including penalties and interest) on such payments and benefits, including on such Additional Amount, shall be equal to the net after-tax amount of the payments and benefits (excluding the Additional Amount) that Executive would have received if Section 4999 were not applicable to such payments and benefits. Such determinations shall be made by the Company's independent certified public accountants.

7. ACCELERATED VESTING OF OPTIONS UPON A CHANGE OF CONTROL.

Notwithstanding any provisions of any Company stock option plan or option agreement to the contrary, upon a Change of Control all outstanding unvested stock options, if any, granted to Executive under any Company stock option plan (or options substituted therefor covering the stock of a successor corporation) shall be fully vested and exercisable as to all shares of stock covered thereby effective as of the date of the Change of Control.

8. MITIGATION.

Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise nor, except as provided in Section 4C and Section 5D, shall the amount of any payment or benefit provided for in this Agreement be reduced by any compensation earned or benefit received by Executive as the result of employment by another employer or self-employment, by retirement benefits, by offset against any amount claimed to be owed by Executive to the Company or otherwise, except that any severance payments or benefits that Executive is entitled to receive pursuant to a Company severance plan or program for employees in general shall reduce the amount of payments and benefits otherwise payable or to be provided under this Agreement.

9. SUCCESSOR AGREEMENT.

The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no succession

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had taken place. Failure of the successor to so assume shall constitute a breach of this Agreement and entitle Executive to the benefits hereunder as if triggered by a termination by the Company other than for Cause.

10. INDEMNITY.

In any situation where under applicable law the Company has the power to indemnify, advance expenses to and defend Executive in respect of any judgements, fines, settlements, loss, cost or expense (including attorneys fees) of any nature related to or arising out of Executive's activities as an agent, employee, officer or director of the Company or in any other capacity on behalf of or at the request of the Company, then the Company shall promptly on written request, indemnify Executive, advance expenses (including attorney's fees) to Executive and defend Executive to the fullest extent permitted by applicable law, including but not limited to making such findings and determinations and taking any and all such actions as the Company may, under applicable law, be permitted to have the discretion to take so as to effectuate such indemnification, advancement or defense. Such agreement by the Company shall not be deemed to impair any other obligation of the Company respecting Executive's indemnification or defense otherwise arising out of this or any other agreement or promise of the Company under any statute.

11. NOTICE.

For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and delivered by United States certified or registered mail (return receipt requested, postage prepaid) or by courier guaranteeing overnight delivery or by hand delivery (with signed receipt required), addressed to the respective addresses set forth below, and such notice or communication shall be deemed to have been duly given two days after deposit in the mail, one day after deposit with such overnight carrier or upon delivery with hand delivery. The addresses set forth below may be changed by a writing in accordance herewith.

Company:

Oil States International, Inc.
333 Clay Street, Suite 3460
Houston, Texas 77002
Attn: Chairman of the Board

Executive:

Jay Trahan
20202 Atascocita Lake Drive
Humble, TX 77346

12. ARBITRATION.

The parties agree to resolve any claim or controversy arising out of or relating to this Agreement, including but not limited to the termination of employment of Executive, by binding arbitration under the Federal Arbitration Act before one arbitrator in Houston, Texas, administered by the American Arbitration Association under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The fees and expenses of the arbitrator shall be borne solely by the non-prevailing party or, in the event there is no clear prevailing party,

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as the arbitrator deems appropriate. Except as provided above, each party shall pay its own costs and expenses (including, without limitation, attorneys' fees) relating to any mediation/arbitration proceeding conducted under this Section 12.

13. WAIVER AND RELEASE.

As a condition to the receipt of any payment or benefit under this Agreement, Executive must first execute and deliver to the Company a binding general release, as prepared by the Company, that releases the Company, its officers, directors, employees, agents, subsidiaries and affiliates from any and all claims and from any and all causes of action of any kind or character that Executive may have arising out of Executive's employment with the Company or the termination of such employment, but excluding (i) any claims and causes of action that Executive may have arising under or based upon this Agreement, and (ii) any vested rights Executive may have under any employee benefit plan or deferred compensation plan or program of the Company.

Executive knowingly and voluntarily releases the Company, HWC Energy

Services, Inc., SCF Partners, their parent and affiliated companies, subsidiaries, divisions, successors and assigns, including present and former employees, supervisors and other agents or representatives from any and all claims Executive may have under the terms of that certain letter agreement between Executive and SCF Partners dated November 24, 1997.

14. EMPLOYMENT WITH AFFILIATES.

Employment with the Company for purposes of this Agreement includes employment with any entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of all outstanding equity interests, and employment with any entity which has a direct or indirect interest of 50% or more of the total combined voting power of all outstanding equity interests of the Company. For purposes of this Agreement, "Good Reason" shall be construed to refer to Executive's positions, duties, and responsibilities in the position or positions in which Executive serves immediately before the Change of Control, but shall not include titles or positions with subsidiaries and affiliates of the Company that are held primarily for administrative convenience.

15. GOVERNING LAW.

- (a) THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.
- (b) EACH PARTY HERETO HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS IN HARRIS COUNTY, TEXAS, FOR THE PURPOSES OF ANY PROCEEDING ARISING OUT OF THIS AGREEMENT.

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16. ENTIRE AGREEMENT.

This Agreement is an integration of the parties' agreement and no agreement or representation, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement hereby expressly terminates, rescinds and replaces in full any prior agreement (written or oral) between the parties relating to the subject matter hereof, including, without limitation, that certain letter Agreement between Executive and SCF Partners dated November 24, 1997.

17. WITHHOLDING OF TAXES.

The Company shall withhold from all payments and benefits provided under this Agreement all taxes required to be withheld by applicable law.

18. BENEFICIARY.

In the event Executive dies before receiving the lump sum severance payment to which Executive was entitled hereunder, Executive's spouse or, if there is no spouse, the beneficiary designated by Executive under the Company-sponsored group term life insurance plan, shall receive such payment. IN WITNESS WHEREOF, the Company and Executive have executed this Agreement effective for all purposes as of the Effective Date.

OIL STATES INTERNATIONAL, INC.

By: /s/ CINDY TAYLOR

Name: Cindy Taylor

Title: Senior VP, Chief Financial Officer

EXECUTIVE

/s/ JAY TRAHAN

Jay Trahan