ORIX CORP
Form 6-K
August 13, 2010

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE Act of 1934

For the month of August, 2010.

ORIX Corporation

(Translation of Registrant s Name into English)

Mita NN Bldg., 4-1-23 Shiba, Minato-Ku,

Tokyo, JAPAN

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x Form 40-F ¨

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ¨ No x

Table of Contents

Table of Documents Filed

		Page
1.	On August 12, ORIX Corporation (the Company) filed its quarterly financial report (*shihanki houkokusho*) with the Kanto Financial Bureau in Japan. This document is an English translation of consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three months June 30, 2009 and 2010. This translation is unaudited.	

Table of Contents

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.

ORIX Corporation

Date: August 12, 2010

By /s/ Haruyuki Urata
Haruyuki Urata
Director
Deputy President & CFO
ORIX Corporation

Table of Contents

CONSOLIDATED FINANCIAL INFORMATION

1. On August 12, 2010, ORIX Corporation (the Company) filed its quarterly financial report (*shihanki houkokusho*) with the Kanto Financial Bureau in Japan. This document is an English translation of consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three months ended June 30, 2009 and 2010. This translation is unaudited.

2. Significant differences between U.S. GAAP and generally accepted accounting principles in Japan (Japanese GAAP) are stated in the notes of Overview of Accounting Principles Utilized.

In preparing its consolidated financial information, ORIX Corporation and its subsidiaries have complied with U.S. GAAP*, except as modified to account for stock splits in accordance with the usual practice in Japan.*

These documents may contain forward-looking statements about expected future events and financial results that involve risks and uncertainties. Such statements are based on our current expectations and are subject to uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause such a difference include, but are not limited to, those described under Risk Factors in the Company s annual report on Form 20-F filed with the U.S. Securities and Exchange Commission.

The Company believes that it will be considered a passive foreign investment company for U.S. Federal income tax purpose in the year to which these consolidated financial results relate and for the foreseeable future by reason of the composition of its assets and the nature of its income. A U.S. holder of the shares or ADSs of the Company is therefore subject to special rules generally intended to eliminate any benefits from the deferral of U.S. Federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Investors should consult their tax advisors with respect to such rules, which are summarized in the Company s annual report.

Table of Contents

1. Information on the Company and its Subsidiaries

(1) Consolidated Financial Highlights

	Millions of yen (except for per share amounts, ratios and employees)		
	Three months ended June 30, 2009	**Three months ended June 30, 2010**	**Fiscal year ended March 31, 2010**
Total Revenues	233,043	234,514	932,140
Income before Income Taxes and Discontinued Operations	11,979	24,635	55,720
Net Income Attributable to ORIX Corporation	7,192	16,450	37,757
ORIX Corporation Shareholders Equity	1,175,444	1,266,795	1,298,684
Total Assets	8,139,440	8,704,169	7,739,800
ORIX Corporation Shareholders Equity Per Share (yen)	13,147.74	11,785.67	12,082.56
Earnings Per Share for Net Income Attributable to ORIX Corporation			
Basic (yen)	80.45	153.05	370.52
Diluted (yen)	68.04	129.27	315.91
ORIX Corporation Shareholders Equity Ratio (%)	14.44	14.55	16.78
Cash Flows from Operating Activities	6,450	(14,241)	209,311
Cash Flows from Investing Activities	111,792	73,143	432,788
Cash Flows from Financing Activities	(177,502)	(83,530)	(466,924)
Cash and Cash Equivalents at End of Period	402,461	609,110	639,087
Number of Employees	19,022	18,065	17,725

Notes: 1. As a result of the recording of Discontinued Operations in accordance with FASB Accounting Standards Codification (ASC) 205-20 (Presentation of Financial Statements Discontinued Operations), certain amounts in the fiscal year ended March 31, 2010 have been reclassified retroactively.

2. Consumption tax is excluded from the stated amount of total revenues.

(2) Overview of Activities

For the three months ended June 30, 2010, no significant changes were made in the Company and its subsidiaries operations.

Table of Contents

(3) Changes of Principal Related Companies

Changes of principal related companies for the three months ended June 30, 2010 are as follows:

Additions:

There were no additions during the three months ended June 30, 2010.

Deletions:

There were no deletions during the three months ended June 30, 2010.

(4) Number of Employees

The following shows the total number of employees in the Company and its subsidiaries as of June 30, 2010:

Number of employees
18,065

Note: (a) The above number represents individuals employed on a full-time basis.
(b) The average number of temporary employees for the three months ended June 30, 2010 was 5,580.

2. Operating Results
(1) Earnings Summary

Total revenues and profits (losses) by segment for the three months ended June 30, 2010 and 2009 are as follows:

	Millions of yen							
	Three months ended June 30, 2009		Three months ended June 30, 2010		Change (revenues)		Change (profits)	
	Segment Revenues	Segment Profits (losses)	Segment Revenues	Segment Profits	Amount	Percent (%)	Amount	Percent (%)
Corporate Financial Services	25,802	1,513	23,845	2,004	(1,957)	(8)	491	32
Maintenance Leasing	57,441	5,830	56,777	6,753	(664)	(1)	923	16
Real Estate	42,645	261	39,645	2,180	(3,000)	(7)	1,919	735
Investment Banking	23,580	(10,418)	26,765	2,109	3,185	14	12,527	
Retail	43,225	5,181	35,582	8,105	(7,643)	(18)	2,924	56
Overseas Business	42,273	11,257	43,123	11,435	850	2	178	2
Total	234,966	13,624	225,737	32,586	(9,229)	(4)	18,962	139
Difference between Segment Total and Consolidated Amounts	(1,923)	(1,645)	8,777	(7,951)	10,700		(6,306)	
Total Consolidated Amounts	233,043	11,979	234,514	24,635	1,471	1	12,656	106

(2) Total Assets

Total assets by segment at June 30, 2010 and March 31, 2010 are as follows:

	June 30, 2010		March 31, 2010		Change	
	Millions of yen	Composition ratio (%)	Millions of yen	Composition ratio (%)	Amount	Percent (%)
Corporate Financial Services	1,135,577	13.0	1,178,458	15.2	(42,881)	(4)
Maintenance Leasing	524,171	6.0	515,716	6.7	8,455	2
Real Estate	1,070,122	12.3	1,079,273	14.0	(9,151)	(1)
Investment Banking	1,062,218	12.2	1,071,255	13.8	(9,037)	(1)
Retail	1,611,351	18.5	1,578,758	20.4	32,593	2
Overseas Business	840,634	9.7	860,815	11.1	(20,181)	(2)
Total	6,244,073	71.7	6,284,275	81.2	(40,202)	(1)
Difference between Segment Total and Consolidated Amounts	2,460,096	28.3	1,455,525	18.8	1,004,571	69
Total Consolidated Amounts	8,704,169	100.0	7,739,800	100.0	964,369	12

(3) New Business Volumes

New business volumes of direct financing leases, installment loans, operating leases, investment in securities, other operating transactions for the three months ended June 30, 2010 and 2009 are as follows:

	Millions of yen		Change	
	Three months ended June 30, 2009	Three months ended June 30, 2010	Amount	Percent (%)
Direct Financing Leases:				
New equipment acquisitions	49,629	76,644	27,015	54
Installment Loans:				
New loans added	157,222	143,024	(14,198)	(9)
Operating Leases:				
New equipment acquisitions	45,299	51,822	6,523	14
Investment in Securities:				
New securities added	61,869	244,610	182,741	295
Other Operating Transactions:				
New assets added	4,231	8,690	4,459	105

3. Risk Factors

There were not any significant changes for the three months ended June 30, 2010.

4. Material Contract

Not applicable

4

Table of Contents

5. Analysis of Financial Results and Condition

The following discussion provides management s explanation of factors and events that have significantly affected our financial condition and results of operations. Also included is management s assessment of factors and trends which are anticipated to have a material effect on our financial condition and results of operations in the future. However, please be advised that financial conditions and results of operations in the future may also be affected by factors other than those discussed here. These factors and trends regarding the future were assessed as of the issue date of the quarterly financial report (Shihanki Houkokusho).

(1) Qualitative Information Regarding Consolidated Financial Results

Economic Environment

Concerns about global economic recovery heightened due to the European sovereign debt crisis. However, the International Monetary Fund (IMF) revised upward its global GDP forecast for 2010 indicating that the recovery from the global crisis has been better than expected. Recovery is occurring at different speeds in different regions, with emerging and developing economies in Asia leading the recovery. The effects of the revaluation of the Chinese Renminbi on the global economy are also a focus of attention. The pace of recovery in the United States is slowing as unemployment remains high and consumer spending is decreasing despite continued improvement in industrial production leading to a recovery of corporate performance.

In Japan, the government upgraded its economic outlook in June, stating that the groundwork for a self-sustaining recovery is being laid. Recovery is coming from increased export levels and there has been an upswing in consumer spending buoyed by stimulus measures. However, downside risks remain such as deflationary pressures, high unemployment and Japan s long-term financial issues.

Financial Highlights

Financial Results for the Three Months Ended June 30, 2010	
Total Revenues	¥234,514 million (Up 1% year on year)
Income before Income Taxes*	¥24,635 million (Up 106% year on year)
Net Income Attributable to ORIX Corporation	¥16,450 million (Up 129% year on year)
Earnings Per Share:	
(Basic)	¥153.05 (Up 90% year on year)
(Diluted)	¥129.27 (Up 90% year on year)
ROE (Annualized)	5.1% (2.5% during the same period of the previous fiscal year)
ROA (Annualized)	0.80% (0.35% during the same period of the previous fiscal year)

* Income before income taxes refers to income before income taxes and discontinued operations.

Total Revenues

Total Revenues for the three-month period ended June 30, 2010 increased 1% to ¥234,514 million compared to the same period of the previous fiscal year.

Direct financing leases decreased 8% to ¥12,330 million compared to the same period of the previous fiscal year. The decline is in line with decreased balance of investment in direct financing leases particularly a decline in the average balance in the Corporate Financial Service segment compared to the same period of the previous fiscal year.

Table of Contents

Operating leases were flat year on year at ¥68,045 million. Revenues continued to be strong in the Maintenance Leasing segment and revenues from overseas automobile leasing on a yen-equivalent basis increased year on year.

Interest on loans and investment securities increased 7% to ¥44,752 million compared to the same period of the previous fiscal year. Due to the application of new accounting standards in this fiscal year relating to the consolidation of variable interest entities (VIEs), see Note 2 Significant Accounting and Reporting Policies and Note 6 Variable Interest Entities , VIEs that have become subject to consolidation have increased and, as a result, interest on loans and investment securities increased compared to the same period of the previous fiscal year.

Brokerage commissions and net gains on investment securities decreased 32% to ¥5,055 million compared to the same period of the previous fiscal year. This was chiefly due to a decrease in gains on trading securities in the United States compared to the same period of the previous fiscal year and a decrease in brokerage commissions due to the deconsolidation of ORIX Securities Corporation in January 2010.

Life insurance premiums and related investment income increased 6% to ¥27,722 million compared to the same period of the previous fiscal year. Life insurance premiums increased for the life insurance operations due to strong sales of retail customer-oriented products such as medical insurance and an increase in operating revenues from insurance-related investment.

Real estate sales decreased 45% to ¥5,672 million compared to the same period of the previous fiscal year resulting from a decrease in the number of condominiums delivered as a result of previously limited new developments in the condominium operations.

Gains on sales of real estate under operating leases mainly recorded in the Real Estate segment decreased 79% to ¥103 million.

Other operating revenues increased 8% to ¥70,835 million compared to the same period of the previous fiscal year due to the increased revenues from operating facilities, advisory services in the U.S. and environment-related business.

Total Expenses

Expenses were flat at ¥212,157 million compared to the same period of the previous fiscal year.

Interest expense increased 47% to ¥33,359 million compared to the same period of the previous fiscal year due to the application of new accounting standards, see Note 2 Significant Accounting and Reporting Policies and Note 6 Variable Interest Entities as mentioned above.

Costs of operating leases decreased 2% to ¥46,252 million compared to the same period of the previous fiscal year.

Life insurance costs decreased 5% to ¥20,639 million compared to the same period of the previous fiscal year.

Costs of real estate sales decreased 42% to ¥6,175 million compared to the same period of the previous fiscal year due to fewer condominiums being delivered as mentioned above in Real estate sales .

Table of Contents

Other operating expenses increased 8% to ¥42,776 million compared to the same period of the previous fiscal year mainly due to increased expenses from operating facilities and environment-related business as mentioned in Other operating revenues .

Selling, general and administrative expenses decreased 7% to ¥49,453 million compared to the same period of the previous fiscal year. Expenses decreased due to the deconsolidation of ORIX Credit Corporation and ORIX Securities Corporation, despite an increase in line with increased revenues from advisory services in the United States.

Provision for doubtful receivables and probable loan losses decreased 52% to ¥5,992 million compared to the same period of the previous fiscal year. This decrease is mainly due to a decrease in provisions in the Corporate Financial Services and Retail segments.

At the end of the first quarter, domestic installment loans to real estate-related companies (excluding non-recourse loans by SPCs) accounted for ¥427,220 million, or 19% of all outstanding domestic installment loans. Installment loans made to real estate-related companies are secured in most cases with real estate as collateral. Of this amount, loans individually evaluated for impairment were down to ¥141,665 million from ¥152,455 million on March 31, 2010, the valuation allowance for this amount decreased to ¥49,471 million from ¥53,122 million on March 31, 2010.

Write-downs of long-lived assets increased to ¥1,603 million from ¥102 million in the same period of the previous fiscal year. This is primarily due to write-downs of rental properties in the Real Estate segment.

Write-downs of securities increased 128% to ¥6,271 million compared to the same period of the previous fiscal year. Write-downs were primarily recorded for non-marketable equity securities and preferred capital shares.

As a result of the foregoing changes, operating profit increased 2% to ¥22,357 million compared to the same period of the previous fiscal year.

Net Income Attributable to ORIX Corporation

Net Income Attributable to ORIX Corporation increased 129% to ¥16,450 million compared to the same period of the previous fiscal year.

Equity in net income (loss) of affiliates was ¥1,932 million, improving from a loss of ¥9,161 million, which was recorded as a result of an affiliate filing for protection under the Corporate Rehabilitation Law during the same period of the previous fiscal year.

Gains (losses) on sales of subsidiaries and affiliates and liquidation losses, net was a profit of ¥346 million, an improvement from a loss of ¥707 million during the same period of the previous fiscal year. A loss was recorded from the sale of common stock of the aforementioned affiliate.

As a result of the foregoing changes, income before income taxes increased 106% to ¥24,635 million.

Discontinued operations, net of applicable tax effect increased to ¥2,296 million from ¥225 million compared to the same period of the previous fiscal year primarily due to an increase in gains on sales of real estate under operating leases in Japan.

Net income attributable to ORIX Corporation increased 129% to ¥16,450 million compared to the same period of the previous fiscal year.

Segment Information

Profitability was achieved in all segments during the first consolidated period.

From this fiscal year, the Company changed the measure of its segment assets and segment revenues related to certain variable interest entities (VIEs) which are consolidated in accordance with the above mentioned new accounting standards since the Company s management changed its internal performance assessment measures to manage its segments.

In addition, in line with a change of management classification, Internet Research Institute, Inc. and ORIX s Information and Communication Technology Department, which were previously included in the Corporate Financial Services segment, have been included in the Investment Banking segment and Maintenance Leasing segment, respectively.

Due to these changes, the reclassified figures are shown for the first consolidated period and the fiscal year ended March 31, 2010 (See Notes 18, Segment Information).

Segment information for the first consolidated period is as follows:

Corporate Financial Services Segment

This segment is involved in lending, leasing, commission business for the sale of financial products, and environment-related businesses.

Segment revenues decreased 8% to ¥23,845 million compared to ¥25,802 million in the same period of the previous fiscal year, primarily due to a decrease in the average balance of installment loans by 26% compared to the same period of the previous fiscal year as a result of adjustments to the portfolio balance through a reduction in new loan executions.

Segment expenses decreased compared to the same period of the previous fiscal year, resulting from decreases in interest expense and provision for doubtful receivables and probable loan losses. New occurrences of non-performing assets have been decreasing since the fourth quarter of the previous fiscal year, due to restrictions on new loans to real estate-related companies and increased collateral requirements continuing from the previous fiscal year. In addition, provision for doubtful receivables and probable loan losses have decreased with improvement in corporate revenues as the economy moves toward recovery.

Table of Contents

As a result, segment profits increased 32% to ¥2,004 million compared to ¥1,513 million during the same period of the previous fiscal year.

Segment assets decreased 4% to ¥1,135,577 million compared to March 31, 2010, due to a decline in the installment loan balance.

Maintenance Leasing Segment

This segment consists of automobile and rental operations. The automobile operations are comprised of automobile leasing, rentals and car sharing. The rental operations are comprised of leasing and rental of precision measuring equipment and IT-related equipment.

The business environment outlook remains bleak, as corporate client demand for new automobiles is weak. Capital expenditures in the equipment rental business have yet to sufficiently recover, despite a recovery trend in capital expenditures in Japan. However, the Maintenance Leasing segment has maintained stable revenues by capitalizing on ORIX s position as the industry-leader in terms of market share and by providing high value-added services.

Segment revenues remained flat at ¥56,777 million, compared to ¥57,441 million during the same period of the previous fiscal year due to steady operating lease and maintenance revenues despite the current environment.

Segment expenses decreased compared to the same period of the previous fiscal year, due to a decrease in depreciation expense and interest expense as a result of a year on year decrease in operating lease assets.

As a result, segment profits increased 16% to ¥6,753 million compared to ¥5,830 million during the same period of the previous fiscal year.

Segment assets increased 2% to ¥524,171 million compared to March 31, 2010 due to an increase in operating lease assets.

Real Estate Segment

This segment consists of development and rentals of commercial real estate and office buildings, condominium development and sales, hotel, golf course, and training facility operation, senior housing development and management, REIT asset management, and real estate investment and advisory services.

The condominium market recovery is on a recovering trend, especially in urban areas as a result of an improved balance of supply and demand. However, a loss was recorded as a result of a decrease in the number of condominiums delivered to 103 units from 375 units during the same period of the previous fiscal year due to previous limitations on new developments in the condominium operations.

Although sales of real estate under operating leases remain below pre-crisis levels, they are on an increasing trend. Under this environment, the real estate investment business is pursuing a policy of making appropriate assets sales based on real demand. Real estate transactions are on a gradually increasing trend, with the sale of a large-scale property occurring during the first consolidated period, and gains on sales of real estate under operating leases increased compared to the same period of the previous fiscal year.

Despite gains on sales of real estate under operating leases, segment revenues decreased 7% to ¥39,645 million compared to ¥42,645 million in the same period of the previous fiscal year due to the decrease in number of condominiums delivered. Segment expenses dramatically declined due to such factors as advertising and other expenses incurred ahead of unit delivery and a decrease in the number of condominiums delivered. As a result, segment profits increased approximately eight-fold to ¥2,180 million compared to ¥261 million in the same period of the previous fiscal year.

Segment assets remained flat at ¥1,070,122 million compared to March 31, 2010.

Investment Banking Segment

This segment consists of real estate finance, commercial real estate asset securitization, loan servicing (asset recovery), principal investment, M&A advisory, venture capital, and securities brokerage.

The market is reaching a turning point with investment appetite returning to the real estate finance market, particularly among foreign investors.

Segment revenues increased 14% to ¥26,765 million compared to ¥23,580 million in the same period of the previous fiscal year. Revenues increased compared to the same period of the previous fiscal year due to major collections made by the loan servicing (asset recovery) business and increased revenues from operating leases, despite decreased revenues due to a 13% year-on-year decline in the average balance of installment loans and investment in securities (including specified bonds).

Segment expenses increased due to increased write-downs of securities despite decreased selling, general and administrative expenses.

Equity in net income (loss) of affiliates recorded a profit during the first consolidated period, whereas a loss was recorded during the same period of the previous fiscal year due to an affiliate filing for protection under the Corporate Rehabilitation Law.

As a result, segment profits were ¥2,109 million compared to a loss of ¥10,418 million in the same period of the previous fiscal year.

Segment assets remained flat at ¥1,062,218 million compared to March 31, 2010.

Retail Segment

This segment consists of the life insurance operations, the trust and banking business, and the card loan and the online securities brokerage businesses operated by affiliates.

In the life insurance business, insurance related gains improved due to increased contracts for new products together with increased insurance-related investment income due to recovery of the market environment.

Installment loans increased in the trust and banking business in line with increased corporate lending. As a result, both revenues and profits increased. Also, Internet-based deposits increased steadily, and assets have surpassed the 1 trillion yen level.

Table of Contents

Segment revenues and expenses from the card loan and online securities brokerage business is recognized as segment profits under equity in net income (loss) of affiliates due to the share transfer and share exchange of the card loan and online securities brokerage businesses during the previous consolidated fiscal year.

As a result, segment revenues decreased 18% to ¥35,582 million compared to ¥43,225 million in the same period of the previous fiscal year. However, segment profits increased 56% to ¥8,105 million compared to ¥5,181 million during the same period of the previous fiscal year due to decreased segment expenses, mainly lower selling, general and administrative expenses and decreased provisions for doubtful receivables and probable loan losses.

Segment assets increased 2% to ¥1,611,351 million compared to March 31, 2010 as a result of increased installment loans in the trust and banking business and an increase in investment securities.

Overseas Business Segment

This segment consists of leasing, lending, investment in bonds, investment banking, real estate-related operations, and ship- and aircraft-related operations in the U.S., Asia, Oceania and Europe.

Economic recovery in the U.S. is slowing down despite a decreasing trend in financial institutions cost of credit as the housing market remains stagnant and unemployment continues to hover at a high rate despite. Economic recovery is continuing in the Asian region, especially China.

Segment revenues increased 2% to ¥43,123 million compared to ¥42,273 million in the same period of the previous fiscal year. In the U.S., fee income from investment banking operations increased. Also, revenues remained flat in Asia and Oceania mainly due to an increase in gains on sales of autos in the automobile leasing business being offset by decreased revenues from a decline in the balances of investment in operating and direct financing leases.

Segment expenses remained flat year on year due to a decrease in provision for doubtful receivables and probable loan losses in the U.S. being offset by an increase in selling, general and administrative expenses from a corporate acquisition. As a result, segment profits increased 2% to ¥11,435 million compared to ¥11,257 million during the same period of the previous fiscal year.

Segment assets decreased 2% to ¥840,634 million compared to March 31, 2010, mainly due to the effects of an appreciated yen.

(2) Financial Condition

	Fiscal Period Ended June 30, 2010	Fiscal Year Ended March 31, 2010	Change	Year on Year Change
Total Assets (millions of yen)	8,704,169	7,739,800	964,369	12%
(Segment Assets)	6,244,073	6,284,275	(40,202)	(1%)
Total Liabilities (millions of yen)	7,386,486	6,395,244	991,242	15%
(Long- and Short-term Debt)	5,400,598	4,409,835	990,763	22%
(Deposits)	897,733	853,269	44,464	5%
Shareholders Equity* (millions of yen)	1,266,795	1,298,684	(31,889)	(2%)
Shareholders Equity Per Share* (yen)	11,785.67	12,082.56	(296.89)	(2%)

* Shareholders Equity refers to ORIX Corporation Shareholders Equity.

Table of Contents

Total assets increased 12% to ¥8,704,169 million compared to ¥7,739,800 million on March 31, 2010. Installment loans and investment in direct financing leases increased due to the application of new accounting standards, see Note 2 Significant Accounting and Reporting Policies and Note 6 Variable Interest Entities , in this fiscal year relating to consolidation of VIEs. Segment assets decreased 1% to ¥6,244,073 million from March 31, 2010.

Regarding liabilities, the application of the new accounting standard with respect to VIEs resulted in an increase in long-term debt compared to March 31, 2010. Furthermore, deposits have increased in accordance with business expansion into corporate lending in the trust and banking business.

Shareholders equity decreased 2% to ¥1,266,795 million compared to March 31, 2010 due to a decrease in retained earnings in line with the application of the new accounting standard in addition to accumulated other comprehensive income (loss) such as net change of foreign currency translation adjustments.

(3) Liquidity and Capital Resources

ORIX Group requires capital resources at all times for maintaining working capital. We have put our main emphasis on ensuring stable funding and reduction of our funding costs by diversifying our funding methods and procuring capital from a variety of sources. We strive for timely and flexible capital resource procurement by monitoring the funding requirements from our sales and investment operations, and the balance between the supply and demands of our funding needs. We are also monitor the financial institutions willingness to lead money in the market, investors investment trend, and so on.

ORIX Group s funding from long- and short-term debt and acceptance of deposits on a consolidated basis, as of June 30, 2010, was 6,131 billion yen.

Funding was mainly comprised of borrowings from financial institutions and direct fund procurement from capital markets. Borrowings were procured from a diverse range of financial institutions including major banks, regional banks, foreign banks, life and casualty insurance companies and financial institutions associated with agricultural cooperatives. The number of financial institutions from which we procured borrowings exceeded 200 as of June 30, 2010. Procurement from the capital markets was composed of the issuance of ORIX straight bonds, commercial paper (CP), medium-term notes issued by ORIX and three overseas subsidiaries, the securitization of operating assets (ABS/CMBS), and through unsecured convertible bonds with stock acquisition rights.

Due to application of new accounting standards this consolidated fiscal year relating to the consolidation of variable interest entities (VIEs), total debt increased by ¥1,053 billion.

In response to market risks, we have been implementing various measures to maintain financial stability, such as decreasing interest bearing debt to improve our debt-to-equity ratio, and increasing the average length of debt as well as retaining excess liquidity through cash and deposits to decrease short-term liquidity risk. In July 2009, we issued new shares at the amount of 83.4 billion yen for new investments and reduction of debt, and in April 2010, we issued $750 million aggregate principal amount of U.S. dollar-denominated senior notes in a SEC-registered offering outside of Japan. We will continue to strengthen our financial condition, while maintaining an appropriate balance of funding structure.

Table of Contents

Debt

(a) Short-term debt

	June 30, 2010 (Millions of yen)	March 31, 2010 (Millions of yen)
Borrowings from financial institutions	316,744	271,234
Commercial paper	279,170	282,781
Medium-term notes	19,550	19,550
Total	615,464	573,565

The above amounts include Short-term debt of VIEs as of June 30, 2010. Of them, amounts additionally disclosed in accordance with Accounting Standards Update 2009-17 ((ASC810 (Consolidation)) are as follows.

Short-term debt: ¥1,643 million.

Cash and cash equivalent, time deposits and available amount of the committed credit facilities at the end of the first fiscal quarter were 1,000 billion yen in altogether, which amount was 358% of the amount of the CPs of which outstanding balance at the end of the first fiscal quarter was 279,170 million.

(b) Long-term debt

	June 30, 2010 (Millions of yen)	March 31, 2010 (Millions of yen)
Borrowings from financial institutions	2,239,171	2,314,377
Bonds	1,228,554	1,215,359
Medium-term notes	95,895	104,310
Payable under securitized lease and loan receivables	1,221,514	202,224
Total	4,785,134	3,836,270

The above amounts include Long-term debt of VIEs as of June 30, 2010. Of them, amounts additionally disclosed in accordance with Accounting Standards Update 2009-17 ((ASC810 (Consolidation)) are as follows.

Borrowings from financial institutions: ¥141,153 million.

Bonds: ¥4,618 million.

Payable under securitized lease and loan receivables: ¥1,222 billion

Long-term debt increased by ¥1,053 billion due to application of new accounting standards this consolidated fiscal year relating to the consolidation of variable interest entities (VIEs)

Table of Contents

(c) Deposits

	June 30, 2010 (Millions of yen)	March 31, 2010 (Millions of yen)
Deposits	897,733	853,269

Apart from the short-term and long-term debt noted above, ORIX Trust and Banking Corporation and ORIX Asia Limited accept deposits. The balance of deposits at the end of the first fiscal quarter was 897,733 million, an increase of 5% or 44,464 million yen from the end of the previous fiscal year.

(4) Summary of Cash Flows

Cash and cash equivalents decreased by ¥29,977 million to ¥609,110 million compared to March 31, 2010.

Cash flows from operating activities used ¥14,251 million during the first consolidated period, having provided ¥6,450 million during the same period of the previous fiscal year, resulting from a decrease in the delivery of real estate (*e.g.* condominiums) for sale such as condominiums, an increase in trading securities, in addition to the adjustment of net income such as depreciation and amortization, provision for doubtful receivables and probable loan losses and equity in net income (loss) of affiliates (excluding interest on loans), despite an increase in quarterly net income compared to the same period of the previous fiscal year.

Cash flows from investing activities provided ¥73,143 million during the first consolidated period, having provided ¥111,792 million during the same period of the previous fiscal year, due to a year on year decrease in installment loans made to customers and a return of investments in connection with proceeds from the sales of operating lease assets, despite increases in purchase of lease equipment and purchases of other securities compared to the same period of the previous fiscal year.

Cash flows from financing activities used ¥83,530 million during the first consolidated period, having used ¥177,502 million during the same period of the previous fiscal year due to the amount of borrowings exceeding the amount of funding raised, despite an increase in the amount of funding raised through the issuance of unsecured debt compared to the same period of the previous fiscal year in accordance with the policy to enhance financial stability.

(5) Challenges to be addressed

There were no significant changes for the three months ended June 30, 2010.

(6) Research and Development Activity

There were no significant changes for the three months ended June 30, 2010.

Table of Contents

6. Overview of Facilities

(1) Facilities for Rent

(a) New equipment acquisitions

In association with the operating lease business, the Company and its subsidiaries own facilities for rent. New equipment acquisitions were ¥51,822 million for the three months ended June 30, 2010.

(b) Details of facilities for rent

Details of facilities for rent at June 30, 2010 are as follows:

	Millions of yen	Composition ratio
Transportation equipment	569,289	35.9%
Measuring and information-related equipment	168,767	10.6
Real estate	827,918	52.2
Other	20,140	1.3
Subtotal	1,586,114	100.0%
Accumulated depreciation	(388,096)	
Net	1,198,018	
Accrued rental receivables	16,266	
Total	1,214,284	

For the three months ended June 30, 2010, the Company and its subsidiaries wrote down certain facilities for rent to their fair value under the provisions of ASC 360-10 (Property, Plant, and Equipment Impairment or Disposal of Long-Lived Assets). For further information on the write-downs, see Note 12 Write-Downs of Long-Lived Assets .

(c) Plans for acquisition and disposal of facilities

For the three months ended June 30, 2010, there were not any significant changes in acquisition and disposal of facilities.

(2) Office Facilities and Facilities for Operation Other than for Rent

(a) Overview of facilities not for rent

The Company and its subsidiaries own the following facilities:

Head-office buildings

Facilities for management such as golf courses and training facilities

(b) Status of main facilities not for rent

i) The Company

For the three months ended June 30, 2010, there no significant changes of major facilities.

ii) Subsidiaries in Japan

For the three months ended June 30, 2010, there were no significant changes of major facilities.

iii) Overseas subsidiaries

For the three months ended June 30, 2010, there were no significant changes of major facilities.

Table of Contents

(c) Plans for acquisition and disposal of facilities not for rent

For the three months ended June 30, 2010, there were no significant changes in acquisition and disposal of facilities not for rent.

7. Company Stock Information

(1) Information of Outstanding Shares, Common Stock and Additional Paid-in Capital

The information of the number of outstanding shares, the amount of common stock and additional paid-in capital for the three months ended June 30, 2010 is as follows:

In thousands		**Millions of yen**			
Number of outstanding shares		**Common stock**		**Additional paid-in capital**	
Increase, net	**June 30, 2010**	**Increase, net**	**June 30, 2010**	**Increase, net**	**June 30, 2010**
1	110,231	6	143,946	6	171,125

Note: *1 Additional paid-in capital represented as shown above is based on Japanese GAAP.
*2 The exercise of stock acquisition right increased common stock and additional paid-in capital.

(2) Condition of Major Shareholders

(a) On the list of shareholders as of June 30, 2010, THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT became a major shareholder.

Name **Address**	**Number of shares held (in thousands)**	**Percentage of total shares issued**
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT WOOLGATE HOUSE, COLEMAN STREET LONDON EC2P 2HD, ENGLAND	1,477	1.34%

(b) AllianceBernstein L.P. and AllianceBernstein Japan Ltd. jointly filed an amended report as required under Japanese regulations on May 19, 2010 that shows their share holdings of the Company as of May 14, 2010. The reported number of shares held is not able to be confirmed substantially against the list of shareholders as of June 30, 2010.

Name	**Number of shares held (in thousands)**	**Percentage of total shares issued**
AllianceBernstein L.P.	10,944	9.93%
AllianceBernstein Japan Ltd.	685	0.62
Total	11,629	10.55%

Table of Contents

(c) Nomura Securities Co., Ltd., NOMURA INTERNATIONAL PLC, Nomura Capital Markets plc, and Nomura Asset Management Co., Ltd. jointly filed an amended report as required under Japanese regulations on June 7, 2010 that shows their share holdings of the Company as of May 31, 2010. The reported number of shares held is not able to be confirmed substantially against the list of shareholders as of June 30, 2010.

Name	Number of shares held (in thousands)	Percentage of total shares in issued
Nomura Securities Co., Ltd.	178	0.16%
NOMURA INTERNATIONAL PLC *1	6,272	5.42
Nomura Capital Markets plc	498	0.45
Nomura Asset Management Co., Ltd. *2	4,113	3.73
Total	11,062	9.55%

*1, 2 The number of shares and percentage of total shares in issued held by NOMURA INTERNATIONAL PLC and Nomura Asset Management Co., Ltd. include the residual securities.

(d) Fidelity Investments Japan Limited and FMR LLC jointly filed an amended report as required under Japanese regulations on June 11, 2010 that shows their share holdings of the Company as of June 7, 2010. The reported number of shares held is not able to be confirmed substantially against the list of shareholders as of June 30, 2010.

Name	Number of shares held (in thousands)	Percentage of total shares issued
Fidelity Investments Japan Limited	7,140	6.48%
FMR LLC	8,977	8.14
Total	16,117	14.62

8. Financial Information

(1) Condensed Consolidated Balance Sheets (Unaudited)

Assets	Millions of yen June 30, 2010	 March 31, 2010
Cash and Cash Equivalents	609,110	639,087
Restricted Cash	112,565	77,486
Time Deposits	3,489	548
Investment in Direct Financing Leases	844,153	756,481
Installment Loans	3,360,338	2,464,251
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses	(182,179)	(157,523)
Investment in Operating Leases	1,214,284	1,213,223
Investment in Securities	1,081,287	1,104,158
Other Operating Assets	215,859	186,396
Investment in Affiliates	407,255	409,711
Other Receivables	187,756	210,521
Inventories	143,625	153,256
Prepaid Expenses	52,747	45,420
Office Facilities	99,854	96,831
Other Assets	554,026	539,954
Total Assets	8,704,169	7,739,800

Pursuant to Accounting Standards Update 2009-17 (ASC 810-10 (Consolidation Variable Interest Entities)), assets attributed to variable interest entities (VIEs) in the Condensed Consolidated Balance Sheets are as follows:

	Millions of yen June 30, 2010
Cash and Cash Equivalents	30,788
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	270,097
Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	1,045,362
Investment in Operating Leases	330,036
Investment in Securities	75,483
Investment in Affiliates	35,244
Others	194,960
	1,981,970

Table of Contents

Liabilities and Equity	Millions of yen June 30, 2010	March 31, 2010
Liabilities:		
Short-Term Debt	615,464	573,565
Deposits	897,733	853,269
Trade Notes, Accounts Payable and Other Liabilities	307,495	311,113
Accrued Expenses	94,648	101,917
Policy Liabilities	398,965	409,957
Current and Deferred Income Taxes	163,957	183,674
Security Deposits	123,090	125,479
Long-Term Debt	4,785,134	3,836,270
Total Liabilities	7,386,486	6,395,244
Redeemable Noncontrolling Interests	27,916	28,095
Commitments and Contingent Liabilities		
Equity:		
Common Stock	143,946	143,939
Additional Paid-in Capital	178,936	178,661
Retained Earnings	1,090,413	1,104,779
Accumulated Other Comprehensive Income (Loss)	(97,263)	(79,459)
Treasury Stock, at Cost	(49,237)	(49,236)
Total ORIX Corporation Shareholders Equity	1,266,795	1,298,684
Noncontrolling Interests	22,972	17,777
Total Equity	1,289,767	1,316,461
Total Liabilities and Equity	8,704,169	7,739,800

Pursuant to Accounting Standards Update 2009-17 (ASC 810-10 (Consolidation Variable Interest Entities)), liabilities attributed to variable interest entities (VIEs) in the Condensed Consolidated Balance Sheets are as follows:

	Millions of yen June 30, 2010
Short-Term Debt	1,643
Trade Notes, Accounts Payable and Other Liabilities	10,025
Security Deposits	8,756
Long-Term Debt	1,367,285
Others	6,306
	1,394,015

Table of Contents

Condensed Consolidated Statements of Income (Unaudited)

	Millions of yen	
	Three months ended June 30, 2009	Three months ended June 30, 2010
Revenues:		
Direct financing leases	13,462	12,330
Operating leases	67,730	68,045
Interest on loans and investment securities	41,847	44,752
Brokerage commissions and net gains on investment securities	7,480	5,055
Life insurance premiums and related investment income	26,097	27,722
Real estate sales	10,403	5,672
Gains on sales of real estate under operating leases	488	103
Other operating revenues	65,536	70,835
Total revenues	233,043	234,514
Expenses:		
Interest expense	22,666	33,359
Costs of operating leases	47,370	46,252
Life insurance costs	21,779	20,639
Costs of real estate sales	10,596	6,175
Other operating expenses	39,737	42,776
Selling, general and administrative expenses	53,178	49,453
Provision for doubtful receivables and probable loan losses	12,404	5,992
Write-downs of long-lived assets	102	1,603
Write-downs of securities	2,748	6,271
Foreign currency transaction loss (gain), net	616	(363)
Total expenses	211,196	212,157
Operating Income	21,847	22,357
Equity in Net Income (Loss) of Affiliates	(9,161)	1,932
Gains (Losses) on Sales of Subsidiaries and Affiliates and Liquidation Losses, net	(707)	346
Income before Income Taxes and Discontinued Operations	11,979	24,635
Provision for Income Taxes	5,017	10,064
Income from Continuing Operations	6,962	14,571
Discontinued Operations:		
Income from discontinued operations, net	450	4,084
Provision for income taxes	(225)	(1,788)
Discontinued operations, net of applicable tax effect	225	2,296
Net Income	7,187	16,867
Net Income (Loss) Attributable to the Noncontrolling Interests	(444)	(13)
Net Income Attributable to the Redeemable Noncontrolling Interests	439	430

Net Income Attributable to ORIX Corporation	7,192	16,450

20

Table of Contents

	Millions of yen	
	Three months ended June 30, 2009	**Three months ended June 30, 2010**
Income attributable to ORIX Corporation:		
Income from continuing operations	6,918	14,112
Discontinued operations	274	2,338
Net income attributable to ORIX Corporation	7,192	16,450

	Yen	
	Three months ended June 30, 2009	**Three months ended June 30, 2010**
Amounts per Share of Common Stock for Income attributable to ORIX Corporation:		
Basic:		
Income from continuing operations	77.38	131.29
Discontinued operations	3.07	21.76
Net income attributable to ORIX Corporation	80.45	153.05
Diluted:		
Income from continuing operations	65.56	111.51
Discontinued operations	2.48	17.76
Net income attributable to ORIX Corporation	68.04	129.27

(3) Consolidated Statement of Comprehensive Income

	Millions of yen	
	Three months ended June 30, 2009	Three months ended June 30, 2010
Net Income	7,187	16,867
Other comprehensive income (loss), net of tax:		
Net change of unrealized gains (losses) on investment in securities	6,664	(2,238)
Net change of defined benefit pension plans	246	125
Net change of foreign currency translation adjustments	(777)	(14,947)
Net change of unrealized gains (losses) on derivative instruments	(941)	1,137
Total other comprehensive income (loss)	5,192	(15,923)
Comprehensive Income (Loss)	12,379	944
Comprehensive Income (Loss) Attributable to the Noncontrolling Interests	(1,250)	(43)
Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests	(165)	(1,065)
Comprehensive Income (Loss) Attributable to ORIX Corporation	13,794	2,052

Table of Contents

(4) Consolidated Statement of Changes in Equity

Three months ended June 30, 2010

	Millions of yen							
	ORIX Corporation Shareholders Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total ORIX Corporation Shareholders Equity	Noncontrolling Interests	Total Equity
Beginning Balance Before Adjustment	143,939	178,661	1,104,779	(79,459)	(49,236)	1,298,684	17,777	1,316,461
Cumulative effect of applying according for new accounting standards for the consolidation of variable interest entities			(22,495)	(3,406)		(25,901)	4,233	(21,668)
Beginning Balance After Adjustment	143,939	178,661	1,082,284	(82,865)	(49,236)	1,272,783	22,010	1,294,793
Contribution to Subsidiaries							2,281	2,281
Transaction with noncontrolling interests		116				116	(558)	(442)
Comprehensive income (loss)								
Net income			16,450			16,450	(13)	16,437
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(2,324)		(2,324)	86	(2,238)
Net change of defined benefit pension plans				125		125		125
Net change of foreign currency translation adjustments				(13,340)		(13,340)	(112)	(13,452)
Net change of unrealized gains (losses) on derivative instruments				1,141		1,141	(4)	1,137
Total						(14,398)	(30)	14,428
Comprehensive income (loss)						2,052	(43)	2,009
Cash dividends			(8,061)			(8,061)	(718)	(8,779)
Conversion of convertible bond	1	1				2		2
Exercise of stock options	6	5				11		11
Compensation cost of stock options		100				100		100
Acquisition of treasury stock					(1)	(1)		(1)
Other, net		53	(260)			(207)		(207)
Ending balance	143,946	178,936	1,090,413	(97,263)	(49,237)	1,266,795	22,972	1,289,767

Table of Contents

Three months ended June 30, 2009

	Millions of yen							
	ORIX Corporation Shareholders Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total ORIX Corporation Shareholders Equity	Noncontrolling Interests	Total Equity
Beginning Balance	102,216	136,313	1,071,919	(92,384)	(50,534)	1,167,530	18,067	1,185,597
Contribution to subsidiaries							788	788
Transaction with noncontrolling interests		5				5	(1)	4
Comprehensive income (loss)								
Net income			7,192			7,192	(444)	6,748
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				6,654		6,654	10	6,664
Net change of defined benefit pension plans				258		258	(12)	246
Net change of foreign currency translation adjustments				629		629	(802)	(173)
Net change of unrealized gains (losses) on derivative instruments				(939)		(939)	(2)	(941)
Total						6,602	(806)	5,796
Comprehensive income (loss)						13,794	(1,250)	12,544
Cash dividends			(6,261)			(6,261)	(72)	(6,333)
Conversion of convertible bond	2	2				4		42
Compensation cost of stock options		310				310		310
Acquisition of treasury stock					(1)	(1)		(1)
Other, net		12			51	63	(10)	53
Ending balance	102,218	136,642	1,072,850	(85,782)	(50,484)	1,175,444	17,522	1,192,966

* Changes in the redeemable noncontrolling interests are not included in the table. For further information, see Note 8 Redeemable Noncontrolling Interests .

Table of Contents

(5) Condensed Consolidated Statements of Cash Flows

	Millions of yen	
	Three months ended June 30, 2009	**Three months ended June 30, 2010**
Cash Flows from Operating Activities:		
Net income	7,187	16,867
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	49,809	39,337
Provision for doubtful receivables and probable loan losses	12,404	5,992
Decrease in policy liabilities	(14,658)	(10,992)
Equity in net (income) loss of affiliates (excluding interest on loans)	9,161	(1,238)
(Gains) losses on sales of subsidiaries and affiliates and liquidation losses, net	707	(346)
Gains on sales of available-for-sale securities	(1,478)	(1,698)
Gains on sales of real estate under operating leases	(488)	(103)
Gains on sales of operating lease assets other than real estate	(1,435)	(2,116)
Write-downs of long-lived assets	102	1,603
Write-downs of securities	2,748	6,271
Increase in restricted cash	(7,944)	(2,570)
Increase in trading securities	(74)	(10,646)
Decrease (increase) in inventories	14,120	(6,234)
Decrease in other receivables	2,209	6,841
Decrease in trade notes, accounts payable and other liabilities	(31,233)	(9,437)
Other, net	(34,687)	(45,772)
Net cash provided by (used in) operating activities	6,450	(14,241)
Cash Flows from Investing Activities:		
Purchases of lease equipment	(90,892)	(126,643)
Principal payments received under direct financing leases	94,370	98,709
Net proceeds from securitization of lease receivables, loan receivables and securities	5,163	
Installment loans made to customers	(156,711)	(143,024)
Principal collected on installment loans	254,827	253,320
Proceeds from sales of operating lease assets	18,184	56,886
Investment in affiliates, net	39	1,102
Proceeds from sales of investment in affiliates	4,367	1,283
Purchases of available-for-sale securities	(58,827)	(224,816)
Proceeds from sales of available-for-sale securities	22,591	94,894
Proceeds from redemption of available-for-sale securities	35,908	104,356
Purchases of other securities	(3,042)	(19,794)
Proceeds from sales of other securities	5,988	2,856
Purchases of other operating assets	(2,045)	(724)
Acquisitions of subsidiaries, net of cash acquired	(5,101)	(10,676)
Other, net	(13,027)	(14,586)
Net cash provided by investing activities	111,792	73,143
Cash Flows from Financing Activities:		
Net increase in debt with maturities of three months or less	84,440	20,460
Proceeds from debt with maturities longer than three months	191,716	364,555
Repayment of debt with maturities longer than three months	(477,134)	(497,038)
Net increase in deposits due to customers	41,085	44,544

Issuance of common stock	2	11
Dividends paid	(6,261)	(8,061)
Net decrease in call money	(11,400)	(8,000)
Acquisition of treasury stock	(1)	(1)
Other, net	51	
Net cash used in financing activities	(177,502)	(83,530)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,752	(5,349)
Net Decrease in Cash and Cash Equivalents	(57,508)	(29,977)
Cash and Cash Equivalents at Beginning of Year	459,969	639,087
Cash and Cash Equivalents at End of Period	402,461	609,110

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

Table of Contents

Notes to Consolidated Financial Statements

1. Overview of Accounting Principles Utilized

In preparing the accompanying consolidated financial statements, ORIX Corporation (the Company) and its subsidiaries have complied with requirements of accounting principles, procedures and disclosure related to issuing American Depositary Receipts, and generally accepted accounting principles in the United States of America (U.S. GAAP), modified for the accounting for stock splits (see Note 2 (n)).

Since the Company listed on the New York Stock Exchange in September 1998, the Company has filed the annual report (Form 20-F) including the consolidated financial statements based on terms, formats and preparations pursuant to the rules regarding issuing American Depositary Receipts and registered with the Securities and Exchange Commission.

Significant differences between U.S. GAAP and generally accepted accounting principles in Japan (Japanese GAAP) are as follows:

(a) Initial direct costs

Under U.S. GAAP, certain initial direct costs to originate lease or loan are being deferred and amortized as yield adjustments over the life of related direct financing lease or loan by using interest method.

On the other hand, under Japanese GAAP, those initial direct costs are recognized as expenses when they are incurred.

(b) Operating leases

Under U.S. GAAP, revenues from operating leases are recognized on a straight-line basis over the contract terms. Also operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis.

On the other hand, Japanese GAAP allows for operating lease assets to be depreciated using either the declining-balance basis or straight-line basis.

(c) Accounting for life insurance operations

Based on ASC 944 (Financial Services Insurance), certain costs associated with writing insurances, or deferred policy acquisition costs, are being deferred and amortized over the respective policy periods in proportion to anticipated premium revenue.

Under Japanese GAAP, such costs are recorded as expenses currently in earnings in each accounting period.

In addition, although policy liabilities for future policy benefits are established for by the net level premium method, based on actuarial estimates of the amount of future policyholder benefits, under U.S. GAAP, these are calculated by the methodology which relevant authorities accept, under Japanese GAAP.

(d) Accounting for business combinations, goodwill and other intangible assets

Under U.S. GAAP, Goodwill and intangible assets that have indefinite useful lives are not amortized, but are tested at least annually for impairment.

Under Japanese GAAP, goodwill is amortized over an appropriate period up to 20 years.

(e) Accounting for pension plans

Under U.S. GAAP, the Company and its subsidiaries apply ASC 715 (Compensation- Retirement Benefits) and record pension costs based on the amounts determined using actuarial methods. The net actuarial loss is amortized using a corridor test. The Company and its subsidiaries also recognize the funded status of pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, on the consolidated balance sheets.

Under Japanese GAAP, the unrealized net actuarial loss is fully amortized over a certain term within the average remaining service period of employees expected to receive related benefits. The pension liabilities are recorded for the difference between the plan assets and the benefit obligation, net of unrecognized prior service cost and net actuarial loss, on the consolidated balance sheets.

Table of Contents

(f) Reporting on discontinued operations

Under U.S. GAAP, in accordance with ASC 205-20 (Presentation of Financial Statements Discontinued Operations), the financial results of discontinued operations and disposal gain or loss are presented as a separate line from continuing operations less applicable income taxes in the consolidated statements of income. The results of discontinued operations were reclassified as income from discontinued operations in each prior year in the accompanying consolidated statements of income and consolidated statements of cash flows.

Under Japanese GAAP, there are no rules on reporting discontinued operations and the amounts are not presented from continuing operations. Prior consolidated financial statements were not reclassified.

(g) Net Income in consolidated statements of income

Under U.S. GAAP, net income consists of net income attributable to the parent and net income attributable to the noncontrolling interests. Each of them are separately stated in the consolidated statements of income.

Under Japanese GAAP, net income attributable to the minority interests is not included in net income.

(h) Comprehensive income

Under U.S. GAAP, comprehensive income is required to be disclosed and it is separately stated in the consolidated financial statements.

Under Japanese GAAP, comprehensive income is not required to be disclosed.

(i) Partial sale and additional acquisition of in the parent s ownership interest

Under U.S. GAAP, partial sale and additional acquisition of the parent s ownership interest that retain controlling are accounted for as equity transactions. On the other hand, in a transaction that results in the loss of control, the gain or loss recognized in income includes the realized gain or loss related to the portion of ownership interest sold and the gain or loss on the remeasurement to fair value of the interest retained.

Under Japanese GAAP, partial sale of the parent s ownership interest that retain controlling are accounted for as profit-loss transactions and additional acquisition of the parent s ownership interest are accounted for as business combination. On the other hand, in a transaction that results in the loss of control, only the realized gain or loss related to the portion of ownership interest sold recognized in income but the gain or loss on the remeasurement to fair value of the interest retained does not recognized.

(j) Classification in consolidated statement of cash flows

Classification in the statement of cash flows under U.S. GAAP is based on ASC 230 (Statement of Cash Flows), which differs from Japanese GAAP. As significant differences, purchase of lease equipment and principal payments received under direct financing leases, proceeds from sales of operating lease assets, installment loans made to customers and principal collected on installment loans (excluding issues and collections of loans held for sale) are included in Cash Flows from Investing Activities under U.S. GAAP while they are classified as Cash Flows from Operating Activities under Japanese GAAP.

Table of Contents

2. Significant Accounting and Reporting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in affiliates, where the Company has the ability to exercise significant influence by way of 20%-50% ownership or other means, are accounted for by using the equity method. For certain entities where the Company holds majority voting interests but minority shareholders have substantive participation rights to decisions that occur as part of the ordinary course of their business, the equity method is applied pursuant to FASB Accounting Standards Codification (ASC) 810-10-25-2 to 14 (Consolidation The effect of Noncontrolling Rights on Consolidation). In addition, the consolidated financial statements also include variable interest entities to which the Company and its subsidiaries are primary beneficiaries pursuant to ASC 810-10 (Consolidation Variable Interest Entities).

A lag period of up to three months is used on a consistent basis when considered necessary and appropriate for recognizing the results of subsidiaries and affiliates.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company has identified ten areas where it believes assumptions and estimates are particularly critical to the financial statements. These are the selection of valuation techniques and determination of assumptions used in fair value measurements (see Note 3), the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases (see (d)), the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs (see (e)), the determination of the allowance for doubtful receivables on direct financing leases and probable loan losses (see (f)), the determination of impairment of long-lived assets (see (g)), the determination of impairment of investment in securities (see (h)), the determination of valuation allowance for deferred tax assets and the evaluation of tax positions (see (i)), assessment and measurement of effectiveness in hedging relationship using derivative financial instruments (see (k)), the determination of benefit obligation and net periodic pension cost (see (l)) and the determination of impairment of goodwill and intangible assets not subject to amortization (see (w)).

(c) Foreign currencies translation

The Company and its subsidiaries maintain their accounting records in their functional currency. Transactions in foreign currencies are recorded in the entity s functional currency based on the prevailing exchange rates on the transaction date.

The financial statements of overseas subsidiaries and affiliates are translated into Japanese yen by applying the exchange rates in effect at the end of each fiscal year to all assets and liabilities. Income and expenses are translated at the average rates of exchange prevailing during the fiscal year. The currencies in which the operations of the overseas subsidiaries and affiliates are conducted are regarded as the functional currencies of these companies. Foreign currency translation adjustments reflected in accumulated other comprehensive income (loss) arise from the translation of foreign currency financial statements into Japanese yen.

(d) Recognition of revenues

Revenues are recognized when persuasive evidence of an arrangement exists, the service has been rendered or the goods have been delivered to the customer, the transaction price is fixed or determinable and collectibility is reasonably assured.

In addition to the aforementioned general policy, the policies as specifically described hereinafter are applied for each of the major revenue items.

Leases The Company and its subsidiaries lease various assets to customers under direct financing or operating lease arrangements. Classification of a lease arrangement into either a direct financing lease or an operating lease is depending upon the specific conditions of the arrangement. Revenue recognition policies applied for direct financing leases and operating leases are specifically described in sections following this paragraph. In providing leasing services, the Company and its subsidiaries execute supplemental services, such as paying insurance and handling taxes on leased assets on behalf of lessees. In some cases, automobile maintenance services are also provided to lessees. Where under terms of the lease or related maintenance agreements the Company and its subsidiaries bear the favorable or unfavorable variability of cost, revenues and expenses are recorded on a gross basis. For those arrangements in which the Company and its subsidiaries do not have substantial risks and rewards of ownership, but instead serve as an agent in collecting from lessees and remitting payments to third parties, the Company and its subsidiaries record revenues net of third-party services costs. Revenues from automobile maintenance services are taken into income over the contract period in proportion to the estimated service costs to be incurred and are recorded in other operating revenues in the accompanying consolidated statements of income.

(1) Recognition of revenues for direct financing leases

Direct financing leases consist of full-payout leases for various equipment types, including office equipment, industrial machinery and transportation equipment. The excess of aggregate lease rentals plus the estimated unguaranteed residual value over the cost of the leased equipment constitutes the unearned lease income to be taken into income over the lease term by using interest method. The estimated residual values represent estimated proceeds from the disposition of equipment at the time the lease is terminated. Estimates of unguaranteed residual values are based on current market values of used equipment, estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment. Initial direct costs are being deferred and amortized as a yield adjustment over the life of related lease by using interest method. The unamortized balance of initial direct costs is reflected as a component of investment in direct financing leases.

(2) Recognition of revenues for operating leases

Revenues from operating leases are recognized on a straight-line basis over the contract terms. Investment in operating leases is stated at cost less accumulated depreciation, which was ¥388,096 million and ¥399,747 million at June 30, 2010 and March 31, 2010, respectively. Operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis. Depreciation costs are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets, except real estate operating leases, are included in operating lease revenues. With respect to some sales of real estate under operating leases such as commercial buildings, the Company or its subsidiaries may retain an interest in some cash flows from the real estate in the form of management or operation of the real estate. Where the Company or its subsidiaries have significant continuing involvement in the operations from the real estate under operating leases which have been disposed of, the gains or losses arising from such disposition are separately disclosed as gains on sales of real estate under operating leases, whereas if the Company or its subsidiaries have no significant continuing involvement in the operations from such disposed real estate, the gains or losses are reported as income from discontinued operations, net.

Estimates of residual values are based on current market values of used equipment, estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment.

Installment loans Interest income on installment loans is recognized on an accrual basis. Certain direct loan origination costs, offset by loan origination fees, are being deferred and amortized over the contractual term of the loan as an adjustment of the related loan s yield using the interest method.

Interest payments received on impaired loans are recorded as interest income unless the collection of the remaining investment is doubtful at which time payments received are recorded as reductions of principal.

Interest payments received on loans with evidence of deterioration of credit quality since origination and for which it is probable at acquisition that collection of all contractually required payments from the debtors is unlikely are recognized on a cash basis method or recorded as reductions of principal if the timing and amount of cash flows expected to be collected are reasonably unable to be estimated.

Non-accrual policy Revenues on direct financing leases and installment loans are no longer accrued at the time when principal or interest become past due 90 days or more, or earlier, if management believes their collectibility is doubtful. Accrued but uncollected interest is reclassified to investment in direct financing leases or installment loans in the accompanying consolidated balance sheets and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on these accounts are applied first against past due interest until qualifying for a return to accrual status and then any surpluses are taken to income.

Brokerage commissions and net gains on investment securities Brokerage commissions and net gains on investment securities are recorded on a trade date basis.

Real estate sales Revenues from the sales of real estate are recognized when a contract is in place, a closing has taken place, the buyer s initial and continuing investment is adequate to demonstrate a commitment to pay for the property and the Company and its subsidiaries do not have a substantial continuing involvement in the property.

(e) Insurance premiums and expenses

Premium income from life insurance policies is recognized as earned premiums when due.

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities for future policy benefits are established using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits.

ASC 944 (Financial Services Insurance) requires insurance companies to defer certain costs associated with writing insurances, or deferred policy acquisition costs, and amortizes them over the respective policy periods in proportion to anticipated premium revenue. These deferred policy acquisition costs are the costs related to the acquisition of new and renewal insurance policies and consist primarily of first-year commissions in excess of recurring policy maintenance costs and certain variable costs and expenses for underwriting policies.

Amortization charged to income for the three months ended June 30, 2009 and 2010 amounted to ¥2,897 million and ¥2,333 million respectively.

Table of Contents

(f) Allowance for doubtful receivables on direct financing leases and probable loan losses

The allowance for doubtful receivables on direct financing leases and probable loan losses is maintained at a level which, in the judgment of management, is adequate to provide for probable losses inherent in lease and loan portfolios. The allowance is increased by provisions charged to income and is decreased by charge-offs, net of recoveries.

Developing the allowance for doubtful receivables on direct financing leases and probable loan losses is subject to numerous estimates and judgments. In evaluating the adequacy of the allowance, management considers various factors, including the nature and characteristics of the obligors, current economic conditions and trends, prior charge-off experience, current delinquencies and delinquency trends, future cash flows expected to be received from the direct financing leases and loans and the value of underlying collateral and guarantees. Generally, the valuation allowance for large balance non-homogeneous loans is individually assessed to determine whether the loan is impaired. If the loan is deemed to be impaired, it is evaluated based on the present value of expected future cash flows, the loan s observable market price or the fair value of the collateral securing the loan if the loan is collateral-dependent. The allowance for losses on smaller-balance homogeneous loans, including individual housing loans which are not restructured, and lease receivables, is collectively evaluated, considering current economic conditions and trends, the value of underlying collateral and guarantees, prior charge-off experience, delinquencies and non-accruals.

Receivables are charged off when, in the opinion of management, the likelihood of any future collection is believed to be minimal.

(g) Impairment of long-lived assets

The Company and its subsidiaries have followed ASC 360-10 (Property, Plant, and Equipment Impairment or Disposal of Long-Lived Assets). Under ASC 360-10, long-lived assets to be held and used in operations, including tangible assets and intangible assets being amortized, consisting primarily of office building, condominiums, golf courses and other operating assets, shall be tested for recoverability whenever events or changes in circumstances indicate that the assets might be impaired. When the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets, the net carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount. In determining fair value, appraisals prepared by independent third party appraisers or the Company s own staff of qualified appraisers, based on recent transactions involving sales of similar assets or other valuation techniques to estimate fair value are utilized.

(h) Investment in securities

Trading securities are reported at fair value with unrealized gains and losses included in income.

Available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded in accumulated other comprehensive income (loss), net of applicable income taxes.

Held-to-maturity securities are recorded at amortized cost.

Other securities are recorded at cost or carrying value that reflects equity income and loss based on the investor s share.

For available-for-sale securities, the Company and its subsidiaries generally recognize losses related to equity securities for which the fair value has been significantly below the acquisition cost (or current carrying value if an adjustment has been made in the past) for more than six months. Also, the Company and its subsidiaries charge against income losses related to equity securities in situations where, even though the fair value has not remained significantly below the carrying value for six months, the decline in the fair value of an equity security is based on issuer s specific economic conditions and not just general declines in the related market and where it is considered unlikely that the fair value of the equity security will recover within the six months.

Table of Contents

For debt securities, in the case of the fair value being below the amortized cost, the Company and its subsidiaries consider whether those securities are other-than-temporarily impaired using all available information about the collectibility. The Company and its subsidiaries do not consider that an other-than-temporary impairment for a debt security has occurred if (1) the Company and its subsidiaries do not intend to sell the debt security, (2) it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis, and (3) the present value of estimated cash flows will fully cover the amortized cost of the security. On the other hand, the Company and its subsidiaries consider that an other-than-temporary impairment has occurred if (1) the Company and its subsidiaries intend to sell the debt security, (2) it is more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis, or (3) the present value of estimated cash flows will not fully cover the amortized cost of the security. For the debt security for which an other-than-temporary impairment is considered to have occurred, the Company and its subsidiaries recognize the entire difference between the amortized cost and the fair value in earnings if the Company and its subsidiaries intend to sell the debt security or it is more likely than not that the Company and its subsidiary will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. On the other hand, if the Company and its subsidiaries do not intend to sell the debt security and it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the Company and its subsidiaries separate the difference between the amortized cost and the fair value of the debt securities into the credit loss component and the non-credit loss component. The credit loss component is recognized in earnings, and the non-credit loss component is recognized in other comprehensive income (loss), net of applicable income taxes.

For other securities, the Company and its subsidiaries reduce the carrying value of other security to the fair value and charge against income losses related to other securities in situations where it is considered that the decline in the value of other security is other than temporary.

(i) Income taxes

The Company, in general, determines its provision for income taxes for quarterly periods by applying the current estimate of the effective tax rate for the full fiscal year to the actual year-to-date income before income taxes and discontinued operations. The estimated effective tax rate is determined by dividing the estimated provision for income taxes for the full fiscal year by the estimated income before income taxes and discontinued operations for the full fiscal year.

At the fiscal year end, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The effective income tax rates including discontinued operations are 42.2% and 41.3% for the three months ended June 30, 2009 and 2010, respectively. The Company and its subsidiaries in Japan are subject to a National Corporate tax of 30%, an Inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a statutory income tax rate of approximately 40.9%. The effective income tax rate is different from the statutory tax rate primarily because of certain non-deductible expenses for tax purposes, a change in valuation allowance and the effect of lower income tax rates on foreign subsidiaries and a life insurance subsidiary in Japan.

The Company and its subsidiaries have followed ASC 740 (Income Taxes). According to ASC740, the Company and its subsidiaries recognize the financial statement effects of a tax position taken or expected to be taken in a tax return when it is more likely than not, based on the technical merits, that the position will be sustained upon tax examination, including resolution of any related appeals or litigation processes, and measure the tax position that meets the recognition threshold at the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the taxing authority. The Company and its subsidiaries classify penalties and interest expense related to income taxes as part of provision for income taxes in the consolidated statements of income.

Table of Contents

(j) Securitized assets

The Company and its subsidiaries have securitized and sold to investors certain lease receivables, loan receivables and investment in securities. In the securitization process, the assets to be securitized (the assets) are sold to trusts and special-purpose entities that issue asset-backed beneficial interests and securities to the investors. Until the end of previous fiscal year, the Company and its subsidiaries had accounted for the sale when control over the assets is surrendered. When the Company and its subsidiaries sell the assets in a securitization transaction, the carrying value of the assets is allocated to the portion sold and the portion that continues to be held, based on relative fair values. The Company and its subsidiaries recognize gains or losses for the difference between the net proceeds received and the allocated carrying value of the assets sold. Any gain or loss from a securitization transaction is recorded as revenue of direct financing leases, interest on loans and investment securities, or brokerage commissions and net gains (losses) on investment securities.

Interests that continue to be held include senior interests, subordinated interests and cash reserve account. Interests that continue to be held are initially recorded at allocated carrying value of the assets based on their fair value and are periodically reviewed for impairment. For an interest that continues to be held for which the fair value is less than the amortized cost basis amounts, we estimate the present value of cash flows expected to be collected from the interest and compare it with the amortized cost basis of the interest to determine whether a credit loss exists. If, based on current information and events, we determine a credit loss exists for that interest, an other-than-temporary impairment is considered to have occurred. We write down that interest to fair value with the credit loss component of the impairment recognized in earnings and the noncredit component recorded in other comprehensive income (loss), unless we intend to sell that interest or more likely than not will be required to sell that interest before recovery of its amortized cost basis less any current-period credit loss, in which case the entire impairment loss would be charged to earnings.

Fair values of interests that continue to be held are estimated by determining the present value of future expected cash flows based on management s estimates of key assumptions, including expected credit loss rate, discount rate and prepayment rate. From this fiscal year, The Company and its subsidiaries adopt Accounting Standards Update 2009-16 (ASC860 (Transfers and Servicing)). ASU 2009-16 removes the exception from applying ASC 810-10 (Consolidation Variable Interest Entities) qualifying special-purpose entity (QSPE) and SPE for securitizing financial assets are subject to consolidation rule for VIEs. As a results, trust or special-purpose entity for securitizing are consolidated, and transferred financial assets are not treated as sales. Assets hold by consolidated trust or special-purpose entity are accounted for direct financing lease receivable, loan receivable and investment securities, as it was before transfer. In the case of transferee is not subject to be consolidated, the Company and its subsidiaries had accounted for the sale when control over the assets is surrendered.

Table of Contents

(k) Derivative financial instruments

The Company and its subsidiaries apply ASC 815 (Derivatives and Hedging) and all derivatives held by the Company and its subsidiaries are recognized on the consolidated balance sheets at fair value. The accounting treatment of subsequent changes in their fair value depends on their use, and whether they qualify as effective hedges for accounting purposes. Derivatives that are not hedges must be adjusted to fair value through the consolidated statements of income. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against change in the fair value of hedged assets or liabilities through the consolidated statements of income, or recorded in other comprehensive income (loss).

If a derivative is held as a hedge of the variability of fair value related to a recognized asset or liability or an unrecognized firm commitment (fair value hedge), changes in the fair value of the derivative are recorded in earnings along with the changes in the fair value of the hedged item.

If a derivative is held as a hedge of the variability of cash flows related to a forecasted transaction or a recognized asset or liability (cash flow hedge), changes in the fair value of the derivative are recorded in other comprehensive income (loss) to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

If a derivative is held as a hedge of a foreign-currency fair-value or cash-flow hedge (foreign currency hedge), changes in the fair value of the derivative are recorded in either earnings or other comprehensive income (loss), depending on whether the hedged transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, changes in its fair value, to the extent effective as a hedge, are recorded in the foreign currency translation adjustments account within other comprehensive income (loss).

Changes in the fair value of a derivative, which is not held as a hedge, such as those held for trading use, or the ineffective portion of the change in fair value of a derivative that qualifies as a hedge, are recorded in earnings.

For all hedging relationships, at inception the Company and its subsidiaries formally document the details of the hedging relationship and hedged activity. The Company and its subsidiaries also formally assess, both at the hedge s inception and on an ongoing basis, the effectiveness of the hedge relationship. The Company and its subsidiaries cease hedge accounting prospectively when the derivative no longer qualifies for hedge accounting.

(l) Pension plans

The Company and certain subsidiaries have contributory and non-contributory funded pension plans covering substantially all of their employees. The Company and its subsidiaries apply ASC 715 (Compensation Retirement Benefits), and the costs of pension plans are accrued based on amounts determined using actuarial methods under the assumptions of discount rate, rate of increase in compensation level, expected long-term rate of return on plan assets and others.

The Company and its subsidiaries also recognize the funded status of pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, on the consolidated balance sheet. Changes in that funded status are recognized in the year in which the changes occur through other comprehensive income (loss), net of applicable income taxes.

(m) Stock-based compensation

The Company and its subsidiaries apply ASC 718 (Compensation Stock Compensation). ASC 718 requires, with limited exception, that the cost of employee services received in exchange for an award of equity instruments be measured based on the grant-date fair value. The costs are recognized over the requisite employee service period.

Table of Contents

(n) Stock splits

Stock splits implemented prior to October 1, 2001 had been accounted for by transferring an amount equivalent to the par value of the shares from additional paid-in capital to common stock as required by the Japanese Commercial Code (the Code) before amendment. However, no such reclassification was made for stock splits when common stock already included a portion of the proceeds from shares issued at a price in excess of par value. This method of accounting was in conformity with accounting principles generally accepted in Japan.

As a result of a revision to the Code before amendment effective on October 1, 2001 and Companies Act implemented on May 1, 2006, the above-mentioned method of accounting required by the Code has become unnecessary.

In the United States, stock splits in comparable circumstances are considered to be stock dividends and are accounted for by transferring from retained earnings to common stock and additional paid-in capital amounts equal to the fair market value of the shares issued. Common stock is increased by the par value of the shares and additional paid-in capital is increased by the excess of the market value over par value of the shares issued. Had such stock splits made prior to October 1, 2001 been accounted for in this manner, additional paid-in capital as of June 30, 2010 would have increased by approximately ¥24,674 million, with a corresponding decrease in retained earnings. Total ORIX Corporation shareholders equity would remain unchanged. A stock split on May 19, 2000 was excluded from the above amounts because the stock split was not considered to be a stock dividend under U.S.GAAP.

(o) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits placed with banks and short-term highly liquid investments with original maturities of three months or less.

(p) Restricted cash

Restricted cash consists of cash held in trusts for the segregation of assets under an investor protection fund, deposits related to servicing agreements, deposits collected on behalf of the customers and applied to non-recourse loans and trust accounts under securitization programs.

(q) Installment loans

Certain loans, which the Company has the intent and ability to sell to outside parties in the foreseeable future, are considered held-for-sale and are carried at the lower of cost or market value determined on an individual basis. These loans held for sale are included in installment loans and the outstanding balances of these loans as of June 30, 2010 are ¥8,214 million but there were no such loans as of March 31, 2010.

(r) Other operating assets

Other operating assets consist primarily of operating facilities (including golf courses, hotels, training facilities and senior housing), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on a straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was ¥32,096 million and ¥31,650 million as of June 30, 2010 and March 31, 2010, respectively.

(s) Other receivables

Other receivables include primarily payments made on behalf of lessees for property tax, maintenance fees and insurance premiums in relation to direct financing lease contracts, accounts receivables in relation to sales of assets to be leased, residential condominiums and other assets.

Table of Contents

(t) Inventories

Inventories consist primarily of advance and/or progress payments for development of residential condominiums for sale and completed residential condominiums(including completed residential condominiums waiting to be delivered to buyers under the contracts for sale). Advance and/or progress payments for development of residential condominiums for sale are carried at cost less any impairment losses and finished goods (including completed residential condominiums) are stated at the lower of cost or market. As of June 30, 2010 and March 31, 2010, advance and/or progress payments were ¥124,581 million and ¥115,285 million, respectively, and finished goods were ¥19,044 million and ¥37,971 million, respectively.

For the three months ended June 30, 2010, a certain subsidiary recorded ¥450 million of write-downs principally for advance and/or progress payments for development of residential condominiums for sale, resulting from an increase in development costs. These write-downs were recorded in costs of real estate sales and included in the Real Estate segment.

(u) Office facilities

Office facilities are stated at cost less accumulated depreciation. Depreciation is calculated on a declining-balance basis or straight-line basis over the estimated useful lives of the assets. Accumulated depreciation was ¥37,428 million and ¥37,319 million as of June 30, 2010 and March 31, 2010, respectively.

(v) Other assets

Other assets consist primarily of the excess of purchase prices over the net assets acquired in acquisitions (goodwill) and other intangible assets (see (w)), deferred insurance policy acquisition costs which are amortized over the contract periods, leasehold deposits, advance payments made in relation to purchases of assets to be leased and to construction of real estate for operating lease, and deferred tax assets.

(w) Goodwill and other intangible assets

The Company and its subsidiaries have followed ASC 805 (Business Combinations) and ASC 350 (Intangibles Goodwill and Other). ASC 805 requires that all business combinations be accounted for using the acquisition method. ASC 805 also requires that intangible assets acquired in a business combination be recognized apart from goodwill if the intangible assets meet one of two criteria either the contractual-legal criterion or the separability criterion.

ASC 350 establishes how intangible assets (other than those acquired in a business combination) should be accounted for upon acquisition. It also addresses how goodwill and other intangible assets should be accounted for subsequent to their acquisition. Both goodwill and intangible assets that have indefinite useful lives are not amortized but tested at least annually for impairment. The Company and its subsidiaries test the goodwill either at the operating segment level or one level below the operating segments. Intangible assets with finite lives are amortized over their useful lives and tested for impairment in accordance with ASC 360-10 (Property, Plant, and Equipment Impairment or Disposal of Long-Lived Assets).

The amount of goodwill is ¥70,872 million and ¥71,074 million as of June 30, 2010 and March 31, 2010, respectively.

(x) Trade notes, accounts payable and other liabilities

Trade notes, accounts payable and other liabilities include accounts payables and guarantee liabilities.

(y) Capitalization of interest costs

The Company and its subsidiaries capitalized interest costs related to specific long-term development projects.

(z) Advertising

The costs of advertising are expensed as incurred.

36

Table of Contents

(aa) Discontinued operations

The Company and its subsidiaries have followed ASC 205-20 (Presentation of Financial Statements Discontinued Operations). Under ASC 205-20, the scope of discontinued operations includes the operating results of any component of an entity with its own identifiable operations and cash flow and in which operations the Company and its subsidiaries will not have significant continuing involvement. Included in reported discontinued operations are the operating results of operations for the subsidiaries, the business units, and certain properties sold or to be disposed of by sale without significant continuing involvements, which results of operations for the presented periods were reclassified in the accompanying consolidated statements of income.

(ab) Earnings per share

Basic earnings per share is computed by dividing income attributable to ORIX Corporation from continuing operations and net income attributable to ORIX Corporation by the weighted average number of shares of common stock outstanding in each period and diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Earnings per share is adjusted for any stock splits and stock dividends retroactively.

Furthermore, the Company and its subsidiaries apply ASC 260-10-45-43 to 44 (Earnings Per Share Contingently Convertible Instruments) to Liquid Yield Option Notes .

(ac) Redeemable noncontrolling interests

Noncontrolling interest in certain subsidiary is subject to call and put rights upon certain shareholder events. As redemption of the noncontrolling interest is not solely in the control of the subsidiary, it is recorded between Liabilities and Equity on the consolidated balance sheets at its estimated redemption value in accordance with provisions including EITF Topic No. D-98 (ASC 480-10-s99-3A) (Classification and Measurement of Redeemable Securities).

(ad) Issuance of stock by an affiliate

When an affiliate issues stocks to unrelated third parties, the Company and its subsidiaries ownership interest in the affiliate decreases. In the event that the price per share is more or less than the Company and its subsidiaries average carrying amount per share, the Company and its subsidiaries adjusts the carrying amount of its investment in the affiliate and recognizes gain or loss included in the consolidated statements of income in the year in which the change in ownership interest occurs.

(ae) New accounting pronouncements

In June 2009, FASB Statement No. 166 (Accounting for Transfers of Financial Assets an amendment of FASB Statement No.140), which was codified by Accounting Standards Update 2009-16 (ASC860 (Transfers and Servicing)), was issued. This Update removes the concept of a qualifying special-purpose entity and removes the exception from applying ASC 810-10 (Consolidation-Variable Interest Entities) to variable interest entities that are qualifying special-purpose entities. This Update also modifies the financial-components approach used in ASC 860 and limits the circumstances in which a transferor derecognizes a portion or component of a financial asset.

Furthermore, in June 2009, FASB Statement No. 167 (Amendment of FASB Interpretation No.46(R)), which was codified by Accounting Standards Update 2009-17 (ASC810 (Consolidation)), was issued. This Update removes the exception from applying FIN 46(R) (ASC 810) to variable interest entities that are qualifying special-purpose entities, and requires an enterprise to perform qualitative analysis to identify the primary beneficiary. An enterprise that has both of the following characteristics is considered to be the primary beneficiary who shall consolidate a variable interest entity:

The power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance

The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

Additionally, this Update requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity.

These Updates are effective as of the beginning of the fiscal year that begins after November 15, 2009, for interim periods within that fiscal year, and for fiscal years and interim periods thereafter. The Company and its subsidiaries adopted these Updates on April 1, 2010. These Updates effects on the company and its subsidiaries financial conditions at the initial adoption date is an increase of ¥1,147 billion on total assets, an increase of ¥1,169 billion on total liabilities and a decrease of ¥22 billion on retained earnings, net of tax, respectively, in the consolidated balance sheets. For more information, see note 6 Variable Interest Entities .

In January 2010, Accounting Standards Update 2010-06 (Improving Disclosures about Fair Value Measurements ASC 820 (Fair Value Measurements and Disclosures)) was issued. This Update improves existing disclosures and adds new disclosures. A certain disclosures of roll forward of activity in Level3 are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Early adoption is permitted. Other disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 and the Company and its subsidiaries adopted those other disclosure requirements for the period ended March 31, 2010. The adoption will not have a material effect on the Company and its subsidiaries results of operation and financial position.

In February 2010, Accounting Standards Update 2010-10 (Amendments for Certain Investment Funds ASC 810 (Consolidation)) was issued. ASU 2010-10 defers adoption of FASB Statement No. 167 (Amendment of FASB Interpretation No.46(R)) which was codified by ASU 2009-17 (ASC 810 (Consolidation)) for a reporting entity s interest in an entity:

That has all the attributes of an investment company or

For which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies.

The amendments in ASU 2010-10 are effective as of the beginning of a reporting entity s first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period. The Company and its subsidiaries adopted the Updates on April 1, 2010.The adoption did not have a material effect on the Company and its subsidiaries results of operations or financial position.

In July 2010, Accounting Standards Update 2010-20 (Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit losses ASC 310 (Receivables)) was issued. This Update enhances disclosures about the credit quality of financing receivables and the allowance for credit losses, by requiring an entity to provide disaggregated and class information, credit quality indicators, past due information, and information about modifications of its financing receivables, and other information. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on and after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. This Update amends disclosures and there will be no effect on the Company and its subsidiaries results of operations or financial position.

Table of Contents

3. Fair Value Measurements

The Company and its subsidiaries adopted ASC 820-10 (Fair Value Measurements and Disclosures). This Codification Section defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Codification Section classifies and prioritizes inputs used in valuation techniques to measure fair value into the following three levels:

Level 1	Inputs of quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
Level 3	Unobservable inputs for the assets or liabilities.

This Codification Section differentiates between those assets and liabilities required to be carried at fair value at every reporting period (recurring) and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances (nonrecurring). The Company and its subsidiaries measure mainly cash equivalents, trading securities, available-for-sale securities, investment funds, certain investment in affiliates and derivatives at fair value on a recurring basis.

The following table presents recorded amounts of major financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and March 31, 2010:

	June 30, 2010 Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significan Unobserva Inputs (Level 3
inancial Assets:				
rading securities	¥ 57,119	¥ 1,004	¥ 56,145	¥ 5
vailable-for-sale ecurities	803,009	57,435	425,090	320,48
apanese and oreign overnment bond ecurities	164,660		164,660	
apanese refectural and oreign municipal ond securities	22,660		22,660	
Corporate debt ecurities	224,673		221,617	3,05
pecified bonds ssued by SPEs in apan	220,972			220,97
CMBS and RMBS in the J.S., and other sset-backed ecurities	97,041		585	96,45
quity securities	73,003	57,435	15,568	
ther securities	17,838		17,838	
nvestment funds	17,838		17,838	
erivative assets	29,550	561	25,739	3,25

nterest rate swap greements	2,979	2,979
ptions eld/written, caps eld, other		

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

Cash totaling $257.5 million was provided by operations during the year ended December 31, 2008 compared to cash totaling $247.9 million provided by operations during the year ended December 31, 2007. During 2008, $171.5 million was used to fund working capital, primarily for OCTG inventories in our tubular services segment due to increased volumes and prices paid. We have significantly reduced our forward OCTG purchase commitments beginning in the fourth quarter of 2008 and expect our OCTG inventory levels to decrease in 2009. During 2007, $15.9 million was used to fund working capital due primarily to growth in activity in our offshore products and Canadian accommodations segments. These increases in working capital were partially offset by a $70.0 million reduction in working capital for inventories in our tubular services segment in 2007.

Cash was used in investing activities during the years ended December 31, 2008 and 2007 in the amount of $246.1 million and $310.8 million, respectively. Capital expenditures, including capitalized interest, totaled $247.4 million and $239.6 million during the years ended December 31, 2008 and 2007, respectively. Capital

expenditures in both years consisted principally of purchases of assets for our well site services segment, particularly for accommodations investments made in support of Canadian oil sands development. Net proceeds from the sale of Boots & Coots common stock totaled $27.4 million and $29.4 million during the years ended December 31, 2008 and 2007, respectively. See Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

During the year ended December 31, 2008, we spent cash of $29.8 million to acquire Christina Lake Lodge in Northern Alberta, Canada to expand our oil sands capacity in our well site services segment and to acquire a waterfront facility on the Houston ship channel for use in the offshore products segment. This compares to $103.1 million spent, net of cash acquired, during the year ended December 31, 2007 to acquire two rental tool businesses.

The cash consideration paid for all of our acquisitions in the period was funded utilizing our existing bank credit facility.

We plan to significantly reduce our capital spending in 2009 compared to 2008. We currently expect to spend a total of approximately $147 million for capital expenditures during 2009 to expand our Canadian oil sands related accommodations facilities, to fund our other product and service offerings, and for maintenance and upgrade of our equipment and facilities. We expect to fund these capital expenditures with internally generated funds. The foregoing capital expenditure budget does not include any funds for opportunistic acquisitions or expansion projects, which the Company expects to pursue depending on the economic environment in our industry and the availability of transactions at prices deemed attractive to the Company. If there is a significant decrease in demand for our products and services as a result of further declines in the actual and longer term expected price of oil and gas, we may further reduce our capital expenditures and have reduced requirements for working capital, both of which would increase operating cash flow and liquidity. However, such an environment might also increase the availability of attractive acquisitions which would draw on such liquidity.

We believe that cash from operations and available borrowings under our credit facilities will be sufficient to meet our liquidity needs in 2009. If our plans or assumptions change, or are inaccurate, or if we make further acquisitions, we may need to raise additional capital. Acquisitions have been, and our management believes acquisitions will continue to be, a key element of our business strategy. The timing, size or success of any acquisition effort and the associated potential capital commitments are unpredictable. We may seek to fund all or part of any such efforts with proceeds from debt and/or equity issuances. Our ability to obtain capital for additional projects to implement our growth strategy over the longer term will depend upon our future operating performance, financial condition and, more broadly, on the availability of equity and debt financing, which will be affected by prevailing conditions in our industry, the economy and in the financial markets and other financial, business factors, many of which are beyond our control. In addition, such additional debt service requirements could be based on higher interest rates and shorter maturities and could impose a significant burden on our results of operations and financial condition, and the issuance of additional equity securities could result in

significant dilution to stockholders.

Net cash of $1.7 million was used in financing activities during the year ended December 31, 2008, primarily as a result of treasury stock purchases partially offset by other financing activities. A total of $60.6 million was provided by financing activities during the year ended December 31, 2007, primarily as a result of revolving credit borrowings to fund acquisitions and capital expenditures partially offset by treasury stock purchases.

Stock Repurchase Program. During the first quarter of 2005, our Board of Directors authorized the repurchase of up to $50.0 million of our common stock, par value $.01 per share, over a two year period. On August 25, 2006, an additional $50.0 million was approved and the duration of the program was extended to August 31, 2008. On January 11, 2008, an additional $50.0 million was approved for the repurchase program and the duration of the program was again extended to December 31, 2009. Through February 12, 2009, a total of $90.1 million of our stock (3,162,344 shares), has been repurchased under this program, leaving a total of up to approximately $59.9 million remaining available under the program to make share repurchases. We will continue to evaluate future share repurchases in the context of allocating capital among other corporate opportunities including capital expenditures and acquisitions and in the context of current conditions in the credit and capital markets.

Credit Facility. On December 13, 2007, we entered into an Incremental Assumption Agreement (Agreement) with the lenders and other parties to our existing credit agreement dated as of October 30, 2003 (Credit Agreement) in order to exercise the accordion feature (Accordion) available under the Credit Agreement and extend maturity to December 5, 2011. The Accordion increased the total commitments under the Credit Agreement from $400 million to $500 million. In connection with the execution of the Agreement, the Total U.S. Commitments (as defined in the Credit Agreement) were increased from U.S. $300 million to U.S. $325 million, and the Total Canadian Commitments (as defined in the Credit Agreement) were increased from U.S. $100 million to U.S. $175 million. We currently have 11 lenders in our Credit Agreement with commitments ranging from $15 million to $102.5 million. While we have not experienced, nor do we anticipate, any difficulties in obtaining funding from any of these lenders at this time, the lack of or delay in funding by a significant member of our banking group could negatively affect our liquidity position.

The Credit Agreement, which governs our credit facility, contains customary financial covenants and restrictions, including restrictions on our ability to declare and pay dividends. Specifically, we must maintain an interest coverage ratio, defined as the ratio of consolidated EBITDA, to consolidated interest expense of at least 3.0 to 1.0 and our maximum leverage ratio, defined as the ratio of total debt, to consolidated EBITDA of no greater than 3.25 to 1.0 in 2009 and 3.0 to 1.0 thereafter. Each of the factors considered in the calculations of ratios are defined in the Credit Agreement. EBITDA and consolidated interest as defined, exclude goodwill impairments, debt discount amortization and other non-cash charges. As of December 31, 2008, we were in compliance with our debt covenants and expect to continue to be in compliance during 2009. Borrowings under the Credit Agreement are secured by a pledge of substantially all of our assets and the assets of our subsidiaries. Our obligations under the Credit Agreement are guaranteed by our significant subsidiaries. Borrowings under the Credit Agreement accrue interest at a rate equal to either LIBOR or another benchmark interest rate (at our election) plus an applicable margin based on our leverage ratio (as defined in the Credit Agreement). We must pay a quarterly commitment fee, based on our leverage ratio, on the unused commitments under the Credit Agreement. During the year 2008, our applicable margin over LIBOR ranged from 0.5% to 0.75% and it was 0.5% as of December 31, 2008. Our weighted average interest rate paid under the Credit Agreement was 3.9% during the year ended December 31, 2008 and 6.0% for the year ended December 31, 2007.

As of December 31, 2008, we had $287.2 million outstanding under the Credit Agreement and an additional $16.8 million of outstanding letters of credit, leaving $196.0 million available to be drawn under the facility. In addition, we have other floating rate bank credit facilities in the U.S. and the U.K. that provide for an aggregate borrowing capacity of $7.9 million. As of December 31, 2008, we had $4.2 million outstanding under these other facilities and an additional $1.1 million of outstanding letters of credit leaving $2.6 million available to be drawn under these facilities. Our total debt represented 28.2% of our total debt and shareholder s equity at December 31, 2008 compared to 31.2% at December 31, 2007.

Contingent Convertible Notes. In June 2005, we sold $175 million aggregate principal amount of 23/8% contingent convertible notes due 2025. The notes provide for a net

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

As of December 31, 2008, we have classified the $175.0 million principal amount of our 23/8% Contingent Convertible Senior Notes (23/8% Notes) as a noncurrent liability because certain contingent conversion thresholds based on the Company s stock price were not met at that date and, as a result, note holders could not present their

40

notes for conversion during the quarter following the December 31, 2008 measurement date. The future convertibility and resultant balance sheet classification of this liability will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company common stock during the prescribed measurement periods. As of December 31, 2008, the recent trading prices of the 23/8% Notes exceeded their conversion value due to the remaining imbedded conversion option of the holder. The trading price for the 23/8% Notes is dependent on current market conditions, the length of time until the first put / call date in July 2012 of the 23/8% Notes and general market liquidity, among other factors. In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) which will change the accounting for our 23/8% Notes. Under the new rules, for convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity will be required to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The effect of the new rules on our 23/8% Notes is that the equity component will be classified as part of stockholders equity on our balance sheet and the value of the equity component will be treated as an original issue discount for purposes of accounting for the debt component of the 23/8% Notes. Higher non-cash interest expense will result by recognizing the accretion of the discounted carrying value of the debt component of the 23/8% Notes as interest expense over the estimated life of the 23/8% Notes using an effective interest rate method of amortization. However, there would be no effect on our cash interest payments. The FSP is effective for fiscal years beginning after December 15, 2008. This rule requires retrospective application. In addition to a reduction of debt balances and an increase to stockholders equity on our consolidated balance sheets for each period presented, we expect the retrospective application of FSP APB 14-1 will result in a non-cash increase to our annual historical interest expense, net of amounts capitalized, of approximately \$3 million, \$5 million, \$6 million and \$6 million for 2005, 2006, 2007 and 2008, respectively. Additionally, we expect that the adoption will result in a non-cash increase to our projected annual interest expense, net of amounts expected to be capitalized, of approximately \$7 million, \$7 million, \$8 million and \$4 million for 2009, 2010, 2011 and 2012, respectively. As of January 1, 2009, the amortized balance of the 23/8% Notes will be \$149.1 million.

Contractual Cash Obligations. The following summarizes our contractual obligations at December 31, 2008 (in thousands):

December 31, 2008	**Total**	**Due in Less than 1 year**	**Due in 1-3 years**	**Due in 3 - 5 years**	**Due After 5 years**
Contractual obligations:					
Total debt, including capital leases(1)	$ 479,891	$ 4,943	$ 292,289	$ 175,703	$ 6,956
Non-cancelable operating leases	25,604	6,499	8,420	5,315	5,370

Purchase obligations	441,308	441,308			
Total contractual cash obligations	$ 946,803	$ 452,750	$ 300,709	$ 181,018	$ 12,326

(1) Excludes interest on debt.

Our debt obligations at December 31, 2008 are included in our consolidated balance sheet, which is a part of our consolidated financial statements included in this Annual Report on Form 10-K. We have assumed the redemption of our 23/8% Contingent Convertible Notes due in 2025 at the note holders first optional redemption date in 2012. We have not entered into any material leases subsequent to December 31, 2008.

Off-Balance Sheet Arrangements

As of December 31, 2008, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Tax Matters

Our primary deferred tax assets at December 31, 2008, are related to employee benefit costs for our Equity Participation Plan, deductible goodwill and $15 million in available federal net operating loss carryforwards, or regular tax NOLs, as of that date. The regular tax NOLs will expire in varying amounts during the years 2010

through 2011 if they are not first used to offset taxable income that we generate. Our ability to utilize a significant portion of the available regular tax NOLs is currently limited under Section 382 of the Internal Revenue Code due to a change of control that occurred during 1995. We currently believe that substantially all of our regular tax NOLs will be utilized. The Company has utilized all federal alternative minimum tax net operating loss carryforwards.

Our income tax provision for the year ended December 31, 2008 totaled $156.3 million, or 41.2% of pretax income. The higher effective tax rate was primarily due to the impairment of goodwill, the majority of which was not deductible for tax purposes. During the year ended December 31, 2008, the Company recognized a tax benefit triggered by employee exercises of stock options totaling $3.4 million. Such benefit, which lowered cash paid for taxes, was credited to additional paid-in capital. Our income tax provision for the year ended December 31, 2007 totaled $97.0 million, or 32.3% of pretax income.

Critical Accounting Policies

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

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

Accounting for Contingencies

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

Tangible and Intangible Assets, including Goodwill

Our goodwill totals $305.4 million, or 13.3%, of our total assets, as of December 31, 2008. The assessment of impairment on long-lived assets, intangibles and investments in unconsolidated subsidiaries, is conducted whenever changes in the facts and circumstances indicate an other than temporary loss in value has occurred. The determination of the amount of impairment, would be based on quoted market prices, if available, or upon our judgments as to the future operating cash flows to be

generated from these assets throughout their estimated useful lives. Our industry is highly cyclical and our estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows and our determination of whether an other than temporary decline in value of our investment has occurred, can have a significant impact on the carrying value of these assets and, in periods of prolonged down cycles, may result in impairment charges.

On an annual basis in December, we review each reporting unit, as defined in FASB Statement No. 142 Goodwill and Other Intangible Assets (FAS #142), to assess goodwill for potential impairment. Our reporting units include accommodations, rental tools, drilling, offshore products and tubular services. As part of the goodwill impairment analysis, we estimate the implied fair value of each reporting unit (IFV) and compare the IFV to the carrying value of such unit (the Carrying Value). Because none of our reporting units has a publically quoted market price, we must determine the value that willing buyers and sellers would place on the reporting unit through a routine sale process. In our analysis, we target an IFV that represents the value that would be placed on the reporting unit by market participants, and value the reporting unit based on historical and projected results throughout a cycle, not the value of the reporting unit based on trough or peak earnings. We utilized, depending on circumstances, trading multiples analyses, discounted projected cash flow calculations with estimated terminal values and acquisition comparables to estimate the IFV. The IFV of our reporting units is affected by future oil and gas

prices, anticipated spending by our customers, and the cost of capital. If the carrying amount of a reporting unit exceeds its IFV, goodwill is considered impaired, and additional analysis in accordance with FAS #142 is conducted to determine the amount of impairment, if any.

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

Revenue and Cost Recognition

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

Valuation Allowances

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

Estimation of Useful Lives

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

Stock Based Compensation

Since the adoption of SFAS No. 123R, we are required to estimate the fair value of stock compensation made pursuant to awards under our 2001 Equity Participation Plan (Plan). An initial estimate of fair value of each stock option or restricted stock award determines the amount of stock compensation expense we will recognize in the future. To estimate the value of stock option awards under the Plan, we have selected a fair

value calculation model. We have chosen the Black Scholes closed form model to value stock options awarded under the Plan. We have chosen this model because our option awards have been made under straightforward and consistent vesting terms, option prices and option lives. Utilizing the Black Scholes model requires us to estimate the length of time options will remain outstanding, a risk free interest rate for the estimated period options are assumed to be outstanding, forfeiture rates, future dividends and the volatility of our common stock. All of these assumptions affect the amount and timing of future stock compensation expense recognition. We will continually monitor our actual experience and change assumptions for future awards as we consider appropriate.

Income Taxes

In accounting for income taxes, we are required by the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, to estimate a liability for future income taxes. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to

which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157, which defers the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We adopted those provisions of SFAS 157 that were unaffected by the delay in the first quarter of 2008. Such adoption did not have a material effect on our consolidated statements of financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has chosen not to adopt the elective provisions of SFAS 159 for its existing financial instruments.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), Business Combinations, which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Since SFAS 141R will be adopted prospectively, it is not possible to determine the effect, if any, on the Company s results from operations or financial position.

In December 2007, the FASB also issued Statement of Financial Accounting Standards No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS 160 requires that accounting and reporting for minority interests be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide

sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on our results from operations or financial position.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) which will change the accounting for our 23/8% Notes. Under the new rules, for convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity will be required to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The effect of the new rules on our 23/8% Notes is that the equity component will be classified as part of stockholders equity on our balance sheet and the value of the equity component will be treated as an original issue discount for purposes of accounting for the debt component of the 23/8% Notes. Higher non-cash interest expense will result by recognizing

the accretion of the discounted carrying value of the debt component of the 23/8% Notes as interest expense over the estimated life of the 23/8% Notes using an effective interest rate method of amortization. However, there would be no effect on our cash interest payments. The FSP is effective for fiscal years beginning after December 15, 2008. This rule requires retrospective application. In addition to a reduction of debt balances and an increase to stockholders equity on our consolidated balance sheets for each period presented, we expect the retrospective application of FSP APB 14-1 will result in a non-cash increase to our annual historical interest expense, net of amounts capitalized, of approximately $3 million, $5 million, $6 million and $6 million for 2005, 2006, 2007 and 2008, respectively. Additionally, we expect that the adoption will result in a non-cash increase to our projected annual interest expense, net of amounts expected to be capitalized, of approximately $7 million, $7 million, $8 million and $4 million for 2009, 2010, 2011 and 2012, respectively. As of January 1, 2009, the amortized balance of the 23/8% Notes will be $149.1 million.

See also Note 10 Income Taxes for a discussion of the FASB s Interpretation No. 48 Accounting for Uncertainty in Income Taxes.

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

Interest Rate Risk. We have long-term debt and revolving lines of credit that are subject to the risk of loss associated with movements in interest rates. As of December 31, 2008, we had floating rate obligations totaling approximately $291.4 million for amounts borrowed under our revolving credit facilities. These floating-rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating interest rate were to increase by 1% from December 31, 2008 levels, our consolidated interest expense would increase by a total of approximately $2.9 million annually.

Foreign Currency Exchange Rate Risk. Our operations are conducted in various countries around the world and we receive revenue from these operations in a number of different currencies. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in currencies other than the U.S. dollar, which is our functional currency, or the functional currency of our subsidiaries, which is not necessarily the U.S. dollar. In order to mitigate the effects of exchange rate risks, we generally pay a portion of our expenses in local currencies and a substantial portion of our contracts provide for collections from customers in U.S. dollars. During 2008, our realized foreign exchange gains were $1.6 million and are included in other operating expense (income) in the consolidated statements of income.

Item 8. *Financial Statements and Supplementary Data*

Our consolidated financial statements and supplementary data of the Company appear on pages 52 through 84 of this Annual Report on Form 10-K and are incorporated by reference into this Item 8. Selected quarterly financial data is set forth in Note 15 to our Consolidated Financial Statements, which is incorporated herein by reference.

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

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

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

(i) Evaluation of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2008 in ensuring that material information was accumulated and communicated to management, and made known to our Chief Executive

Table of Contents

Officer and Chief Financial Officer, on a timely basis to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act, including this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms.

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

(ii) Internal Control Over Financial Reporting

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

The Company s management report on internal control over financial reporting is set forth in this Annual Report on Form 10-K on Page 53 and is incorporated herein by reference.

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

The attestation report of Ernst & Young LLP, the Company s independent registered public accounting firm, on the Company s internal control over financial reporting is set forth in this Annual Report on Form 10-K on Pages 54 and 55 and is incorporated herein by reference.

(c) Changes in internal control over financial reporting.

During the Company s fourth fiscal quarter ended December 31, 2008, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) or in other factors which have materially affected our internal control over financial reporting, or are reasonably likely to materially affect our internal control over financial reporting.

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

There was no information required to be disclosed in a report on Form 8-K during the fourth quarter of 2008 that was not reported on a Form 8-K during such time.

PART III

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

(1) Information concerning directors, including the Company s audit committee financial expert, appears in the Company s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, under Election of Directors. This portion of the Definitive Proxy Statement is incorporated herein by reference.

(2) Information with respect to executive officers appears in the Company s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, under Executive

Officers of the Registrant. This portion of the Definitive Proxy Statement is incorporated herein by reference.

(3) Information concerning Section 16(a) beneficial ownership reporting compliance appears in the Company s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, under Section 16(a) Beneficial Ownership Reporting Compliance. This portion of the Definitive Proxy Statement is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by Item 11 hereby is incorporated by reference to such information as set forth in the Company s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders.

Table of Contents

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

The information required by Item 12 hereby is incorporated by reference to such information as set forth in the Company s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders.

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

The information required by Item 13 hereby is incorporated by reference to such information as set forth in the Company s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders.

Item 14. ***Principal Accountant Fees and Services***

Information concerning principal accountant fees and services and the audit committee s preapproval policies and procedures appear in the Company s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders under the heading Fees Paid to Ernst & Young LLP and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

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

(1) *Financial Statements:* Reference is made to the index set forth on page 52 of this Annual Report on Form 10-K.

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

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

(b) Index of Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.2	

	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K, as filed with the Commission on May 21, 2008).
3.3	Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
4.1	Form of common stock certificate (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 (File No. 333-43400)).
4.2	Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 4.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
4.3	First Amendment to the Amended and Restated Registration Rights Agreement dated May 17, 2002 (incorporated by reference to Exhibit 4.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 13, 2003).
4.4	Registration Rights Agreement dated as of June 21, 2005 by and between Oil States International, Inc. and RBC Capital Markets Corporation (incorporated by reference to Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).

Exhibit No.	Description
4.5	Indenture dated as of June 21, 2005 by and between Oil States International, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).
4.6	Global Notes representing $175,000,000 aggregate principal amount of 23/8% Contingent Convertible Senior Notes due 2025 (incorporated by reference to Section 2.2 of Exhibit 4.5 hereof) (incorporated by reference to Oil States Current Reports on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005 and July 13, 2005).
10.1	Combination Agreement dated as of July 31, 2000 by and among Oil States International, Inc., HWC Energy Services, Inc., Merger Sub-HWC, Inc., Sooner Inc., Merger Sub-Sooner, Inc. and PTI Group Inc. (incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.2	Plan of Arrangement of PTI Group Inc. (incorporated by reference to Exhibit 10.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.3	Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.4	Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.5**	2001 Equity Participation Plan as amended and restated effective February 16, 2005 (incorporated by reference to Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Commission on March 2, 2006).
10.6**	Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10.6 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 5, 2004).
10.7**	Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.8**	Executive Agreement between Oil States International, Inc. and 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).
10.9**	Form of Executive Agreement between Oil States International, Inc. and Named Executive Officer (Mr. Hughes) (incorporated by reference to Exhibit 10.10 of the Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.10**	Form of Change of Control Severance Plan for Selected Members of Management (incorporated by reference to Exhibit 10.11 of the Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.11	Credit Agreement, dated as of October 30, 2003, among Oil States International, Inc., the Lenders named therein and Wells Fargo Bank Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12 to the Company s Quarterly Report on Form 10-Q for the three months ended September 30, 2003, as filed with the Commission on November 11, 2003.)
10.11A	Incremental Assumption Agreement, dated as of May 10, 2004, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12A to the Company s Quarterly Report on Form 10-Q for the three months ended June 30, 2004, as filed with the Commission on August 4, 2004).

Exhibit No.	Description
10.11B	Amendment No. 1, dated as of January 31, 2005, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12b to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005).
10.11C	Amendment No. 2, dated as of December 5, 2006, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, N.A., as Lead Arranger, U.S. Administrative Agent and U.S. Collateral Agent; and The Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Capital One N.A. and Royal Bank of Canada, as Co-Syndication Agents and JP Morgan Chase Bank, N.A. and Calyon New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12C to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2006).
10.11D	Incremental Assumption Agreement, dated as of December 13, 2007, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12D to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 18, 2007).
10.12**	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, as filed with the Commission on November 5, 2004).
10.13**	Form of Director Stock Option Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.18 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005).
10.14**	Form of Employee Non Qualified Stock Option Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.19 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005).
10.15**	Form of Restricted Stock Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.20 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission

	on November 15, 2006).
10.16**	Non-Employee Director Compensation Summary (incorporated by reference to Exhibit 10.21 to the Company s Report on Form 8-K as filed with the Commission on May 24, 2005).
10.17**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Cragg) (incorporated by reference to Exhibit 10.22 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the Commission on April 29, 2005).
10.18**	Form of Non-Employee Director Restricted Stock Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 22.2 to the Company s Report of Form 8-K, as filed with the Commission on May 24, 2005).
10.19**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Bradley Dodson) effective October 10, 2006 (incorporated by reference to Exhibit 10.24 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the Commission on November 3, 2006).
10.20**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Ron R. Green) effective May 17, 2007.
10.21**,*	Amendment to the Executive Agreement of Cindy Taylor, effective January 1, 2009.
10.22**,*	Amendment to the Executive Agreement of Bradley Dodson, effective January 1, 2009.
10.23**,*	Amendment to the Executive Agreement of Howard Hughes, effective January 1, 2009.
10.24**,*	Amendment to the Executive Agreement of Christopher Cragg, effective January 1, 2009.
10.25**,*	Amendment to the Executive Agreement of Ron Green, effective January 1, 2009.

Table of Contents

Exhibit No.	Description
10.26**,*	Amendment to the Executive Agreement of Robert Hampton, effective January 1, 2009.
21.1*	List of subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Powers of Attorney for Directors.
31.1*	Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
32.1***	Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934.
32.2***	Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934.

* Filed herewith

** Management contracts or compensatory plans or arrangements

*** Furnished herewith.

SIGNATURES

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

OIL STATES INTERNATIONAL, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on February 20, 2009.

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

/s/ GARY L. ROSENTHAL*	Director
Gary L. Rosenthal*	
/s/ CHRISTOPHER T. SEAVER*	Director
Christopher T. Seaver*	
/s/ DOUGLAS E. SWANSON*	Director
Douglas E. Swanson*	
/s/ WILLIAM T. VAN KLEEF*	Director
William T. Van Kleef*	

*By: /s/ BRADLEY J. DODSON

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX TO

CONSOLIDATED FINANCIAL STATEMENTS

Management s Annual Report on Internal Control Over Financial Reporting	53
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	54
Report of Independent Registered Public Accounting Firm on the Company s Internal Control Over Financial Reporting	55
Consolidated Statements of Income for the Years Ended December 31, 2008, 2007, and 2006	56
Consolidated Balance Sheets at December 31, 2008 and 2007	57
Consolidated Statements of Stockholders Equity and Comprehensive Income for the Years Ended December 31, 2008, 2007 and 2006	58
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007, and 2006	59
Notes to Consolidated Financial Statements	60 84

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Oil States International, Inc. s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on our assessment we believe that, as of December 31, 2008, the Company s internal control over financial reporting is effective based on those criteria.

Oil States International, Inc. s independent registered public accounting firm has audited the Company s internal control over financial reporting. This report appears on Page 55.

OIL STATES INTERNATIONAL, INC.

Houston, Texas

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Oil States International, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the consolidated financial statements, effective January 1, 2007 the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 18, 2009

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Oil States International, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 18, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Houston, Texas
February 18, 2009

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except per share amounts)		
Revenues:			
Product	$ 1,874,262	$ 1,280,235	$ 1,232,149
Service and other	1,074,195	808,000	691,208
	2,948,457	2,088,235	1,923,357
Costs and expenses:			
Product costs	1,594,139	1,135,354	1,082,379
Service and other costs	640,835	466,859	385,609
Selling, general and administrative expenses	143,080	118,421	107,216
Depreciation and amortization expense	102,604	70,703	54,340
Impairment of goodwill	85,630		
Other operating income	(1,586)	(888)	(4,124)
	2,564,702	1,790,449	1,625,420
Operating income	383,755	297,786	297,937
Interest expense	(17,530)	(17,988)	(19,389)
Interest income	3,561	3,508	2,506
Equity in earnings of unconsolidated affiliates	4,035	3,350	7,148
Gains on sale of workover services business and resulting equity investment	6,160	12,774	11,250
Other income / (expense)	(922)	928	2,195
Income before income taxes	379,059	300,358	301,647
Income tax provision	(156,349)	(96,986)	(104,013)
Net income attributable to common shares	$ 222,710	$ 203,372	$ 197,634
Basic net income per share	$ 4.49	$ 4.11	$ 3.99
Diluted net income per share	$ 4.33	$ 3.99	$ 3.89
Weighted average number of common shares outstanding (in thousands):			
Basic	49,622	49,500	49,519

Diluted	51,414	50,911	50,773

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,199	$ 30,592
Accounts receivable, net	575,982	450,153
Inventories, net	612,488	349,347
Prepaid expenses and other current assets	18,815	35,575
Total current assets	1,237,484	865,667
Property, plant and equipment, net	695,338	586,910
Goodwill, net	305,441	391,644
Investments in unconsolidated affiliates	5,899	24,778
Other noncurrent assets	55,085	60,627
Total assets	$ 2,299,247	$ 1,929,626
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 371,789	$ 239,119
Income taxes	52,546	43
Current portion of long-term debt	4,943	4,718
Deferred revenue	105,640	60,910
Other current liabilities	1,587	121
Total current liabilities	536,505	304,911
Long-term debt	474,948	487,102
Deferred income taxes	55,646	40,550
Other noncurrent liabilities	13,155	12,236
Total liabilities	1,080,254	844,799
Stockholders equity:		
Common stock, $.01 par value, 200,000,000 shares authorized, 49,500,708 shares and 49,392,106 shares issued and outstanding, respectively	526	522
Additional paid-in capital	425,284	402,091
Retained earnings	913,423	690,713
Accumulated other comprehensive income (loss)	(28,409)	73,036
Common stock held in treasury at cost, 3,206,645 and 2,814,302 shares, respectively	(91,831)	(81,535)

Total stockholders equity	1,218,993	1,084,827
Total liabilities and stockholders equity	$ 2,299,247	$ 1,929,626

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
Balance, December 31, 2005	$ 504	$ 350,667	$ 289,993		$ 23,137	$ (30,317)
Net income			197,634	$ 197,634		
Currency translation adjustment				7,016	7,016	
Other comprehensive income				30	30	
Comprehensive income				$ 204,680		
Exercise of stock options, including tax benefit	7	13,494				
Amortization of restricted stock compensation		1,949				
Restricted stock award		140				(303)
Stock option expense		5,647				
Stock acquired for cash						(19,970)
Stock sold in deferred compensation plan		146				62
Balance, December 31, 2006	$ 511	$ 372,043	$ 487,627		$ 30,183	$ (50,528)
Net income			203,372	$ 203,372		
Currency translation adjustment				42,340	42,340	
Other comprehensive income				513	513	
Comprehensive income				$ 246,225		
Exercise of stock options, including tax benefit	10	21,913				

Amortization of restricted stock compensation		2,959				
Restricted stock award	1	(1)				(405)
Stock option expense		5,011				
Stock acquired for cash						(30,673)
Stock sold in deferred compensation plan		166				71
Fin 48 adjustment			(286)			
Balance, December 31, 2007	$ 522	$ 402,091	$ 690,713		$ 73,036	$ (81,535)
Net income			222,710	$ 222,710		
Currency translation adjustment				(101,365)	(101,365)	
Unrealized gain on marketable securities, net of tax (see Note 7)				2,028	2,028	
Reclassification adjustment, net of tax (see Note 7)				(2,028)	(2,028)	
Other comprehensive loss				(80)	(80)	
Comprehensive income				$ 121,265		
Exercise of stock options, including tax benefit	4	12,292				
Amortization of restricted stock compensation		5,371				
Restricted stock award						(863)
Stock option expense		5,537				
Stock acquired for cash						(9,434)
Stock sold in deferred compensation plan		4				1
SEC stock issuance fee		(11)				
Balance, December 31, 2008	$ 526	$ 425,284	$ 913,423		$ (28,409)	$ (91,831)

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008	**2007**	**2006**
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 222,710	$ 203,372	$ 197,634
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	102,604	70,703	54,340
Deferred income tax provision	15,890	6,802	755
Excess tax benefits from share-based payment arrangements	(3,429)	(8,127)	(5,007)
Non-cash gain on sale of workover services business			(11,250)
Loss on impairment of goodwill	85,630		
Gains on sale of investment and disposals of assets	(6,270)	(14,883)	(7,707)
Equity in earnings of unconsolidated subsidiaries	(2,983)	(2,973)	(7,148)
Non-cash compensation charge	10,908	7,970	7,595
Other, net	3,928	951	3,288
Changes in operating assets and liabilities, net of effect from acquired businesses:			
Accounts receivable	(155,897)	(68,080)	(88,429)
Inventories	(281,971)	43,186	(22,569)
Accounts payable and accrued liabilities	143,479	34,806	(18,593)
Taxes payable	66,616	(7,199)	11,621
Other current assets and liabilities, net	56,249	(18,629)	22,837
Net cash flows provided by operating activities	257,464	247,899	137,367
Cash flows from investing activities:			
Capital expenditures, including capitalized interest	(247,384)	(239,633)	(129,090)
Acquisitions of businesses, net of cash acquired	(29,835)	(103,143)	(99)
Cash balances of workover services business sold			(4,366)
Proceeds from sale of investment	27,381	29,354	
Proceeds from sale of buildings and equipment	4,390	3,861	20,907
Other, net	(646)	(1,275)	(1,600)

Net cash flows used in investing activities	(246,094)	(310,836)	(114,248)
Cash flows from financing activities:			
Revolving credit borrowings (repayments)	1,474	81,798	(6,617)
Debt repayments	(4,960)	(6,972)	(2,284)
Issuance of common stock	8,868	13,796	8,509
Purchase of treasury stock	(9,563)	(35,458)	(15,056)
Excess tax benefits from share based payment arrangements	3,429	8,127	5,007
Payment of financing costs	(39)	(255)	(580)
Other, net	(875)	(404)	(180)
Net cash flows provided by (used in) financing activities	(1,666)	60,632	(11,201)
Effect of exchange rate changes on cash	(9,802)	5,018	1,350
Net increase (decrease) in cash and cash equivalents from continuing operations	(98)	2,713	13,268
Net cash used in discontinued operations operating activities	(295)	(517)	(170)
Cash and cash equivalents, beginning of year	30,592	28,396	15,298
Cash and cash equivalents, end of year	$ 30,199	$ 30,592	$ 28,396

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

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

The Company, through its subsidiaries, is a leading provider of specialty products and services to oil and gas drilling and production companies throughout the world. It operates in a substantial number of the world s active oil and gas producing regions, including the Gulf of Mexico, U.S. onshore, West Africa, the North Sea, Canada, South America and Southeast Asia. The Company operates in three principal business segments well site services, offshore products and tubular services. The Company s well site services segment includes the accommodations, rental tools and drilling services businesses.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

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

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

	At December 31,			
	2008		2007	
Interest Rate	Carrying Value	Fair Value	Carrying Value	Fair Value

23/8% Contingent Convertible Senior Notes due 2025	23/8%	$ 175,000	$ 133,613	$ 175,000	$ 225,225

As of December 31, 2008, the estimated fair value of the Company s debt outstanding under its revolving credit facility is estimated to be lower than carrying value since the terms of this facility are more favorable than those that might be expected to be available in the current credit and lending environment. We are unable to estimate the fair value of the Company s bank debt due to the potential variability of expected outstanding balances under the facility. Refer to Note 8 for terms of the Company s credit facility.

Inventories

Inventories consist of tubular and other oilfield products, manufactured equipment, spare parts for manufactured equipment, raw materials and supplies and raw materials for remote accommodation facilities. Inventories include raw materials, labor, subcontractor charges and manufacturing overhead and are carried at the lower of cost or market. The cost of inventories is determined on an average cost or specific-identification method.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant, and Equipment

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

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

Goodwill

Goodwill represents the excess of the purchase price for acquired businesses over the allocated value of the related net assets after impairments, if applicable. Goodwill is stated net of accumulated amortization of $10.8 million at December 31, 2008 and $18.0 million at December 31, 2007. Accumulated amortization of goodwill decreased in 2008 compared to 2007 primarily as a result of goodwill impairment recognized in 2008.

We evaluate goodwill for impairment annually and when an event occurs or circumstances change to suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the implied fair value (IFV) of the reporting unit. Our reporting units with goodwill remaining include offshore products, accommodations and rental tools, after the 100% impairment of goodwill associated with our tubular services and drilling reporting units discussed in Note 6 to these Consolidated Financial Statements. The IFV of the reporting units are estimated using primarily an analysis of trading multiples of comparable companies to our reporting units. We also utilize discounted projected cash flows and acquisition multiples analyses in certain circumstances. We discount our projected cash flows using a long term weighted average cost of capital for each reporting unit based on our estimate of investment returns that would be required by a market participant. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired, and a second step is performed to determine the amount of impairment, if any. We conduct our annual impairment test in December of each year.

See Note 6 Goodwill and Other Intangible Assets.

Impairment of Long-Lived Assets

In compliance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets the recoverability of the carrying values of property, plant and equipment is assessed at a minimum annually, or whenever, in management s judgment, events or changes in circumstances indicate that the carrying value of such assets may not be recoverable based on estimated future cash flows. If this assessment indicates that the carrying values will not be recoverable, as determined based on undiscounted cash flows over the remaining useful lives, an impairment loss is recognized. The impairment loss equals the excess of the carrying value over the fair value of the asset. The fair value of the asset is based on prices of similar assets, if available, or discounted cash flows. Based on the Company s review, the carrying value of its assets are recoverable, and no impairment losses have been recorded for the periods presented.

Foreign Currency and Other Comprehensive Income

Gains and losses resulting from balance sheet translation of foreign operations where a foreign currency is the functional currency are included as a separate component of accumulated other comprehensive income within stockholders equity representing substantially all of the balances within accumulated other comprehensive income. Gains and losses resulting from balance sheet translation of foreign operations where the U.S. dollar is the functional currency are included in the consolidated statements of income as incurred.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Exchange Risk

A portion of revenues, earnings and net investments in foreign affiliates are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing expected local currency revenues in relation to local currency costs and local currency assets in relation to local currency liabilities. In the past, foreign exchange risk has also been managed through the use of derivative financial instruments and foreign currency denominated debt. These financial instruments serve to protect net income against the impact of the translation into U.S. dollars of certain foreign exchange denominated transactions. The Company had no currency contracts outstanding at December 31, 2008, December 31, 2007 or December 31, 2006. Net gains or losses from foreign currency exchange contracts that are designated as hedges would be recognized in the income statement to offset the foreign currency gain or loss on the underlying transaction. Exchange gains and losses associated with our operations have totaled $1.6 million gain in 2008, a $0.9 million loss in 2007 and a $0.4 million loss in 2006 and are included in other operating income.

Interest Capitalization

Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets estimated useful lives. There was no interest capitalized during the year ended December 31, 2008. For the years ended December 31, 2007 and December 31, 2006, $1.0 million and $0.1 million was capitalized, respectively.

Revenue and Cost Recognition

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

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

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

Income Taxes

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

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with SFAS No. 109, the Company records a valuation reserve in each reporting period when management believes that it is more likely than not that any deferred tax asset created will not be realized. Management will continue to evaluate the appropriateness of the reserve in the future based upon the operating results of the Company.

In accounting for income taxes, we are required by the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) to estimate a liability for future income taxes. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

Receivables and Concentration of Credit Risk, Concentration of Suppliers

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

The Company purchased 75% of its oilfield tubular goods from three suppliers in 2008, with the largest supplier representing 58% of its purchases in the period. The loss of any significant supplier in the tubular services segment could adversely affect it.

Allowances for Doubtful Accounts

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

means of making payment. If these factors do not indicate collection is reasonably assured, the Company would require a prepayment or other arrangement to support revenue recognition and recording of a trade receivable. If the financial condition of the Company s customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required.

Earnings per Share

The Company s basic income per share (EPS) amounts have been computed based on the average number of common shares outstanding, including 201,757 shares of common stock as of December 31, 2008 and 2007, issuable upon exercise of exchangeable shares of one of the Company s Canadian subsidiaries. These exchangeable shares, which were issued to certain former shareholders of PTI in connection with the Company s IPO and the combination of PTI into the Company, are intended to have characteristics essentially equivalent to the Company s common stock prior to the exchange. We have treated the shares of common stock issuable upon exchange of the exchangeable shares as outstanding. All shares of restricted stock awarded under the Company s Equity Participation Plan are included in the Company s basic and fully diluted shares as such restricted stock shares vest.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Diluted EPS amounts include the effect of the Company s outstanding stock options under the treasury stock method. In addition, shares assumed issued upon conversion of the Company s 23/8% Contingent Convertible Senior Subordinated Notes averaged 1,270,433 and 729,830 during the years ended December 31, 2008 and December 31, 2007, respectively, and are included in the calculation of fully diluted shares outstanding and fully diluted earnings per share.

Stock-Based Compensation

We adopted Statement of Financial Accounting Standards No. 123R (SFAS 123R) Share-based Payment effective January 1, 2006. This pronouncement requires companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is estimated using option-pricing models. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period. Prior to the adoption of SFAS 123R, this accounting treatment was optional with pro forma disclosures required. During the years ended December 31, 2008, December 31, 2007 and December 31, 2006, the Company recognized non-cash general and administrative expenses for stock options and restricted stock awards totaling $10.9 million, $8.0 million and $7.6 million, respectively. The Company accounts for assets held in a rabbi trust for certain participants under the Company s deferred compensation plan in accordance with EITF 97-14. See Note 13.

Guarantees

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

Pursuant to FIN 45, the Company is required to disclose the changes in product warranty reserves. Some of our products in our offshore products and accommodations businesses are sold with a warranty, generally ranging from 12 to 18 months. Parts and labor are covered under the terms of the warranty agreement. Warranty provisions are based on historical experience by product, configuration and geographic region. Changes in the warranty reserves were as follows (in thousands):

	Year Ended December 31,	
	2008	**2007**
Beginning balance	$ 1,978	$ 1,656
Provisions for warranty	1,370	2,796

Consumption of reserves	(1,298)	(2,510)
Translation and other changes	(84)	36
Ending balance	$ 1,966	$ 1,978

Current warranty provisions are typically related to the current year s sales, while warranty consumption is associated with current and prior year s net sales.

During the ordinary course of business, the Company also provides standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by either the Company or its subsidiaries. As of December 31, 2008, the maximum potential amount of future payments that the Company could be required to make under these guarantee agreements was approximately $16.8 million. The Company has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. The Company does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

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

Discontinued Operations

Prior to our initial public offering in February 2001, we sold businesses and reported the operating results of those businesses as discontinued operations. Existing reserves related to the discontinued operations as of December 31, 2008 and 2007 represent an estimate of the remaining contingent liabilities associated with the Company s exit from those businesses.

3. Details of Selected Balance Sheet Accounts

Additional information regarding selected balance sheet accounts at December 31, 2008 and 2007 is presented below (in thousands):

	2008	**2007**
Accounts receivable:		
Trade	$ 456,975	$ 353,716
Unbilled revenue	119,907	97,579
Other	3,268	2,487
Total accounts receivable	580,150	453,782
Allowance for doubtful accounts	(4,168)	(3,629)
	$ 575,982	$ 450,153

	2008	**2007**

Inventories:		
Tubular goods	$ 396,462	$ 191,374
Other finished goods and purchased products	88,848	61,306
Work in process	65,009	56,479
Raw materials	68,881	47,737
Total inventories	619,200	356,896
Inventory reserves	(6,712)	(7,549)
	$ 612,488	$ 349,347

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Estimated Useful Life	2008	2007
Property, plant and equipment:			
Land		$ 18,298	$ 12,665
Buildings and leasehold improvements	3-50 years	135,080	107,954
Machinery and equipment	2-29 years	270,434	220,049
Accommodations assets	10-15 years	300,765	276,182
Rental tools	4-10 years	141,644	108,968
Office furniture and equipment	1-10 years	26,506	23,659
Vehicles	2-10 years	68,645	52,508
Construction in progress		49,915	43,046
Total property, plant and equipment		1,011,287	845,031
Less: Accumulated depreciation		(315,949)	(258,121)
		$ 695,338	$ 586,910

Depreciation expense was $99.0 million, $66.5 million and $50.5 million in the years ended December 31, 2008, 2007 and 2006, respectively.

	2008	2007
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 307,132	$ 186,357
Accrued compensation	35,864	27,156
Accrued insurance	7,551	7,386
Accrued taxes, other than income taxes	7,257	3,733
Reserves related to discontinued operations	2,544	2,839
Other	11,441	11,648
	$ 371,789	$ 239,119

4. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather

eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157, which defers the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We adopted those provisions of SFAS 157 that were unaffected by the delay in the first quarter of 2008. Such adoption did not have a material effect on our consolidated statements of financial position, results of operations or cash flows. The Company does not have any material recurring fair value measurements.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has chosen not to adopt the elective provisions of SFAS 159 for its existing financial instruments.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) (SFAS 141R), Business Combinations, which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Since SFAS 141R will be adopted prospectively, it is not possible to determine the effect, if any, on the Company s results from operations or financial position.

In December 2007, the FASB also issued Statement of Financial Accounting Standards No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS 160 requires that accounting and reporting for minority interests be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on our results from operations or financial position.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) which will change the accounting for our 23/8% Notes. Under the new rules, for convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity will be required to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The effect of the new rules on our 23/8% Notes is that the equity component will be classified as part of stockholders equity on our balance sheet and the value of the equity component will be treated as an original issue discount for purposes of accounting for the debt component of the 23/8% Notes. Higher non-cash interest expense will result by recognizing the accretion of the discounted carrying value of the debt component of the 23/8% Notes as interest expense over the estimated life of the 23/8% Notes using an effective interest rate method of amortization. However, there would be no effect on our cash interest payments. The FSP is effective for fiscal years beginning after December 15, 2008. This rule requires retrospective application. In addition to a reduction of debt balances

and an increase to stockholders equity on our consolidated balance sheets for each period presented, we expect the retrospective application of FSP APB 14-1 will result in a non-cash increase to our annual historical interest expense, net of amounts capitalized, of approximately $3 million, $5 million, $6 million and $6 million for 2005, 2006, 2007 and 2008, respectively. Additionally, we expect that the adoption will result in a non-cash increase to our projected annual interest expense, net of amounts expected to be capitalized, of approximately $7 million, $7 million, $8 million and $4 million for 2009, 2010, 2011 and 2012, respectively. As of January 1, 2009, the amortized balance of the 23/8% Notes will be $149.1 million.

See also Note 10 Income Taxes and Change in Accounting Principle for a discussion of the FASB s Interpretation No. 48 Accounting for Uncertainty in Income Taxes.

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Earnings Per Share (EPS)

	2008	2007	2006
	(In thousands, except per share data)		
Basic earnings per share:			
Net income	$ 222,710	$ 203,372	$ 197,634
Weighted average number of shares outstanding	49,622	49,500	49,519
Basic earnings per share	$ 4.49	$ 4.11	$ 3.99
Diluted earnings per share:			
Net income	$ 222,710	$ 203,372	$ 197,634
Weighted average number of shares outstanding (basic)	49,622	49,500	49,519
Effect of dilutive securities:			
Options on common stock	419	596	807
23/8% Convertible Senior Subordinated Notes	1,271	730	391
Restricted stock awards and other	102	85	56
Total shares and dilutive securities	51,414	50,911	50,773
Diluted earnings per share	$ 4.33	$ 3.99	$ 3.89

6. Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). In connection with the adoption of SFAS No. 142, the Company ceased amortizing goodwill. Under SFAS No. 142, goodwill is no longer amortized but is tested for impairment using a fair value approach, at the reporting unit level. A reporting unit is the operating segment, or a business one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by management at the component level. The Company had five reporting units as of December 31, 2008, prior to the 100% impairment of two of these reporting units goodwill amounts discussed below. Goodwill is allocated to each of the reporting units based on actual acquisitions made by the Company and its subsidiaries. The Company would recognize an impairment charge for any amount by which the carrying amount of a reporting unit s goodwill exceeds the unit s fair value. The Company uses, as appropriate in the current circumstance, comparative market multiples, discounted cash flow calculations and acquisition comparables to establish fair values.

The Company amortizes the cost of other intangibles over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are reviewed for impairment based on undiscounted cash flows and, if impaired, written down to fair

value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested for impairment, and written down to fair value as required. As of December 31, 2008, no provision for impairment of other intangible assets was required based on the evaluations performed.

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in the carrying amount of goodwill for the year ended December 31, 2008 and 2007 are as follows (in thousands):

	Well Site Services	Offshore Products	Tubular Services	Total
Balance as of December 31, 2006	$ 193,635	$ 75,716	$ 62,453	$ 331,804
Goodwill acquired	50,570			50,570
Foreign currency translation and other changes	8,763	97	410	9,270
Balance as of December 31, 2007	$ 252,968	$ 75,813	$ 62,863	$ 391,644
Goodwill acquired	2,126	11,027		13,153
Foreign currency translation and other changes	(11,960)	(1,766)		(13,726)
Goodwill impairment	(22,767)		(62,863)	(85,630)
Balance as of December 31, 2008	$ 220,367	$ 85,074	$	$ 305,441

SFAS 142 prescribes a two-step method for determining goodwill impairment. The Company has historically employed a trading multiples valuation method to determine fair value of its reporting units. Given the market turmoil caused by the global economic recession and credit market disruption in the second half of 2008, the Company augmented its valuation methodology to include discounted cash flow valuations of its reporting units based on the expected cash flows of such units. Based on a combination of factors (including the current global economic environment, the Company s near term outlook for U.S. drilling activity, higher costs of equity and debt capital and the decline in market capitalization for the Company and comparable oilfield service companies), the Company concluded that the goodwill amounts previously recorded in the tubular services and drilling reporting units were impaired in their entirety. The total goodwill impairment charge recognized in the fourth quarter of 2008 was $85.6 million before taxes and $79.8 million after-tax. The majority of the impairment charge is related to goodwill recorded prior to or in conjunction with the Company s initial public offering in 2001. This non-cash charge did not impact the Company s liquidity position, its debt covenants or cash flows.

The portion of goodwill deductible for tax purposes totaled approximately $7.2 million at December 31, 2008. The following table presents the total amount assigned and the total amount amortized for major intangible asset classes as of December 31, 2008 and

2007 (in thousands):

	December 31, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets				
Customer relationships	$ 16,128	$ 1,560	$ 16,128	$ 486
Non-compete agreements	11,860	9,674	15,771	11,927
Patents and other	9,129	3,206	8,798	2,577
	$ 37,117	$ 14,440	$ 40,697	$ 14,990

Intangible assets, other than goodwill, are included within Other noncurrent assets in the Consolidated Balance Sheets. The weighted average remaining amortization period for all intangible assets, other than goodwill and indefinite lived intangibles, is 11.4 years and 11.8 years as of December 31, 2008 and 2007, respectively. Total amortization expense is expected to be $3.2 million, $2.3 million, $1.8 million, $1.7 million and $1.5 million in 2009, 2010, 2011, 2012 and 2013, respectively. Amortization expense was $3.6 million, $4.2 million and $3.9 million in the years ended December 31, 2008, 2007 and 2006, respectively.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Effective March 1, 2006, we completed a transaction to combine our workover services business with Boots & Coots International Well Control, Inc. (Boots & Coots) in exchange for 26.5 million shares of Boots & Coots common stock valued at $1.45 per share at closing and senior subordinated promissory notes totaling $21.2 million. Our workover services business was part of our well site services segment prior to the combination. The closing of the transaction resulted in a non-cash pretax gain of $20.7 million.

As a result of the closing of the transaction, we initially owned 45.6% of Boots & Coots. The senior subordinated promissory notes received in the transaction bear a fixed annual interest rate of 10% and mature on September 1, 2010. See Note 17 Subsequent Events. In connection with this transaction, we also entered into a Registration Rights Agreement requiring Boots & Coots to file a shelf registration statement. A shelf registration statement was finalized by Boots & Coots effective in the fourth quarter of 2006 and we sold shares in 2007 and 2008 as described below.

In April 2007, the Company sold, pursuant to a registration statement filed by Boots & Coots, 14,950,000 shares of Boots & Coots common stock that it owned for net proceeds of $29.4 million and, as a result, we recognized a net after tax gain of $8.4 million, or approximately $0.17 per diluted share, in the second quarter of 2007. After this sale of Boots & Coots shares and the sale of primary shares of stock directly by Boots & Coots in April 2007, our ownership interest in Boots & Coots was reduced to approximately 15%. We continued to use the equity method of accounting to account for the Company s remaining investment in Boots & Coots common stock (11.5 million shares). The carrying value of the Company s remaining investment in Boots & Coots common stock totaled $19.6 million as of December 31, 2007.

The Company sold an aggregate total of 11,512,137 shares of Boots & Coots stock representing the remaining shares that it owned in a series of transactions during May, June and August of 2008. The sale of Boots & Coots stock resulted in net proceeds of $27.4 million and a net after tax gain of $3.6 million, or approximately $0.07 per diluted share in the twelve months ended December 31, 2008. After June 30, 2008, our ownership interest in Boots & Coots was approximately 7%. As a result of this decreased ownership percentage, we reconsidered the method of accounting utilized for this investment and concluded that we should discontinue the use of the equity method of accounting since we no longer had the ability to significantly influence Boots & Coots. We, therefore, began to account for the remaining investment in Boots & Coots common stock (5.4 million shares at June 30, 2008) as an available for sale security as defined in Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, effective June 30, 2008. In accordance with SFAS No. 115, the carrying value of the remaining

shares owned by the Company was adjusted to fair value through an unrealized after tax holding gain in the amount of $2.0 million recorded as other comprehensive income for the twelve months ended December 31, 2008. The sale of the remaining 5.4 million shares in August of 2008 resulted in the reclassification of the $2.0 million unrealized after tax gain from accumulated other comprehensive income into earnings for the twelve months ended December 31, 2008. The carrying value of the Company s note receivable due from Boots & Coots (on September 2, 2010) is $21.2 million as of December 31, 2008 and is included in other non-current assets on the balance sheet. See Note 17 Subsequent Events.

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Long-term Debt

As of December 31, 2008 and 2007, long-term debt consisted of the following (in thousands):

	2008	2007
US revolving credit facility, with available commitments up to $325 million; secured by substantially all of our assets; commitment fee on unused portion ranged from 0.175% to 0.200% per annum in 2008 and 2007; variable interest rate payable monthly based on prime or LIBOR plus applicable percentage; weighted average rate was 3.9% for 2008 and 6.2% for 2007	$ 226,000	$ 214,800
Canadian revolving credit facility, with available commitments up to $175 million; secured by substantially all of our assets; variable interest rate payable monthly based on the Canadian prime rate or Bankers Acceptance discount rate plus applicable percentage; weighted average rate was 4.3% for 2008 and 5.4% for 2007	61,244	89,060
23/8% Contingent Convertible Senior Subordinated Notes due 2025	175,000	175,000
Subordinated unsecured notes payable to sellers of businesses, interest of 6%, maturing in 2008 and 2009	4,500	9,000
Capital lease obligations and other debt	13,147	3,960
Total debt	479,891	491,820
Less: current maturities	4,943	4,718
Total long-term debt	$ 474,948	$ 487,102

Scheduled maturities of combined long-term debt as of December 31, 2008, are as follows (in thousands):

2009	$ 4,943
2010	427
2011	291,862
2012	175,399
2013	304
Thereafter	6,956

$ 479,891

The Company s capital leases consist primarily of plant facilities, an office building and equipment. The value of capitalized leases and the related accumulated depreciation totaled $9.7 million and $0.9 million, respectively, at December 31, 2008. The value of capitalized leases and the related accumulated depreciation totaled $1.1 million and $0.5 million, respectively, at December 31, 2007.

23/8% Contingent Convertible Senior Notes

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

The notes are senior unsecured obligations of the Company and bear interest at a rate of 23/8% per annum. The notes mature on July 1, 2025, and may not be redeemed by the Company prior to July 6, 2012. Holders of the notes may require the Company to repurchase some or all of the notes on July 1, 2012, 2015, and 2020. We have assumed

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the redemption of the notes at the date of the note holders first optional redemption date in 2012 in our schedule of debt maturities above. The notes provide for a net share settlement, and therefore may be convertible, under certain circumstances, into a combination of cash, up to the principal amount of the notes, and common stock of the company, if there is any excess above the principal amount of the notes, at an initial conversion price of $31.75 per share. Shares underlying the notes were included in the calculation of diluted earnings per share during periods when our average stock price exceeded the initial conversion price of $31.75 per share. The terms of the notes require that our stock price in any quarter, for any period prior to July 1, 2023, be above 120% of the initial conversion price (or $38.10 per share) for at least 20 trading days in a defined period before the notes are convertible. If a note holder chooses to present their notes for conversion during a future quarter prior to the first put/call date in July 2012, they would receive cash up to $1,000 for each 23/8% note plus Company common stock for any excess valuation over $1,000 using the conversion rate of the 23/8% notes of 31.496 multiplied by the Company s average common stock price over a ten trading day period following presentation of the 23/8% Notes for conversion. In connection with the note offering, the Company agreed to register the notes within 180 days of their issuance and to keep the registration effective for up to two years subsequent to the initial issuance of the notes. The notes were so registered in November 2005. The maximum amount of contingent interest that could potentially inure to the note holders during such time period is not material to the consolidated financial position or the results of operations of the Company.

Revolving Credit Facility

On December 13, 2007, we exercised the accordion feature available under our Credit Agreement dated October 30, 2003, as amended. The Company s credit facility currently totals $500 million of available commitments. Under this senior secured revolving credit facility with a group of banks, up to $175 million is available in the form of loans denominated in Canadian dollars and may be made to the Company s principal Canadian operating subsidiaries. The facility matures on December 5, 2011. Amounts borrowed under this facility bear interest, at the Company s election, at either:

a variable rate equal to LIBOR (or, in the case of Canadian dollar denominated loans, the Bankers Acceptance discount rate) plus a margin ranging from 0.5% to 1.25%; or

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

Commitment fees ranging from 0.175% to 0.25% per year are paid on the undrawn portion of the facility, depending upon our leverage ratio.

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

The Credit Agreement, which governs our credit facility, contains customary financial covenants and restrictions, including restrictions on our ability to declare and pay dividends. Specifically, we must maintain an interest coverage ratio, defined as the ratio of consolidated EBITDA, to consolidated interest expense of at least 3.0 to 1.0 and our maximum leverage ratio, defined as the ratio of total debt, to consolidated EBITDA of no greater than 3.25 to 1.0 in 2009 and 3.0 to 1.0 thereafter. Each of the factors considered in the calculations of ratios are defined in the Credit Agreement. EBITDA and consolidated interest as defined, exclude goodwill impairments, debt discount amortization and other non-cash charges. As of December 31, 2008, we were in compliance with our debt covenants. The credit facility also contains negative covenants that limit the Company s ability to borrow additional funds, encumber assets, pay dividends, sell assets and enter into other significant transactions.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

As of April 7, 2008, we had $287.2 million outstanding under this facility and an additional $16.8 million of outstanding letters of credit leaving $196.0 million available to be drawn under the facility.

On January 11, 2005 the Company renewed its overdraft credit facility providing for borrowings totaling £2.0 million for UK operations. Interest is payable quarterly at a margin of 1.5% per annum over the bank s variable base rate. All borrowings under this facility are payable on demand. No amounts were outstanding under this facility at December 31, 2008. Letters of credit totaling £0.7 million were outstanding as of December 31, 2008, leaving £1.3 million available to be drawn under this facility.

A subsidiary of the Company maintains an additional revolving credit facility with a bank. A total of $4.2 million was outstanding under this facility as of December 31, 2008. This facility consists of a swing line with a bank, borrowings under which are used for working capital efficiencies.

9. Retirement Plans

The Company sponsors defined contribution plans. Participation in these plans is available to substantially all employees. The Company recognized expense of $8.4 million, $6.1 million and $5.4 million, respectively, related to its various defined contribution plans during the years ended December 31, 2008, 2007 and 2006, respectively.

10. Income Taxes

Consolidated pre-tax income for the years ended December 31, 2008, 2007 and 2006 consisted of the following (in thousands):

	2008	2007	2006
US operations	$ 225,846	$ 183,242	$ 206,288
Foreign operations	153,214	117,116	95,359
Total	$ 379,060	$ 300,358	$ 301,647

The components of the income tax provision for the years ended December 31, 2008, 2007 and 2006 consisted of the following (in thousands):

	2008	2007	2006
Current:			
Federal	$ 94,082	$ 58,753	$ 69,849
State	5,097	3,564	4,172
Foreign	37,639	29,754	30,193
	136,818	92,071	104,214
Deferred:			
Federal	12,378	1,172	3,017
State	1,320	33	(762)
Foreign	5,833	3,710	(2,456)
	19,531	4,915	(201)
Total Provision	$ 156,349	$ 96,986	$ 104,013

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The provision for taxes differs from an amount computed at statutory rates as follows for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
Federal tax expense at statutory rates	$ 132,671	$ 105,125	$ 105,576
Foreign income tax rate differential	(10,570)	(6,802)	(2,880)
Reduced foreign tax rates		(1,088)	(2,168)
Nondeductible goodwill	24,317		
Other nondeductible expenses	2,586	1,411	149
State tax expense, net of federal benefits	3,879	2,338	2,051
Domestic manufacturing deduction	(1,212)	(2,435)	(872)
FIN 48 adjustments	2,868	(1,751)	
Dividend income foreign affiliate			1,542
Gain on sale of affiliated company stock			1,405
Other, net	1,810	188	(790)
Net income tax provision	$ 156,349	$ 96,986	$ 104,013

The significant items giving rise to the deferred tax assets and liabilities as of December 31, 2008 and 2007 are as follows (in thousands):

	2008	2007
Deferred tax assets:		
Net operating loss carryforward	$ 5,087	$ 6,642
Allowance for doubtful accounts	1,352	816
Inventory reserves	3,870	2,273
Employee benefits	5,499	7,028
Intangibles	5,075	2,035
Other reserves	913	508
Other	3,590	2,639
Gross deferred tax asset	25,386	21,941
Less: valuation allowance	(421)	(421)
Net deferred tax asset	24,965	21,520
Deferred tax liabilities:		
Depreciation	(69,986)	(47,815)
Deferred revenue	(1,453)	(666)

Intangibles	(3,252)	(2,368)
Accrued liabilities	(2,701)	(2,190)
Basis difference of investments		(6,853)
Other	(4,029)	(917)
Deferred tax liability	(81,421)	(60,809)
Net deferred tax liability	$ (56,456)	$ (39,289)

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications of the Company s deferred tax balance based on net current items and net non-current items as of December 31, 2008 and 2007 are as follows (in thousands):

	2008	2007
Current deferred tax asset (liability)	$ (810)	$ 1,261
Long term deferred tax liability	(55,646)	(40,550)
Net deferred tax liability	$ (56,456)	$ (39,289)

Our primary deferred tax assets at December 31, 2008, are related to employee benefit costs for our Equity Participation Plan, deductible goodwill and $15 million in available federal net operating loss carryforwards, or regular tax NOLs, as of that date. The regular tax NOLs will expire in varying amounts during the years 2010 through 2011 if they are not first used to offset taxable income that we generate. Our ability to utilize a significant portion of the available regular tax NOLs is currently limited under Section 382 of the Internal Revenue Code due to a change of control that occurred during 1995. We currently believe that substantially all of our regular tax NOLs will be utilized. The Company has utilized all federal alternative minimum tax net operating loss carryforwards.

Our income tax provision for the year ended December 31, 2008 totaled $156.3 million, or 41.2% of pretax income, compared to $97.0 million, or 32.3% of pretax income, for the year ended December 31, 2007. The higher effective tax rate was primarily due to the impairment of goodwill the majority of which was not deductible for tax purposes.

Appropriate U.S. and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted in the near future. The cumulative amount of undistributed earnings of foreign subsidiaries that the Company intends to permanently reinvest and upon which no deferred US income taxes have been provided is $461 million at December 31, 2008 the majority of which has been generated in Canada. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to US income taxes (subject to adjustment for foreign tax credits) and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings after consideration of available foreign tax credits.

The American Jobs Creation Act of 2004 that was signed into law in October 2004, introduced a requirement for companies to disclose any penalties imposed on them or any of their consolidated subsidiaries by the IRS for failing to satisfy tax disclosure requirements relating to reportable transactions. During the year ended December 31,

2008, no penalties were imposed on the Company or its consolidated subsidiaries for failure to disclose reportable transactions to the IRS.

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

An examination of the Company s consolidated U.S. federal tax return for the year 2004 by the Internal Revenue Service was completed during the third quarter of 2007. No significant adjustments were proposed as a result of this examination. Tax years subsequent to 2005 remain open to U.S. federal tax audit and, because of net operating losses (NOL s) utilized by the Company, years from 1994 to 2002 remain subject to federal tax audit with respect to NOL s available for tax carryforward. Our Canadian subsidiaries federal tax returns subsequent to 2004 are subject to audit by Canada Revenue Agency.

In June 2006, the FASB issued FIN 48, which clarifies the accounting and disclosure for uncertain tax positions, as defined. The interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes.

The Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 resulted in a transition adjustment reducing beginning retained earnings by $0.3 million consisting of $0.2 million in taxes and $0.1 million in interest. The total amount of unrecognized tax benefits as of December 31, 2008 was $4.3 million. Of this amount, $2.1 million of the unrecognized tax benefits that, if recognized, would affect the effective tax rate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of the Company s provision for income taxes. As of December 31, 2008, the Company has accrued $0.9 million of interest expense and $0.5 million of penalties. During the year ended December 31, 2008, the Company recognized $0.4 million of interest expense, excluding the $0.1 million of interest reduction due to the lapse of the statute of limitations.

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

	2008	2007
Balance as of January 1, 2008	$ 2,536	$ 4,079
Additions based on tax positions related to the current year	0	0
Additions for tax positions of prior years	2,270	0
Reductions for tax positions of prior years	(214)	(1,466)
Settlements	0	0
Lapse of the Applicable Statute of Limitations	(318)	(77)
Balance as of December 31, 2008	$ 4,274	$ 2,536

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

11. Acquisitions and Supplemental Cash Flow Information

Components of cash used for acquisitions as reflected in the consolidated statements of cash flows for the years ended December 31, 2008, 2007 and 2006 are summarized as follows (in thousands):

	2008	2007	2006
Fair value of assets acquired and goodwill	$ 32,543	$ 118,370	$ 99
Liabilities assumed	(2,604)	(5,596)	
Noncash consideration		(9,000)	
Less: cash acquired	(104)	(631)	
Cash used in acquisition of businesses	$ 29,835	$ 103,143	$ 99

2006

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2007

In July 2007, we acquired the business of Wire Line Service, Ltd. (Well Testing) for cash consideration of $43.4 million, including transaction costs, funded from borrowings under the Company s existing credit facility, plus a note payable to the former owner of $3.0 million that will mature on July 1, 2009. Well Testing provides well testing and flowback services through its locations in Texas, New Mexico, Colorado and Arkansas. The operations of Well Testing have been included in the rental tools business within the well site services segment since the date of acquisition.

In August 2007, we acquired the business of Schooner Petroleum Services, Inc. (Schooner) for cash consideration of $59.7 million, net of cash acquired, including transactions costs, funded from borrowings under the Company s existing credit facility, plus a note payable to the former owner of $6.0 million that will mature on August 1, 2009. Schooner, headquartered in Houston, Texas, primarily provides completion-related rental tools and services through nine locations in Texas, Louisiana, Wyoming and Arkansas. The operations of Schooner have been included in the rental tools business within the well site services segment since the date of acquisition.

2008

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

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

Cash paid during the years ended December 31, 2008, 2007 and 2006 for interest and income taxes was as follows (in thousands):

	2008	**2007**	**2006**

Interest (net of amounts capitalized)	$ 16,265	$ 16,764	$ 17,262
Income taxes, net of refunds	$ 70,441	$ 100,711	$ 92,620
Non-cash investing activities:			
Receipt of stock and notes for hydraulic workover services business in merger transaction (See Note 7)	$	$	$ 50,105
Building capital lease	$ 8,304		
Non-cash financing activities:			
Borrowings and assumption of liabilities for business and asset acquisition and related intangibles	$	$ 9,000	$ 514
Acquisition of treasury stock with settlement date in subsequent year		129	4,913

12. Commitments and Contingencies

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

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Minimum future operating lease obligations in effect at December 31, 2007, are as follows (in thousands):

	Operating Leases
2009	$ 6,499
2010	4,969
2011	3,451
2012	2,798
2013	2,517
Thereafter	5,370
Total	$ 25,604

Rental expense under operating leases was $9.1 million, $7.9 million and $6.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

13. Stock-Based Compensation

We adopted SFAS 123R effective January 1, 2006. This pronouncement requires companies to measure the cost of employee services received in exchange for an award of equity instruments (typically stock options) based on the grant-date fair value of the award. The fair value is estimated using option-pricing models. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period. Prior to the adoption of SFAS 123R, this accounting treatment was optional with pro forma disclosures

required. We adopted SFAS 123R using the modified prospective transition method, which is explained below.

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

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

awarded in 2006, 2007 and 2008 was based on a formula considering the vesting period and term of the options awarded as permitted by U.S. Securities and Exchange Commission regulations.

The following table summarizes stock option activity for each of the three years ended December 31, 2008:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)	Aggregate Intrinsic Value (Thousands)
Balance at December 31, 2005	2,694,061	13.65	4.9	48,564
Granted	515,000	35.17		
Exercised	(728,759)	11.68		
Forfeited	(58,000)	17.70		
Expired	(1,750)	10.63		
Balance at December 31, 2006	2,420,552	18.73	4.7	34,173
Granted	554,460	30.28		
Exercised	(988,380)	13.96		
Forfeited	(57,625)	26.86		
Expired				
Balance at December 31, 2007	1,929,007	24.25	4.2	19,947
Granted	565,250	37.19		
Exercised	(412,529)	21.50		
Forfeited	(134,312)	30.92		
Expired				
Balance at December 31, 2008	1,947,416	28.13	3.7	2,706
Exercisable at December 31, 2006	1,107,432	12.26	4.8	22,113
Exercisable at December 31, 2007	651,305	16.32	4.1	11,694
Exercisable at December 31, 2008	756,201	19.78	3.0	2,706

The total intrinsic value of options exercised during 2008, 2007 and 2006 were $12.3 million, $26.9 million and $18.3 million, respectively. Cash received by the Company from option exercises during 2008, 2007 and 2006 totaled $8.9 million, $13.8 million and $8.5 million, respectively.

The weighted average fair values of options granted during 2008, 2007, and 2006 were $12.49, $11.16, and $12.89 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2008, 2007, and 2006, respectively: risk-free weighted interest rates of 2.6%, 4.7%, and 4.6%, no expected dividend yield, expected lives of 4.3, 4.3, and 4.3 years, and an expected volatility of 37%, 37% and 37%.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information for stock options outstanding at December 31, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of 12/31/2008	Weighted Average Exercise Price
$ 8.00 - $13.70	370,500	3.00	$ 11.6885	370,500	$ 11.6885
$ 14.31 - $21.83	274,023	2.39	$ 20.5083	172,526	$ 20.1285
$ 28.98 - $28.98	383,875	4.10	$ 28.9800	67,975	$ 28.9800
$ 30.28 - $30.28	6,250	1.97	$ 30.2800	4,375	$ 30.2800
$ 34.86 - $34.86	326,008	3.10	$ 34.8600	118,760	$ 34.8600
$ 36.53 - $58.47	586,760	4.98	$ 37.7588	22,065	$ 41.2343
$ 8.00 - $58.47	1,947,416	3.74	$ 28.1318	756,201	$ 19.7771

At December 31, 2008, a total of 3,338,752 shares were available for future grant under the Equity Participation Plan.

During 2008, we granted restricted stock awards totaling 271,771 shares valued at a total of $11.7 million. A total of 195,450 of these awards vest in four equal annual installments, 58,750 of these awards vest in two annual installments, 16,672 awards vest after one year and the remaining 899 awards vest immediately. All options awarded in 2008 had a term of six years and were granted with exercise prices at the grant date closing market price. The total fair value of restricted stock awards vesting during the year ended December 31, 2008, was $5.0 million. A total of 197,563 shares of restricted stock were awarded in 2007 with an aggregate value of $6.3 million. A total of 113,787 shares of restricted stock were awarded in 2006 with an aggregate value of $3.9 million.

Stock based compensation pre-tax expense recognized in the years ended December 31, 2008, December 31, 2007 and December 31, 2006 totaled $10.9 million, $8.0 million and $7.6 million, or $0.12, $0.11 and $0.10 per diluted share after tax, respectively. At December 31, 2008, $19.4 million of compensation cost related to unvested stock options and restricted stock awards attributable to future performance had not yet been recognized.

Deferred Compensation Plan

The Company maintains a deferred compensation plan (Deferred Compensation Plan). This plan is available to directors and certain officers and managers of the Company. The plan allows participants to defer all or a portion of their directors fees and/or salary and annual bonuses. Employee contributions to the Deferred Compensation Plan are matched by the Company at the same percentage as if the employee was a participant in the Company s 401k Retirement Plan and was not subject to the IRS limitations on match-eligible compensation. The Deferred Compensation Plan also permits the Company to make discretionary contributions to any employee s account. Director s contributions are not matched by the Company. Since inception of the plan, this discretionary contribution provision has been limited to a matching of the employee participants contribution on a basis equivalent to matching permitted under the Company s 401(k) Retirement Savings Plan. The vesting of contributions to the participants accounts are also equivalent to the vesting requirements of the Company s 401(k) Retirement Savings Plan. The Deferred Compensation Plan does not have dollar limits on tax-deferred contributions. The assets of the Deferred Compensation Plan are held in a Rabbi Trust (Trust) and, therefore, are available to satisfy the claims of the Company s creditors in the event of bankruptcy or insolvency of the Company. Participants have the ability to direct the Plan Administrator to invest the assets in their accounts, including any discretionary contributions by the Company, in pre-approved mutual funds held by the Trust. Prior to November 1, 2003, participants also had the ability to direct the Plan Administrator to invest the assets in their accounts in Company common stock. In addition, participants currently have the right to request that the Plan Administrator re-allocate the portfolio of investments (i.e. cash or mutual funds) in the participants individual accounts within the Trust. Current balances invested in

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company common stock may not be further increased. Company contributions are in the form of cash. Distributions from the plan are generally made upon the participants termination as a director and/or employee, as applicable, of the Company. Participants receive payments from the Plan in cash. At December 31, 2008, the balance of the assets in the Trust totaled $5.6 million, including 17,746 shares of common stock of the Company reflected as treasury stock at a value of $0.2 million. The Company accounts for the Deferred Compensation Plan in accordance with EITF 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested.

Assets of the Trust, other than common stock of the Company, are invested in nine funds covering a variety of securities and investment strategies. These mutual funds are publicly quoted and reported at market value. The Company accounts for these investments in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Trust also holds common shares of the Company. The Company s common stock that is held by the Trust has been classified as treasury stock in the stockholders equity section of the consolidated balance sheets. The market value of the assets held by the Trust, exclusive of the market value of the shares of the Company s common stock that are reflected as treasury stock, at December 31, 2008 was $5.4 million and is classified as Other noncurrent assets in the consolidated balance sheet. Amounts payable to the plan participants at December 31, 2008, including the market value of the shares of the Company s common stock that are reflected as treasury stock, was $5.7 million and is classified as Other noncurrent liabilities in the consolidated balance sheet.

In accordance with EITF 97-14, all market value fluctuations of the Trust assets have been reflected in the consolidated statements of income. Increases or decreases in the value of the plan assets, exclusive of the shares of common stock of the Company, have been included as compensation adjustments in the respective statements of income. Increases or decreases in the market value of the deferred compensation liability, including the shares of common stock of the Company held by the Trust, while recorded as treasury stock, are also included as compensation adjustments in the consolidated statements of income. In response to the changes in total market value of the Company s common stock held by the Trust, the Company recorded net compensation expense adjustments of ($0.3) million in 2008, less than $0.1 million in 2007 and $28.3 million in 2006.

14. Segment and Related Information

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has identified the following reportable segments: offshore products, well site services and tubular services. The Company s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and

marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial information by industry segment for each of the three years ended December 31, 2008, 2007 and 2006, is summarized in the following table in thousands. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

	Revenues from unaffiliated customers	Depreciation and amortization	Operating income (loss)	Capital expenditures	Total Assets
2008					
Well Site Services					
Accommodations	$ 427,130	$ 34,146	$ 120,972	$ 108,622	$ 495,683
Rental Tools	355,809	35,511	75,787	75,077	476,460
Drilling and Other(1)	177,339	19,826	17,433	42,961	176,726
Total Well Site Services	960,278	89,483	214,192	226,660	1,148,869
Offshore Products	528,164	11,465	89,280	16,879	498,784
Tubular Services	1,460,015	1,390	106,470	2,198	634,758
Corporate and Eliminations		266	(26,187)	1,647	16,836
Total	$ 2,948,457	$ 102,604	$ 383,755	$ 247,384	$ 2,299,247
2007					
Well Site Services					
Accommodations	$ 312,846	$ 21,813	$ 85,347	$ 131,410	$ 474,278
Rental Tools	260,404	24,045	71,973	47,233	427,238
Drilling and Other(1)	143,153	12,260	40,508	42,872	182,335
Total Well Site Services	716,403	58,118	197,828	221,515	1,083,851
Offshore Products	527,810	11,004	82,460	15,356	449,666
Tubular Services	844,022	1,361	38,467	2,463	373,411
Corporate and Eliminations		220	(20,969)	299	22,698
Total	$ 2,088,235	$ 70,703	$ 297,786	$ 239,633	$ 1,929,626
2006					
	$ 313,966	$ 16,637	$ 73,643	$ 59,542	$ 304,331

Well Site Services					
Accommodations					
Rental Tools	200,609	16,998	65,167	24,521	264,012
Drilling and Other(1)	134,524	8,032	54,620	33,071(2)	163,520
Workover Services(1)	8,544	650	1,922	263	
Total Well Site Services	657,643	42,317	195,352	117,397	731,863
Offshore Products	389,684	10,734	55,957	9,533	393,134
Tubular Services	876,030	1,170	66,486	2,598	423,782
Corporate and Eliminations		119	(19,858)	63	22,315
Total	$ 1,923,357	$ 54,340	$ 297,937	$ 129,591	$ 1,571,094

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

(2) Includes $0.5 million of non-cash capital expenditures related to the acquisition of the drilling assets of Eagle Rock.

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial information by geographic segment for each of the three years ended December 31, 2008, 2007 and 2006, is summarized below in thousands. Revenues in the US include export sales. Revenues are attributable to countries based on the location of the entity selling the products or performing the services. Total assets are attributable to countries based on the physical location of the entity and its operating assets and do not include intercompany balances.

	United States	Canada	United Kingdom	Other Non-US	Total
2008					
Revenues from unaffiliated customers	$ 2,353,528	$ 406,176	$ 127,189	$ 61,564	$ 2,948,457
Long-lived assets	669,080	359,923	17,232	15,425	1,061,686
2007					
Revenues from unaffiliated customers	$ 1,596,067	$ 296,075	$ 147,941	$ 48,152	$ 2,088,235
Long-lived assets	676,936	356,575	19,863	10,482	1,063,856
2006					
Revenues from unaffiliated customers	$ 1,488,065	$ 300,461	$ 101,849	$ 32,982	$ 1,923,357
Long-lived assets	479,883	226,131	16,458	8,936	731,408

No customers accounted for more than 10% of the Company s revenues in any of the years ended December 31, 2008, 2007 and 2006. Equity in net income of unconsolidated affiliates is not included in operating income.

15. Quarterly Financial Information (Unaudited)

The following table summarizes quarterly financial information for 2008 and 2007 (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Revenues	$ 601,247	$ 631,364	$ 814,790	$ 901,056
Gross profit*	156,162	152,929	205,436	198,956

Net income	66,467	60,163	89,055	7,025
Basic earnings per share	1.34	1.21	1.79	0.14
Diluted earnings per share	1.31	1.14	1.70	0.14
2007				
Revenues	$ 480,516	$ 499,308	$ 527,440	$ 580,971
Gross profit*	124,713	112,598	124,071	124,640
Net income	52,461	52,233	50,478	48,200
Basic earnings per share	1.06	1.06	1.02	0.97
Diluted earnings per share	1.05	1.03	0.97	0.95

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

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

Table of Contents

OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Valuation Allowances

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

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions (net of recoveries)	Translation and Other, Net	Balance at End of Period
Year Ended December 31, 2008:					
Allowance for doubtful accounts receivable	$ 3,629	$ 2,821	$ (2,735)	$ 453	$ 4,168
Reserve for inventories	7,549	1,302	(1,597)	(542)	6,712
Reserves related to discontinued operations	2,839		(295)		2,544
Year Ended December 31, 2007:					
Allowance for doubtful accounts receivable	$ 2,943	$ 684	$ (923)	$ 925	$ 3,629
Reserve for inventories	7,188	1,504	(1,176)	33	7,549
Reserves related to discontinued operations	3,357		(518)		2,839
Year Ended December 31, 2006:					
Allowance for doubtful accounts receivable	$ 2,169	$ 1,562	$ (833)	$ 45	$ 2,943
Reserve for inventories	5,722	1,349	(113)	230	7,188
Reserves related to discontinued operations	3,527		(170)		3,357

17. Subsequent Events (Unaudited)

In February 2009, the Company received cash from Boots & Coots totaling $21.2 million in full payment of the senior subordinated promissory notes due to mature on September 1, 2010. See Note 7 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

In January 2009, the Company agreed to amend a contract with a customer of its Canadian Oil Sands accommodations business related to the construction and rental of a 1,016 bed facility. The customer announced the suspension of all activities associated with a development project that were to be supported by the 1,016 bed facility during November 2008. As a result of the amendment, the customer purchased the buildings for the facility from the Company and reimbursed the Company for expenses incurred for site preparation, transportation and installation related to the facility. The agreement also provides for the possible start-up of the facility in the future, and for maintenance of the assets purchased from the Company. As a result of the amended contract, the Company reclassified $21.1 million of construction in progress as of December 31, 2008 to work in process inventory.

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
3.2	Second Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K, as filed with the Commission on May 21, 2008).
3.3	Certificate of Designations of Special Preferred Voting Stock of Oil States International, Inc. (incorporated by reference to Exhibit 3.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
4.1	Form of common stock certificate (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 (File No. 333-43400)).
4.2	Amended and Restated Registration Rights Agreement (incorporated by reference to Exhibit 4.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
4.3	First Amendment to the Amended and Restated Registration Rights Agreement dated May 17, 2002 (incorporated by reference to Exhibit 4.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2002, as filed with the Commission on March 13, 2003).
4.4	Registration Rights Agreement dated as of June 21, 2005 by and between Oil States International, Inc. and RBC Capital Markets Corporation (incorporated by reference to Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).
4.5	Indenture dated as of June 21, 2005 by and between Oil States International, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Oil States Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005).
4.6	Global Notes representing $175,000,000 aggregate principal amount of 23/8% Contingent Convertible Senior Notes due 2025 (incorporated by reference to Section 2.2 of Exhibit 4.5 hereof) (incorporated by reference to Oil States Current Reports on Form 8-K filed with the Securities and Exchange Commission on June 23, 2005 and July 13, 2005).
10.1	Combination Agreement dated as of July 31, 2000 by and among Oil States International, Inc., HWC Energy Services, Inc., Merger Sub-HWC, Inc., Sooner Inc., Merger Sub-Sooner, Inc. and PTI Group Inc. (incorporated by reference to Exhibit 10.1 to the

	Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.2	Plan of Arrangement of PTI Group Inc. (incorporated by reference to Exhibit 10.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.3	Support Agreement between Oil States International, Inc. and PTI Holdco (incorporated by reference to Exhibit 10.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.4	Voting and Exchange Trust Agreement by and among Oil States International, Inc., PTI Holdco and Montreal Trust Company of Canada (incorporated by reference to Exhibit 10.4 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.5**	2001 Equity Participation Plan as amended and restated effective February 16, 2005 (incorporated by reference to Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Commission on March 2, 2006).
10.6**	Deferred Compensation Plan effective November 1, 2003 (incorporated by reference to Exhibit 10.6 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 5, 2004).
10.7**	Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Commission on March 30, 2001).
10.8**	Executive Agreement between Oil States International, Inc. and 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).

Exhibit No.	Description
10.9**	Form of Executive Agreement between Oil States International, Inc. and Named Executive Officer (Mr. Hughes) (incorporated by reference to Exhibit 10.10 of the Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.10**	Form of Change of Control Severance Plan for Selected Members of Management (incorporated by reference to Exhibit 10.11 of the Company s Registration Statement on Form S-1 (File No. 333-43400)).
10.11	Credit Agreement, dated as of October 30, 2003, among Oil States International, Inc., the Lenders named therein and Wells Fargo Bank Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12 to the Company s Quarterly Report on Form 10-Q for the three months ended September 30, 2003, as filed with the Commission on November 11, 2003.)
10.11A	Incremental Assumption Agreement, dated as of May 10, 2004, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12A to the Company s Quarterly Report on Form 10-Q for the three months ended June 30, 2004, as filed with the Commission on August 4, 2004).
10.11B	Amendment No. 1, dated as of January 31, 2005, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, Texas, National Association, as Administrative Agent and U.S. Collateral Agent; and Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Hibernia National Bank and Royal Bank of Canada, as Co-Syndication Agents and Bank One, NA and Credit Lyonnais New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12b to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005).
10.11C	Amendment No. 2, dated as of December 5, 2006, to the Credit Agreement among Oil States International, Inc., the lenders named therein and Wells Fargo Bank, N.A., as Lead Arranger, U.S. Administrative Agent and U.S. Collateral Agent; and The Bank of Nova Scotia, as Canadian Administrative Agent and Canadian Collateral Agent; Capital One N.A. and Royal Bank of Canada, as Co-Syndication Agents and JP Morgan Chase Bank, N.A. and Calyon New York Branch, as Co-Documentation Agents (incorporated by reference to Exhibit 10.12C to the Company s

	Current Report on Form 8-K filed with the Securities and Exchange Commission on December 7, 2006).
10.11D	Incremental Assumption Agreement, dated as of December 13, 2007, among Oil States International, Inc., Wells Fargo, National Association and each of the other lenders listed as an Increasing Lender (incorporated by reference to Exhibit 10.12D to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 18, 2007).
10.12**	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.14 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, as filed with the Commission on November 5, 2004).
10.13**	Form of Director Stock Option Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.18 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005).
10.14**	Form of Employee Non Qualified Stock Option Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.19 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 2, 2005).
10.15**	Form of Restricted Stock Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 10.20 to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on November 15, 2006).
10.16**	Non-Employee Director Compensation Summary (incorporated by reference to Exhibit 10.21 to the Company s Report on Form 8-K as filed with the Commission on May 24, 2005).
10.17**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Mr. Cragg) (incorporated by reference to Exhibit 10.22 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the Commission on April 29, 2005).

Exhibit No.	Description
10.18**	Form of Non-Employee Director Restricted Stock Agreement under the Company s 2001 Equity Participation Plan (incorporated by reference to Exhibit 22.2 to the Company s Report of Form 8-K, as filed with the Commission on May 24, 2005).
10.19**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Bradley Dodson) effective October 10, 2006 (incorporated by reference to Exhibit 10.24 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the Commission on November 3, 2006).
10.20**	Form of Executive Agreement between Oil States International, Inc. and named executive officer (Ron R. Green) effective May 17, 2007.
10.21**,*	Amendment to the Executive Agreement of Cindy Taylor, effective January 1, 2009.
10.22**,*	Amendment to the Executive Agreement of Bradley Dodson, effective January 1, 2009.
10.23**,*	Amendment to the Executive Agreement of Howard Hughes, effective January 1, 2009.
10.24**,*	Amendment to the Executive Agreement of Christopher Cragg, effective January 1, 2009.
10.25**,*	Amendment to the Executive Agreement of Ron Green, effective January 1, 2009.
10.26**,*	Amendment to the Executive Agreement of Robert Hampton, effective January 1, 2009.
21.1*	List of subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Powers of Attorney for Directors.
31.1*	Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
32.1***	Certification of Chief Executive Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934.
32.2***	Certification of Chief Financial Officer of Oil States International, Inc. pursuant to Rules 13a-14(b) or 15d-14(b) under the Securities Exchange Act of 1934.

* Filed herewith

** Management contracts or compensatory plans or arrangements

*** Furnished herewith.