

SMITH INTERNATIONAL INC

Form 10-Q

August 06, 2010

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number 1-8514

Smith International, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

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

95-3822631

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

**1310 Rankin Road
Houston, Texas**

(Address of principal executive offices)

77073

(Zip Code)

(281) 443-3370

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

There were 248,583,517 shares of common stock outstanding, net of treasury shares held, on August 3, 2010.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SMITH INTERNATIONAL, INC.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(Unaudited)			
	(In thousands, except per share data)			
Revenues:				
Oilfield operations	\$ 1,805,751	\$ 1,533,483	\$ 3,491,772	\$ 3,375,220
Distribution operations	490,312	410,806	942,102	980,548
Total revenues	2,296,063	1,944,289	4,433,874	4,355,768
Costs and expenses:				
Cost of oilfield revenues	1,224,807	1,052,644	2,385,968	2,281,835
Cost of distribution revenues	412,587	362,615	798,057	852,601
Selling, general and administrative expenses	467,216	395,726	933,517	846,350
Total costs and expenses	2,104,610	1,810,985	4,117,542	3,980,786
Operating income	191,453	133,304	316,332	374,982
Interest expense	36,917	42,803	74,639	70,327
Interest income	(890)	(729)	(1,568)	(1,087)
Income before income taxes	155,426	91,230	243,261	305,742
Income tax provision	50,229	27,957	91,468	98,275
Net income	105,197	63,273	151,793	207,467
Noncontrolling interests in net income of subsidiaries	40,123	38,887	75,178	86,146
Net income attributable to Smith	\$ 65,074	\$ 24,386	\$ 76,615	\$ 121,321
Earnings per share:				
Basic	\$ 0.26	\$ 0.11	\$ 0.31	\$ 0.55
Diluted	0.26	0.11	0.31	0.55
Weighted average shares outstanding:				
Basic	248,539	219,307	248,450	219,254
Diluted	250,333	220,245	250,059	219,925

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

Table of Contents**SMITH INTERNATIONAL, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS**

	June 30, 2010	December 31, 2009
	(Unaudited)	
	(In thousands, except par value data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 497,660	\$ 988,346
Receivables, net	1,930,784	1,791,498
Inventories, net	1,880,623	1,820,355
Deferred tax assets, net	90,289	65,667
Prepaid expenses and other	164,320	149,370
Total current assets	4,563,676	4,815,236
Property, plant and equipment, net	1,972,242	1,923,465
Goodwill, net	3,131,840	3,068,828
Other intangible assets, net	624,260	614,086
Other assets	288,713	317,800
Total assets	\$ 10,580,731	\$ 10,739,415
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 316,549	\$ 358,768
Accounts payable	693,556	589,748
Accrued payroll costs	172,709	146,364
Income taxes payable	109,072	82,260
Other	260,170	233,649
Total current liabilities	1,552,056	1,410,789
Long-term debt	1,481,927	1,814,254
Deferred tax liabilities	502,520	533,537
Other long-term liabilities	152,525	150,905
Commitments and contingencies (Note 15)		
Stockholders Equity:		
Preferred stock, \$1 par value; 5,000 shares authorized; no shares issued or outstanding in 2010 or 2009		
Common stock, \$1 par value; 500,000 shares authorized; 266,531 shares issued in 2010 (266,125 shares issued in 2009)	266,531	266,125
Additional paid-in capital	2,735,089	2,706,564

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Retained earnings	2,942,446	2,925,467
Accumulated other comprehensive income	(14,158)	24,115
Less Treasury securities, at cost; 17,956 common shares in 2010 (17,891 common shares in 2009)	(483,769)	(481,704)
Smith stockholders' equity	5,446,139	5,440,567
Noncontrolling interests in subsidiaries	1,445,564	1,389,363
Total stockholders' equity	6,891,703	6,829,930
Total liabilities and stockholders' equity	\$ 10,580,731	\$ 10,739,415

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

Table of Contents**SMITH INTERNATIONAL, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

	Six Months Ended June 30,	
	2010	2009
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 151,793	\$ 207,467
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation and amortization	190,510	182,807
LIFO inventory reserves	(8,458)	4,969
Share-based compensation expense	24,183	23,139
Deferred income tax provision	(40,805)	8,286
Provision for losses on receivables	5,611	7,346
Foreign currency transaction (gain) loss	39,388	(5,611)
Gain on disposal of property, plant and equipment	(18,028)	(22,364)
Equity earnings, net of dividends received	(3,227)	(6,549)
Gain on remeasurement of equity interest in @Balance B.V.	(20,773)	
<i>Changes in operating assets and liabilities:</i>		
Receivables	(171,692)	518,720
Inventories	(76,397)	266,775
Accounts payable	112,350	(384,502)
Other current assets and liabilities	38,502	(117,778)
Other non-current assets and liabilities	(885)	(31,451)
Net cash provided by operating activities	222,072	651,254
Cash flows from investing activities:		
Acquisition-related payments, net of cash acquired	(83,920)	(14,268)
Purchases of property, plant and equipment	(231,501)	(169,730)
Proceeds from disposal of property, plant and equipment	36,679	38,701
Proceeds from sale of operations	8,400	65,019
Net cash used in investing activities	(270,342)	(80,278)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		1,000,000
Principal payments of long-term debt	(363,958)	(340,352)
Principal payment of short-term bridge loan		(1,000,000)
Net change in short-term borrowings	(10,588)	(8,790)
Debt issuance costs		(9,855)
Settlement of interest rate derivative contract		(33,383)
Payment of common stock dividends	(59,596)	(52,598)
Distributions to noncontrolling joint venture partner		(64,000)
Other financing activities	1,713	(2,937)

Net cash used in financing activities	(432,429)	(511,915)
Effect of exchange rate changes on cash	(9,987)	2,615
Increase (decrease) in cash and cash equivalents	(490,686)	61,676
Cash and cash equivalents at beginning of period	988,346	162,508
Cash and cash equivalents at end of period	\$ 497,660	\$ 224,184
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 74,793	\$ 47,526
Cash paid for income taxes	45,649	173,603

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

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SMITH INTERNATIONAL, INC.

**CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY AND
COMPREHENSIVE INCOME**

For the Six Months Ended June 30, 2010 and 2009

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Unaudited) (In thousands)	Treasury Securities	Smith Stockholders Equity	Noncontrolling Interests in Subsidiaries	Total Stockholders Equity	
Balance, December 31, 2008	\$ 236,726	\$ 1,975,102	\$ 2,885,792	\$ (73,833)	\$ (474,448)	\$ 4,549,339	\$ 1,310,970	\$ 5,860,309
Net income			121,321		121,321	86,146	207,467	
Changes in fair value of derivatives, net of tax				39,676	39,676		39,676	
Currency translation adjustments and other								