

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 53732 / April 27, 2006**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 2424 / April 27, 2006**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12280**

**In the Matter of**

**OIL STATES  
INTERNATIONAL, INC.**

**Respondent.**

**ORDER INSTITUTING CEASE-AND-DESIST  
PROCEEDINGS, MAKING FINDINGS, AND  
IMPOSING A CEASE-AND-DESIST ORDER  
PURSUANT TO SECTION 21C OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Oil States International, Inc. (“Oil States” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Order”), as set forth below.

### **III.**

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### **Summary**

1. This matter involves Oil States' violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act ("FCPA") (Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act), arising from certain payments made through its Hydraulic Well Control, LLC ("HWC") subsidiary. Oil States, through certain employees of HWC, provided approximately \$348,350 in improper payments to employees of Petróleos de Venezuela, S.A. ("PDVSA"), an energy company owned by the government of Venezuela. The employees were asked to participate in the scheme by a consultant for HWC, after he was requested to do so by the PDVSA employees. HWC improperly recorded the payments in its accounting books and records as ordinary business expenses, which were consolidated into those of its parent, Oil States. Oil States' internal controls failed to ensure that HWC's books and records accurately reflected the nature and purpose of these payments.

#### **Respondent**

2. Oil States is a Delaware corporation with its headquarters in Houston, Texas. Oil States is a specialty provider to oil and gas drilling and production companies in the United States and in many of the world's active oil and gas producing regions, including South America. Oil States' common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is traded on the New York Stock Exchange.

#### **Relevant Party**

3. HWC was a wholly-owned subsidiary of Oil States during the relevant period. HWC operates specially designed rigs and provides well site services, including workover and snubbing services, to oil and gas producers in Venezuela and other countries. HWC has its headquarters in Houma, Louisiana and has a branch office in Eastern Venezuela ("HWC Venezuela"). HWC Venezuela contributed approximately 1% of Oil States' consolidated revenues during the relevant period.

#### **Facts**

##### **A. Background**

4. In 2000, HWC hired a Venezuelan consultant (the "Consultant") to interface with employees of PDVSA on behalf of HWC in the field and at the office level. Specifically, the Consultant acted on behalf of HWC to follow up on daily operations, translate

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

information into Spanish, write up tickets in accordance with PDVSA requirements and submit HWC invoices to PDVSA for payment. HWC did not investigate the background of the Consultant. The Consultant was not involved in the solicitation to obtain business on behalf of HWC, and only worked on the operational matters referenced above. The Consultant submitted invoices for his services to HWC. HWC had certain FCPA policies in place; however, HWC provided no formal training or education to the Consultant regarding the requirements of the FCPA. Further, a written contract between HWC and the Consultant failed to address compliance with the requirements of U.S. law, including the provisions of the FCPA.

5. In December 2003, the Consultant was approached by three PDVSA employees about a proposed “kickback” scheme. The PDVSA employees proposed that the Consultant submit inflated bills to HWC for his services and kickback the excess to the PDVSA employees. At the same time, HWC would improperly bill PDVSA for “lost rig time” on jobs.<sup>2</sup> If HWC did not comply with the proposed scheme, the PDVSA employees were capable of stopping or delaying HWC’s work. After learning of the proposed scheme from the Consultant, three HWC Venezuela employees acceded to and facilitated the improper activity. The Consultant provided inflated invoices for his services and other documents inaccurately reflecting the amount of rig time billable to PDVSA. HWC employees incorporated these documents into HWC’s books and records and HWC passed on an undetermined amount of the improper payments in inflated invoices to PDVSA.

#### B. Over-charges for Lost Rig Time

6. On December 10, 2003, the Consultant submitted to HWC an invoice for services that sought payment of B50,000,000 (\$26,041.66), plus taxes.<sup>3</sup> On December 16, 2003, the Consultant submitted to HWC an invoice for services that sought payment of B52,000,000 (\$27,083.33), plus taxes. HWC paid the Consultant. HWC’s payment of these invoices resulted in the first improper payments to the PDVSA employees through the consultant. Due to the difficulties in assessing lost rig time and the falsified documentation prepared by the Consultant and approved by the HWC and PDVSA employees, it is not possible to quantify the total amount of “lost rig time,” if any, paid for by PDVSA during this time period.<sup>4</sup>

7. On November 12, 2004, HWC received an invoice from the Consultant that sought payment of B296,980,332 (\$154,677.00). Payment of the invoice by HWC resulted in improper payments to the PDVSA employees. On November 17, 2004, HWC billed PDVSA approximately \$400,840.63 for forty-three days of rig time. HWC employees have confirmed that at least some portion of the forty-three days would have been deemed “lost rig time” by the PDVSA employees and therefore not properly chargeable to PDVSA.

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<sup>2</sup> “Lost rig time” is time that PDVSA contends is not properly billable to it.

<sup>3</sup> Calculation of the U.S. dollar value of the payments made in Venezuelan local currency (Bolívar) is based upon an exchange rate calculated as follows: Venezuelan Bolívar amount divided by 1,920.

<sup>4</sup> “Lost rig time” is a frequently disputed calculation because there are varying legitimate but subjective reasons for billing a client for downtime during a job.

### C. Over-charges for Gel

8. In March 2004, the PDVSA employees approached the Consultant with a change in the scheme. The PDVSA employees instructed the Consultant to continue to submit inflated invoices to HWC, this time for the inclusion of “gel” (a mineral-based material that is used in drilling to control viscosity and to protect formations from drilling fluids) that had not actually been used on PDVSA jobs. The Consultant and the HWC employees agreed to continue the improper payments and, between April 2004 and November 2004, participated in five transactions involving over-charges to PDVSA for gel. During this time, HWC paid the Consultant approximately \$412,000, some or all of which was used to make improper payments to the PDVSA employees. During this same time period, HWC charged PDVSA \$348,350 for gel. The amount of gel legitimately charged to PDVSA is unknown.

9. In August 2004, HWC’s Vice President of Finance in the U.S. noticed increasing contract labor (including consulting) expenses at HWC Venezuela. When he inquired into the increasing expenses, the controller at HWC Venezuela responded that the expenses were “gel-related.” Despite this vague explanation, HWC’s Vice President of Finance conducted no additional investigation of the issue and the scheme continued.

10. In December 2004, during a routine review of HWC’s results while preparing the budget for the following fiscal year, HWC senior management in the U.S. discovered departures from HWC Venezuela’s operating plan. Specifically, HWC management noted an unexplained narrowing of profit margins in the Venezuelan operations, which caused management to make immediate inquiry. As a result of that inquiry, the U.S. management of HWC learned of the kickback scheme. HWC reported the matter to Oil States’ management, which, in turn, reported the scheme to the company’s audit committee. An internal investigation conducted by Oil States uncovered no evidence that HWC or Oil States employees in the United States were aware of or sanctioned the improper payments. Upon completion of the internal investigation, Oil States terminated its relationship with the Consultant and disciplined the employees responsible for the misconduct (including dismissing two HWC Venezuela employees). Oil States also corrected its books and records, strengthened its regulatory compliance program, and reimbursed PDVSA for the improper charges. Oil States also voluntarily provided their report of investigation to the Commission and the Department of Justice, and disclosed the scheme in its public filings. It then cooperated fully with the investigation conducted by the Commission staff.

### D. Violations

11. The FCPA, enacted in 1977, added Exchange Act Section 13(b)(2)(A) to require public companies to make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer, and added Exchange Act Section 13(b)(2)(B) to require such companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management’s general or specific authorization; and (ii) transactions are recorded as necessary to permit preparation of financial statements in

conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets.

12. Because HWC improperly recorded the payments to the PDVSA employees as ordinary business expenses, its books, records and accounts did not, in reasonable detail, accurately and fairly reflect its transactions and dispositions of assets.

13. As a result of the conduct described above, Oil States violated Section 13(b)(2)(A) of the Exchange Act.

14. In addition, HWC failed to take steps to ensure that the Consultant complied with the FCPA and to ensure that the nature and purpose of the payments to the PDVSA employees were accurately reflected in HWC's books and records.

15. As a result of the conduct described above, Oil States violated Section 13(b)(2)(B) of the Exchange Act.

#### **Oil States' Remedial Efforts**

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Oil States' Offer.

Accordingly, it is hereby ORDERED that Respondent Oil States cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

By the Commission.

Nancy M. Morris  
Secretary