

Edgar Filing: OIL STATES INTERNATIONAL, INC - Form 10-Q

OIL STATES INTERNATIONAL, INC

Form 10-Q

April 25, 2019

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2018-03-31 0001121484 2018-12-31 0001121484 2019-03-31 0001121484 us-gaap:CommonStockMember  
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0001121484 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0001121484  
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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 March 31, 2019

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: 001-16337

**OIL STATES INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware 76-0476605  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

Three Allen Center, 333 Clay Street, Suite 4620, 77002  
Houston, Texas (Zip Code)  
(Address of principal executive offices)  
(713) 652-0582

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(Registrant's telephone number, including area code)

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES  NO

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

YES  NO

As of April 22, 2019, the number of shares of common stock outstanding was 60,441,064.

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES  
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**PART I – FINANCIAL INFORMATION****ITEM 1. Financial Statements****OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In Thousands, Except Per Share Amounts)

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues:		
Products	\$ 116,328	\$ 128,826
Services	134,283	124,750
	250,611	253,576
Costs and expenses:		
Product costs	89,268	92,976
Service costs	110,610	96,914
Cost of revenues (exclusive of depreciation and amortization expense presented below)	199,878	189,890
Selling, general and administrative expense	30,108	34,195
Depreciation and amortization expense	31,551	29,190
Other operating (income) expense, net	(86 )	1,215
	261,451	254,490
Operating loss	(10,840 )	(914 )
Interest expense	(4,797 )	(4,533 )
Interest income	45	79
Other income	667	647
Loss before income taxes	(14,925 )	(4,721 )
Income tax benefit	277	1,229
Net loss	\$(14,648 )	\$(3,492 )
Net loss per share:		
Basic	\$(0.25 )	\$(0.06 )
Diluted	(0.25 )	(0.06 )
Weighted average number of common shares outstanding:		
Basic	59,258	57,787
Diluted	59,258	57,787

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



**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In Thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net loss	\$ (14,648 )	\$ (3,492 )

Other comprehensive income:

Currency translation adjustments 2,466 5,034

Comprehensive income (loss) \$(12,182 ) \$ 1,542

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

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share Amounts)

	<b>March 31, 2019 (Unaudited)</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,309	\$ 19,316
Accounts receivable, net	262,296	283,607
Inventories, net	207,179	209,393
Prepaid expenses and other current assets	24,041	21,715
Total current assets	508,825	534,031
Property, plant, and equipment, net	533,994	540,427
Operating lease assets, net	49,171	—
Goodwill, net	647,185	647,018
Other intangible assets, net	248,911	255,301
Other noncurrent assets	29,141	27,044
Total assets	\$2,017,227	\$2,003,821
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$25,561	\$25,561
Accounts payable	78,688	77,511
Accrued liabilities	48,833	60,730
Current operating lease liabilities	8,712	—
Income taxes payable	4,934	3,072
Deferred revenue	12,899	14,160
Total current liabilities	179,627	181,034
Long-term debt	292,072	306,177
Long-term operating lease liabilities	40,311	—
Deferred income taxes	52,370	53,831
Other noncurrent liabilities	25,203	23,011
Total liabilities	589,583	564,053
Stockholders' equity:		
Common stock, \$.01 par value, 200,000,000 shares authorized, 72,484,043 shares and 71,753,937 shares issued, respectively	725	718
Additional paid-in capital	1,102,176	1,097,758
Retained earnings	1,014,870	1,029,518
Accumulated other comprehensive loss	(68,931 )	(71,397 )
Treasury stock, at cost, 12,038,859 and 11,784,242 shares, respectively	(621,196 )	(616,829 )
Total stockholders' equity	1,427,644	1,439,768
Total liabilities and stockholders' equity	\$2,017,227	\$2,003,821

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



**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
<b>Balance, December 31, 2018</b>	\$ 718	\$ 1,097,758	\$ 1,029,518	\$ (71,397 )	\$(616,829 )	\$ 1,439,768
Net loss	—	—	(14,648 )	—	—	(14,648 )
Currency translation adjustments (excluding intercompany advances)	—	—	—	2,553	—	2,553
Currency translation adjustments on intercompany advances	—	—	—	(87 )	—	(87 )
Stock-based compensation expense:						
Restricted stock	7	4,365	—	—	—	4,372
Stock options	—	53	—	—	—	53
Stock repurchases	—	—	—	—	(757 )	(757 )
Surrender of stock to settle taxes on restricted stock awards	—	—	—	—	(3,610 )	(3,610 )
<b>Balance, March 31, 2019</b>	\$ 725	\$ 1,102,176	\$ 1,014,870	\$ (68,931 )	\$(621,196 )	\$ 1,427,644

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
<b>Balance, December 31, 2017</b>	\$ 627	\$ 754,607	\$ 1,048,623	\$ (58,493 )	\$(612,651 )	\$ 1,132,713
Net loss	—	—	(3,492 )	—	—	(3,492 )
Currency translation adjustments (excluding intercompany advances)	—	—	—	5,104	—	5,104
Currency translation adjustments on intercompany advances	—	—	—	(70 )	—	(70 )
Stock-based compensation expense:						
Restricted stock	3	4,940	—	—	—	4,943
Stock options	—	206	—	—	—	206
Issuance of common stock in connection with GEODynamics acquisition	87	294,823	—	—	—	294,910
Issuance of 1.50% convertible senior notes, net of income taxes of \$7,744	—	25,640	—	—	—	25,640
Surrender of stock to settle taxes on restricted stock awards	—	—	—	—	(3,939 )	(3,939 )
<b>Balance, March 31, 2018</b>	\$ 717	\$ 1,080,216	\$ 1,045,131	\$ (53,459 )	\$(616,590 )	\$ 1,456,015

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

**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In Thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Net loss	\$(14,648 )	\$(3,492 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	31,551	29,190
Stock-based compensation expense	4,425	5,149
Amortization of debt discount and deferred financing costs	1,937	1,749
Deferred income tax provision (benefit)	(1,513 )	1,807
Gain on disposals of assets	(418 )	(493 )
Other, net	(340 )	2,061
Changes in operating assets and liabilities, net of effect from acquired businesses:		
Accounts receivable	21,893	(27,094 )
Inventories	2,735	1,719
Accounts payable and accrued liabilities	(9,576 )	(19,905 )
Income taxes payable	1,878	645
Other operating assets and liabilities, net	(3,632 )	(3,587 )
Net cash flows provided by (used in) operating activities	34,292	(12,251 )
Cash flows from investing activities:		
Capital expenditures	(17,922 )	(14,238 )
Acquisitions of businesses, net of cash acquired	—	(379,676)
Proceeds from disposition of property, plant and equipment	368	540
Other, net	(304 )	(289 )
Net cash flows used in investing activities	(17,858 )	(393,663)
Cash flows from financing activities:		
Issuance of 1.50% convertible senior notes	—	200,000
Revolving credit facility borrowings	57,874	622,369
Revolving credit facility repayments	(73,774 )	(434,369)
Other debt and capital lease repayments, net	(142 )	(132 )
Payment of financing costs	—	(6,712 )
Purchase of treasury stock	(757 )	—
Shares added to treasury stock as a result of net share settlements due to vesting of restricted stock	(3,610 )	(3,939 )
Net cash flows provided by (used in) financing activities	(20,409 )	377,217
Effect of exchange rate changes on cash and cash equivalents	(32 )	383
Net change in cash and cash equivalents	(4,007 )	(28,314 )
Cash and cash equivalents, beginning of period	19,316	53,459
Cash and cash equivalents, end of period	\$ 15,309	\$ 25,145
Cash paid for:		
Interest	\$3,460	\$ 1,859
Income taxes, net of refunds	(487 )	767

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

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## **OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. Organization and Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Oil States International, Inc. and its subsidiaries (referred to in this report as “we” or the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “Commission”) pertaining to interim financial information. Certain information in footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to these rules and regulations. The unaudited financial statements included in this report reflect all the adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair statement of the results of operations for the interim periods covered and for the financial condition of the Company at the date of the interim balance sheet. Results for the interim periods are not necessarily indicative of results for the full year. Certain prior-year amounts in the Company’s unaudited condensed consolidated financial statements have been reclassified to conform to the current year presentation.

The preparation of condensed consolidated financial statements in conformity with GAAP 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Examples of such estimates include goodwill and long-lived asset impairment analyses, revenue and income recognized over time, valuation allowances recorded on deferred tax assets, the fair value of assets and liabilities acquired and identification of associated goodwill and intangible assets, reserves on inventory, allowances for doubtful accounts, warranty obligations and potential future adjustments related to contractual indemnification and other agreements. If the underlying estimates and assumptions, upon which the financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying condensed consolidated financial statements. Our industry is cyclical and this cyclicity impacts our estimates of the period over which future cash flows will be generated, as well as the predictability of these cash flows including our determination of whether a decline in value of our long-lived assets, including definite-lived intangibles, and/or goodwill has occurred.

The financial statements included in this report should be read in conjunction with the Company’s audited financial statements and accompanying notes included in its Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10 K”).

#### **2. Recent Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the “FASB”), which are adopted by the Company as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company’s consolidated financial statements upon adoption.

In February 2016, the FASB issued guidance on leases which, as amended, introduced the recognition of lease assets and lease liabilities by lessees for all leases that are not short-term in nature. The Company adopted this guidance on January 1, 2019, using the optional transition method of recognizing any cumulative effect of adopting this guidance as an adjustment to the opening balance of retained earnings. The cumulative impact of the adoption of the new standard was not material to the Company's consolidated financial statements. Prior periods were not retrospectively adjusted. In addition, the Company elected a package of practical expedients permitted under transition guidance for the new standard which, among other things, allowed for the carryforward of historical lease classification. The Company has lease agreements with lease and non-lease components, which are generally accounted for as a single lease component. Most of the Company's leases do not provide an implicit interest rate. Therefore, the Company's incremental borrowing rate, based on available information at the lease commencement date, is used to determine the present value of lease payments.

In connection with the adoption of the new standard, the Company recorded \$47.7 million of operating lease assets and liabilities as of January 1, 2019. The standard did not materially impact our consolidated statement of operations and had no impact on cash flows.



**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS****(Continued)****3. Business Acquisitions, Goodwill and Other Intangible Assets***GEODynamics Acquisition*

On January 12, 2018, the Company acquired GEODynamics, Inc. ("GEODynamics"), which provides oil and gas perforation systems and downhole tools in support of completion, intervention, wireline and well abandonment operations (the "GEODynamics Acquisition"). Total purchase price consideration was \$615.3 million, consisting of (i) \$295.4 million in cash (net of cash acquired), which was funded through borrowings under the Company's Revolving Credit Facility (as defined in Note 6, "Long-term Debt"), (ii) approximately 8.66 million shares of the Company's common stock (having a market value of approximately \$295 million as of the closing date of the acquisition) and (iii) an unsecured \$25 million promissory note that bears interest at 2.5% per annum and is scheduled to mature on July 12, 2019. Under the terms of the purchase agreement, the Company may be entitled to indemnification in respect of certain matters occurring prior to the acquisition and payments due under the promissory note may be subject to set-off, in part or in full, regarding such indemnified matters. See Note 14, "Commitments and Contingencies."

GEODynamics' results of operations have been included in the Company's financial statements subsequent to the closing of the acquisition on January 12, 2018. The acquired GEODynamics operations are reported as the Downhole Technologies segment. See Note 13, "Segments and Related Information" for further information with respect to the Downhole Technologies segment operations.

*Falcon Acquisition*

On February 28, 2018, the Company acquired Falcon Flowback Services, LLC ("Falcon"), a full service provider of flowback and well testing services for the separation and recovery of fluids, solid debris and proppant used during hydraulic fracturing operations. Falcon provides additional scale and diversity to our Completion Services well testing operations in key shale plays in the United States. The purchase price was \$84.2 million (net of cash acquired). The Falcon acquisition was funded by borrowings under the Company's Revolving Credit Facility. Under the terms of the purchase agreement, the Company may be entitled to indemnification in respect of certain matters occurring prior to acquisition. Falcon's results of operations have been included in the Company's financial statements and has been reported within the Completion Services business subsequent to the closing of the acquisition on February 28, 2018.

*Transaction-Related Costs*

During the three months ended March 31, 2018, the Company expensed transaction-related costs of \$2.6 million, which are included within selling, general and administrative expense and within other operating income. No material transaction-related costs were incurred during the three months ended March 31, 2019.

*Supplemental Unaudited Pro Forma Financial Information*

The following supplemental unaudited pro forma results of operations data for the three months ended March 31, 2018 gives pro forma effect to the consummation of the GEODynamics and Falcon acquisitions as if they had occurred on January 1, 2018. The supplemental unaudited pro forma financial information was prepared based on historical financial information, adjusted to give pro forma effect to fair value adjustments on depreciation and amortization expense, interest expense, and related tax effects, among others. The pro forma results for the three months ended March 31, 2018 also reflect adjustments to exclude the after-tax impact of transaction costs of \$2.0 million. The supplemental unaudited pro forma financial information may not reflect what the results of the combined operations would have been had the acquisitions occurred on January 1, 2018. As such, it is presented for informational purposes only (in thousands, except per share amount).

**Three  
Months  
Ended  
March 31,  
2018**

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Revenue	\$280,200
Net loss	\$(992 )
Diluted net loss per share	\$(0.02 )
Diluted weighted average common shares outstanding	58,811

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS****(Continued)***Goodwill*

Changes in the carrying amount of goodwill for the three-month period ended March 31, 2019 were as follows (in thousands):

	Well Site Services Completion Services	Drilling Services	Subtotal	Downhole Technologies	Offshore/ Manufactured Products	Total
Balance as of December 31, 2018						
Goodwill	\$ 221,582	\$ 22,767	\$ 244,349	\$ 357,502	\$ 162,462	\$ 764,313
Accumulated impairment losses	(94,528 )	(22,767 )	(117,295 )	—	—	(117,295 )
	127,054	—	127,054	357,502	162,462	647,018
Foreign currency translation	—	—	—	—	167	167
Balance as of March 31, 2019	\$ 127,054	\$ —	\$ 127,054	\$ 357,502	\$ 162,629	\$ 647,185
Balance as of March 31, 2019						
Goodwill	\$ 221,582	\$ 22,767	\$ 244,349	\$ 357,502	\$ 162,629	\$ 764,480
Accumulated impairment losses	(94,528 )	(22,767 )	(117,295 )	—	—	(117,295 )
	\$ 127,054	\$ —	\$ 127,054	\$ 357,502	\$ 162,629	\$ 647,185

*Other Intangible Assets*

The following table presents the total gross carrying amount of intangibles and the total accumulated amortization for major intangible asset classes as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Other intangible assets:</b>				
Customer relationships	\$ 167,811	\$ 35,980	\$ 167,811	\$ 33,247
Patents/Technology/Know-how	85,223	25,336	84,903	23,418
Noncompete agreements	17,616	7,729	18,705	7,544
Tradenames and other	53,709	6,403	53,708	5,617
Total other intangible assets	\$ 324,359	\$ 75,448	\$ 325,127	\$ 69,826

Amortization expense was \$6.7 million and \$5.6 million for the three months ended March 31, 2019 and 2018, respectively.

**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS****(Continued)****4. Details of Selected Balance Sheet Accounts**

Additional information regarding selected balance sheet accounts at March 31, 2019 and December 31, 2018 is presented below (in thousands):

	March 31, 2019	December 31, 2018
<b>Accounts receivable, net:</b>		
Trade	\$ 205,328	\$ 227,052
Unbilled revenue	36,685	35,674
Contract assets	21,069	21,201
Other	5,938	6,381
Total accounts receivable	269,020	290,308
Allowance for doubtful accounts	(6,724 )	(6,701 )
	\$ 262,296	\$ 283,607

	March 31, 2019	December 31, 2018
<b>Deferred revenue (contract liabilities)</b>	\$ 12,899	\$ 14,160

For the three months ended March 31, 2019, the \$0.1 million net decrease in contract assets was primarily attributable to \$5.3 million in revenue recognized during the period, which was offset by \$5.4 million transferred to accounts receivable. Deferred revenue decreased by \$1.3 million in 2019, reflecting the recognition of \$4.3 million of revenue that was deferred at the beginning of the period partially offset by \$3.7 million in new customer billings which were not recognized as revenue during the period.

	March 31, 2019	December 31, 2018
<b>Inventories, net:</b>		
Finished goods and purchased products	\$ 105,834	\$ 96,195
Work in process	19,541	20,552
Raw materials	100,658	111,197
Total inventories	226,033	227,944
Allowance for excess or obsolete inventory	(18,854 )	(18,551 )
	\$ 207,179	\$ 209,393

	Estimated Useful Life (years)	March 31, 2019	December 31, 2018
<b>Property, plant and equipment, net:</b>			
Land		\$ 37,650	\$ 37,545
Buildings and leasehold improvements	2 – 40	260,746	259,834
Machinery and equipment	1 – 28	487,641	483,629
Completion Services equipment	2 – 10	497,593	492,183
Office furniture and equipment	3 – 10	44,422	43,654
Vehicles	2 – 10	120,571	122,982
Construction in progress		30,759	29,451
Total property, plant and equipment		1,479,382	1,469,278

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Accumulated depreciation	(945,388 )	(928,851 )
	\$533,994	\$ 540,427

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**OIL STATES INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS****(Continued)**

	March 31, 2019	December 31, 2018
<b>Other noncurrent assets:</b>		
Deferred compensation plan	\$ 22,641	\$ 20,468
Deferred income taxes	770	761
Other	5,730	5,815
	\$ 29,141	\$ 27,044
	March 31, 2019	December 31, 2018
<b>Accrued liabilities:</b>		
Accrued compensation	\$ 18,424	\$ 29,867
Insurance liabilities	9,480	9,177
Accrued taxes, other than income taxes	7,270	4,530
Accrued commissions	1,822	1,484
Accrued claims	205	2,983
Other	11,632	