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SMITH INTERNATIONAL INC
Form 11-K
July 02, 2002

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

FORM 11-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 (NO FEE REQUIRED)

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 (NO FEE REQUIRED)

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-8514

A. FULL TITLE OF THE PLAN AND THE ADDRESS OF THE PLAN, IF DIFFERENT FROM
THAT OF THE ISSUER NAMED BELOW:

M-I RETIREMENT PLAN
P.O. BOX 42842
HOUSTON, TX 77242-2842

B. NAME OF ISSUER OF THE SECURITIES HELD PURSUANT TO THE PLAN AND THE
ADDRESS OF ITS PRINCIPAL EXECUTIVE OFFICE:

SMITH INTERNATIONAL, INC.
411 N. SAM HOUSTON PARKWAY, SUITE 600
HOUSTON, TEXAS 77060

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The following financial statements and exhibits are filed as a part of this
annual report:

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Index to Financial Statements and Supplementary Information:

Independent Auditors' Report

Copy of Prior Year's Report of Independent Public Accountants*

Financial Statements:

Statements of Net Assets Available for Plan Benefits
as of December 31, 2001 and 2000

Statement of Changes in Net Assets Available for
Plan Benefits for the Year Ended December 31, 2001

Notes to Financial Statements

Supplemental Schedule:

Schedule H, line 4i-Schedule of Assets (Held at End of Year) as of December 31, 2001

Schedule G, part 3-Schedule of Nonexempt Transactions

Schedules other than those listed above are omitted because of the absence of
the conditions under which they are required.

Exhibits:

23.1 - Independent Auditors' Consent

23.2 - Independent Auditors' Consent

* - As allowed under the provisions of Rule 2-02(e) of Regulation S-X, the
Company has included a copy of Arthur Andersen's most recent signed and
dated report to satisfy the filing requirements.

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INDEPENDENT AUDITORS' REPORT

To the Administrative Committee of
M-I Retirement Plan:

We have audited the accompanying statements of net assets available for plan
benefits of the M-I Retirement Plan (the "Plan") as of December 31, 2001, and
the related statement of changes in net assets available for plan benefits for
the year then ended. These financial statements are the responsibility of the
Administrative Committee. Our responsibility is to express an opinion on these
financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted
in the United States of America. 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 the Administrative Committee, as well as
evaluating the overall financial statement presentation. We believe that our
audit provides a reasonable basis for our opinion.

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In our opinion, such financial statements present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2001, and the changes in net assets available for plan benefits for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2001, is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The schedule is the responsibility of the Administrative Committee. Such schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DELOITTE & TOUCHE LLP

Houston, Texas
June 28, 2002

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Smith International Inc. ("Smith") dismissed Arthur Andersen LLP on April 15, 2002 and subsequently engaged Deloitte & Touche LLP as its independent auditors. The predecessor auditor's report appearing below is a copy of Arthur Andersen's previously issued opinion dated June 20, 2001. Arthur Andersen has advised Smith in writing that key engagement members have resigned from the firm prior to the date of this filing and, based upon specific advice from the Securities and Exchange Commission, their firm is therefore precluded from manually signing previously issued audit opinions relating to Smith. Since Smith is unable to obtain a manually signed audit report, a copy of Arthur Andersen's most recent signed and dated report has been included to satisfy filing requirements, as permitted under Rule 2-02(e) of Regulation S-X.

COPY OF PRIOR YEAR'S REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Administrative Committee of
M-I Retirement Plan:

We have audited the accompanying statements of net assets available for plan benefits of the M-I Retirement Plan (the "Plan") as of December 31, 2000 and 1999, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 2000. These financial statements and the supplemental schedules referred to below are the responsibility of the Administrative Committee. Our responsibility is to express an opinion on these financial statements and supplemental schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 the Administrative Committee, as well as evaluating the overall

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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 net assets available for plan benefits of the Plan as of December 31, 2000 and 1999, and the changes in net assets available for plan benefits for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2000, and schedule of nonexempt transactions for the year ended December 31, 2000, are presented for purposes of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
June 20, 2001

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M-I RETIREMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

AS OF DECEMBER 31, 2001 AND 2000

| | 2001 | 2000 |
|--|---------------|---------------|
| | ----- | ----- |
| ASSETS: | | |
| Investments, at fair value | \$150,652,728 | \$131,562,614 |
| | ----- | ----- |
| Receivables- | | |
| Company contributions | 5,745,466 | 2,485,417 |
| Participant contributions | 606,895 | 833,132 |
| | ----- | ----- |
| Total receivables | 6,352,361 | 3,318,549 |
| | ----- | ----- |
| NET ASSETS AVAILABLE FOR PLAN BENEFITS | \$157,005,089 | \$134,881,163 |
| | ===== | ===== |

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

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M-I RETIREMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2001

| | |
|---|----------------|
| NET ASSETS AVAILABLE FOR PLAN BENEFITS AT DECEMBER 31, 2000 | \$ 134,881,163 |
| ADDITIONS: | |
| Income (loss)- | |
| Interest income | 1,400,447 |
| Dividend income | 5,278,657 |
| Net depreciation in fair value of common stock | (2,275,944) |
| Net depreciation in fair value of registered investment companies | (7,518,801) |
| | ----- |
| Total loss | (3,115,641) |
| | ----- |
| Contributions- | |
| Company, net of forfeitures | 10,428,992 |
| Participant | 9,535,003 |
| Rollover | 11,647,383 |
| | ----- |
| Total contributions | 31,611,378 |
| | ----- |
| Total additions | 28,495,737 |
| | ----- |
| DEDUCTIONS: | |
| Benefits paid to participants | 6,286,478 |
| Administrative expenses | 85,333 |
| | ----- |
| Total deductions | 6,371,811 |
| | ----- |
| NET ADDITIONS TO NET ASSETS AVAILABLE FOR PLAN BENEFITS | 22,123,926 |
| | ----- |
| NET ASSETS AVAILABLE FOR PLAN BENEFITS AT DECEMBER 31, 2001 | \$ 157,005,089 |
| | ===== |

The accompanying notes are an integral part of this financial statement.

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M-I RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT PLAN PROVISIONS:

The following description of the M-I Retirement Plan (the "Plan"), formerly known as the M-I L.L.C. Profit Sharing and Savings Plan, provides only general information. Participants should refer to the Plan document for a more complete

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explanation of the Plan's provisions as the Plan document is controlling at all times.

General

The Plan is a defined contribution plan of M-I L.L.C. (the "Company"). The Company is a majority-owned subsidiary of Smith International, Inc. ("Smith"). The Plan is operated for the sole benefit of the employees of the Company and their beneficiaries and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan is available to all employees who meet certain eligibility requirements.

Administration and Trustee

The Company is the plan administrator and sponsor of the Plan, as defined under ERISA. The Plan's operations are monitored by an administrative committee (the "Administrative Committee") which is comprised of officers and employees of the Company. Vanguard Fiduciary Trust Company ("Vanguard" or the "Trustee") is the trustee of all investments held by the Plan.

Eligibility

An eligible employee of the Company, as defined under the Plan, may participate in the Plan on the first day of the first month following the date of hire. There is no minimum age requirement under the Plan.

Compensation

Compensation, as defined in the Plan, includes the cash compensation that is paid by the Company to a participant during the Plan year for services performed and is included in the employee's gross income under the Internal Revenue Code of 1986, as amended (the "Code"), including regular or base salary, wages, commissions, overtime, bonuses, nondeferred incentive awards and foreign service allowance, as such compensation items are reported on the employee's Form W-2 for the calendar year. Compensation shall exclude benefits paid or credited under the Plan or any other deferred compensation plan maintained by the Company.

Contributions

Participants may elect to contribute voluntarily, in 0.5 percent increments, from 0.5 percent to 15 percent of their compensation, subject to a maximum amount of \$10,500 during 2001 under Section 402(g) of the Code.

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At its discretion, the Company may provide contributions to the Plan for each participant equal to 3 percent of the participant's compensation during the Plan year (the "Basic Contribution"). The Company may also provide a 100 percent matching contribution of the first 1.5 percent of a participant's contribution (the "Matching Contribution"). For 2001, the Company made a Basic Contribution equal to 3 percent of the participant's compensation during the Plan year and a Matching Contribution equal to 100 percent of the first 1.5 percent of a participant's contribution.

In addition, with respect to each Plan year, the Company may contribute to the Plan (from the Company's net income or any accumulated earnings and profits) profit-sharing contributions (the "Profit-Sharing Contribution") in such amounts, if any, as determined by the Company and approved and ratified by the

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Company's board of directors. For 2001, the Company made a Profit-Sharing Contribution equal to 75 percent of a participant's contributions less matching contribution, subject to certain limitations.

Vesting

Participants are immediately vested in their contributions and the net earnings thereon. Participants will vest annually in the Company's contributions in 20 percent increments commencing with their first year of service. Participants, or their beneficiaries, as appropriate, may also become fully vested in the Company's contributions in the event of a participant's death, termination of employment by reason of total or permanent disability or retirement from the Company upon reaching the normal retirement age of 65.

The Plan has certain provisions that provide for service credit for vesting and eligibility purposes for all employees who directly transfer employment between Smith and the Company.

Investment Options

At December 31, 2001 and 2000, the Plan's investments are held in a trust fund administered by Vanguard.

Participants have the option of investing their contributions and the Company's Basic, Matching and Profit-Sharing Contributions among one or all of the seven registered investment companies, a common/collective trust offered by the Vanguard Group of Investment Companies (the "Vanguard Funds") and the common stock of Smith International, Inc.

Payment of Benefits

A participant may elect to receive benefit payments by any one of the several methods provided by the Plan upon termination of service or retirement.

The Plan also provides for hardship distributions to participants with immediate and significant financial needs, subject to authorization by the Company. Such distributions are limited to the vested amount then credited to such participant's account.

Loans

Participants may borrow from their accounts no more than once annually, subject to terms specified by the Company. Participants may not take out a loan that, in the aggregate, exceeds \$50,000 or 50 percent of the member's vested interest in his or her account. These loans bear annual rates of interest

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commensurate with the prevailing interest rate charged on similar commercial loans had the loan been made under similar circumstances by a lending institution.

Forfeitures

In the event that a participant terminates employment with the Company, the participant's vested balances will be distributed at the participant's election or distributed if the account balance is less than \$5,000. Forfeitures are applied first to reinstate the participant's previously forfeited amounts if the participant is reemployed by the Company within five years. Any remaining forfeitures may be used to reduce subsequent Company contributions or offset

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Plan expenses. At December 31, 2001 forfeited nonvested accounts totaled \$219,591. During 2001, employer contributions were reduced by \$387,425 on forfeited nonvested accounts.

Administrative Expenses

The Plan is responsible for its administrative expenses. The Company may elect to pay administrative expenses from the forfeitures of the Plan or pay expenses on behalf of the Plan.

Termination of the Plan

The Company presently intends to continue the Plan indefinitely. However, the Company reserves the right to discontinue the Plan at any time and for any reason. In the event of termination, partial termination or discontinuance of contributions under the Plan, participants will be credited with a fully vested interest in their respective Company contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accounts of the Plan are maintained on the cash basis of accounting. For financial reporting purposes, however, the financial statements have been prepared on the accrual basis of accounting.

Investment Valuation

Plan investments are stated at fair value, as determined by the Trustee primarily by reference to published market data, except for the Vanguard Retirement Savings Trust which is stated at contract value.

The Vanguard Retirement Savings Trust is a common/collective trust investing primarily in guaranteed investment contracts ("GICS"). The GICS are fully benefit responsive and are recorded at contract value. Contract value is determined based on contributions made under the contract plus interest earned at the contract's rate less funds used to pay investment fees and withdrawals. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The effective yield of the collective trust fund was 5.9 percent for the year ended December 31, 2001. The average crediting interest rate at December 31, 2001 was 5.8 percent.

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Investment Income

Net depreciation in fair value of registered investment companies and net depreciation in fair value of common stock in the statement of changes in net assets available for plan benefits includes the realized gains or losses on the sale of investments and unrealized appreciation or depreciation in the fair value of investments.

Participant Account Valuation

The Plan provides that each fund's income shall be allocated daily to the individual participant in the proportion that the individual participant's account balance in such fund bears to the total balance of that fund, after reducing the participant's account by any distributions from the account on a daily basis.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Administrative Committee 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 changes in net assets during the reporting period. Actual results could differ from those estimates.

3. TRANSFER FROM OTHER PLAN:

The Company acquired substantially all of the assets of the Sweco Division of Emerson ("Sweco") on December 15, 2000. Certain former employees of Sweco were given prior service credit for employment under Sweco and became eligible to participate in the Plan effective January 1, 2001. In addition, certain assets of Emerson-sponsored defined contribution plans were merged into the Plan effective February 28, 2001.

4. FEDERAL INCOME TAX STATUS:

The Plan obtained its latest determination letter on March 4, 1998, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Code. The Plan has been amended and restated since receiving the determination letter. A request for a new determination letter was submitted on February 14, 2002. However, the Administrative Committee believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, the Administrative Committee believes that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

5. RISKS AND UNCERTAINTIES:

The Plan provides for various investments in common stock, registered investment companies and a common/collective trust. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term.

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6. PARTY-IN-INTEREST TRANSACTIONS:

The Plan invests in shares of common stock of Smith. As Smith is the parent company of the sponsor, these transactions qualify as party-in-interest transactions. In addition, the Plan invests in shares of registered investment companies and a common/collective trust fund managed by Vanguard. As Vanguard is the Trustee of the Plan, these transactions qualify as party-in-interest transactions.

7. INVESTMENTS:

Individual investments, which exceed 5 percent of net assets available for Plan benefits as of December 31, 2001, are as follows:

| | |
|---|---------------|
| Smith International, Inc., common stock | \$ 12,535,505 |
| Vanguard 500 Index Portfolio Fund | 10,339,251 |
| Vanguard Prime Money Market Fund | 14,962,618 |

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| | |
|-----------------------------------|------------|
| Vanguard PRIMECAP Fund | 20,263,786 |
| Vanguard Retirement Savings Trust | 16,552,333 |
| Vanguard Wellington Fund | 52,324,632 |
| Vanguard Windsor Fund | 13,136,016 |

Individual investments, which exceed 5 percent of net assets available for Plan benefits as of December 31, 2000, are as follows:

| | |
|---|---------------|
| Smith International, Inc., common stock | \$ 10,076,120 |
| Vanguard 500 Index Portfolio Fund | 11,000,544 |
| Vanguard PRIMECAP Fund | 25,155,689 |
| Vanguard Retirement Savings Trust | 15,627,887 |
| Vanguard Wellington Fund | 43,441,170 |
| Vanguard Windsor Fund | 11,175,992 |

8. NONEXEMPT TRANSACTIONS:

As reported on Schedule G, part 3-Schedule of Nonexempt Transactions, certain Plan contributions were not remitted to the trust within the time frame specified by the Department of Labor's Regulation 29 CFR 2510.3-102, thus constituting a nonexempt transaction between the Plan and the Company.

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M-I RETIREMENT PLAN

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)

AS OF DECEMBER 31, 2001

| Identity of Issue | Description of Investment | Co |
|---|---|-----|
| ----- | ----- | --- |
| Smith International, Inc.* | Smith International, Inc., common stock | (a) |
| Vanguard Group of Investment Companies* | Vanguard 500 Index Portfolio Fund | (a) |
| Vanguard Group of Investment Companies* | Vanguard International Growth Fund | (a) |
| Vanguard Group of Investment Companies* | Vanguard Long-Term Corporate Fund | (a) |
| Vanguard Group of Investment Companies* | Vanguard Prime Money Market Fund | (a) |
| Vanguard Group of Investment Companies* | Vanguard PRIMECAP Fund | (a) |
| Vanguard Group of Investment Companies* | Vanguard Retirement Savings Trust | (a) |
| Vanguard Group of Investment Companies* | Vanguard Wellington Fund | (a) |
| Vanguard Group of Investment Companies* | Vanguard Windsor Fund | (a) |
| The Plan* | Participant loans (highest and lowest | |

interest rates are 10.5% and 4.75%, respectively)

(a)

 * Identified as a party in interest.

(a) Cost omitted for participant-directed investments.

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M-I RETIREMENT PLAN

SCHEDULE G, PART 3 - SCHEDULE OF NONEXEMPT TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2001

| Identity of Party Involved | Relationship to Plan, Employer or Other Party in Interest | Description of Transactions |
|-------------------------------|--|---|
| ----- | ----- | ----- |
| | | Due to procedural deficiencies, there were two untimely remittances of contributions to the Plan. |
| M-I L.L.C. | Employer | Lending of monies from the Plan to the employee (contributions not timely remitted to the Plan) as follows- Deemed loan dated April 20, 2001, maturity April 23, 2001, with interest of 7.58 percent in the quarter outstanding Deemed loan dated September 21, 2001, maturity of September 25, 2001, with interest of percent in the quarter outstanding |

(a) The employer remitted interest to the Plan subsequent to Plan year-end.

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

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Dated: July 1, 2002

M-I RETIREMENT PLAN

By: Administrative Committee for the
M-I Retirement Plan

By: /s/ Geri D. Wilde

Geri D. Wilde
Assistant Treasurer

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INDEX TO EXHIBITS

| Exhibit Number ----- | Description ----- |
|----------------------------|-------------------------------|
| 23.1 | Independent Auditors' Consent |
| 23.2 | Independent Auditors' Consent |

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