FORUM ENERGY TECHNOLOGIES, INC.
Form 10-Q
October 31, 2014
Table of Contents

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2014

OR

o 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 001-35504

FORUM ENERGY TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 61-1488595 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

920 Memorial City Way, Suite 1000
Houston, Texas 77024
(Address of principal executive offices)
(281) 949-2500
(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 þ No o

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 þ No o

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 þ | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
| | | (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 o No þ

As of October 24, 2014, there were 94,148,831 common shares outstanding.

Table of Contents

Table of Contents

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements
Forum Energy Technologies, Inc. and subsidiaries
Condensed consolidated statements of operations and comprehensive income
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per share information) | 2014 | 2013 | 2014 | 2013 |
| Net sales | $468,822 | $390,192 | $1,301,039 | $1,131,078 |
| Cost of sales | 316,784 | 265,021 | 883,070 | 776,618 |
| Gross profit | 152,038 | 125,171 | 417,969 | 354,460 |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 81,316 | 71,594 | 230,087 | 202,697 |
| Transaction expenses | 1,516 | 376 | 2,326 | 2,191 |
| Loss (gain) on sale of assets and other | (85) | 209 | 320 | 229 |
| Total operating expenses | 82,747 | 72,179 | 232,733 | 205,117 |
| Earnings from equity investment | 6,749 | 2,946 | 17,997 | 2,946 |
| Operating income | 76,040 | 55,938 | 203,233 | 152,289 |
| Other expense (income) | | | | |
| Interest expense | 7,699 | 4,373 | 23,174 | 10,847 |
| Foreign exchange (gains) losses and other, net | (5,222) | 2,311 | (616) | 1,863 |
| Deferred loan costs written off | — | 2,149 | — | 2,149 |
| Total other expense | 2,477 | 8,833 | 22,558 | 14,859 |
| Income before income taxes | 73,563 | 47,105 | 180,675 | 137,430 |
| Provision for income tax expense | 21,332 | 13,924 | 52,395 | 42,371 |
| Net income | 52,231 | 33,181 | 128,280 | 95,059 |
| Less: Income attributable to noncontrolling interest | 5 | 40 | 2 | 59 |
| Net income attributable to common stockholders | 52,226 | 33,141 | 128,278 | 95,000 |
| | | | | |
| Weighted average shares outstanding | | | | |
| Basic | 93,331 | 91,443 | 92,728 | 90,347 |
| Diluted | 96,198 | 94,734 | 95,631 | 94,527 |
| Earnings per share | | | | |
| Basic | $0.56 | $0.36 | $1.38 | $1.05 |
| Diluted | $0.54 | $0.35 | $1.34 | $1.01 |
| | | | | |
| Other comprehensive income, net of tax: | | | | |
| Net income | 52,231 | 33,181 | 128,280 | 95,059 |
| Change in foreign currency translation, net of tax of $0 | (34,474) | 24,114 | (21,754) | (789) |
| Gain on pension liability | — | — | 2 | — |
| Comprehensive income | 17,757 | 57,295 | 106,528 | 94,270 |
| Less: comprehensive loss (income) attributable to noncontrolling interests | (32) | (32) | (20) | 50 |
| Comprehensive income attributable to common stockholders | $17,725 | $57,263 | $106,508 | $94,320 |

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

3

Table of Contents

Forum Energy Technologies, Inc. and subsidiaries
Condensed consolidated balance sheets
(Unaudited)

| (in thousands, except share information) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $74,084 | $39,582 |
| Accounts receivable—trade, net | 313,855 | 250,272 |
| Inventories | 454,470 | 441,049 |
| Prepaid expenses and other current assets | 38,309 | 29,707 |
| Costs and estimated profits in excess of billings | 28,230 | 24,012 |
| Deferred income taxes, net | 28,834 | 24,846 |
| Total current assets | 937,782 | 809,468 |
| Property and equipment, net of accumulated depreciation | 188,991 | 180,292 |
| Deferred financing costs, net | 13,746 | 15,658 |
| Intangibles | 281,850 | 295,352 |
| Goodwill | 808,762 | 802,318 |
| Investment in unconsolidated subsidiary | 57,199 | 60,292 |
| Other long-term assets | 5,797 | 5,489 |
| Total assets | $2,294,127 | $2,168,869 |
| Liabilities and equity | | |
| Current liabilities | | |
| Current portion of long-term debt | $898 | $998 |
| Accounts payable—trade | 134,078 | 100,221 |
| Accrued liabilities | 123,402 | 96,529 |
| Deferred revenue | 14,816 | 15,837 |
| Billings in excess of costs and profits recognized | 19,043 | 6,398 |
| Total current liabilities | 292,237 | 219,983 |
| Long-term debt, net of current portion | 420,417 | 512,077 |
| Deferred income taxes, net | 100,282 | 97,774 |
| Other long-term liabilities | 13,135 | 8,069 |
| Total liabilities | 826,071 | 837,903 |
| Commitments and contingencies | | |
| Equity | | |
| Common stock, $0.01 par value, 296,000,000 shares authorized, 94,250,854 and 92,803,389 shares issued | 942 | 928 |
| Additional paid-in capital | 858,663 | 826,064 |
| Treasury stock at cost, 3,627,259 and 3,585,098 shares | (31,578) | (30,249) |
| Warrants | 26 | 687 |
| Retained earnings | 653,418 | 525,140 |
| Accumulated other comprehensive income | (13,984) | 7,785 |
| Total stockholders’ equity | 1,467,487 | 1,330,355 |
| Noncontrolling interest in subsidiary | 569 | 611 |
| Total equity | 1,468,056 | 1,330,966 |
| Total liabilities and equity | $2,294,127 | $2,168,869 |

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

4

Table of Contents

Forum Energy Technologies, Inc. and subsidiaries
Condensed consolidated statements of cash flows
(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| (in thousands, except share information) | 2014 | 2013 |
| Cash flows from operating activities | | |
| Net income | $128,280 | $95,059 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation expense | 28,274 | 26,498 |
| Amortization of intangible assets | 20,608 | 17,478 |
| Share-based compensation expense | 14,334 | 15,442 |
| Deferred income taxes | (4,477) | 11,474 |
| Deferred loan costs written off | — | 2,149 |
| Earnings from equity investment, net of distributions | 3,092 | (2,946) |
| Other | 3,644 | 582 |
| Changes in operating assets and liabilities | | |
| Accounts receivable—trade | (67,793) | 441 |
| Inventories | (14,520) | 35,264 |
| Prepaid expenses and other current assets | (6,872) | (12,175) |
| Accounts payable, deferred revenue and other accrued liabilities | 66,744 | (9,012) |
| Costs and estimated profits in excess of billings, net | 8,439 | (16,127) |
| Net cash provided by operating activities | $179,753 | $164,127 |
| Cash flows from investing activities | | |
| Acquisition of businesses, net of cash acquired | (38,289) | (181,717) |
| Investment in unconsolidated subsidiary | — | (112,241) |
| Distribution from unconsolidated subsidiary | — | 64,228 |
| Capital expenditures for property and equipment | (39,932) | (44,717) |
| Proceeds from sale of business, property and equipment | 8,735 | 739 |
| Net cash used in investing activities | $(69,486) | $(273,708) |
| Cash flows from financing activities | | |
| Borrowings under Credit Facility | — | 345,520 |
| Repayment of long-term debt | (91,760) | (235,346) |
| Payment of contingent consideration | — | (11,435) |
| Excess tax benefits from stock based compensation | 7,291 | 4,225 |
| Repurchases of stock | (1,328) | (850) |
| Proceeds from stock issuance | 10,332 | 4,768 |
| Deferred financing costs | (6) | (7,600) |
| Net cash provided by (used in) financing activities | $(75,471) | $99,282 |
| Effect of exchange rate changes on cash | (294) | (2,563) |
| Net increase (decrease) in cash and cash equivalents | 34,502 | (12,862) |
| Cash and cash equivalents | | |
| Beginning of period | 39,582 | 41,063 |
| End of period | $74,084 | $28,201 |
| Noncash investing and financing activities | | |
| Accrued purchases of property and equipment | $1,443 | $— |
| Payment of contingent consideration via stock | — | 4,075 |

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

5

Table of Contents

Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements
(Unaudited)

1. Organization and basis of presentation

Forum Energy Technologies, Inc. (the "Company"), a Delaware corporation, is a global oilfield products company, serving the subsea, drilling, completion, production and infrastructure sectors of the oil and natural gas industry. The Company designs, manufactures and distributes products and engages in aftermarket services, parts supply and related services that complement the Company's product offering.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

The Company's investment in an operating entity where the Company has the ability to exert significant influence, but does not control operating and financial policies, is accounted for using the equity method. The Company's share of the net income of this entity is recorded as "Earnings from equity investment" in the condensed consolidated statements of operations and comprehensive income. The investment in this entity is included in "Investment in unconsolidated subsidiary" in the condensed consolidated balance sheets. The Company reports its share of equity earnings within operating income as the investee's operations are integral to the operations of the Company.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the Company's financial position, results of operations and cash flows have been included. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014 or any other interim period.

These interim financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("GAAP") for complete consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013, which are included in the Company's 2013 Annual Report on Form 10-K filed with the SEC on February 28, 2014 (the "Annual Report").

2. Recent accounting pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("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 August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements - Going Concern. The new standard requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern for both annual and interim reporting periods. The guidance is effective for the Company for the fiscal year beginning January 1, 2016 and interim periods thereafter. The guidance is not expected to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard is effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The new standard will be effective January 1, 2017 and the Company is currently evaluating the impacts of adoption and the implementation approach to be used.

In April 2014, the FASB issued ASU 2014-08 — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The ASU raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a

6

discontinued operation. The guidance is effective for the Company for the fiscal year beginning January 1, 2015, and is not expected to have a material impact on the consolidated financial statements.

## 3. Acquisitions and investment in joint venture

### 2014 Acquisition

Effective May 1, 2014, the Company completed the acquisition of Quality Wireline & Cable, Inc. ("Quality") for consideration of $38.3 million. Quality is a Calgary, Alberta based manufacturer of high-performance cased-hole electro-mechanical wireline cables and specialty cables for the oil and gas industry. Quality is included in the Drilling & Subsea segment. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

| | 2014 Acquisition |
|---|---|
| Current assets, net of cash acquired | $7,595 |
| Property and equipment | 3,837 |
| Intangible assets (primarily customer relationships) | 11,527 |
| Non-tax-deductible goodwill | 19,942 |
| Current liabilities | (1,615) |
| Deferred tax liabilities | (2,997) |
| Net assets acquired | $38,289 |

### 2013 Acquisitions

Effective July 1, 2013, the Company completed the following two acquisitions for aggregate consideration of approximately $180.0 million:

- Blohm + Voss Oil Tools GmbH and related entities ("B+V"), a manufacturer of pipe handling equipment used on offshore and onshore drilling rigs with locations in Hamburg, Germany and Willis, Texas. B+V is included in the Drilling & Subsea segment; and
- Moffat 2000 Ltd. ("Moffat"), a Newcastle, England based manufacturer of subsea pipeline inspection gauge launching and receiving systems, and subsea connectors. Moffat is included in the Drilling & Subsea segment.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

| | 2013 Acquisitions |
|---|---|
| Current assets, net of cash acquired | $60,669 |
| Property and equipment | 4,545 |
| Intangible assets (primarily customer relationships) | 59,242 |
| Non-tax-deductible goodwill | 100,257 |
| Current liabilities | (17,619) |
| Long-term liabilities | (7,879) |
| Deferred tax liabilities | (20,108) |
| Net assets acquired | $179,107 |

Revenues and net income related to the acquisitions were not significant for the year ended December 31, 2013. Pro forma results of operations for the 2014 and 2013 acquisitions have not been presented because the effects were not material to the consolidated financial statements on either an individual or aggregate basis.

Effective July 1, 2013, the Company jointly purchased Global Tubing, LLC ("Global Tubing") with an equal partner, with management retaining a small interest. Global Tubing is a Dayton, Texas based provider of coiled tubing strings and

related services. The Company's equity investment is reported in the Production & Infrastructure segment and is accounted for using the equity method of accounting. As Global Tubing's products are complementary to the Company’s well intervention and stimulation products and the investment's business is integral to the Company's operations, the earnings from the equity investment are included within operating income.

4. Inventories

The Company's significant components of inventory at September 30, 2014 and December 31, 2013 were as follows (in thousands):

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Raw materials and parts | $150,270 | $139,573 |
| Work in process | 44,244 | 51,819 |
| Finished goods | 291,863 | 276,076 |
| Gross inventories | 486,377 | 467,468 |
| Inventory reserve | (31,907) | (26,419) |
| Inventories | $454,470 | $441,049 |

5. Goodwill and intangible assets

Goodwill

The changes in the carrying amount of goodwill from January 1, 2014 to September 30, 2014, were as follows (in thousands):

| | Drilling & Subsea | Production & Infrastructure | Total |
|---|---|---|---|
| Goodwill Balance at January 1, 2014 net | $723,355 | $78,963 | $802,318 |
| Acquisitions and divestitures | 16,287 | — | 16,287 |
| Impact of non-U.S. local currency translation | (9,634) | (209) | (9,843) |
| Goodwill Balance at September 30, 2014 net | $730,008 | $78,754 | $808,762 |

Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Intangible assets

Intangible assets consisted of the following as of September 30, 2014 and December 31, 2013, respectively (in thousands):

| | September 30, 2014 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net amortizable intangibles | Amortization period (in years) |
| Customer relationships | $288,718 | $(82,100) | $206,618 | 4-15 |
| Patents and technology | 31,680 | (7,546) | 24,134 | 5-17 |
| Non-compete agreements | 7,216 | (5,618) | 1,598 | 3-6 |
| Trade names | 48,854 | (14,514) | 34,340 | 10-15 |
| Distributor relationships | 22,160 | (12,230) | 9,930 | 8-15 |
| Trademark | 5,230 | — | 5,230 | Indefinite |
| Intangible Assets Total | $403,858 | $(122,008) | $281,850 | |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net amortizable intangibles | Amortization period (in years) |
| Customer relationships | $283,171 | $(67,435) | $215,736 | 4-15 |
| Patents and technology | 33,843 | (6,510) | 27,333 | 5-17 |
| Non-compete agreements | 6,577 | (5,108) | 1,469 | 3-6 |
| Trade names | 46,654 | (11,948) | 34,706 | 10-15 |
| Distributor relationships | 22,160 | (11,282) | 10,878 | 8-15 |
| Trademark | 5,230 | — | 5,230 | Indefinite |
| Intangible Assets Total | $397,635 | $(102,283) | $295,352 | |

6. Debt

Notes payable and lines of credit as of September 30, 2014 and December 31, 2013 consisted of the following (in thousands):

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| 6.25% Senior Notes due October 2021 | $402,903 | $403,208 |
| Senior secured revolving credit facility | 17,004 | 108,000 |
| Other debt | 1,408 | 1,867 |
| Total debt | 421,315 | 513,075 |
| Less: current maturities | (898) | (998) |
| Long-term debt | $420,417 | $512,077 |

Senior Notes Due 2021

The Senior Notes bear interest at a rate of 6.250% per annum, payable on April 1 and October 1 of each year, and mature on October 1, 2021. The Senior Notes are senior unsecured obligations, and are guaranteed on a senior unsecured basis by the Company’s subsidiaries that guarantee the Credit Facility and rank junior to, among other indebtedness, the Credit Facility to the extent of the value of the collateral securing the Credit Facility.

In connection with the initial issuance and sale of the Senior Notes, the Company and the subsidiary guarantors entered into a Registration Rights Agreement. Pursuant to the Registration Rights Agreement, the Company and the subsidiary guarantors agreed for the benefit of the holders of the Senior Notes to use commercially reasonable efforts to register with the SEC and exchange offer for senior notes due 2021 having identical terms as the Senior Notes. In satisfaction

9

of its obligations under the Registration Rights Agreement, the Company completed the exchange offer on September 15, 2014.

Credit Facility

The Company has a Credit Facility with several financial institutions as lenders that provides for a $600.0 million revolving credit facility with up to $75.0 million available for letters of credit and up to $25.0 million in swingline loans. Subject to terms of the Credit Facility, the Company has the ability to increase the revolving Credit Facility by an additional $300.0 million. The Credit Facility matures in November 2018. Weighted average interest rates under the Credit Facility at September 30, 2014 and December 31, 2013 were 1.91% and 2.17%, respectively.

Availability under the Credit Facility was approximately $572.0 million at September 30, 2014. There have been no changes to the financial covenants disclosed in Item 7 of the Annual Report and the Company was in compliance with all financial covenants at September 30, 2014.

7. Income taxes

The Company's effective tax rate was 29.0% for the nine months ended September 30, 2014 and 30.8% for the nine months ended September 30, 2013. The tax provision is lower than the comparable period in 2013 primarily due to benefits received from certain domestic tax incentives and a higher proportion of our earnings being generated outside the United States in jurisdictions subject to lower tax rates. The effective tax rate can vary from period to period depending on the Company's relative mix of U.S. and non-U.S. earnings. The effective tax rate was 29.0% for the three months ended September 30, 2014 and 29.6% for the three months ended September 30, 2013. The tax provision for the three months ended September 30, 2014 is lower than the comparable period in 2013 primarily due to benefits received from certain domestic tax incentives and a higher proportion of our earnings being generated outside the United States in jurisdictions subject to lower tax rates.

8. Fair value measurements

At September 30, 2014, the carrying value of the Credit Facility was $17.0 million. Substantially all of the debt incurs interest at a variable interest rate and, therefore, the carrying amount approximates fair value. The fair value of the debt is classified as a Level 2 measurement because interest rates charged are similar to other financial instruments with similar terms and maturities.

The fair value of the Company’s Senior Notes is estimated using Level 2 inputs in the fair value hierarchy and is based on quoted prices for those or similar instruments. At September 30, 2014, the fair value and the carrying value of the Company’s Senior Notes approximated $415.8 million and $402.9 million, respectively. At December 31, 2013, the fair value and the carrying value of the Company’s Senior Notes approximated $419.3 million and $403.2 million, respectively.

There were no outstanding financial assets as of September 30, 2014 and December 31, 2013 that required measuring the amounts at fair value. The Company did not change its valuation techniques associated with recurring fair value measurements from prior periods and there were no transfers between levels of the fair value hierarchy during the nine months ended September 30, 2014.

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

9. Business segments
The Company’s operations are divided into the following two operating segments, which are our reportable segments: Drilling & Subsea ("D&S") and Production & Infrastructure ("P&I"). The amounts indicated below as "Corporate" relate to costs and assets not allocated to the reportable segments. Summary financial data by segment follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenue: | | | | |
| Drilling & Subsea | $307,454 | $248,344 | $848,474 | $679,482 |
| Production & Infrastructure | 161,696 | 142,731 | 453,640 | 452,845 |
| Intersegment eliminations | (328) | (883) | (1,075) | (1,249) |
| Total Revenue | $468,822 | $390,192 | $1,301,039 | $1,131,078 |
| | | | | |
| Operating income: | | | | |
| Drilling & Subsea | $57,929 | $42,568 | $155,330 | $110,630 |
| Production & Infrastructure | 29,816 | 21,402 | 80,260 | 65,600 |
| Corporate | (10,274) | (7,447) | (29,711) | (21,521) |
| Total segment operating income | 77,471 | 56,523 | 205,879 | 154,709 |
| Transaction expenses | 1,516 | 376 | 2,326 | 2,191 |
| Loss (gain) on sale of assets and other | (85) | 209 | 320 | 229 |
| Income from operations | $76,040 | $55,938 | $203,233 | $152,289 |

A summary of consolidated assets by reportable segment is as follows (in thousands):

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets | | |
| Drilling & Subsea | $1,716,361 | $1,655,355 |
| Production & Infrastructure | 499,360 | 468,520 |
| Corporate | 78,406 | 44,994 |
| Total assets | $2,294,127 | $2,168,869 |

10. Earnings per share
The calculation of basic and diluted earnings per share for each period presented was as follows (dollars and shares in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net Income attributable to common stockholders | $52,226 | $33,141 | $128,278 | $95,000 |
| | | | | |
| Average shares outstanding (basic) | 93,331 | 91,443 | 92,728 | 90,347 |
| Common stock equivalents | 2,867 | 3,291 | 2,903 | 4,180 |
| Diluted shares | 96,198 | 94,734 | 95,631 | 94,527 |
| Earnings per share | | | | |
| Basic earnings per share | $0.56 | $0.36 | $1.38 | $1.05 |
| Diluted earnings per share | $0.54 | $0.35 | $1.34 | $1.01 |

11

The diluted earnings per share calculation excludes approximately 0.4 million and 0.3 million stock options for the three months ended September 30, 2014 and 2013 respectively, and 0.5 million and 0.3 million stock options for the nine months ended September 30, 2014 and 2013, respectively, because they were anti-dilutive as the option exercise price was greater than the average market price of the common stock.

## 11. Commitments and contingencies

In the ordinary course of business, the Company is, and in the future could be, involved in various pending or threatened legal actions, that may or may not be covered by insurance. Management has reviewed such pending judicial and legal proceedings, the reasonably anticipated costs and expenses in connection with such proceedings, and the availability and limits of insurance coverage, and has established reserves that are believed to be appropriate in light of those outcomes that are considered to be probable and can be reasonably estimated. The reserves accrued at September 30, 2014 and December 31, 2013, respectively, are immaterial. It is management's opinion that the Company's ultimate liability, if any, with respect to these actions is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

## 12. Stockholders' equity

### Share-based compensation

During the nine months ended September 30, 2014, the Company granted 368,054 options and 778,471 shares of restricted stock or restricted stock units, which includes 115,610 performance share awards with a market condition. The stock options were granted with an exercise price of $26.96. Of the restricted stock or restricted stock units granted, 621,128 vest ratably over four years on each anniversary of the grant date. 41,733 shares of restricted stock or restricted stock units were granted to the non-employee members of the Board of Directors, which have a twelve month vesting period from the date of grant. The performance share awards granted may settle for between zero and two shares of the Company's common stock. The number of shares issued pursuant to the performance share awards will be determined based on the total shareholder return of the Company's common stock as compared to a group of peer companies, measured annually over a three-year performance period.

## 13. Related party transactions

The Company entered into lease agreements for office and warehouse space with former owners of acquired companies or affiliates of a director. The Company has sold and purchased inventory, services and fixed assets to and from various affiliates of certain directors. The dollar amounts related to these related party activities are not significant to the Company's condensed consolidated financial statements.

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

14. Condensed consolidating financial statements
The Senior Notes are guaranteed by our domestic subsidiaries which are 100% owned, directly or indirectly, by the Company. The guarantees are full and unconditional, joint and several and on an unsecured basis.
Condensed consolidating statements of operations and comprehensive income

| | Three months ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Net sales | $— | $330,772 | $ 179,458 | $(41,408 ) | $468,822 |
| Cost of sales | — | 230,938 | 127,423 | (41,577 ) | 316,784 |
| Gross profit | — | 99,834 | 52,035 | 169 | 152,038 |
| Operating expenses | | | | | |
| Selling, general and administrative expenses | — | 63,228 | 18,088 | — | 81,316 |
| Other operating expense | — | 1,419 | 12 | — | 1,431 |
| Total operating expenses | — | 64,647 | 18,100 | — | 82,747 |
| Earnings from equity investment | — | 6,749 | — | — | 6,749 |
| Equity earnings from affiliate, net of tax | 57,161 | 28,048 | — | (85,209 ) | — |
| Operating income | 57,161 | 69,984 | 33,935 | (85,040 ) | 76,040 |
| Other expense (income) | | | | | |
| Interest expense (income) | 7,593 | 75 | 31 | — | 7,699 |
| Interest income with affiliate | — | (1,887 ) | — | 1,887 | — |
| Interest expense with affiliate | — | — | 1,887 | (1,887 ) | — |
| Foreign exchange (gains) losses and other, net | — | (744 ) | (4,478 ) | — | (5,222 ) |
| Total other expense (income) | 7,593 | (2,556 ) | (2,560 ) | — | 2,477 |
| Income before income taxes | 49,568 | 72,540 | 36,495 | (85,040 ) | 73,563 |
| Provision for income tax expense | (2,658 ) | 15,379 | 8,611 | — | 21,332 |
| Net income | 52,226 | 57,161 | 27,884 | (85,040 ) | 52,231 |
| Less: Income attributable to noncontrolling interest | — | — | 5 | — | 5 |
| Net income attributable to common stockholders | 52,226 | 57,161 | 27,879 | (85,040 ) | 52,226 |
| | | | | | |
| Other comprehensive income, net of tax: | | | | | |
| Net income | 52,226 | 57,161 | 27,884 | (85,040 ) | 52,231 |
| Change in foreign currency translation, net of tax of $0 | (34,474 ) | (34,474 ) | (34,474 ) | 68,948 | (34,474 ) |
| Comprehensive income | 17,752 | 22,687 | (6,590 ) | (16,092 ) | 17,757 |
| Less: comprehensive (income) loss attributable to noncontrolling interests | — | — | (32 ) | — | (32 ) |
| Comprehensive income attributable to common stockholders | $17,752 | $22,687 | $ (6,622 ) | $(16,092 ) | $17,725 |

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Condensed consolidating statements of operations and comprehensive income

| | Three months ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Net sales | $— | $287,551 | $ 139,986 | $(37,345) | $390,192 |
| Cost of sales | — | 203,657 | 98,369 | (37,005) | 265,021 |
| Gross profit | — | 83,894 | 41,617 | (340) | 125,171 |
| Operating expenses | | | | | |
| Selling, general and administrative expenses | — | 55,957 | 15,637 | — | 71,594 |
| Other operating expense | — | 282 | 303 | — | 585 |
| Total operating expenses | — | 56,239 | 15,940 | — | 72,179 |
| Earnings from equity investment | — | 2,946 | — | — | 2,946 |
| Equity earnings from affiliates, net of tax | 37,369 | 16,633 | — | (54,002) | — |
| Operating income | 37,369 | 47,234 | 25,677 | (54,342) | 55,938 |
| Other expense (income) | | | | | |
| Interest expense (income) | 4,355 | 12 | 6 | — | 4,373 |
| Interest income with affiliate | — | (2,001) | — | 2,001 | — |
| Interest expense with affiliate | — | | 2,001 | (2,001) | — |
| Foreign exchange (gains) losses and other, net | — | (85) | 2,396 | — | 2,311 |
| Deferred loan costs written off | 2,149 | — | — | — | 2,149 |
| Total other expense (income) | 6,504 | (2,074) | 4,403 | — | 8,833 |
| Income before income taxes | 30,865 | 49,308 | 21,274 | (54,342) | 47,105 |
| Provision for income tax expense | (2,276) | 11,939 | 4,261 | — | 13,924 |
| Net income | 33,141 | 37,369 | 17,013 | (54,342) | 33,181 |
| Less: Income attributable to noncontrolling interest | — | — | 40 | — | 40 |
| Net income attributable to common stockholders | 33,141 | 37,369 | 16,973 | (54,342) | 33,141 |
| | | | | | |
| Other comprehensive income, net of tax: | | | | | |
| Net income | 33,141 | 37,369 | 17,013 | (54,342) | 33,181 |
| Change in foreign currency translation, net of tax of $0 | 24,114 | 24,114 | 24,114 | (48,228) | 24,114 |
| Comprehensive income | 57,255 | 61,483 | 41,127 | (102,570) | 57,295 |
| Less: comprehensive (income) loss attributable to noncontrolling interests | — | — | (32) | — | (32) |
| Comprehensive income attributable to common stockholders | $57,255 | $61,483 | $ 41,095 | $(102,570) | $57,263 |

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Condensed consolidating statements of operations and comprehensive income

| | Nine months ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Net sales | $— | $941,885 | $480,049 | $(120,895) | $1,301,039 |
| Cost of sales | — | 659,444 | 342,269 | (118,643) | 883,070 |
| Gross profit | — | 282,441 | 137,780 | (2,252) | 417,969 |
| Operating expenses | | | | | |
| Selling, general and administrative expenses | — | 176,331 | 53,756 | — | 230,087 |
| Other operating expense | — | 2,965 | (319) | — | 2,646 |
| Total operating expenses | — | 179,296 | 53,437 | — | 232,733 |
| Earnings from equity investment | — | 17,997 | — | — | 17,997 |
| Equity earnings from affiliate, net of tax | 143,310 | 59,688 | — | (202,998) | — |
| Operating income | 143,310 | 180,830 | 84,343 | (205,250) | 203,233 |
| Other expense (income) | | | | | |
| Interest expense (income) | 23,126 | 77 | (29) | — | 23,174 |
| Interest income with affiliate | — | (5,770) | — | 5,770 | — |
| Interest expense with affiliate | — | — | 5,770 | (5,770) | — |
| Foreign exchange (gains) losses and other, net | — | 274 | (890) | — | (616) |
| Total other expense (income) | 23,126 | (5,419) | 4,851 | — | 22,558 |
| Income before income taxes | 120,184 | 186,249 | 79,492 | (205,250) | 180,675 |
| Provision for income tax expense | (8,094) | 42,939 | 17,550 | — | 52,395 |
| Net income | 128,278 | 143,310 | 61,942 | (205,250) | 128,280 |
| Less: Income attributable to noncontrolling interest | — | — | 2 | — | 2 |
| Net income attributable to common stockholders | 128,278 | 143,310 | 61,940 | (205,250) | 128,278 |
| | | | | | |
| Other comprehensive income, net of tax: | | | | | |
| Net income | 128,278 | 143,310 | 61,942 | (205,250) | 128,280 |
| Change in foreign currency translation, net of tax of $0 | (21,754) | (21,754) | (21,754) | 43,508 | (21,754) |
| Change in pension liability | 2 | 2 | 2 | (4) | 2 |
| Comprehensive income | 106,526 | 121,558 | 40,190 | (161,746) | 106,528 |
| Less: comprehensive (income) loss attributable to noncontrolling interests | — | — | (20) | — | (20) |
| Comprehensive income attributable to common stockholders | $106,526 | $121,558 | $40,170 | $(161,746) | $106,508 |

15

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Condensed consolidating statements of operations and comprehensive income

| | Nine months ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries (in thousands) | Eliminations | Consolidated |
| Net sales | $— | $852,560 | $366,417 | $(87,899) | $1,131,078 |
| Cost of sales | — | 598,804 | 264,441 | (86,627) | 776,618 |
| Gross profit | — | 253,756 | 101,976 | (1,272) | 354,460 |
| Operating expenses | | | | | |
| Selling, general and administrative expenses | — | 160,956 | 41,741 | — | 202,697 |
| Other operating expense | — | 2,136 | 284 | — | 2,420 |
| Total operating expenses | — | 163,092 | 42,025 | — | 205,117 |
| Earnings from equity investment | — | 2,946 | — | — | 2,946 |
| Equity earnings from affiliates, net of tax | 103,366 | 43,015 | — | (146,381) | — |
| Operating income | 103,366 | 136,625 | 59,951 | (147,653) | 152,289 |
| Other expense (income) | | | | | |
| Interest expense | 10,722 | 85 | 40 | — | 10,847 |
| Interest income with affiliate | — | (2,001) | — | 2,001 | — |
| Interest expense with affiliate | — | — | 2,001 | (2,001) | — |
| Foreign exchange (gains) losses and other, net | — | (608) | 2,471 | — | 1,863 |
| Deferred loan costs written off | 2,149 | — | — | — | 2,149 |
| Total other expense (income) | 12,871 | (2,524) | 4,512 | — | 14,859 |
| Income before income taxes | 90,495 | 139,149 | 55,439 | (147,653) | 137,430 |
| Provision for income tax expense | (4,505) | 35,783 | 11,093 | — | 42,371 |
| Net income | 95,000 | 103,366 | 44,346 | (147,653) | 95,059 |
| Less: Income attributable to noncontrolling interest | — | — | 59 | — | 59 |
| Net income attributable to common stockholders | 95,000 | 103,366 | 44,287 | (147,653) | 95,000 |
| | | | | | |
| Other comprehensive income, net of tax: | | | | | |
| Net income | 95,000 | 103,366 | 44,346 | (147,653) | 95,059 |
| Change in foreign currency translation, net of tax of $0 | (789) | (789) | (789) | 1,578 | (789) |
| Comprehensive income | 94,211 | 102,577 | 43,557 | (146,075) | 94,270 |
| Less: comprehensive (income) loss attributable to noncontrolling interests | — | — | 50 | — | 50 |
| Comprehensive income attributable to common stockholders | $94,211 | $102,577 | $43,607 | $(146,075) | $94,320 |

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Condensed consolidating balance sheets

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $— | $12,421 | $61,663 | $— | $74,084 |
| Accounts receivable—trade, net | — | 204,248 | 109,607 | — | 313,855 |
| Inventories | — | 332,730 | 129,056 | (7,316) | 454,470 |
| Other current assets | — | 62,064 | 33,309 | — | 95,373 |
| Total current assets | — | 611,463 | 333,635 | (7,316) | 937,782 |
| Property and equipment, net of accumulated depreciation | — | 149,409 | 39,582 | — | 188,991 |
| Intangibles | — | 203,926 | 77,924 | — | 281,850 |
| Goodwill | — | 522,898 | 285,864 | — | 808,762 |
| Investment in unconsolidated subsidiary | — | 57,199 | — | — | 57,199 |
| Investment in affiliates | 1,306,259 | 491,942 | — | (1,798,201) | — |
| Long-term loans and advances to affiliates | 581,528 | 97,324 | — | (678,852) | — |
| Other long-term assets | 13,746 | 4,861 | 936 | — | 19,543 |
| Total assets | $1,901,533 | $2,139,022 | $737,941 | $(2,484,369) | $2,294,127 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable—trade | $— | $89,761 | $44,317 | $— | $134,078 |
| Accrued liabilities | 14,143 | 77,451 | 31,808 | — | 123,402 |
| Current portion of debt and other current liabilities | — | 9,476 | 25,281 | — | 34,757 |
| Total current liabilities | 14,143 | 176,688 | 101,406 | — | 292,237 |
| Long-term debt, net of current portion | 419,903 | 480 | 34 | — | 420,417 |
| Long-term loans and payables to affiliates | — | 572,467 | 106,385 | (678,852) | — |
| Other long-term liabilities | — | 83,128 | 30,289 | — | 113,417 |
| Total liabilities | 434,046 | 832,763 | 238,114 | (678,852) | 826,071 |
| | | | | | |
| Total stockholder's equity | 1,467,487 | 1,306,259 | 499,258 | (1,805,517) | 1,467,487 |
| Noncontrolling interest in subsidiary | — | — | 569 | — | 569 |
| Equity | 1,467,487 | 1,306,259 | 499,827 | (1,805,517) | 1,468,056 |
| Total liabilities and equity | $1,901,533 | $2,139,022 | $737,941 | $(2,484,369) | $2,294,127 |

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Condensed consolidating balance sheets

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $— | $— | $ 39,582 | $— | $39,582 |
| Accounts receivable—trade, net | — | 172,563 | 77,709 | — | 250,272 |
| Inventories | — | 310,191 | 135,924 | (5,066 ) | 441,049 |
| Other current assets | 63 | 41,495 | 37,007 | — | 78,565 |
| Total current assets | 63 | 524,249 | 290,222 | (5,066 ) | 809,468 |
| Property and equipment, net of accumulated depreciation | — | 143,180 | 37,112 | — | 180,292 |
| Intangibles | — | 220,980 | 74,372 | — | 295,352 |
| Goodwill | — | 526,083 | 276,235 | — | 802,318 |
| Investment in unconsolidated subsidiary | — | 60,292 | — | — | 60,292 |
| Investment in affiliates | 1,209,699 | 454,024 | — | (1,663,723 ) | — |
| Long-term loans and advances to affiliates | 623,337 | 97,316 | — | (720,653 ) | — |
| Other long-term assets | 15,658 | 4,168 | 1,321 | — | 21,147 |
| Total assets | $1,848,757 | $2,030,292 | $ 679,262 | $(2,389,442) | $2,168,869 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable—trade | $— | $69,467 | $ 30,754 | $— | $100,221 |
| Accrued liabilities | 7,194 | 43,693 | 45,642 | — | 96,529 |
| Current portion of debt and other current liabilities | — | 9,217 | 14,016 | — | 23,233 |
| Total current liabilities | 7,194 | 122,377 | 90,412 | — | 219,983 |
| Long-term debt, net of current portion | 511,208 | 824 | 45 | — | 512,077 |
| Long-term loans and payables to affiliates | — | 619,778 | 100,875 | (720,653 ) | — |
| Other long-term liabilities | — | 77,614 | 28,229 | — | 105,843 |
| Total liabilities | 518,402 | 820,593 | 219,561 | (720,653 ) | 837,903 |
| | | | | | |
| Total stockholder's equity | 1,330,355 | 1,209,699 | 459,090 | (1,668,789 ) | 1,330,355 |
| Noncontrolling interest in subsidiary | — | — | 611 | — | 611 |
| Equity | 1,330,355 | 1,209,699 | 459,701 | (1,668,789 ) | 1,330,966 |
| Total liabilities and equity | $1,848,757 | $2,030,292 | $ 679,262 | $(2,389,442) | $2,168,869 |

18

Table of Contents
Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Condensed consolidating statements of cash flows

| | Nine months ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Cash flows from (used in) operating activities | $(6,101) | $120,323 | $65,531 | $— | $179,753 |
| Cash flows from investing activities | | | | | |
| Acquisition of businesses, net of cash acquired | — | — | (38,289) | — | (38,289) |
| Capital expenditures for property and equipment | — | (30,808) | (9,124) | — | (39,932) |
| Long-term loans and advances to affiliates | 88,410 | — | — | (88,410) | — |
| Other | — | 8,421 | 314 | — | 8,735 |
| Net cash provided by (used in) investing activities | $88,410 | $(22,387) | $(47,099) | $(88,410) | $(69,486) |
| Cash flows from financing activities | | | | | |
| Repayment of long-term debt | (91,307) | (328) | (125) | — | (91,760) |
| Long-term loans and advances to affiliates | — | (92,478) | 4,068 | 88,410 | — |
| Other | 8,998 | 7,291 | — | — | 16,289 |
| Net cash provided by (used in) financing activities | $(82,309) | $(85,515) | $3,943 | $88,410 | $(75,471) |
| Effect of exchange rate changes on cash | — | — | (294) | — | (294) |
| Net increase (decrease) in cash and cash equivalents | — | 12,421 | 22,081 | — | 34,502 |
| Cash and cash equivalents | | | | | |
| Beginning of period | — | — | 39,582 | — | 39,582 |
| End of period | $— | $12,421 | $61,663 | $— | $74,084 |

Forum Energy Technologies, Inc. and subsidiaries
Notes to condensed consolidated financial statements (continued)
(Unaudited)

Condensed consolidating statements of cash flows

| | Nine months ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | FET (Parent) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries (in thousands) | Eliminations | Consolidated |
| Cash flows from (used in) operating activities | $(6,581) | $125,915 | $44,793 | $— | $164,127 |
| Cash flows from investing activities | | | | | |
| Acquisition of businesses, net of cash acquired | — | (53,951) | (127,766) | — | (181,717) |
| Investment in unconsolidated subsidiary | — | (112,241) | — | — | (112,241) |
| Distribution from unconsolidated subsidiary | — | 64,228 | — | — | 64,228 |
| Capital expenditures for property and equipment | — | (35,090) | (9,627) | — | (44,717) |
| Long-term loans and advances to affiliates | (100,007) | — | — | 100,007 | — |
| Other | — | 291 | 448 | — | 739 |
| Net cash provided by (used in) investing activities | $(100,007) | $(136,763) | $(136,945) | $100,007 | $(273,708) |
| Cash flows from financing activities | | | | | |
| Borrowings under Credit Facility | 342,614 | 2,906 | — | — | 345,520 |
| Repayment of long-term debt | (232,344) | (3,068) | 66 | — | (235,346) |
| Payment of contingent consideration | — | (11,435) | — | — | (11,435) |
| Long-term loans and advances to affiliates | — | 10,128 | 89,879 | (100,007) | — |
| Other | (3,682) | 4,225 | — | — | 543 |
| Net cash provided by (used in) financing activities | $106,588 | $2,756 | $89,945 | $(100,007) | $99,282 |
| Effect of exchange rate changes on cash | — | — | (2,563) | — | (2,563) |
| Net increase (decrease) in cash and cash equivalents | — | (8,092) | (4,770) | — | (12,862) |
| Cash and cash equivalents | | | | | |
| Beginning of period | — | 8,092 | 32,971 | — | 41,063 |
| End of period | $— | $— | $28,201 | $— | $28,201 |

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Item 2. Management’s discussion and analysis of financial condition and results of operations

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control. All statements, other than statements of historical fact, included in this Quarterly Report on Form 10-Q regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “may,” “continue,” “potential,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

Forward-looking statements may include statements about:

- business strategy;
- cash flows and liquidity;
- the volatility of oil and natural gas prices;
- our ability to successfully manage our growth, including risks and uncertainties associated with integrating and retaining key employees of the businesses we acquire;
- the availability of raw materials and specialized equipment;
- availability of skilled and qualified labor;
- our ability to accurately predict customer demand;
- competition in the oil and gas industry;
- governmental regulation and taxation of the oil and natural gas industry;
- environmental liabilities;
- political, social and economic issues affecting the countries in which we do business;
- our ability to deliver our backlog in a timely fashion;
- our ability to implement new technologies and services;
- availability and terms of capital;
- general economic conditions;
- benefits of our acquisitions;
- availability of key management personnel;
- operating hazards inherent in our industry;
- the continued influence of our largest shareholder;
- the ability to establish and maintain effective internal control over financial reporting;
- the ability to operate effectively as a publicly traded company;
- financial strategy, budget, projections and operating results;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this report that are not historical.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We disclaim any obligation to update or revise these statements unless required by law, and you should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Quarterly Report on Form 10-Q are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 28, 2014 and elsewhere in this Quarterly Report on Form 10-Q. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Overview

We are a global oilfield products company, serving the subsea, drilling, completion, production and infrastructure sectors of the oil and natural gas industry. We design, manufacture and distribute products, and engage in aftermarket services, parts supply and related services that complement our product offering. Our product offering includes a mix of highly engineered capital products and frequently replaced items that are used in the exploration, development, production and transportation of oil and natural gas. Our capital products are directed at: drilling rig equipment for new rigs, upgrades and refurbishment projects; subsea construction and development projects; the placement of production equipment on new producing wells; and downstream capital projects. Our engineered systems are critical components used on drilling rigs or in the course of subsea operations, while our consumable products are used to maintain efficient and safe operations at well sites in the well construction process, within the supporting infrastructure, and at processing centers and refineries. Historically, just over half of our revenue is derived from activity-based consumable products, while the balance is derived from capital products and a small amount from rental and other services.

We seek to design, manufacture and supply reliable products that create value for our diverse customer base, which includes, among others, oil and gas operators, land and offshore drilling contractors, well stimulation and intervention service providers, subsea construction and service companies, and pipeline and refinery operators.

We operate two business segments:

- Drilling & Subsea segment. We design and manufacture products and provide related services to the subsea, drilling, well construction, completion and intervention markets. Through this segment, we offer subsea technologies, including robotic vehicles and other capital equipment, specialty components and tooling, a broad suite of complementary subsea technical services and rental items, and applied products for subsea pipelines; drilling technologies, including capital equipment and a broad line of products consumed in the drilling and well intervention process; and downhole technologies, including cementing and casing tools, completion products, and a range of downhole protection solutions.
- Production & Infrastructure segment. We design and manufacture products and provide related equipment and services to the well stimulation, completion, production and infrastructure markets. Through this segment, we supply flow equipment, including well stimulation consumable products and related recertification and refurbishment services; production equipment, including well site production equipment and process equipment; and valves, which includes a broad range of industrial and process valves.

Market Conditions

Management believes that the long-term fundamentals underlying the global demand for energy, such as long-term economic and demographic trends, remain strong. The level of demand for our products and services is directly related to activity levels and the capital and operating budgets of our customers, which in turn are influenced heavily by the outlook for energy prices over a shorter term. Energy prices have historically been cyclical in nature, as exemplified by the recent decrease in oil prices. Current energy prices are affected by a wide range of factors, and changes in direction are difficult to predict.

The table below shows average crude oil and natural gas prices for West Texas Intermediate crude oil (WTI), United Kingdom Brent crude oil (Brent), and Henry Hub natural gas:

| | Three months ended | | |
|---|---|---|---|
| | September 30, 2014 | June 30, 2014 | September 30, 2013 |
| Average global oil, $/bbl | | | |
| West Texas Intermediate | $91.16 | $103.06 | $105.78 |
| United Kingdom Brent | $94.87 | $109.06 | $110.07 |
| | | | |
| Average North American Natural Gas, $/Mcf | | | |
| Henry Hub | $4.12 | $4.59 | $3.55 |

In the third quarter 2014, average oil prices were approximately 12% and 14% lower than in the second quarter of 2014 and the third quarter 2013, respectively. Average natural gas prices were approximately 10% lower than in the second quarter 2014, but 16% higher than in the third quarter 2013. These oil and natural gas price levels during the quarter were sufficient to support high levels of exploration and production activity, including the continued development of offshore projects, which stimulates demand for our subsea products. Since the end of the quarter, oil prices have declined to the mid-to-low $80s. If these decreases continue, they could lead to lower levels of activity and a decrease in demand for our products.

In addition to the commodity price levels, the average active rig count data below, based on the weekly Baker Hughes Incorporated rig count, reflect a broad measure of industry activity and resultant demand for our drilling and production related products and services.

| | Three months ended | | |
|---|---|---|---|
| | September 30, 2014 | June 30, 2014 | September 30, 2013 |
| Active Rigs by Location | | | |
| United States | 1,903 | 1,852 | 1,770 |
| Canada | 386 | 199 | 350 |
| International | 1,348 | 1,348 | 1,285 |
| Global Active Rigs | 3,637 | 3,399 | 3,405 |
| | | | |
| Land vs. Offshore Rigs | | | |
| Land | 3,245 | 3,016 | 3,026 |
| Offshore | 392 | 383 | 379 |
| Global Active Rigs | 3,637 | 3,399 | 3,405 |
| | | | |
| U.S. Commodity Target | | | |
| Oil/Gas | 1,577 | 1,529 | 1,383 |
| Gas | 324 | 319 | 380 |
| Unclassified | 2 | 4 | 7 |
| Total U.S. Rigs | 1,903 | 1,852 | 1,770 |
| | | | |
| U.S. Well Path | | | |
| Horizontal | 1,314 | 1,242 | 1,073 |
| Vertical | 372 | 395 | 436 |
| Directional | 217 | 215 | 261 |
| Total U.S. Active Rigs | 1,903 | 1,852 | 1,770 |

Generally, our sales are impacted by changes in rig activity and wells completed. Rig counts were at high levels during the third quarter 2014.The average U.S. rig count increased 3% from the second quarter 2014 and 8% from the third quarter 2013. The international rig count remained stable, while the Canadian rig count increased from its seasonally low second quarter and was up over 10% from the third quarter 2013. To the extent that future oil price declines result in lower levels of exploration and production capital expenditure plans in the future, the number of active rigs could decline.

In addition to the absolute number of active rigs, due to greater application of improved drilling and completion technologies, the current rig fleet is becoming more efficient allowing more wells to be drilled per rig. The trends in the capabilities of the rig fleet are reflected in the table above through the increases in horizontal and directional drilling rigs as a portion of the total rig count. If this trend continues, well completions could grow at a faster pace than the drilling rig count in the future. Higher drilling and completions activities should result in increased demand for our products.

Results of operations

We made two acquisitions and an investment in a joint venture at the beginning of the third quarter 2013 and one acquisition in the second quarter 2014. For additional information about these acquisitions, see Note 3 to the condensed consolidated financial statements in Item 1 of Part I of this quarterly report. For this reason, our results of operations for the nine months ended September 30, 2014 may not be comparable to historical results of operations for the same 2013 period.

Three months ended September 30, 2014 compared with three months ended September 30, 2013

| | Three Months Ended September 30, | | Favorable / (Unfavorable) | |
|---|---|---|---|---|
| | 2014 | 2013 | $ | % |
| (in thousands of dollars, except per share information) | | | | |
| Revenue: | | | | |
| Drilling & Subsea | $307,454 | $248,344 | $59,110 | 23.8 % |
| Production & Infrastructure | 161,696 | 142,731 | 18,965 | 13.3 % |
| Eliminations | (328 ) | (883 ) | 555 | * |
| Total revenue | $468,822 | $390,192 | $78,630 | 20.2 % |
| Operating income: | | | | |
| Drilling & Subsea | $57,929 | $42,568 | $15,361 | 36.1 % |
| Operating income margin % | 18.8 % | 17.1 % | | |
| Production & Infrastructure | 29,816 | 21,402 | 8,414 | 39.3 % |
| Operating income margin % | 18.4 % | 15.0 % | | |
| Corporate | (10,274 ) | (7,447 ) | (2,827 ) | (38.0 )% |
| Total segment operating income | $77,471 | $56,523 | $20,948 | 37.1 % |
| Operating income margin % | 16.5 % | 14.5 % | | |
| Transaction expenses | 1,516 | 376 | (1,140 ) | * |
| Loss (gain) on sale of assets and other | (85 ) | 209 | 294 | * |
| Income from operations | 76,040 | 55,938 | 20,102 | 35.9 % |
| Interest expense, net | 7,699 | 4,373 | (3,326 ) | (76.1 )% |
| Foreign exchange (gains) losses and other, net | (5,222 ) | 2,311 | 7,533 | * |
| Deferred loan costs written off | — | 2,149 | 2,149 | 100.0 % |
| Other (income) expense, net | 2,477 | 8,833 | 6,356 | * |
| Income before income taxes | 73,563 | 47,105 | 26,458 | 56.2 % |
| Income tax expense | 21,332 | 13,924 | (7,408 ) | (53.2 )% |
| Net income | 52,231 | 33,181 | 19,050 | 57.4 % |
| Less: Income attributable to non-controlling interest | 5 | 40 | (35 ) | * |
| Income attributable to common stockholders | $52,226 | $33,141 | $19,085 | 57.6 % |
| | | | | |
| Weighted average shares outstanding | | | | |
| Basic | 93,331 | 91,443 | | |
| Diluted | 96,198 | 94,734 | | |
| Earnings per share | | | | |
| Basic | $0.56 | $0.36 | | |
| Diluted | $0.54 | $0.35 | | |

* not meaningful

25

Revenue

Our revenue for the three months ended September 30, 2014 increased $78.6 million, or 20.2%, to $468.8 million compared to the three months ended September 30, 2013. For the three months ended September 30, 2014, our Drilling & Subsea segment and our Production & Infrastructure segment comprised 65.6% and 34.4% of our total revenue, respectively, which compared to 63.6% and 36.4% of total revenue, respectively, for the three months ended September 30, 2013. The changes in revenue by operating segment consisted of the following:

Drilling & Subsea segment — Revenue increased $59.1 million, or 23.8%, to $307.5 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013 primarily attributable to increased activity in North America, as demonstrated by the 7.5% increase in the U.S. average rig count compared to the prior year period, which resulted in increased sales of our pipe handling and downhole products. We also realized revenue gains compared to the prior year period on workclass remotely operated vehicles used by the offshore construction companies to install subsea trees and infrastructure.

Production & Infrastructure segment — Revenue increased $19.0 million, or 13.3%, to $161.7 million during the three months ended September 30, 2014 compared to the three months ended September 30, 2013 attributable to increased sales of our consumable flow equipment products to pressure pumping service providers as U.S. activity levels continue to improve. We also saw an increase in valve sales into upstream areas in line with market activity.

Segment operating income and segment operating margin percentage

Segment operating income for the three months ended September 30, 2014, increased $20.9 million, or 37.1%, to $77.5 million compared to the three months ended September 30, 2013. The segment operating margin percentage is calculated by dividing segment operating income by revenue for the period. For the three months ended September 30, 2014, the segment operating margin percentage of 16.5% represents an increase of 200 basis points from the 14.5% operating margin percentage for three months ended September 30, 2013. The change in operating margin percentage for each segment is explained as follows:

Drilling & Subsea segment — The operating margin percentage increased 170 basis points to 18.8% for the three months ended September 30, 2014, from 17.1% for the three months ended September 30, 2013. Excluding severance and facility closure costs of $6.1 million incurred in the third quarter of 2013 to reduce our cost structure in line with activity levels at the time, the operating margin is down 80 basis points in the third quarter 2014. Some of this margin decrease is due to a collection in the prior year of a receivable that had been previously determined uncollectible.

Production & Infrastructure segment — The operating margin percentage improved 340 basis points to 18.4% for the three months ended September 30, 2014, from 15.0% for the three months ended September 30, 2013. The improvement in operating margin percentage was attributable to higher activity levels in flow equipment and valves, and higher equity earnings from our joint venture in Global Tubing, LLC.

Corporate — Selling, general and administrative expenses for Corporate increased by $2.8 million, or 38.0%, for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, due to higher personnel costs and higher professional fees. Corporate costs include, among other items, payroll related costs for general management and management of finance and administration, legal, human resources and information technology; professional fees for legal, accounting and related services; and marketing costs.

Other items not included in segment operating income

Several items are not included in segment operating income, but are included in total operating income. These items include transaction expenses, and gains and losses from the sale of assets. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses, including internal legal entity structuring, and are not considered to be part of segment operating income. These costs were $1.5 million and $0.4 million for the three months ended September 30, 2014 and 2013, respectively.

Other income and expense

Other income and expense includes interest expense and foreign exchange gains and losses. We incurred $7.7 million of interest expense during the three months ended September 30, 2014, an increase of $3.3 million from the three months ended September 30, 2013. The increase in interest expense was attributable to the higher interest rate on our Senior Notes issued in the fourth quarter 2013 compared to the variable interest rate under our Credit Facility. The change in foreign exchange gains or losses is primarily the result of movements in the British pound relative to the U.S. dollar.

Taxes

Tax expense includes current income taxes expected to be due based on taxable income to be reported during the periods in the various jurisdictions in which we conduct business, and deferred income taxes based on changes in the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax purposes at the beginning and end of the respective periods. The effective tax rate, calculated by dividing total tax expense by income before income taxes, was 29.0% for the three months ended September 30, 2014 and 29.6% for the three months ended September 30, 2013. The tax provision for the three months ended September 30, 2014 is lower than the comparable period in 2013 primarily due to benefits received from certain domestic tax incentives and a higher proportion of our earnings being generated outside the United States in jurisdictions subject to lower tax rates.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013

| | Nine months ended September 30, | | Favorable / (Unfavorable) | |
|---|---|---|---|---|
| | 2014 | 2013 | $ | % |
| (in thousands of dollars, except per share information) | | | | |
| Revenue: | | | | |
| Drilling & Subsea | $848,474 | $679,482 | $168,992 | 24.9 % |
| Production & Infrastructure | 453,640 | 452,845 | 795 | 0.2 % |
| Eliminations | (1,075) | (1,249) | 174 | (13.9)% |
| Total revenue | $1,301,039 | $1,131,078 | $169,961 | 15.0 % |
| Operating income: | | | | |
| Drilling & Subsea | $155,330 | $110,630 | $44,700 | 40.4 % |
| Operating income margin % | 18.3 % | 16.3 % | | |
| Production & Infrastructure | 80,260 | 65,600 | 14,660 | 22.3 % |
| Operating income margin % | 17.7 % | 14.5 % | | |
| Corporate | (29,711) | (21,521) | (8,190) | (38.1)% |
| Total segment operating income | $205,879 | $154,709 | $51,170 | 33.1 % |
| Operating income margin % | 15.8 % | 13.7 % | | |
| Transaction expenses | 2,326 | 2,191 | (135) | (6.2)% |
| Loss (gain) on sale of assets and other | 320 | 229 | (91) | * |
| Income from operations | 203,233 | 152,289 | 50,944 | 33.5 % |
| Interest expense, net | 23,174 | 10,847 | (12,327) | (113.6)% |
| Foreign exchange (gains) losses and other, net | (616) | 1,863 | 2,479 | * |
| Deferred loan costs written off | — | 2,149 | 2,149 | 100.0 % |
| Other (income) expense, net | 22,558 | 14,859 | (7,699) | * |
| Income before income taxes | 180,675 | 137,430 | 43,245 | 31.5 % |
| Income tax expense | 52,395 | 42,371 | (10,024) | (23.7)% |
| Net income | 128,280 | 95,059 | 33,221 | 34.9 % |
| Less: Income attributable to non-controlling interest | 2 | 59 | (57) | * |
| Income attributable to common stockholders | $128,278 | $95,000 | $33,278 | 35.0 % |
| | | | | |
| Weighted average shares outstanding | | | | |
| Basic | 92,728 | 90,347 | | |
| Diluted | 95,631 | 94,527 | | |
| Earnings per share | | | | |
| Basic | $1.38 | $1.05 | | |
| Diluted | $1.34 | $1.01 | | |

* not meaningful

28

Revenue

Our revenue for the nine months ended September 30, 2014 increased $170.0 million, or 15.0%, to $1,301.0 million compared to the nine months ended September 30, 2013. For the nine months ended September 30, 2014, our Drilling & Subsea segment and our Production & Infrastructure segment comprised 65.2% and 34.8% of our total revenue, respectively, which compared to 60.1% and 39.9% of total revenue, respectively, for the nine months ended September 30, 2013. The changes in revenue by operating segment consisted of the following:

Drilling & Subsea segment — Revenue increased $169.0 million, or 24.9%, to $848.5 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily attributable to increased market activity as reflected in the average rig counts. We have had particularly strong increases in sales of our pipe handling tools, other drilling and consumable products, downhole products and workclass remotely operated vehicles. A portion of the increase is attributable to acquisitions closed in the third quarter 2013 and in the second quarter 2014.

Production & Infrastructure segment — Revenue increased $0.8 million, or 0.2%, to $453.6 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily due to lower shipments of surface production equipment products and slower project activity in the first half of 2014 for valve products offset by a good recovery in the market for our flow equipment products.

Segment operating income and segment operating margin percentage

Segment operating income for the nine months ended September 30, 2014, increased $51.2 million, or 33.1%, to $205.9 million compared to the nine months ended September 30, 2013. The segment operating margin percentage is calculated by dividing segment operating income by revenue for the period. For the nine months ended September 30, 2014, the segment operating margin percentage of 15.8% represents an increase of 210 basis points from the 13.7% operating margin percentage for nine months ended September 30, 2013. The change in operating margin percentage for each segment is explained as follows:

Drilling & Subsea segment — The operating margin percentage increased 200 basis points to 18.3% for the nine months ended September 30, 2014, from 16.3% for the nine months ended September 30, 2013. Excluding severance and facility closure costs of $6.1 million incurred in the third quarter 2013 to bring our cost structure in line with activity levels at that time, the operating margin percentage is up 110 basis points for the nine months ended September 30, 2014. This increase is primarily attributable to higher volumes in certain higher margin drilling and downhole products, and overall lower selling, general and administrative costs as a percentage of revenue.

Production & Infrastructure segment — Operating margin percentage improved 320 basis points to 17.7% for the nine months ended September 30, 2014, from 14.5% for the nine months ended September 30, 2013. The improvement in operating margin percentage was attributable to improved margins in flow equipment on higher activity levels and equity earnings from the investment in Global Tubing, LLC joint venture acquired mid-year in 2013.

Corporate — Selling, general and administrative expenses for Corporate increased by $8.2 million, or 38.1%, for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, due to higher personnel costs and higher professional fees. Corporate costs include, among other items, payroll related costs for general management and management of finance and administration, legal, human resources, information technology, professional fees for legal, accounting and related services, and marketing costs.

Other items not included in segment operating income

Several items are not included in segment operating income, but are included in total operating income. These items include transaction expenses, and gains and losses from the sale of assets. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses, including legal entity restructuring, and are not considered to be part of segment operating income. These costs were $2.3 million for the nine months ended September 30, 2014 and, including $0.8 million reported as part of equity in earnings from Global Tubing LLC, these costs were $3.0 million for the nine months ended September 30, 2013, primarily attributable to three acquisitions closed effective July 2, 2013. In the nine months ended September 30, 2014, we recognized a loss of $0.3 million on sales of assets, primarily from a loss of $0.8 million on the sale of our subsea pipe joint protective coatings business.

Other income and expense

Other income and expense includes interest expense, and foreign exchange gains and losses. We incurred $23.2 million of interest expense during the nine months ended September 30, 2014, an increase of $12.3 million from the nine months ended September 30, 2013. The increase in interest expense was attributable to the higher interest rate on our Senior Notes issued in the fourth quarter 2013 compared to the variable interest rate under our Credit Facility. The change in foreign exchange gains or losses is primarily the result of movements in the British pound relative to the U.S. dollar.

Taxes

Tax expense includes current income taxes expected to be due based on taxable income to be reported during the periods in the various jurisdictions in which we conduct business, and deferred income taxes based on changes in the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax purposes at the beginning and end of the respective periods. The effective tax rate, calculated by dividing total tax expense by income before income taxes, was 29.0% for the nine months ended September 30, 2014 and 30.8% for the nine months ended September 30, 2013. The tax provision is lower than the comparable period in 2013 primarily due to benefits received from certain domestic tax incentives and a higher proportion of our earnings being generated outside the United States in jurisdictions subject to lower tax rates. The effective tax rate can vary from period to period depending on our relative mix of U.S. and non-U.S. earnings.

Liquidity and capital resources

Sources and uses of liquidity

At September 30, 2014, we had cash and cash equivalents of $74.1 million and total debt of $421.3 million. We believe that cash on hand, cash generated from operations and amounts available under the Credit Facility will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations for the foreseeable future.

Capital expenditures for 2014 are expected to be approximately $55.0 million, which consists of, among other items, investments in constructing or expanding certain manufacturing facilities, purchases of machinery and equipment, expansion of our subsea rental fleet equipment, and general maintenance capital expenditures of approximately $25.0 million. This budget does not include possible expenditures for future business acquisitions.

Although we do not budget for acquisitions, pursuing growth through acquisitions is a significant part of our business strategy. We expanded and diversified our product portfolio with the acquisition of one business in the second quarter 2014 for total consideration of $38.3 million, and two businesses and an investment in a joint venture in 2013 for total consideration (net of cash acquired) of $230.0 million. We used cash on hand and borrowings under the Credit Facility to finance these acquisitions. We continue to actively review acquisition opportunities on an ongoing basis. Our ability to make significant additional acquisitions for cash may require us to obtain additional equity or debt financing, which we may not be able to obtain on terms acceptable to us or at all.

In October 2014, our Board of Directors approved a share repurchase program for the repurchase of outstanding shares of our common stock with an aggregate purchase price of up to $150 million. Shares may be repurchased under the program from time to time, in amounts and at prices that we deem appropriate, subject to market and business conditions, applicable legal requirements and other considerations.

Our cash flows for the nine months ended September 30, 2014 and 2013 are presented below (in millions):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Net cash provided by operating activities | $179.8 | $164.1 |
| Net cash used in investing activities | (69.5) | (273.7) |
| Net cash provided by (used in) financing activities | (75.5) | 99.3 |
| Net increase (decrease) in cash and cash equivalents | $34.5 | $(12.9) |

Cash flows provided by operating activities

Net cash provided by operating activities was $179.8 million and $164.1 million for the nine months ended September 30, 2014 and 2013, respectively. Cash provided by operations increased primarily as a result of higher earnings offset by incremental investments in working capital as a result of higher activity levels as compared to the prior year.

Cash flows used in investing activities

Net cash used in investing activities was $69.5 million and $273.7 million for the nine months ended September 30, 2014 and 2013, respectively. The decrease was primarily due to lower consideration paid for an acquisition in 2014 compared to the consideration paid for acquisitions and an investment in a joint venture closed in 2013. Capital expenditures for the nine months ended September 30, 2014 were $41.4 million as compared to $44.7 million for the comparable prior period.

Cash flows provided by (used in) financing activities

Net cash used in financing activities was $75.5 million for the nine months ended September 30, 2014, compared to cash provided by financing activities of $99.3 million for the nine months ended September 30, 2013. The cash used in financing activities for the nine months ended September 30, 2014 was primarily due to the pay down of long-term debt during the period. The cash provided by financing activities for the nine months ended September 30, 2013 consisted primarily of net borrowings of $110.2 million, related to acquisitions made during that period.

Senior Notes Due 2021

The Senior Notes bear interest at a rate of 6.250% per annum, payable on April 1 and October 1 of each year, and mature on October 1, 2021. The Senior Notes are senior unsecured obligations guaranteed on a senior unsecured basis by our subsidiaries that guarantee the Credit Facility and rank junior to, among other indebtedness, the Credit Facility to the extent of the value of the collateral securing the Credit Facility.

In connection with the initial issuance and sale of the Senior Notes, the Company and the subsidiary guarantors entered into a Registration Rights Agreement. Pursuant to the Registration Rights Agreement, the Company and the subsidiary guarantors agreed for the benefit of the holders of the Senior Notes to use commercially reasonable efforts to register with the SEC and exchange offer for senior notes due 2021 having identical terms as the Senior Notes. In satisfaction of its obligations under the Registration Rights Agreement, the Company completed the exchange offer on September 15, 2014.

Credit Facility

We have a Credit Facility with Wells Fargo Bank, National Association, as administrative agent, and several financial institutions as lenders, which provides for a $600.0 million revolving credit line, with up to $75.0 million available for letters of credit and up to $25.0 million in swingline loans. Subject to terms of the Credit Facility, we have the ability to increase the revolving Credit Facility by an additional $300.0 million. Our revolving Credit Facility matures in November 2018. Weighted average interest rates under the Credit Facility at September 30, 2014 and December 31, 2013 were 1.91% and 2.17%, respectively.

Future borrowings under the Credit Facility will be available for working capital and other general corporate purposes, including permitted acquisitions. It is anticipated that the Credit Facility will be available to be drawn on and repaid during the term thereof as long as we are in compliance with the terms of the credit agreement, including certain financial covenants. As of September 30, 2014, we had $17.0 million of borrowings outstanding under our Credit Facility and $11.0 million of outstanding letters of credit and the capacity to borrow an additional $572.0 million under our Credit Facility.

There have been no changes to the Credit Facility financial covenants disclosed in Item 7 of our 2013 Annual Report on Form 10-K and we were in compliance with all financial covenants at September 30, 2014 and December 31, 2013.

Off-balance sheet arrangements

As of September 30, 2014, we had no off-balance sheet instruments or financial arrangements, other than operating leases entered into in the ordinary course of business.

Contractual obligations

Except for net repayments under the Credit Facility, as of September 30, 2014, there have been no material changes in our contractual obligations and commitments disclosed in the Annual Report.

Critical accounting policies and estimates

There have been no material changes in our critical accounting policies and procedures during the nine months ended September 30, 2014. For a detailed discussion of our critical accounting policies and estimates, refer to our 2013 Annual Report on Form 10-K.

Recent accounting pronouncements

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements - Going Concern. The new standard requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern for both annual and interim reporting periods. The guidance is effective for us for the fiscal year beginning January 1, 2016 and interim periods thereafter. The guidance is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard is effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. We are currently evaluating the impacts of adoption and the implementation approach to be used.

In April 2014, the FASB issued ASU 2014-08 — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The ASU raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance is effective for us for the fiscal year beginning January 1, 2015, and is not expected to have a material impact on our consolidated financial statements.

Item 3. Quantitative and qualitative disclosures about market risk

We are currently exposed to market risk from changes in foreign currency and changes in interest rates. From time to time, we may enter into derivative financial instrument transactions to manage or reduce our market risk, but we do not enter into derivative transactions for speculative purposes.

There have been no significant changes to our market risk since December 31, 2013. For a discussion of our exposure to market risk, refer to Part II, Item 7(a), “Quantitative and Qualitative Disclosures About Market Risk,” in our 2013 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of September 30, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2014 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

32

Table of Contents

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 11, Commitments and Contingencies, in Part I, Item 1, Financial Statements, for a discussion of our legal proceedings, which is incorporated into this Item 1 of Part II by reference.

Item 1A. Risk Factors

For additional information about our risk factors, see "Risk Factors" in Item 1A of our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Shares of common stock purchased and placed in treasury during the three months ended September 30, 2014 were as follows:

| Period | Total number of shares purchased (a) | Average price paid per share | Total number of shares purchased as part of publicly announced plan or programs | Maximum number of shares that may yet be purchased under the plan or program (b) |
|---|---|---|---|---|
| July 1, 2014 - July 31, 2014 | 11,967 | $36.27 | — | — |
| August 1, 2014 - August 31, 2014 | — | $— | — | — |
| September 1, 2014 - September 30, 2014 | 406 | $32.25 | — | — |
| Total | 12,373 | $36.14 | — | |

(a) All of the 12,373 shares purchased during the three months ended September 30, 2014 were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from the vesting of restricted stock grants. None of these shares were part of a publicly announced program to purchase common shares.

(b) In October 2014, our Board of Directors approved a share repurchase program for the repurchase of outstanding shares of our common stock with an aggregate purchase price of up to $150 million. Shares may be repurchased under the program from time to time, in amounts and at prices that we deem appropriate, subject to market and business conditions, applicable legal requirements and other considerations.

Table of Contents

## Item 6. Exhibits

| Exhibit Number | | DESCRIPTION |
|---|---|---|
| 31.1* | — | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | — | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | — | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | — | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | — | XBRL Instance Document. |
| 101.SCH* | — | XBRL Taxonomy Extension Schema Document. |
| 101.CAL* | — | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB* | — | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE* | — | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF* | — | XBRL Taxonomy Extension Definition Linkbase Document. |

* Filed herewith.

** Furnished herewith.

Table of Contents

SIGNATURES

As required by Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on its behalf by the undersigned authorized individuals.

FORUM ENERGY TECHNOLOGIES, INC.

| | | | |
|---|---|---|---|
| Date: | October 31, 2014 | By: | /s/ James W. Harris<br>James W. Harris<br>Senior Vice President and Chief Financial Officer<br>(As Duly Authorized Officer and Principal Financial Officer) |
| | | By: | /s/ Tylar K. Schmitt<br>Tylar K. Schmitt<br>Vice President and Corporate Controller<br>(As Duly Authorized Officer and Principal Accounting Officer) |