

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35504

**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)

Registrant's telephone number, including area code: (281) 949-2500

Securities registered pursuant to Section 12(b) of the Act:

Common stock, \$0.01 par value

(Title of Each Class)

New York Stock Exchange

(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of Common Stock held by non-affiliates on June 30, 2014, determined using the per share closing price on the New York Stock Exchange Composite tape of \$36.43 on June 30, 2014, was approximately \$2.4 billion. For this purpose, our executive officers and directors and SCF Partners L.P. and its affiliates are considered affiliates.

As of February 25, 2015, there were 89,885,578 common shares outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

**Forum Energy Technologies, Inc.**  
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**PART I****Item 1. Business**

Forum Energy Technologies, Inc. ("Forum," the "Company," "we," or "us"), 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. Our common shares are listed on the New York Stock Exchange ("NYSE") under the symbol "FET." Our principal executive offices are located at 920 Memorial City Way, Suite 1000, Houston, Texas 77024, our telephone number is (281) 949-2500, and our website is [www.f-e-t.com](http://www.f-e-t.com). Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments thereto, are available free of charge on our Internet website as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). These reports are also available at the SEC's Internet website at [www.sec.gov](http://www.sec.gov). Information contained on or accessible from our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report or any other filing that we make with the SEC.

**Overview**

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 targeted 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, oilfield service companies, subsea construction and service companies, and pipeline and refinery operators.

We operate two business segments, Drilling & Subsea and Production & Infrastructure. The table below provides a summary of proportional revenue contributions from our two business segments and our primary geographic markets over the last three years:

	Percentage of revenue		
	Year ended December 31,		
	2014	2013	2012
Drilling & Subsea	65%	62%	58%
Production & Infrastructure	35%	38%	42%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
United States	60%	60%	63%
Canada	6%	6%	8%
Other International	34%	34%	29%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

We incorporate by reference in response to this item the segment and geographic information for the last three years set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of operations" in Item 7 of this Annual Report on Form 10-K and Note 15 of the Notes to consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. We also incorporate by reference in response to this item the information with respect to acquisitions set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Acquisitions" in Item 7 and in Note 3 of our Notes to consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

## **Drilling & Subsea segment**

In our Drilling & Subsea segment, we design and manufacture products and provide related services to the subsea construction, 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.

There are several factors driving demand for our Drilling & Subsea segment. Demand for our subsea products is impacted by global offshore activity, subsea equipment and pipeline installation, repair and maintenance spending, and growth in offshore resource development. Our Drilling Technologies product line is influenced by global drilling, workover and intervention activity, the level of capital investment in drilling rigs, rig upgrades and equipment replacement as drilling contractors modify their existing rigs to improve efficiency and safety, and the severity of the conditions under which the rigs and well service equipment operate. In addition, our Downhole Technologies product line is impacted by the level of well completion activity and complexity of well construction and completion.

Subsea Technologies. We design and manufacture capital equipment and specialty components used in the subsea sector, as well as applied products for subsea pipelines, and provide a broad suite of complementary subsea technical services and rental items. We have a core focus on the design and manufacture of remotely operated vehicle ("ROV") systems and other specialty subsea vehicles, as well as critical components of these vehicles. Many of our related technical services complement our vehicle offerings. We operate primarily from facilities in Houston, Texas; Kirkbymoorside and Newcastle, England; Aberdeen, Scotland; Singapore and Macae, Brazil.

Subsea vehicles. We are a leading designer and manufacturer of a wide range of ROVs that we supply to the offshore subsea construction, observation and related service markets. The market for subsea ROVs can be segmented into three broad classes of vehicles based on size and category of operations: (1) large work-class vehicles and trenchers for subsea construction and installation activities, (2) drilling-class vehicles deployed from and for use around an offshore rig and (3) observation-class vehicles for inspection and light manipulation. We are a leading provider of work-class and observation-class vehicles.

We design and manufacture large work-class ROVs through our Perry brand. These vehicles are principally used in deepwater construction applications with the largest vehicles providing up to 200 horsepower, exceeding 1,200 pounds of payload capacity and having the capability of working in depths up to 4,000 meters. In addition to work-class ROVs, we design and manufacture large subsea trenchers that travel along the sea floor for digging, installation and burial operations. The largest of these subsea trenchers provide up to 1,500 horsepower and are able to cut over three meters deep into the seafloor to lay pipelines, power cables or communications cables.

Our Sub-Atlantic branded observation-class vehicles are electrically powered and are principally used for inspection, survey, and light manipulation and serve a wide range of industries.

Our subsea vehicle customers are primarily large offshore construction companies, but also include non-oil and gas industry entities, such as a range of governmental organizations including navies, maritime science and geosciences research organizations, offshore wind power companies and other industries operating in marine environments.

Subsea products. In addition to subsea vehicles, we are a leading manufacturer of subsea products and components. We design and manufacture a group of products that are used in and around the ROV. For example, we manufacture Dynacon™ branded ROV launch and recovery systems, Syntech™ branded syntactic foam buoyancy components, Sub-Atlantic branded ROV thrusters, and a wide range of hydraulic power units and valve packs. We design and manufacture these ROV components for incorporation into our own vehicles as well as for sale to other ROV manufacturers. We also provide a broad suite of subsea tooling, both industry standard and custom designed.

In addition to vehicle-related subsea products, we provide products used in subsea infrastructure, including subsea pipeline inspection gauge launching and receiving systems, and subsea connectors. Our primary customers in this product line are offshore pipeline construction companies.

Subsea technical services and rental. We maintain a fleet of subsea rental items, primarily subsea positioning equipment, and provide our customers with complementary subsea technical services. Our customers for rental items and personnel are primarily subsea construction and offshore service companies. In addition, we offer a system that offers a complete solution for digital video capture, playback, processing and reporting of subsea inspection survey

data. We also maintain a geophysical and geotechnical engineering group that provides consulting services to the oil and gas, and marine industries, typically to interpret and analyze third party subsea data provided by clients.

*Drilling Technologies.* We provide both drilling capital equipment and consumables, with a focus on products that enhance our customers' handling of tubulars on the drilling rig. Our product offering includes powered and manual tubular handling equipment; specialized torque equipment; customized offline crane systems; drilling data acquisition management systems; pumps, pump parts, valves, and manifolds; drilling, well servicing and hydraulic fracturing fluid end components and a broad line of items consumed in the drilling process; and wireline cable and pressure control equipment for both coiled tubing and wireline well intervention operations.

Drilling equipment. We design and manufacture powered tubular handling equipment used on onshore and offshore drilling rigs. Our equipment reduces direct human involvement in the handling of pipe during drilling operations, improving safety, speed and efficiency of operations. Our hydraulic catwalks mechanize the lifting and lowering of tubulars to and from the drill floor, eliminating or reducing the need for traditional drill pipe and casing "pick-up and lay-down" operations with associated personnel. In addition, we manufacture make-up and break-out tools, called B+V Oil Tools Floorhand™ and Wrangler Roughneck™, which automate a potentially dangerous rig floor task and improve rig drilling speed and safety. We also design and manufacture specialized torque equipment and related control systems for tubular connections, including high torque stroking, or bucking units, fully rotational torque units, portable torque units for field deployment, and provide aftermarket service. In addition, we design and manufacture a range of rig-based offline activity cranes, multi-purpose cranes and personnel transfer solutions. Many of these cranes are fit-for-purpose multi-axis cranes that provide access to hard-to-reach places and eliminate the need for manual interface.

In addition to powered tubular handling equipment, materials handling and personnel transfer equipment, we manufacture drilling manifold systems and high pressure piping packages. We also manufacture data acquisition products that include integrated drill floor instrumentation and monitoring systems. These systems provide real-time monitoring and logging of drilling data to drilling contractors and oil and gas producers on the rig and at remote locations. They measure, collect, store and display drilling data on a real-time basis, as is expected by our customers in the current drilling environment.

We repair and service drilling equipment for both land and offshore rigs. Many of our service employees work in the field to address problems at the rig site.

Tubular handling tools. We provide a range of powered and manual tubular handling tools used on onshore and offshore drilling rigs. Our B+V Oil Tools and Wrangler™ branded tools reduce direct human involvement in the handling of pipe during drilling operations. Our tubular handling tools include elevators, clamps, slip handles, tong handles, powered slips, spiders and kelly spinners.

Consumable products. We manufacture a range of consumable products used on drilling rigs, well servicing rigs, pressure pumping units, and hydraulic fracturing systems. Our consumable products include valves, centrifugal pumps, mud pump parts, rig sensors, and inserts and dies. We are also a supplier of oilfield bearings to original equipment manufacturers and repair businesses for use on drilling and well stimulation equipment.

Well intervention equipment. We manufacture pressure control products that are used for well intervention operations and are sold directly to oilfield service companies and equipment rental companies. These products include both coiled tubing and wireline blowout preventers and their accessories. We also conduct aftermarket refurbishment and recertification services for pressure control equipment. In addition to blowout preventers for wireline units, we manufacture electro-mechanical wireline cables through our recent acquisition of Quality Wireline & Cable, Inc.

*Downhole Technologies.* We manufacture a broad line of downhole products that are consumed during the well construction, completion and production enhancement processes.

Casing and cementing tools. Through our Davis-Lynch™ branded downhole well construction and completion tools product line, we design and manufacture products used in the construction of oil and gas wells. We design and manufacture a full range of centralizers, float equipment, stage cementing tools, inflatable packers, flotation collars, cementing plugs, fill and circulation tools for running casing, casing hangers and surge reduction equipment. Our products are used in the construction of onshore and offshore wells.

**Completion products.** We manufacture a line of downhole completion tools, including composite plugs and wireline flow-control products. Our composite plugs are primarily used for zonal isolation during multi-stage hydraulic fracturing in horizontal and vertical wells. The composite construction with metal slips allows the plugs to be drilled out quickly to improve service efficiency. We offer a variety of plug sizes to fit various casings as well as a range of temperature and pressure ratings to accommodate different well environments. Our wireline flow-control products include a number of components included in most completions such as landing nipples, circulating sleeves, blanking plugs and separation tools.

**Downhole protection systems.** We offer a full range of downhole protection solutions through our Cannon Services™ brand. The clamp and protection system is used to shield downhole control lines, cables and gauges during installation and to provide protection during production enhancement operations. We design and manufacture a full range of downhole protection solutions for electrical submersible pump ("ESP") cabling, encapsulated control lines, sub-surface safety valves ("SSSV") and permanent downhole gauges. We provide both standard and customized protection systems, and we utilize a range of materials in our products for various downhole environments.

Our primary customers in this product line are oil and gas producers and service companies providing completion, ESP and other intervention services to producers.

### ***Production & Infrastructure segment***

In our Production & Infrastructure segment, we design and manufacture products and provide related equipment and services to the well stimulation, 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 valve solutions, which includes a broad range of industrial and process valves.

The level of spending to bring new wells on production and the related infrastructure is the primary driver for our Production & Infrastructure segment. In addition, the use of hydraulic fracturing to develop oil and gas reserves in shale or tight sand basins across North America has a significant impact on our Flow Equipment product line. Our Production Equipment product line also has exposure to the amount of spending on midstream and downstream projects as it offers products that go from the well site to inside the refinery fence. Our Valve Solutions product line is impacted by the level of infrastructure additions, upgrades and maintenance activities across the oil and gas industry, including the upstream, midstream and downstream sectors. This includes heavy oil development in Canada and investments in new petrochemical facilities. In addition, our valves are used in the process and mining industries.

**Flow Equipment.** We provide a broad range of high pressure flow equipment used by well stimulation, or pressure pumping, companies during the stimulation, intervention and flowback processes. Our focus is on consumable products that experience high rates of wear and replacement. We design and manufacture pressure control plug, choke and relief valves, swivel joints, pup joints and integral fittings, manifolds and manifold trailers, as well as triplex and quintuplex fluid-end assemblies. Frequent refurbishment and recertification of flow equipment is critical to ensuring the reliable and safe operation of a pressure pumping company's fleet. We perform these services at ten locations and operate a fleet of mobile refurbishment and recertification tractor trailers, which can deploy to the customer's yard. We serve many of the unconventional basins across North America and seek to position our stocking and service locations in proximity to our customers' operations. Our primary customers in the Flow Equipment product line are pressure pumping and flowback service companies, although we also generate sales to original equipment manufacturers of pressure pumping units.

In 2013, we acquired Global Tubing, LLC ("Global Tubing") jointly with an equal partner, with management retaining a small interest. Global Tubing is a manufacturer of coiled tubing strings and related services. Global Tubing® coiled tubing strings are consumable components of coiled tubing units that perform well completion and intervention activities. Our investment in Global Tubing is reported in the Production & Infrastructure segment using the equity method of accounting.

**Production Equipment.** Our surface Production Equipment product line provides engineered process systems and field services for capital equipment used at the wellsite, for production processing, and at the refinery. We serve the upstream, midstream and downstream segments in oil and gas production equipment and services. Once a well has been drilled, completed and brought on stream, we provide the well operator-producer with the process equipment necessary to make the oil or gas ready for transmission. We also provide desalination and dehydration equipment. We engineer, fabricate and install tanks, separators, packaged production systems and American Society of Mechanical Engineers ("ASME") and American Petroleum Institute ("API") coded and non-coded pressure vessels, skidded vessels with gas measurement, modular process plants, header and manifold skids, process and flow control equipment and

separators to help clean and process oil or gas as it travels from the wellhead and along the transmission line to the refinery. Our customers are principally oil and gas operators/producers, and our manufacturing and staging locations are positioned across North America to best serve the key emerging shale and unconventional resource plays.

A key to our competitiveness is manufacturing tanks and pressure vessels in relatively close proximity to their location of use to reduce freight costs, as well as helping our customers manage their production equipment needs as their drilling programs progress. We have five North American manufacturing locations and two service centers. To ensure smooth delivery of equipment, we maintain a fleet of specialized trucks and crews that can deliver and install the production equipment on the well site.

*Valve Solutions.* We design, manufacture and provide a wide range of industrial valves that principally serve the upstream, midstream and downstream markets of the oil and gas industry. To a lesser extent, our valves serve general industrial, power and process industry customers as well as the mining industry. We provide ball, gate, globe, check and butterfly valves across a range of sizes and applications.

We market our valves to our customers and end users through our four recognized brands: PBV™, DSI®, Quadrant® and ABZ™. Much of our production is sold through distribution supply companies, with our marketing efforts targeting end users for pull through of our products. Our global sales force and representatives cover approximately 30 countries, with local sales and distribution in Australia, Canada and South Africa. Our Canadian company provides significant exposure to the heavy oil projects, while our South African affiliate serves chemical, petrochemical and refining customers.

Our manufacturing and supply chain systems enable us to design and produce high-quality engineered valves, as well as provide standardized products, while maintaining competitive pricing and minimizing capital requirements. We manufacture and warehouse our engineered PBV ball valves at our 200,000 square foot valve manufacturing facility in Stafford, Texas and our 250,000 square foot warehouse in Houston, Texas, which is also utilized by our other product lines. We also utilize our international manufacturing partners to produce components and completed products for a number of our other valve brands.

Depending on the product, we manufacture our valves to conform to the standards of one or more of the API, American National Standards Institute, American Bureau of Shipping, and International Organization for Standardization and/or other relevant standards governing the design and manufacture of industrial valves. Through our Valve Solutions product line, we participate in the API's standard-setting process.

### ***Business history***

Forum was incorporated in 2005 and formed through a series of acquisitions. Between May 2005 and August 2007, SCF Partners ("SCF"), a private equity firm specializing in investments in the oilfield services sector since it was founded in 1989, acquired various entities to form five different equipment and related services companies, each serving a part of the oil and gas industry. In August 2010, the five companies owned by SCF were combined in a transaction we refer to as the "Combination." The largest of the companies, Forum Oilfield Technologies, Inc. ("FOT"), an equipment provider focused on the drilling sector, became the parent company and was renamed Forum Energy Technologies, Inc.

On April 17, 2012, we completed our initial public offering.

### ***Backlog***

As we provide a mix of capital goods, consumable products, repair parts, and rental services, a majority of our business does not require lengthy lead times. A majority of the orders and commitments included in our backlog as of December 31, 2014 were scheduled to be delivered within six months. Our backlog was approximately \$464 million at December 31, 2014 compared to approximately \$395 million at December 31, 2013.

We can give no assurance that our level of backlog will remain at current levels. Sales of our products are affected by prices for oil and natural gas, which have decreased significantly over the last several months. Until oil and natural gas prices stabilize, we expect that the level of customer orders will decline from prior levels, causing a decrease in our future backlog levels. Substantially all of our projects currently included in our backlog are subject to change and/or termination at the option of the customer. In the case of a change or termination, the customer is generally required to pay us for work performed and other costs necessarily incurred as a result of the change or termination. In the past, terminations and cancellations have not been material to our overall operating results. It is difficult to predict how much

of our current backlog will be delayed or terminated, or subject to changes, as well as our ability to collect termination or change fees.

Our consumable and repair products are predominantly off-the-shelf items requiring short lead-times, generally less than six months, and our related refurbishment or other services are also not contracted with significant lead time. The composition of our backlog is reflective of our mix of capital equipment, consumable products, aftermarket and other related items. Our bookings, which consist of written orders or commitments for our products or related services, during the years ended December 31, 2014 and 2013 were approximately \$1.8 billion and \$1.5 billion, respectively. With the decrease in spending announced by many companies in our customer base, we expect that bookings will decrease in 2015.

### **Customers**

No customer represented more than 10% of consolidated revenue in any of the last three years.

### **Seasonality**

A substantial portion of our business is not significantly impacted by seasonality. Generally, the fourth quarter experiences lower sales and profitability due to a decrease in working days caused by the U.S. Thanksgiving and calendar year-end holidays, and exposure to manufacturing and shipping delays caused by weather. A small portion of the revenue we generate from selected Canadian operations often benefits from higher first quarter activity levels, as operators take advantage of the winter freeze to gain access to remote drilling and production areas. We also experience some exposure to seasonality through the portion of our subsea rental business that serves the North Sea. It is customary for North Sea activity to slow down between the months of November and February. Revenue exposed to this type of seasonality, however, comprised less than 5% of our overall revenue in 2014.

### **Competition**

The markets in which we operate are highly competitive. We compete with a number of companies, some of which have greater financial and other resources than us. The principal competitive factors in our markets are product quality, price, breadth of product offering, availability of products and services, performance, distribution capabilities, responsiveness to customer needs and reputation for service. We believe our products and services in each segment are at least comparable in price, quality, performance and dependability with our competitors' offerings. We seek to differentiate ourselves from our competitors by providing a rapid response to the needs of our customers, a high level of customer service, and innovative product development initiatives. Some of our competitors expend greater amounts of money on formal research and engineering efforts than us. We believe, however, that our product development efforts are enhanced by the investment of management time we make to improve our customer service and to work with our customers on their specific product needs and challenges.

Although we have no single competitor across all of our product lines, the companies we compete with across the greatest number of our product lines include Cameron International Corporation and FMC Technologies, Inc.

We have no one direct competitor across all of the products and services within our Drilling & Subsea segment. We hold what we consider to be market leading positions in several of our core products on a global basis, and we generally compete with a small number of competitors. The significant competitors within our Drilling & Subsea segment include Schilling Robotics, a subsidiary of FMC Technologies, Inc., Cameron International Corporation, National Oilwell Varco, Inc. and Weatherford International, Ltd.

We have no one direct competitor across all of the products and services within our Production & Infrastructure segment, although Cameron International Corporation is a significant competitor for many of our products. Other competitors include Exterran Holdings, Inc., FMC Technologies, Inc. and Weir SPM, a subsidiary of The Weir Group PLC.

### **Patents, trademarks and other intellectual property**

We currently hold multiple U.S. and international patents and trademarks and have a number of pending patent and trademark applications. Although in the aggregate our patents, trademarks and licenses are important to us, we do not regard any single patent, trademark or license as critical or essential to our business as a whole.



## ***Raw materials***

We acquire component parts, products and raw materials from suppliers, including foundries, forge shops, and original equipment manufacturers. The prices we pay for our raw materials may be affected by, among other things, energy, steel and other commodity prices, tariffs and duties on imported materials and foreign currency exchange rates. Certain of our component parts, products or raw materials, such as bearings, are only available from a limited number of suppliers. Please see "Risk factors—Risks related to our business—We are subject to the risk of supplier concentration."

We cannot assure you that we will be able to continue to purchase raw materials on a timely basis or at acceptable prices. We generally try to purchase our raw materials from multiple suppliers so we are not dependent on any one supplier, but this is not always possible.

## ***Working capital***

We fund our business operations through a combination of available cash and equivalents, short-term investments, and cash flow generated from operations. In addition, the revolving portion of our senior secured credit facility ("Credit Facility") is available for working capital needs. For a summary of our Credit Facility, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and capital resources."

## ***Inventory***

An important consideration for many of our customers in selecting a vendor is timely availability of the product. Often customers will pay a premium for earlier or immediate availability because of the cost of delays in critical operations. We stock our consumable products in regional warehouses around the world so that we can have these products available for our customers when needed. This availability is especially critical for certain consumable products, causing us to carry substantial inventories for these products. For critical capital items in which demand is expected to be strong, we often build certain items before we have a firm order. Our having such goods available on short notice can be of great value to our customers.

We typically offer our customers payment terms of net 30 days. For sales into certain countries or for select customers, we might require payment upfront or credit support through a letter of credit. For longer term projects we typically require progress payments as important milestones are reached. On average we collect our receivables in about 60 days from shipment resulting in a substantial investment in accounts receivable. Likewise, standard terms with our vendors are net 30 days. For critical items sourced from significant vendors we have settled accounts more quickly, sometimes in exchange for early payment discounts.

## ***Environmental, transportation, health and safety regulation***

Our operations are subject to numerous stringent and complex laws and regulations governing the discharge of materials into the environment, health and safety aspects of our operations, or otherwise relating to human health and environmental protection. We also operate vehicles that are subject to federal and state transportation regulations. Failure to comply with these laws or regulations or to obtain or comply with permits may result in the assessment of administrative, civil and criminal penalties, imposition of remedial or corrective action requirements, and the imposition of injunctions to prohibit certain activities or force future compliance.

The trend in environmental regulation has been to impose increasingly stringent restrictions and limitations on activities that may impact the environment, and thus, any changes in environmental laws and regulations or in enforcement policies that result in more stringent and costly waste handling, storage, transport, disposal, or remediation requirements could have a material adverse effect on our operations and financial position. Moreover, accidental releases or spills of regulated substances may occur in the course of our operations, and we cannot assure you that we will not incur significant costs and liabilities as a result of such releases or spills, including any third party claims for damage to property, natural resources or persons.

The following is a summary of the more significant existing environmental, health and safety laws and regulations to which our business operations are subject and for which compliance may have a material adverse impact on our capital expenditures, results of operations or financial position.

### *Hazardous substances and waste*

The Resource Conservation and Recovery Act (the "RCRA") and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the Environmental Protection Agency (the "EPA"), the individual states administer some or all of the provisions of the RCRA, sometimes in conjunction with their own, more stringent requirements. We are required to manage the transportation, storage and disposal of hazardous and non-hazardous wastes in compliance with the RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act (the "CERCLA"), also known as the Superfund law, imposes joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred, and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. We currently own, lease, or operate numerous properties that have been used for manufacturing and other operations for many years. We also contract with waste removal services and landfills. These properties and the substances disposed or released on them may be subject to the CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove previously disposed substances and wastes, remediate contaminated property, or perform remedial operations to prevent future contamination. In addition, it is not uncommon for neighboring landowners and other third-parties to file claims for personal injury and property damage allegedly caused by hazardous substances released into the environment.

### *Water discharges*

The Federal Water Pollution Control Act (the "Clean Water Act") and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. A responsible party includes the owner or operator of a facility from which a discharge occurs. The Clean Water Act and analogous state laws provide for administrative, civil and criminal penalties for unauthorized discharges and, together with the Oil Pollution Act of 1990, impose rigorous requirements for spill prevention and response planning, as well as substantial potential liability for the costs of removal, remediation, and damages in connection with any unauthorized discharges.

### *Air emissions*

The Federal Clean Air Act (the "Clean Air Act") and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other emission control requirements. In addition, the EPA has developed, and continues to develop, stringent regulations governing emissions of toxic air pollutants at specified sources. Non-compliance with air permits or other requirements of the Clean Air Act and associated state laws and regulations can result in the imposition of administrative, civil and criminal penalties, as well as the issuance of orders or injunctions limiting or prohibiting non-compliant operations.

### *Climate change*

In December 2009, the EPA determined that emissions of carbon dioxide, methane and other "greenhouse gases" present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. Based on these findings, the EPA has begun adopting and implementing regulations to restrict emissions of greenhouse gases under existing provisions of the Clean Air Act. The EPA adopted two sets of rules regulating greenhouse gas emissions under the Clean Air Act, one of which requires a reduction in emissions of greenhouse gases from motor vehicles and the other of which regulates emissions of greenhouse gases from certain large stationary sources, effective January 2, 2011. The EPA has also adopted rules requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the U.S, including oil and gas systems.

In addition, the U.S. Congress has from time to time considered adopting legislation to reduce emissions of greenhouse gases and almost one-half of the states have already taken legal measures to reduce emissions of greenhouse gases primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Most of these cap and trade programs work by requiring major sources of emissions, such as electric power plants, or major producers of fuels, such as refineries and gas processing plants, to acquire and surrender emission allowances. The number of allowances available for purchase is reduced each year in an effort to achieve the overall greenhouse gas emission reduction goal.

The adoption of legislation or regulatory programs to reduce emissions of greenhouse gases could require us to incur increased operating costs, such as costs to purchase and operate emissions control systems, to acquire emissions allowances or comply with new regulatory or reporting requirements. Any such legislation or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, the oil and natural gas produced by our customers. Consequently, legislation and regulatory programs to reduce emissions of greenhouse gases could have an adverse effect on our business, financial condition and results of operations. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts, and floods and other climatic events. If any such effects were to occur, they could have an adverse effect on our business, financial condition, results of operations and cash flow.

#### *Hydraulic fracturing*

A significant percentage of our customers' oil and natural gas production is being developed from unconventional sources, such as hydrocarbon shales. These formations require hydraulic fracturing completion processes to release the oil or natural gas from the rock so that it can flow through the formations. Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into the formation to stimulate production. A number of federal agencies, including the EPA and the U.S. Department of Energy, are analyzing, or have been requested to review, a variety of environmental issues associated with shale development, including hydraulic fracturing. Along these lines, on May 16, 2013, the Bureau of Land Management (the "BLM") issued a proposed rule that would require the public disclosure of chemicals used in hydraulic fracturing operations, set requirements for well-bore integrity and establish flowback water standards for all hydraulic fracturing operations on federal public lands and American Indian Tribal lands. In addition, the EPA has asserted federal regulatory authority over hydraulic fracturing involving diesel additives under the Safe Drinking Water Act's "Underground Injection Control Program" and has begun the process of drafting guidance documents related to this assertion of regulatory authority. Further, some states and municipalities have adopted, and other states and municipalities are considering adopting, regulations that could prohibit hydraulic fracturing in certain areas or impose more stringent disclosure and/or well construction requirements on hydraulic fracturing operations. At the same time, certain environmental groups have suggested that additional laws may be needed to more closely and uniformly regulate the hydraulic fracturing process, and legislation has been proposed by some members of Congress to provide for such regulation. We cannot predict whether any such legislation will ever be enacted and if so, what its provisions would be. If additional levels of regulation and permits were required through the adoption of new laws and regulations at the federal or state level, that could lead to delays, increased operating costs and process prohibitions for our customers that could reduce demand for our products and services, which would materially adversely affect our revenues, results of operations and cash flow.

#### *Employee health and safety*

We are subject to a number of federal and state laws and regulations, including the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes, establishing requirements to protect the health and safety of workers. In addition, the OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and comparable state statutes require that information be maintained concerning hazardous materials used or produced in our operations and that this information be provided to employees, state and local government authorities and the public. Substantial fines and penalties can be imposed and orders or injunctions limiting or prohibiting certain operations may be issued in connection with any failure to comply with laws and regulations relating to worker health and safety.

#### *Offshore regulation*

Events in recent years have heightened environmental and regulatory concerns about the offshore oil and natural gas industry. From time to time, governing bodies may propose and have enacted legislation or regulations that may materially limit or prohibit offshore drilling in certain areas. If laws are enacted or other governmental action is taken that delay, restrict or prohibit offshore operations in our customers' expected areas of operation, our business could be materially adversely affected. New or newly interpreted regulations and other regulatory initiatives by U.S. governmental agencies have created significant uncertainty regarding the outlook of offshore activity in the U.S. Gulf of Mexico and possible implications for regions outside of the U.S. Gulf of Mexico. Third party challenges to industry operations in the U.S. Gulf of Mexico may also serve to further delay or restrict activities. If the new regulations, operating procedures and possibility of increased legal liability are viewed by our current or future customers as a significant impairment to expected profitability on projects, then they could discontinue or curtail their offshore operations thereby reducing demand for our offshore products and services.

We also operate in non-U.S. jurisdictions, which may impose similar liabilities against us.

### **Operating risk and insurance**

We maintain insurance coverage of types and amounts that we believe to be customary and reasonable for companies of our size and with similar operations. In accordance with industry practice, however, we do not maintain insurance coverage against all of the operating risks to which our business is exposed. Therefore, there is a risk our insurance program may not be sufficient to cover any particular loss or all losses. Currently, our insurance program includes coverage for, among other things, general liability, umbrella liability, sudden and accidental pollution, personal property, vehicle, workers' compensation, and employer's liability coverage.

### **Employees**

As of December 31, 2014, we had approximately 3,900 employees. Of our total employees, approximately 2,700 were in the United States, 650 were in the United Kingdom, 200 were in Canada and 350 were in other locations. We are not a party to any collective bargaining agreements, other than in our Hamburg, Germany and Monterrey, Mexico facilities, and we consider our relations with our employees to be satisfactory.

## **Item 1A. Risk Factors**

### **Risks related to our business**

***We derive a substantial portion of our revenues from companies in or affiliated with the oil and natural gas industry, a historically cyclical industry, with levels of activity that are significantly affected by the levels and volatility of oil and natural gas prices. As a result, this cyclical nature will cause fluctuations in our revenues and results of our operations.***

We have experienced, and will continue to experience, fluctuations in revenues and operating results due to economic and business cycles. The willingness of oil and natural gas operators to make capital expenditures to explore for and produce oil and natural gas, the willingness of oilfield service companies to invest in capital equipment and the need of these customers to replenish consumable parts depends largely upon prevailing industry conditions that are influenced by numerous factors over which we have no control. Such factors include:

- the supply of and demand for oil and natural gas;
- the level of prices, and expectations about future prices, of oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- the level of drilling activity and drilling day rates;
- the expected decline in rates of current and future production;
- the discovery rates of new oil and natural gas reserves;
- the ability of our customers to access new markets or areas of production or to continue to access current markets;
- weather conditions, including hurricanes, that can affect oil and natural gas operations over a wide area;
- more stringent restrictions in environmental regulation on activities that may impact the environment;
- moratoriums on drilling activity resulting in a cessation or disruption of operations;
- domestic and worldwide economic conditions;
- the financial stability of our customers and other industry participants;
- political instability in oil and natural gas producing countries;
- conservation measures and technological advances affecting energy consumption;
- the price and availability of alternative fuels; and
- merger and divestiture activity among oil and natural gas producers, drilling contractors and oilfield service companies.

A prolonged reduction in the overall level of exploration and development activities, such as we began to see as a result of the decline in commodity prices in the second half of 2014, and that we expect to continue, is expected to adversely impact our business. The reduction in activity could, to varying degrees negatively affect:

- revenues, cash flows, and profitability;

- the ability to maintain or increase borrowing capacity;
- the ability to obtain additional capital to finance our business and the cost of that capital;
- the ability to collect outstanding amounts from our customers; and
- the ability to attract and retain skilled personnel to maintain our business or that will be needed in the event of an upturn in the demand for our products.

***Our inability to control the inherent risks of acquiring and integrating businesses could disrupt our business and adversely affect our operating results going forward.***

We continuously evaluate acquisitions and dispositions and may elect to acquire or dispose of assets in the future. These activities may distract management from day-to-day tasks. Acquisitions involve numerous risks, including:

- unanticipated costs and exposure to unforeseen liabilities;
- difficulty in integrating the operations and assets of the acquired businesses;
- potential loss of key employees and customers of the acquired company;
- potential inability to properly establish and maintain effective internal control over an acquired company; and
- risk of entering markets in which we have limited prior experience.

Achieving the anticipated or desired benefits of our past or future acquisitions will depend, in part, upon whether the integration of the various businesses, products, services, technology and employees is accomplished in an efficient and effective manner. There can be no assurance that we will obtain these anticipated or desired benefits of our past or future acquisitions, and if we fail to manage these risks successfully, our results of operations could be adversely affected.

Our failure to achieve consolidation savings, to integrate the acquired businesses and assets into our existing operations successfully or to minimize any unforeseen operational difficulties could have a material adverse effect on our business. In addition, we may incur liabilities arising from events prior to the acquisition or prior to our establishment of adequate compliance oversight. While we generally seek to obtain indemnities for liabilities for events occurring before such acquisitions, these are limited in amount and duration, may be held to be unenforceable or the seller may not be able to indemnify us. We may also incur indebtedness or issue additional equity securities to finance future acquisitions. Debt service requirements could represent a burden on our results of operations and financial condition and the issuance of additional equity securities could be dilutive to our existing stockholders. In addition, we may dispose of assets or products that investors may consider beneficial to us.

***Our operating history may not be sufficient for investors to evaluate our business and prospects.***

We are a recently combined company with a short combined operating history. In addition, we have completed a number of acquisitions since the Combination in August 2010. These factors may make it more difficult for investors to evaluate our business and prospects and to forecast our future operating results. As a result, historical financial data may not give you an accurate indication of what our actual results would have been if subsequent acquisitions had been completed at the beginning of the periods presented or of what our future results of operations are likely to be. Our future results will depend on our ability to efficiently manage our combined operations and execute our business strategy.

***If we cannot continue operating our manufacturing facilities at recent historical levels, our results of operations could be adversely affected.***

We operate a number of manufacturing facilities. The equipment and management systems necessary for such operations may break down, perform poorly or fail, resulting in fluctuations in manufacturing efficiencies. Such fluctuations may affect our ability to deliver products to our customers on a timely basis.

***Facility expansions and consolidations subject us to risks of construction delays, cost overruns and operating inefficiencies.***

One of the ways that we grow our businesses is through the construction of new facilities and expansions to our existing facilities. These projects, and any other capital asset construction projects which we may commence, are subject to similar risks of delay or cost overrun inherent in any construction project resulting from numerous factors, including the following:

- difficulties or delays in obtaining land;
- shortages of key equipment, materials or skilled labor;
- unscheduled delays in the delivery of ordered materials and equipment;
- unanticipated cost increases;
- weather interferences; and
- difficulties in obtaining necessary permits or in meeting permit conditions.

In addition, we may consolidate our facilities to achieve operating efficiencies and reduce costs. These facility consolidations may be delayed and cause us to incur increased costs, product or service delivery delays, decreased responsiveness to customer needs, liabilities under terms and conditions of sale or other operational inefficiencies, or may not provide the benefits we anticipate.

***We may be unable to employ a sufficient number of skilled and qualified workers.***

The delivery of our products and services requires personnel with specialized skills and experience. Our ability to be productive and profitable depends upon our ability to employ and retain skilled workers. In addition, our ability to expand our operations depends in part on our ability to increase the size of our skilled labor force. The demand for skilled workers is high, the supply is limited and the cost to attract and retain qualified personnel has increased over the past few years. For example, we have experienced shortages of engineers, mechanical assemblers, machinists and code welders, which in some instances has slowed the productivity of certain of our operations. Furthermore, a significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If any of these events were to occur, our capacity and profitability could be diminished, our ability to respond quickly to customer demands or strong market conditions may be inhibited and our growth potential could be impaired.

***A substantial portion of our business is driven by our customers' spending on capital equipment such as drilling rigs. As a result of the recent and substantial decrease in commodity prices, we expect much of our customer base to reduce capital spending.***

In various segments of the energy industry there have been high levels of demand for construction of capital intensive equipment in recent years, some of which has a long life once introduced into the industry. High levels of investment can produce excess supply of equipment for many years, reducing dayrates and undermining the economics for new capital equipment orders. In addition, decreases in commodity prices have resulted in a significant reduction in the North America rig count since June 2014. As a result, many of our customers have announced that they will be reducing capital expenditures beginning in 2015, and, if commodity prices remain at current levels for a prolonged period of time, our customers may further reduce spending. When spending levels by our customers fall, we experience decreased demand for our capital equipment products. For example, starting in the second half of 2012 we saw spending levels on land drilling rigs decrease relative to the pace of investment in the previous two years due to lower drilling activity. This resulted in lower revenues for us from both capital equipment orders and consumables in 2012 and 2013. Our strategy is to serve a variety of segments and spend cycles, but we expect our financial results to be negatively impacted by the recent and ongoing reduction in capital equipment spending in the oilfield services industry.

***Our business depends upon our ability to obtain key raw materials and specialized equipment from suppliers. Increased costs of raw materials and other components may result in increased operating expenses.***

Should our suppliers be unable to provide the necessary raw materials or finished products or otherwise fail to deliver such materials and products timely and in the quantities required, resulting delays in the provision of products or services to customers could have a material adverse effect on our business. In particular, because many of our products are manufactured out of steel, we are particularly susceptible to fluctuations in steel prices. Our results of operations may be adversely affected by our inability to manage the rising costs and availability of raw materials and components used in our products.

***If suppliers cannot provide adequate quantities of materials to meet customers' demands on a timely basis or if the quality of the materials provided does not meet established standards, we may lose customers or experience lower profitability.***

Some of our customer contracts require us to compensate customers if we do not meet specified delivery obligations. We rely on suppliers to provide required materials and in many instances these materials must meet certain specifications. Managing a geographically diverse supply base poses inherently significant logistical challenges.

Furthermore, the ability of third party suppliers to deliver materials to our specifications may be affected by events beyond our control. As a result, there is a risk that we could experience diminished supplier performance resulting in longer than expected lead times and/or product quality issues. For example, in the past, we have experienced issues with the quality of certain forgings used to produce materials utilized in our products. As a result, we were required to seek alternative suppliers for those forgings, which resulted in increased costs and a disruption in our supply chain. We have also been required in certain circumstances to provide better economic terms to some of our suppliers in exchange for their agreement to increase their capacity to satisfy our supply needs. The occurrence of any of the foregoing factors could have a negative impact on our ability to deliver products to customers within committed time frames.

***We are subject to the risk of supplier concentration.***

Certain of our product lines depend on a limited number of third party suppliers and vendors. As a result of this concentration in some of our supply chains, our business and operations could be negatively affected if our key suppliers were to experience significant disruptions affecting the price, quality, availability or timely delivery of their products. For example, we have a limited number of vendors for our bearings product lines. The partial or complete loss of any one of our key suppliers, or a significant adverse change in the relationship with any of these suppliers, through consolidation or otherwise, would limit our ability to manufacture and sell certain of our products.

***Our operations and our customers' operations are subject to a variety of governmental laws and regulations that may increase our and our customers' costs, prohibit or curtail our customers' operations in certain areas, limit the demand for our products and services or restrict our operations.***

Our business and our customers' businesses may be significantly affected by:

- federal, state and local U.S. and non-U.S. laws and other regulations relating to oilfield operations, worker safety and protection of the environment;
- changes in these laws and regulations; and
- the level of enforcement of these laws and regulations.

In addition, we depend on the demand for our products and services from the oil and gas industry. This demand is affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry in general. For example, the adoption of laws and regulations curtailing exploration and development drilling for oil and gas for economic or other policy reasons could adversely affect our operations by limiting demand for our products. In addition, some non-U.S. countries may adopt regulations or practices that provide an advantage to indigenous oil companies in bidding for oil leases, or require indigenous companies to perform oilfield services currently supplied by international service companies. To the extent that such companies are not our customers, or we are unable to develop relationships with them, our business may suffer. We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

Because of our non-U.S. operations and sales, we are also subject to changes in non-U.S. laws and regulations that may encourage or require hiring of local contractors or require non-U.S. contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. If we fail to comply with any applicable law or regulation, our business, results of operations or financial condition may be adversely affected.

***We may not realize revenue on our current backlog due to customer order reductions, cancellations and acceptance delays, which may negatively impact our financial results and relationships with our customers.***

In the current environment of decreased oil and gas prices, and the resulting uncertainty regarding demand for our customers' services, we may experience order reductions, cancellations or acceptance delays, as projects may become uneconomical for our customers. We may be unable to collect revenue for all of the orders reflected in our backlog, or we may be unable to collect cancellation penalties, to the extent we have the right to impose them, or the revenues may be pushed into future periods. In addition, customers who are more highly leveraged or otherwise unable to pay their creditors in the ordinary course of business may be unable to pay invoices in the ordinary course or experience an inability to operate as a going concern. We may be unable to collect amounts due or damages we are awarded from these customers, and our efforts to collect such amounts may damage our customer relationships. As a result, our results of operations and overall financial condition may be negatively impacted by a reduction in revenue as a result of these circumstances.

***The downturn in the oil and gas industry has negatively affected and will likely continue to affect our ability to accurately predict customer demand, causing us to hold excess or obsolete inventory and experience a reduction in gross margins and financial results.***

We cannot accurately predict what or how many products our customers will need in the future. Orders are placed with our suppliers based on forecasts of customer demand and, in some instances, we may establish buffer inventories to accommodate anticipated demand. For example, at certain times, we have built capital equipment before receiving customer orders, and we have kept our standardized downhole protection systems and certain of our flow iron products in stock and readily available for delivery on short notice from customers. Our forecasts of customer demand are based on multiple assumptions, each of which may introduce errors into the estimates. In addition, many of our suppliers, such as those for certain of our standardized valves, require a longer lead time to provide products than our customers demand for delivery of our finished products. If we overestimate customer demand, we may allocate resources to the purchase of material or manufactured products that we may not be able to sell when we expect to, if at all. As a result, we would hold excess or obsolete inventory, which would reduce gross margin and adversely affect financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would miss revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect profit margins, increase product obsolescence and restrict our ability to fund our operations.

***The markets in which we operate are highly competitive, and some of our competitors hold substantial market share and have substantially greater resources than we do. We may not be able to compete successfully in this environment and, in particular, against a much larger competitor.***

The markets in which we operate are highly competitive and our products and services are subject to competition from significantly larger businesses. One competitor in particular holds substantial market share in our largest product line's market and has substantially greater

resources than we do. We also have several other competitors that are large national and multinational companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Some of our competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements. In addition, several of our competitors provide a much broader array of services, and have a stronger presence in more geographic markets. Our larger competitors may be able to use their size and purchasing power to seek economies of scale and pricing concessions. Furthermore, some of our customers are also our competitors and they may cease buying from us. We also have competitors outside of the United States with lower structural costs due to labor and raw material cost in and around their manufacturing centers. Moreover, our competitors may utilize available capacity during a period of depressed energy prices, similar to that which we are currently experiencing, to gain market share.

New competitors could also enter the markets in which we compete. We consider product quality, price, breadth of product offering, availability of products and services, performance, distribution capabilities, responsiveness to customer needs and reputation for service to be the primary competitive factors. Competitors may be able to offer more attractive pricing, duplicate strategies, or develop enhancements to products that could offer performance features that are superior to our products. In addition, we may not be able to retain key employees of entities that we acquire in the future and those employees may choose to compete against us. Competitive pressures, including those described above, and other factors could adversely affect our competitive position, resulting in a loss of market share or decreases in prices. In addition, some competitors are based in foreign countries and have cost structures and prices based on foreign currencies. Accordingly, currency fluctuations could cause U.S. dollar-priced products to be less competitive than our competitors' products that are priced in other currencies. For more information about our competitors, please read "Business-Competition."

***Our products are used in operations that are subject to potential hazards inherent in the oil and gas industry and, as a result, we are exposed to potential liabilities that may affect our financial condition and reputation.***

Our products are used in potentially hazardous drilling, completion and production applications in the oil and gas industry where an accident or a failure of a product can potentially have catastrophic consequences. Risks inherent to these applications, such as equipment malfunctions and failures, equipment misuse and defects, explosions, blowouts and uncontrollable flows of oil, natural gas or well fluids and natural disasters, on land or in deepwater or shallow-water environments, can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, surface water and drinking water resources, equipment and the environment. In addition, we provide certain services that could cause, contribute to or be implicated in these events. If our products or services fail to meet specifications or are involved in accidents or failures, we could face warranty, contract or other litigation claims, which could expose us to substantial liability for personal injury, wrongful death, property damage, loss of oil and gas production, and pollution and other environmental damages. Our insurance policies may not be adequate to cover all liabilities. Further, insurance may not be generally available in the future or, if available, insurance premiums may make such insurance commercially unjustifiable. Moreover, even if we are successful in defending a claim, it could be time-consuming and costly to defend.

In addition, the frequency and severity of such incidents could affect operating costs, insurability and relationships with customers, employees and regulators. In particular, our customers may elect not to purchase our products or services if they view our safety record as unacceptable, which could cause us to lose customers and substantial revenues. In



addition, these risks may be greater for us because we may acquire companies that have not allocated significant resources and management focus to quality, or safety requiring rehabilitative efforts during the integration process. We may incur liabilities for losses associated with these newly acquired companies before we are able to rehabilitate such companies' quality, safety and environmental programs.

***Our operations are subject to environmental and operational safety laws and regulations that may expose us to significant costs and liabilities.***

Our operations are subject to numerous stringent and complex laws and regulations governing the discharge of materials into the environment, health and safety aspects of our operations, or otherwise relating to human health and environmental protection. These laws and regulations may, among other things, regulate the management and disposal of hazardous and nonhazardous wastes; require acquisition of environmental permits related to our operations; restrict the types, quantities, and concentrations of various materials that can be released into the environment; limit or prohibit operational activities in certain ecologically sensitive and other protected areas; regulate specific health and safety criteria addressing worker protection; require compliance with operational and equipment standards; impose testing, reporting and recordkeeping requirements; and require remedial measures to mitigate pollution from former and ongoing operations. Failure to comply with these laws and regulations or to obtain or comply with permits may result in the assessment of administrative, civil and criminal penalties, imposition of remedial or corrective action requirements and the imposition of injunctions to prohibit certain activities or force future compliance. Certain environmental laws may impose joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. In addition, these risks may be greater for us because the companies we acquire or have acquired may not have allocated sufficient resources and management focus to environmental compliance, potentially requiring rehabilitative efforts during the integration process or exposing us to liability before such rehabilitation occurs.

The trend in environmental regulation has been to impose increasingly stringent restrictions and limitations on activities that may impact the environment. The implementation of new laws and regulations could result in materially increased costs, stricter standards and enforcement, larger fines and liability and increased capital expenditures and operating costs, particularly for our customers.

***We may incur liabilities, fines, penalties or additional costs, or we may be unable to sell to certain customers if we do not maintain safe operations.***

If we fail to comply with safety regulations or maintain an acceptable level of safety at our facilities we may incur fines, penalties or other liabilities, or may be held criminally liable. We may incur additional costs to upgrade equipment or conduct additional training, or otherwise incur costs in connection with compliance with safety regulations. Failure to maintain safe operations or achieve certain safety performance metrics could disqualify us from doing business with certain customers, particularly major oil companies.

***Our executive officers and certain key personnel are critical to our business and these officers and key personnel may not remain with us in the future.***

Our future success depends in substantial part on our ability to hire and retain our executive officers and other key personnel. In particular, we are highly dependent on certain of our executive officers, including our Chairman, President and Chief Executive Officer, C. Christopher Gaut. These individuals possess extensive expertise, talent and leadership, and they are critical to our success. The diminution or loss of the services of these individuals, or other integral key personnel affiliated with entities that we acquire in the future, could have a material adverse effect on our business. Furthermore, we may not be able to enforce all of the provisions in any employment agreement we have entered into with certain of our executive officers and such employment agreements may not otherwise be effective in retaining such individuals. In addition, we may not be able to retain key employees of entities that we acquire in the future. This may impact our ability to successfully integrate or operate the assets we acquire.

***The industry in which we operate is undergoing continuing consolidation that may impact results of operations.***

Some of our largest customers have consolidated and are using their size and purchasing power to achieve economies of scale and pricing concessions. This consolidation may result in reduced capital spending by such customers or the acquisition of one or more of our primary customers, which may lead to decreased demand for our products and services. If we cannot maintain sales levels for customers that have consolidated or replace such revenues with increased business activities from other customers, this consolidation activity could have a significant negative impact on results of operations or financial condition. We are unable to predict what effect consolidations in the industries

may have on prices, capital spending by customers, selling strategies, competitive position, ability to retain customers or ability to negotiate favorable agreements with customers.

***If we are unable to continue operating successfully overseas or to successfully expand into new international markets, our revenues may decrease.***

For the year ended December 31, 2014, we derived approximately 40% of our revenue from sales outside the United States (based on product destination). In addition, one of our key growth strategies is to market products in international markets. We may not succeed in marketing, developing a recognized brand, selling, distributing products and generating revenues in these new international markets.

***Our non-U.S. operations will subject us to special risks.***

We are subject to various risks inherent in conducting business operations in locations outside of the United States. These risks may include changes in regional, political or economic conditions, local laws and policies, including taxes, trade protection measures, and unexpected changes in regulatory requirements governing the operations of companies that operate outside of the United States. In addition, if a dispute arises from international operations, courts outside of the United States may have exclusive jurisdiction over the dispute, or we may not be able to subject persons outside of the United States to the jurisdiction of U.S. courts.

***Our exposure to currency exchange rate fluctuations may result in fluctuations in our cash flows and could have an adverse effect on our results of operations.***

From time to time, fluctuations in currency exchange rates could be material to us depending upon, among other things, our manufacturing locations and the sourcing for our raw materials and components. In particular, we are sensitive to fluctuations in currency exchange rates between the United States dollar and each of the Canadian dollar, the British pound sterling, the Euro, and, to a lesser degree, the Mexican Peso, the Chinese Yuan and the Singapore dollar. There may be instances in which costs and revenue will not be matched with respect to currency denomination. As a result, to the extent that we continue our expansion on a global basis, management expects that increasing portions of revenue, costs, assets and liabilities will be subject to fluctuations in foreign currency valuations. We may experience economic loss and a negative impact on earnings or net assets solely as a result of foreign currency exchange rate fluctuations. Further, the markets in which we operate could restrict the removal or conversion of the local or foreign currency, resulting in our inability to hedge against these risks.

***Our business operations in countries outside of the United States are subject to a number of U.S. federal laws and regulations, including restrictions imposed by the United States Foreign Corrupt Practices Act as well as trade sanctions administered by the Office of Foreign Assets Control and the Commerce Department.***

We rely on a large number of agents in non-U.S. countries that pose a high risk of corrupt activities and whose local laws and customs differ significantly from those in the United States. In many countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by the regulations applicable to us. The United States Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions, including the UK Bribery Act 2010, ("anti-corruption laws") prohibit corporations and individuals, including us and our employees, from engaging in certain activities to obtain or retain business or to influence a person working in an official capacity. We may be held responsible for violations by our employees, contractors and agents, for violations of anti-corruption laws. We may also be held responsible for any violations by an acquired company that occur prior to an acquisition, or subsequent to the acquisition but before we are able to institute our compliance procedures. In addition, our non-U.S. competitors that are not subject to the FCPA or similar laws may be able to secure business or other preferential treatment in such countries by means that such laws prohibit with respect to us. The UK Bribery Act 2010 is broader in scope than the FCPA and applies to public and private sector corruption and contains no facilitating payments exception. A violation of any of these laws, even if prohibited by our policies, could have a material adverse effect on our business. Actual or alleged violations could damage our reputation, be expensive to defend, impair our ability to do business, and cause us to incur civil and criminal fines, penalties and sanctions.

Compliance with regulations relating to export controls, trade sanctions and embargoes administered by the countries in which we operate, including the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") also poses a risk to us. We cannot provide products or services to certain countries, companies or individuals subject to trade sanctions of the U.S. and other countries. Furthermore, the laws and regulations concerning import activity, export recordkeeping and reporting, export control and economic sanctions are complex and constantly changing. Any failure to comply with applicable legal and regulatory trading obligations could result in criminal and civil penalties and

sanctions, such as fines, imprisonment, debarment from governmental contracts, seizure of shipments and loss of import and export privileges.

***Unionization efforts and labor regulations in certain areas in which we operate could materially increase our costs or limit our flexibility.***

We are not a party to any collective bargaining agreements, other than in our Monterrey, Mexico and Hamburg, Germany facilities. We operate in certain states within the United States and in international areas that have a history of unionization and we may become the subject of a unionization campaign. If some or all of our workforce were to become unionized and collective bargaining agreement terms, including any renegotiation of our Monterrey, Mexico and Hamburg, Germany collective bargaining agreements, were significantly different from our current compensation arrangements or work practices, our costs could be increased, our flexibility in terms of work schedules and reductions in force could be limited, and we could be subject to strikes or work slowdowns, among other things.

***We may incur liabilities to customers as a result of warranty claims.***

We provide warranties as to the proper operation and conformance to specifications of the products we manufacture or install. Failure of our products to operate properly or to meet specifications may increase costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to a customer. We have in the past received warranty claims, and we expect to continue to receive them in the future. To the extent that we incur substantial warranty claims in any period, our reputation, ability to obtain future business and earnings could be adversely affected.

***We are subject to litigation risks that may not be covered by insurance.***

In the ordinary course of business, we become the subject of various claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters, including occasional claims by individuals alleging exposure to hazardous materials as a result of our products or operations. Some of these claims relate to the activities of businesses that we have acquired, even though these activities may have occurred prior to our acquisition of such businesses. Our insurance does not cover all of our potential losses, and we are subject to various self-insured retentions and deductibles under our insurance. A judgment may be rendered against us in cases in which we could be uninsured or beyond the amounts that we currently have reserved or anticipate incurring for such matters.

***The number and cost of our current and future asbestos claims could be substantially higher than we have estimated and the timing of payment of claims could be sooner than we have estimated.***

One of our subsidiaries has been and continues to be named as a defendant in asbestos related product liability actions. The actual amounts expended on asbestos-related claims in any year may be impacted by the number of claims filed, the nature of the allegations asserted in the claims, the jurisdictions in which claims are filed, and the number of settlements. As of December 31, 2014, our subsidiary has a net liability of \$250,000 for the estimated indemnity cost associated with the resolution of its current open claims and future claims anticipated to be filed during the next five years.

Due to a number of uncertainties that may result in significant changes in the current estimate, the actual costs of resolving these pending claims could be substantially higher than the current estimate. Among these are uncertainties as to the ultimate number and type of claims filed, the amounts of claim costs, the impact of bankruptcies of other companies with asbestos claims or of our insurers, and potential legislative changes and uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case. In addition, future claims beyond the five-year forecast period are possible, but the accrual does not cover losses that may arise from such additional future claims. Therefore, any such future claims could result in a loss.

Significant costs are incurred in defending asbestos claims and these costs are recorded at the time incurred. Receipt of reimbursement from our insurers may be delayed for a variety of reasons. In particular, if our primary insurers claim that certain policy limits have been exhausted, we may be delayed in receiving reimbursement as a result of the transition from one set of insurers to another. Our excess insurers may also dispute the claims of exhaustion, or may rely on certain policy requirements to delay or deny claims. Furthermore, the various per occurrence and aggregate limits in different insurance policies may result in extended negotiations or the denial of reimbursement for particular claims. For more information on the cost sharing agreements related to this risk, please read "Business—Legal proceedings."

***If we fail to maintain an effective system of internal control, we may not be able to accurately report our financial results or prevent fraud.***

Effective internal control over financial processes and reporting are necessary for us to provide reliable financial reports effectively prevent fraud and operate successfully. Our efforts to maintain internal control systems may not be successful. In addition, the entities that we acquire in the future may not maintain effective systems of internal control or we may encounter difficulties integrating our system of internal control with those of acquired entities. If we are unable to maintain effective internal control and, as a result, fail to provide reliable financial reports and effectively prevent fraud, our reputation and operating results would be harmed.

***We may be impacted by disruptions in the political, regulatory, economic and social conditions of the foreign countries in which we are expected to conduct business.***

Instability and unforeseen changes in the international markets in which we conduct business, including economically and politically volatile areas such as North Africa, the Middle East, Latin America and the Asia Pacific region, could cause or contribute to factors that could have an adverse effect on the demand for the products and services we provide. For example, we have previously transferred management and operations from certain Latin American countries, due to the presence of political turmoil, to other countries in the region that are more politically stable.

In addition, worldwide political, economic, and military events have contributed to oil and natural gas price volatility and are likely to continue to do so in the future. Depending on the market prices of oil and natural gas, oil and natural gas exploration and development companies may cancel or curtail their drilling programs, thereby reducing demand for our products and services.

***Climate change legislation or regulations restricting emissions of greenhouse gases could increase our operating costs or reduce demand for our products.***

Environmental advocacy groups and regulatory agencies in the United States and other countries have focused considerable attention on the emissions of carbon dioxide, methane and other greenhouse gases and their potential role in climate change. The Environmental Protection Agency (the "EPA") has already begun to regulate greenhouse gas emissions under the federal Clean Air Act. The adoption of additional legislation or regulatory programs to reduce emissions of greenhouse gases could require us to incur increased operating costs to comply with new emissions-reduction or reporting requirements. Any such legislation or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, hydrocarbons that our customers produce. Consequently, legislation and regulatory programs to reduce emissions of greenhouse gases could have an adverse effect on our business, financial condition and results of operations. Finally, some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts, and floods and other climatic events.

***Adverse weather conditions adversely affect demand for services and operations.***

Adverse weather conditions, such as hurricanes, tornadoes, ice or snow may damage or destroy our facilities, interrupt or curtail our operations, or our customers' operations, cause supply disruptions and result in a loss of revenue, which may or may not be insured. For example, certain of our facilities located in Oklahoma and Pennsylvania have experienced suspensions in operations due to tornado activity or extreme cold weather conditions.

***A natural disaster, catastrophe or other event could result in severe property damage, which could curtail our operations.***

Some of our operations involve risks of, among other things, property damage, which could curtail our operations. For example, disruptions in operations or damage to a manufacturing plant could reduce our ability to produce products and satisfy customer demand. In particular, we have offices and manufacturing facilities in Houston, Texas, and in various places throughout the U.S. Gulf Coast region. These offices and facilities are particularly susceptible to severe tropical storms and hurricanes, which may disrupt our operations. If one or more of our manufacturing facilities are damaged by severe weather or any other disaster, accident, catastrophe or event, our operations could be significantly interrupted. Similar interruptions could result from damage to production or other facilities that provide supplies or other raw materials to our plants or other stoppages arising from factors beyond our control. These interruptions might involve significant damage to, among other things, property and repairs might take from a week or less for a minor incident to many months or more for a major interruption.

***Potential legislation or regulations restricting the use of hydraulic fracturing could reduce demand for our products.***

Hydraulic fracturing is an important and common practice in the oil and gas industry, which involves the injection of water, sand and chemicals under pressure into a formation to fracture the surrounding rock and stimulate production of hydrocarbons. Certain environmental advocacy groups have suggested that additional federal, state and local laws and regulations may be needed to more closely regulate the hydraulic fracturing process, and have made claims that hydraulic fracturing techniques are harmful to surface water and drinking water resources. Various governmental entities (within and outside the United States) are in the process of studying, restricting, regulating or preparing to regulate hydraulic fracturing, directly or indirectly. For example, the EPA has already begun to regulate certain hydraulic fracturing operations involving diesel under the auspices of the Underground Injection Control Program under the federal Safe Drinking Water Act, and is conducting a study to determine if additional regulation of hydraulic fracturing is warranted. Likewise, the Department of the Interior's Bureau of Land Management has proposed new regulations of hydraulic fracturing activities conducted on federal and tribal lands. The adoption of legislation or regulatory programs that restrict hydraulic fracturing could adversely affect, reduce or delay well drilling and completion activities, increase the cost of drilling and production, and thereby reduce demand for our products and services.

***Compliance with government regulations regarding the use of "conflict minerals" may result in increased costs and risks to us.***

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"), the SEC has promulgated disclosure requirements regarding the use of certain minerals, which are mined from the Democratic Republic of Congo and adjoining countries, known as conflict minerals. We are required to publicly disclose our determination as to whether the products we sell contain conflict minerals and could incur significant costs related to implementing a process that will meet the mandates of Dodd-Frank. Additionally, customers may rely on us to provide critical data regarding the parts they purchase and will likely request conflict mineral information. We have many suppliers and each will provide conflict mineral information in a different manner, if at all. Accordingly, because the supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins of certain minerals used in our products. Additionally, customers may demand that the products they purchase be free of conflict minerals. The implementation of this requirement could affect the sourcing and availability of products we purchase from our suppliers. This may reduce the number of suppliers that may be able to provide conflict free products, and may affect our ability to obtain products in sufficient quantities to meet customer demand or at competitive prices. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of any relevant minerals used in our products, as well as costs arising from any changes as a consequence of such verification activities.

***Our financial results could be adversely impacted by changes in regulation of oil and natural gas exploration and development activity, in response to significant environmental incidents.***

The U.S. Department of the Interior implemented additional safety and certification requirements applicable to drilling activities in the U.S. Gulf of Mexico, imposed additional requirements with respect to exploration, development and production activities in U.S. waters and imposed a moratorium that delayed the approval of drilling plans and well permits in both deepwater and shallow-water areas due to the Macondo well incident. Although neither we nor our products were involved in the incident, the delays caused by the new regulations and requirements had an overall negative effect on drilling activity in U.S. waters, and to a certain extent, our financial results. Another similar environmental incident could result in similar drilling moratoria, and could result in increased state, international and additional federal regulation of our and our customers' operations that could negatively impact our earnings, prospects and the availability and cost of insurance coverage. Any additional regulation of the exploration and production industry as a whole could result in fewer companies being financially qualified to operate offshore or onshore in the U.S. or in non-U.S. jurisdictions, result in higher operating costs for our customers and reduce demand for our products and services.

***We may not be able to satisfy technical requirements, testing requirements, code requirements or other specifications under contracts and contract tenders.***

Many of our products are used in harsh environments and severe service applications. Our contracts with customers and customer requests for bids often set forth detailed specifications or technical requirements (including that they meet certain industrial code requirements, such as API, ASME or similar codes, or that our processes and facilities maintain ISO or similar certifications) for our products and services, which may also include extensive testing requirements. We anticipate that such code testing requirements will become more common in our contracts. We cannot assure you that our products or facilities will be able to satisfy the specifications or requirements, or that we will be able to perform the full-scale testing necessary to prove that the product specifications are satisfied in future contract bids or under existing contracts, or that the costs of modifications to our products or facilities to satisfy the specifications and testing will not adversely affect our results of operations. If our products or facilities are unable to satisfy such requirements, or we are unable to perform or satisfy any required full-scale testing, we may suffer reputational harm and our customers may cancel their contracts and/or seek new suppliers, and our business, results of operations or financial position may be adversely affected.

***Our success depends on our ability to implement new technologies and services.***

Our success depends on the ongoing development and implementation of new product designs and improvements, and on our ability to protect and maintain critical intellectual property assets related to these developments. If we are not able to obtain patent or other intellectual property protection of our technology, we may not be able to recoup development costs or fully exploit systems, services and technologies in a manner that allows us to meet evolving industry requirements at prices acceptable to our customers. In addition, some of our competitors are large national and multinational companies that may be able to devote greater financial, technical, manufacturing and marketing resources to research and development of new systems, services and technologies than we are able to do. We have not spent material amounts on research and development activities during the three most recent fiscal years.

***Our success will be affected by the use and protection of our proprietary technology. There are limitations to our intellectual property rights in our proprietary technology, and thus our right to exclude others from the use of such proprietary technology.***

Our success will be affected by our development and implementation of new product designs and improvements and by our ability to protect and maintain critical intellectual property assets related to these developments. Although in many cases our products are not protected by any registered intellectual property rights, in other cases we rely on a combination of patents and trade secret laws to establish and protect this proprietary technology.

We currently hold multiple U.S. and international patents and have multiple pending patent applications for products and processes in the U.S. and certain non-U.S. countries. Patent rights give the owner of a patent the right to exclude third parties from making, using, selling, and offering for sale the inventions claimed in the patents in the applicable country. Patent rights do not necessarily grant the owner of a patent the right to practice the invention claimed in a patent, but merely the right to exclude others from practicing the invention claimed in the patent. It may also be possible for a third party to design around our patents. Furthermore, patent rights have strict territorial limits. Some of our work will be conducted in international waters and may, therefore, not fall within the scope of any country's patent jurisdiction. We may not be able to enforce our patents against infringement occurring in international waters and other "non-covered" territories. Also, we do not have patents in every jurisdiction in which we conduct business and our patent portfolio will not protect all aspects of our business and may relate to obsolete or unusual methods, which would not prevent third parties from entering the same market.

In addition, by customarily entering into confidentiality and/or license agreements with our employees, customers and potential customers and suppliers, we attempt to limit access to and distribution of our technology. Our rights in our confidential information, trade secrets, and confidential know-how will not prevent third parties from independently developing similar information. Publicly available information (e.g. information in expired issued patents, published patent applications, and scientific literature) can also be used by third parties to independently develop technology. We cannot provide assurance that this independently developed technology will not be equivalent or superior to our proprietary technology.

Our competitors may infringe upon, misappropriate, violate or challenge the validity or enforceability of our intellectual property and we may not be able to adequately protect or enforce our intellectual property rights in the future.

***We may be adversely affected by disputes regarding intellectual property rights and the value of our intellectual property rights is uncertain.***

As discussed above, we may become involved in legal proceedings from time to time to protect and enforce our intellectual property rights. Third parties from time to time may initiate litigation against us by asserting that the conduct of our business infringes, misappropriates or otherwise violates intellectual property rights. We may not prevail in any such legal proceedings related to such claims, and our products and services may be found to infringe, impair, misappropriate, dilute or otherwise violate the intellectual property rights of others. Any legal proceeding concerning intellectual property could be protracted and costly and is inherently unpredictable and could have a material adverse effect on our business, regardless of its outcome. Further, our intellectual property rights may not have the value that management believes them to have and such value may change over time as we and others develop new product designs and improvements.

***A failure or breach of our information technology infrastructure could adversely impact our business and results of operations.***

The efficient operation of our business is dependent on our information technology ("IT") systems. Accordingly, we rely upon the capacity, reliability and security of our IT hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. Despite our implementation of security measures, our IT systems are vulnerable to computer viruses, natural disasters, incursions by intruders or hackers, failures in hardware or software, power fluctuations, cyber terrorists and other similar disruptions. The failure of our IT systems to perform as anticipated for any reason or any significant breach of security could disrupt our business and result in numerous adverse consequences, including reduced effectiveness and efficiency of our operations and that of our customers, inappropriate disclosure of confidential information, increased overhead costs, and loss of intellectual property, which could lead to liability to third parties or otherwise and have a material adverse effect on our business and results of operations. In addition, we may be required to incur significant costs to prevent damage caused by these disruptions or security breaches in the future.

***In the past we have incurred certain impairment charges. We may incur additional impairment charges in future years.***

We evaluate our long-lived assets, including property and equipment, for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. In performing our review for impairment, future cash flows expected to result from the use of the asset and its eventual value upon disposal are estimated. If the undiscounted future cash flows are less than the carrying amount of the assets, there is an indication that the asset may be impaired. The amount of the impairment is measured as the difference between the carrying value and the estimated fair value of the asset. The fair value is determined either through the use of an external valuation, or by means of an analysis of discounted future cash flows based on expected utilization. The impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value.

For goodwill and intangible assets with indefinite lives, an assessment for impairment is performed annually or whenever an event indicating impairment may have occurred. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets, including allocated goodwill, to the estimated fair value of the reporting unit. We have six reporting units. We determine the fair value of our reporting units using a discounted cash flow approach. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. If the reporting unit's carrying value is greater than its fair value, a second step is performed whereby the implied fair value of goodwill is estimated by allocating the fair value of the reporting unit in a hypothetical purchase price allocation analysis. We recognize a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds its reassessed fair value. During the year ended December 31, 2012, we recorded an impairment loss of \$1.2 million on certain indefinite-lived intangible assets resulting from a lack of orders related to a specific service line. No other impairment losses were recorded on goodwill or indefinite-lived intangible assets for the years ended December 31, 2014, 2013 and 2012.

If we determine that the carrying value of our long-lived assets, goodwill or intangible assets is less than their fair value, we may be required to record additional charges in the future.

***The indenture governing our notes and our Credit Facility contains operating and financial restrictions that may restrict our business and financing activities.***

The indenture governing our notes and our Credit Facility contain, and any future indebtedness we incur may contain, a number of restrictive covenants that will impose significant operating and financial restrictions on us, including restrictions on our ability to, among other things:

- pay dividends on, purchase or redeem our common stock or purchase or redeem our subordinated debt;
- make certain investments;
- incur or guarantee additional indebtedness or issue certain types of equity securities;
- create certain liens;
- sell assets, including equity interests in our restricted subsidiaries;
- redeem or prepay subordinated debt;
- restrict dividends or other payments of our restricted subsidiaries;
- consolidate, merge or transfer all or substantially all of our assets;
- engage in transactions with affiliates; and
- create unrestricted subsidiaries.

Our Credit Facility also contains financial covenants, which, among other things, require us, on a consolidated basis, to maintain specified financial ratios or conditions summarized as follows:

- Total funded debt to adjusted earnings before interest, taxes and depreciation ("EBITDA") (defined as the "Leverage Ratio" in the Credit Facility) of not more than 4.50 to 1.0;
- Senior secured debt to adjusted EBITDA (defined as the "Senior Secured Leverage Ratio" in the Credit Facility) of not more than 3.50 to 1.0; and
- EBITDA to interest expense (defined as the "Interest Coverage Ratio" in the Credit Facility) of not less than 3.0 to 1.0.

As a result of these covenants, we will be limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. Our ability to comply with some of the covenants, ratios or tests contained in our indenture and Credit Facility may be affected by events beyond our control. If market or other economic conditions deteriorate, our ability to comply with these covenants, ratios or tests may be impaired. A failure to comply with the covenants, ratios or tests or any future indebtedness could result in an event of default, which, if not cured or waived, could have a material adverse affect on our business, financial condition and results of operations.

***Our indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.***

We currently have a substantial amount of indebtedness. As of December 31, 2014, we had approximately \$25.0 million of borrowings under our Credit Facility, \$10.7 million of outstanding letters of credit and capacity to borrow an additional \$564.3 million under the revolving portion of the Credit Facility. The Credit Facility has an accordion feature that allows us to increase the available borrowings under the facility by \$300 million, subject to obtaining additional commitments from existing lenders or new commitments from new lenders. We also have \$400 million of 6.25% senior notes due 2021 outstanding. Our level of indebtedness may adversely affect our operations and limit our growth, and we may have difficulty making debt service payments on our indebtedness as such payments become due. Our level of indebtedness may affect our operations in several ways, including the following:

- our indebtedness may increase our vulnerability to general adverse economic and industry conditions;
- the covenants contained in the agreements that govern our indebtedness limit our ability to borrow funds, dispose of assets, pay dividends and make certain investments;
- our debt covenants also affect our flexibility in planning for, and reacting to, changes in the economy and in its industry;



- any failure to comply with the financial or other covenants of our indebtedness could result in an event of default, which could result in some or all of our indebtedness becoming immediately due and payable;
- our indebtedness could impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes; and
- our business may not generate sufficient cash flows from operations to enable us to meet our obligations under our indebtedness.

***Provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock.***

The existence of some provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company that a stockholder may consider favorable, which could adversely affect the price of our common stock. Certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws could make it more difficult for a third party to acquire control of our company, even if the change of control would be beneficial to our stockholders. These provisions include:

- a classified board of directors, so that only approximately one-third of our directors are elected each year;
- the ability of our board of directors to issue preferred stock without stockholder approval;
- limitations on the removal of directors; and
- limitations on the ability of our stockholders to call special meetings.

In addition, our amended and restated bylaws establish advance notice provisions for stockholder proposals and nominations for elections to the board of directors to be acted upon at meetings of stockholders.

***L.E. Simmons & Associates, Incorporated ("LESA"), through SCF, may effectively control the outcome of stockholder voting and may exercise this voting power in a manner adverse to our other stockholders.***

As of February 25, 2015, SCF held approximately 24.3 million shares of our common stock, equal to approximately 27% of the outstanding common stock at that date. LESA is the ultimate general partner of SCF and will exert significant control over us, including over the outcome of most matters requiring a stockholder vote, such as the election of directors, adoption of amendments to our charter and bylaws and approval of transactions involving a change of control. LESA's interests may differ from our other stockholders, and SCF may vote its common stock in a manner that may adversely affect those stockholders.

SCF is a party to a registration rights agreement with us which requires us to effect the registration of its shares in certain circumstances. SCF exercised such rights in 2013 and 2014 with respect to 6.0 million and 11.5 million shares, respectively, which were offered and sold in November 2013 and May 2014, respectively. Additional sales of substantial amounts of our common stock by SCF, or the perception that such sales could occur, may adversely affect prevailing market prices of our common stock.

***Certain of our directors may have conflicts of interest because they are also directors or officers of SCF. The resolution of these conflicts of interest may not be in the best interests of our Company or our other stockholders.***

Certain of our directors, namely David C. Baldwin and Andrew L. Waite, are currently officers of LESA. In addition, a trust in which the children of our Chief Executive Officer, C. Christopher Gaut, are primary beneficiaries holds an ownership interest in the general partner of each of SCF-VI, L.P. and SCF-VII, L.P. These positions may create conflicts of interest because these directors and Mr. Gaut have an ownership interest in SCF-VI, L.P. and SCF-VII, L.P. and/or responsibilities to SCF Partners and its owners. Duties as directors or officers of LESA may conflict with such individuals' duties as one of our directors or officers regarding business dealings and other matters between SCF Partners and us. The resolution of these conflicts may not always be in the best interest of our Company or our other stockholders. Please read "We have renounced any interest in specified business opportunities, and SCF Partners and its director nominees on our board of directors generally have no obligation to offer us those opportunities."

***We have renounced any interest in specified business opportunities, and SCF Partners and its director nominees on our board of directors generally have no obligation to offer us those opportunities.***

Our certificate of incorporation provides that, so long as we have a director or officer who is affiliated with SCF Partners (an "SCF Nominee") and for a continuous period of one year thereafter, we renounce any interest or expectancy in any business opportunity in which any member of the SCF group participates or desires or seeks to participate in and that involves any aspect of the energy equipment or services business or industry, other than (i) any business opportunity that is brought to the attention of an SCF Nominee solely in such person's capacity as a director or officer of our Company and with respect to which no other member of the SCF group independently receives notice or otherwise identifies such opportunity and (ii) any business opportunity that is identified by the SCF group solely through the disclosure of information by or on behalf of our Company. We refer to SCF Partners and its other affiliates and its portfolio companies as the SCF group. We are not prohibited from pursuing any business opportunity with respect to which we have renounced any interest.

SCF Partners has investments in other oilfield service companies that may compete with us, and SCF Partners and its affiliates, other than our Company, may invest in other such companies in the future. LESA, the ultimate general partner of SCF Partners, has an internal policy that discourages it from investing in two or more portfolio companies with substantially overlapping industry segments and geographic areas. However, LESA's internal policy does not restrict the management or operation of its other individual portfolio companies from competing with us. Pursuant to LESA's policy, LESA may allocate any potential opportunities to the existing portfolio company where LESA determines, in its discretion, such opportunities are the most logical strategic and operational fit. As a result, LESA or its affiliates may become aware, from time to time, of certain business opportunities, such as acquisition opportunities, and may direct such opportunities to its other portfolio companies, in which case we may not become aware of or otherwise have the ability to pursue such opportunities. Furthermore, LESA does not have a specific policy with regard to allocation of financial professionals and they are under no obligation to provide us with financial professionals.

***Our common stock price has been volatile, and we expect it to continue to remain volatile in the future.***

The market price of common stock of companies engaged in the oil and gas equipment manufacturing and services industry has been volatile. Likewise, the market price of our common stock has varied in the past (2014 low of \$17.21 per share; 2014 high of \$36.72 per share), and we expect it to continue to remain volatile given the cyclical nature of our industry.

#### **Item 1B. Unresolved Staff Comments**

Not applicable.

## Item 2. Properties

The following tables describe the material facilities owned or leased by us as of December 31, 2014:

Country	Location	Leased or Owned	Country	Location	Leased or Owned
<b><u>Drilling &amp; Subsea Segment Locations</u></b>			<b><u>Production &amp; Infrastructure Segment Locations</u></b>		
Canada	Leduc	Leased	Canada	Edmonton	Leased
	Calgary	Leased	South Africa	Vereeniging	Leased
Germany	Hamburg	Leased	United States	Madison, KS	Leased
Mexico	Monterrey	Leased		Broussard, LA	Leased
Singapore	Singapore	Leased		Chickasha, OK	Owned
UAE	Dubai	Leased		Davis, OK	Owned
United Kingdom	Aberdeen	Leased		Elmore City, OK	Owned
	Caithness	Leased		Guthrie, OK	Leased
	Kilbirnie	Leased		Corpus Christi, TX	Owned
	Kirkbymoorside	Leased		Clearfield, PA	Owned
	Newcastle	Leased		Brownsville, PA	Leased
	Great Yarmouth	Leased		Alice, TX	Leased
United States	West Palm Beach, FL	Leased		Gainesville, TX	Leased
	Broussard, LA	Owned		Houston, TX	Leased
	Broussard, LA	Leased		Longview, TX	Leased
	Bryan, TX	Owned		Odessa, TX	Leased
	Houston, TX	Leased		Stafford, TX	Leased
	Pearland, TX	Owned		Dayton, TX	Owned
	Pearland, TX	Leased	<b><u>Combined Locations for both Segments</u></b>		
	Plantersville, TX	Owned	Brazil	Macaé	Leased
	Sanger, TX	Leased		Rio de Janeiro	Leased
	Stafford, TX	Owned	United States	Williston, ND	Leased
	Tyler, TX	Leased		Houston, TX	Leased
	Willis, TX	Leased		San Antonio, TX	Owned
	Lorton, VA	Leased			

We believe our facilities are suitable for their present and intended purposes, and are adequate for our current and anticipated level of operations.

We incorporate by reference in response to this item the information set forth in Item 1 and Item 7 of this Annual Report on Form 10-K and the information set forth in Note 6 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

## Item 3. Legal Proceedings

We have various claims, lawsuits and administrative proceedings that are pending or threatened, all arising in the ordinary course of business, with respect to commercial, environmental, product liability and employee matters. Although no assurance can be given with respect to the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have, we believe any ultimate liability resulting from the outcome of such claims, lawsuits or administrative proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. See Note 10 of the Notes to the Consolidated Financial Statements, which are incorporated herein by reference in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

### ***Asbestos litigation***

One of our subsidiaries has been named as one of many defendants in a number of product liability claims for alleged exposure to asbestos. These lawsuits are typically filed on behalf of plaintiffs who allege exposure to some asbestos, against numerous defendants, often 40 or more, who may have manufactured or distributed products containing

asbestos. The injuries alleged by plaintiffs in these cases range from mesothelioma to other cancers to asbestosis. The earliest claims against our subsidiary were filed in New Jersey in 1998, and our subsidiary currently has active cases in Missouri, New Jersey, New York, and Illinois. These complaints do not typically include requests for a specific amount of damages. The trademark for the product line with asbestos exposure was acquired in 1985. Our subsidiary has been successful in obtaining dismissals in many lawsuits where the exposure is alleged to have occurred prior to our acquisition of the trademark. The law in some states does not find purchasers of product lines to have tort liability for incidents occurring prior to the acquisition date unless they assumed the responsibility or in certain other circumstances. The law in certain other states on so called "successor liability" may be different or ambiguous in this regard. Most claimants alleging illnesses due to asbestos sue on the basis of exposure prior to 1985, as by that date the hazards of asbestos exposure were well known and asbestos had begun to fall into disuse in industrial settings. To date, asbestos claims have not had a material adverse effect on our business, financial condition, results of operations, or cash flow, as our annual out-of-pocket costs over the last five years has been less than \$200,000. There are typically fewer than 100 cases filed against our subsidiary each year, and a similar number of cases are dismissed, settled or otherwise disposed of each year. We currently have fewer than 200 lawsuits pending against this subsidiary. Our subsidiary has over \$17 million in face amount of per occurrence and over \$23 million of aggregate primary insurance coverage; a portion of the coverage has been eroded by payments made by insurers. In addition, our subsidiary has over \$950 million in face amount of excess coverage applicable to the claims. There can be no guarantee that all of this can be collected due to policy terms and conditions and insurer insolvencies in the past or in the future. In January 2011, we entered into an agreement with seven of our primary insurers under which they have agreed to pay 80% of the costs of handling and settling each asbestos claim against the affected subsidiary. After an initial period, and under certain circumstances, our subsidiary and the subscribing insurers may withdraw from this agreement.

#### **Portland Harbor Superfund litigation**

In May 2009, one of our subsidiaries (which is presently a dormant company with nominal assets except for rights under insurance policies) was named along with many defendants in a suit filed by the Port of Portland, Oregon in the U.S. District Court of the District of Oregon seeking reimbursement of costs related to a five-year study of contaminated sediments at the port. In March 2010, the subsidiary also received a notice letter from the EPA indicating that it had been identified as a potentially responsible party with respect to environmental contamination in the "study area" for the Portland Harbor Superfund Site. Under a 1997 indemnity agreement, our subsidiary is indemnified by a third party with respect to losses relating to environmental contamination. As required under the indemnity agreement, our subsidiary provided notice of these claims, and the indemnitor has assumed responsibility and is providing a defense of the claims. Although we believe that it is unlikely that our subsidiary contributed to the contamination at the Portland Harbor Superfund Site, the potential liability of our subsidiary and the ability of the indemnitor to fulfill its indemnity obligations cannot be quantified at this time.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

#### **Executive officers of the registrant**

The following table indicates the names, ages and positions of the executive officers of Forum as of February 25, 2015:

<b>Name</b>	<b>Age</b>	<b>Position</b>
C. Christopher Gaut	58	President, Chief Executive Officer, Chairman of the Board
Prady Iyyanki	44	Executive Vice President and Chief Operating Officer
James W. Harris	55	Executive Vice President and Chief Financial Officer
James L. McCulloch	62	Senior Vice President, General Counsel and Secretary
Michael D. Danford	52	Senior Vice President-Human Resources
Pablo G. Mercado	38	Vice President-Corporate Strategy & Treasurer
D. Lyle Williams	45	Vice President-Operations Finance

*C. Christopher Gaut.* Mr. Gaut has served as our President, Chief Executive Officer and Chairman of the Board since August 2010 and as one of our directors since December 2006. He served as a consultant to LESA, the ultimate general partner of SCF, our largest stockholder, from November 2009 to August 2010. Mr. Gaut served at Halliburton

Company, a leading diversified oilfield services company, as President of the Drilling and Evaluation Division and prior to that as Chief Financial Officer, from March 2003 through April 2009. From April 2009 through November 2009, Mr. Gaut was a private investor. Prior to joining Halliburton Company in 2003, Mr. Gaut was the Co-Chief Operating Officer of Ensco International, a provider of offshore contract drilling services. He also served as Ensco's Chief Financial Officer from 1988 until 2003. Mr. Gaut is currently a member of the board of directors of Ensco plc. Mr. Gaut holds an A.B. in Engineering Sciences from Dartmouth College and an M.B.A. from The Wharton School at the University of Pennsylvania.

*Prady Iyyanki.* Mr. Iyyanki has served as Executive Vice President and Chief Operating Officer since January 2014. Mr. Iyyanki was a private investor from March 2013 to December 2013. From April 2011 to March 2013, Mr. Iyyanki served as Vice President of GE Oil and Gas, a manufacturer of capital equipment and service provider for the oil and gas industry, and from April 2011 to December 2012 he served as President & Chief Executive Officer of the GE Oil and Gas Turbo Machinery business. From June 2006 to April 2011, Mr. Iyyanki served as President and Chief Executive Officer of the GE Power and Water Gas Engines business. Mr. Iyyanki holds a B.S. in Mechanical Engineering from Jawaharlal Nehru Technology University and an M.S. in Engineering from South Dakota State University.

*James W. Harris.* Mr. Harris has served as our Senior Vice President and Chief Financial Officer since August 2010. From December 2005 until August 2, 2010, Mr. Harris served as Forum's Executive Vice President and Chief Financial Officer. Mr. Harris was Vice President, Controller of VeriCenter, Inc., a provider of information technology services, and General Manager of its AppSite Hosting service line from January 2004 through November 2005. Prior to joining VeriCenter, from August 1999 through December 2001, Mr. Harris worked for Enron Energy Services, Inc., as a Vice President and thereafter served as a consultant through December 2003. Mr. Harris began his career at Price Waterhouse from January 1985 until February 1994, with his final position being a Senior Tax Manager, and at Baker Hughes Incorporated from February 1994 until May 1999 in various positions, including Vice President, Tax and Controller. Mr. Harris holds a B.S. and his Masters of Accounting from Brigham Young University and an M.B.A. from Rice University. Mr. Harris is a certified public accountant.

*James L. McCulloch.* Mr. McCulloch has served as our Senior Vice President, General Counsel and Secretary since October 2010. Mr. McCulloch was a private investor from January 2008 until October 2010, and since February 2008 has also served on the board of directors of Sunland Inc., a privately held pipeline construction and services company. In 1983, Mr. McCulloch joined Global Marine Inc., a leading international offshore drilling contractor, as Assistant General Counsel and served in a variety of capacities within the legal department until being named Senior Vice President and General Counsel in 1995. In 2001, Global Marine merged with Santa Fe International Corporation, an international land and offshore drilling contractor, to form GlobalSantaFe Corporation, where Mr. McCulloch continued to serve as Senior Vice President and General Counsel until the company's merger with Transocean Inc. in December 2007. Mr. McCulloch holds a B.A. from Tulane University and a J.D. from Tulane University School of Law.

*Michael D. Danford.* Mr. Danford has served as our Vice President - Human Resources since November 2007. Prior to joining Forum, from August 2007 through November 2007, he worked at Trico Marine Services Inc. as Vice President - Human Resources. From 1997 through July 2007, Mr. Danford served as Director of Human Resources and Vice President - Human Resources for Hydril Company. From 1991 to 1997, Mr. Danford served in various human resources roles for Baker Hughes Incorporated. Prior to joining Baker Hughes Incorporated, from 1990 to 1991, Mr. Danford served as a recruiter and as an employee relations representative in the human resources department for Compaq Computer. Mr. Danford holds a B.S. degree in Computer Science from the University of Louisiana at Monroe (formerly Northeast Louisiana University).

*Pablo G. Mercado.* Mr. Mercado has served as our Vice President, Corporate Strategy & Treasurer since January 2014. Prior to that, Mr. Mercado served as Vice President - Corporate Development & Strategy from February 2013 to January 2014, and Vice President, Corporate Development from November 2011 to February 2013. From May 2005 to October 2011, Mr. Mercado was an investment banker in the Oil and Gas Group of Credit Suisse Securities (USA) LLC where he worked with oilfield services companies and other companies in the oil and gas industry, most recently as a Director. From 1998 to 2001 and 2003 to May 2005, Mr. Mercado was an investment banker at other firms, primarily working with companies in the oil and gas industry. Mr. Mercado holds a B.B.A. from the Cox School of Business, a B.A. in Economics from the Dedman College at Southern Methodist University, and an M.B.A. from The University of Chicago Booth School of Business.

*D. Lyle Williams, Jr.* Mr. Williams has served as our Vice President - Operations Finance since January 2014 and was appointed as an executive officer in February 2015. Since January 2007, Mr. Williams has held various financial and operations roles, including Vice President - Finance and Accounting, Drilling and Subsea Segment; Senior Vice President - Downhole Technologies; Vice President - Subsea Products; and Vice President - Capital Equipment. Prior to joining Forum, Mr. Williams held various operations positions with Cooper Cameron Corporation, including Director

of Operations - Engineered Products. He holds a B.A. in Economics and English from Rice University, and an M.B.A. from Harvard University Graduate School of Business Administration.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock trades on the NYSE under the trading symbol "FET." The following table sets forth, for each full quarterly period indicated, the high and low closing sales prices for our common stock as quoted on the NYSE:

<b>Year Ended December 31, 2014</b>	<b>High</b>		<b>Low</b>	
First Quarter	\$	30.98	\$	24.66
Second Quarter	\$	36.43	\$	29.53
Third Quarter	\$	36.72	\$	30.61
Fourth Quarter	\$	29.79	\$	17.21

<b>Year Ended December 31, 2013</b>	<b>High</b>		<b>Low</b>	
First Quarter	\$	28.98	\$	24.50
Second Quarter	\$	31.80	\$	25.72
Third Quarter	\$	31.06	\$	25.82
Fourth Quarter	\$	31.13	\$	25.99

As of February 25, 2015, there were approximately 200 shareholders of record of our common stock. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

No dividends were declared or issued during 2014 or 2013, and we do not currently have any plans to pay cash dividends in the future. Our future dividend policy is within the discretion of our Board of Directors and will depend upon various factors, including our results of operations, financial condition, capital requirements and investment opportunities. In addition, our Credit Facility prohibits us from paying any cash dividends unless all of the following conditions are met: (i) no default exists under our Credit Facility or would result from the payment of such dividends, (ii) after giving effect to the payment of such dividends, we have a pro forma leverage ratio that is less than or equal to 3.25 to 1.00 and the borrowing availability under our Credit Facility is at least \$40 million, (iii) the aggregate amount of cash dividends and other Restricted Payments (as defined in the Credit Facility) paid in any fiscal quarter does not exceed 50% of our consolidated EBITDA (as defined in the Credit Facility) for the four fiscal quarters ended immediately prior to such fiscal quarter and (iv) the aggregate amount of cash dividends and other Restricted Payments paid in any four consecutive fiscal quarters does not exceed 50% of our consolidated EBITDA for the four fiscal quarters ended immediately prior to such four consecutive fiscal quarters. The indenture governing our senior notes also restricts the payment of dividends.

**Purchase of Equity Securities**

Our Board of Directors authorized on October 27, 2014, a share repurchase program for the repurchase of outstanding shares of our Common Stock having 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 the company deems appropriate, subject to market and business conditions, applicable legal requirements and other considerations. The program may be executed using open market purchases pursuant to Rule 10b-18 under the Securities Exchange Act of 1934 (the "Exchange Act") in privately negotiated agreements, by way of issuer tender offers, Rule 10b5-1 plans or other transactions.

Shares of common stock purchased and placed in treasury during the three months ended December 31, 2014 were as follows:

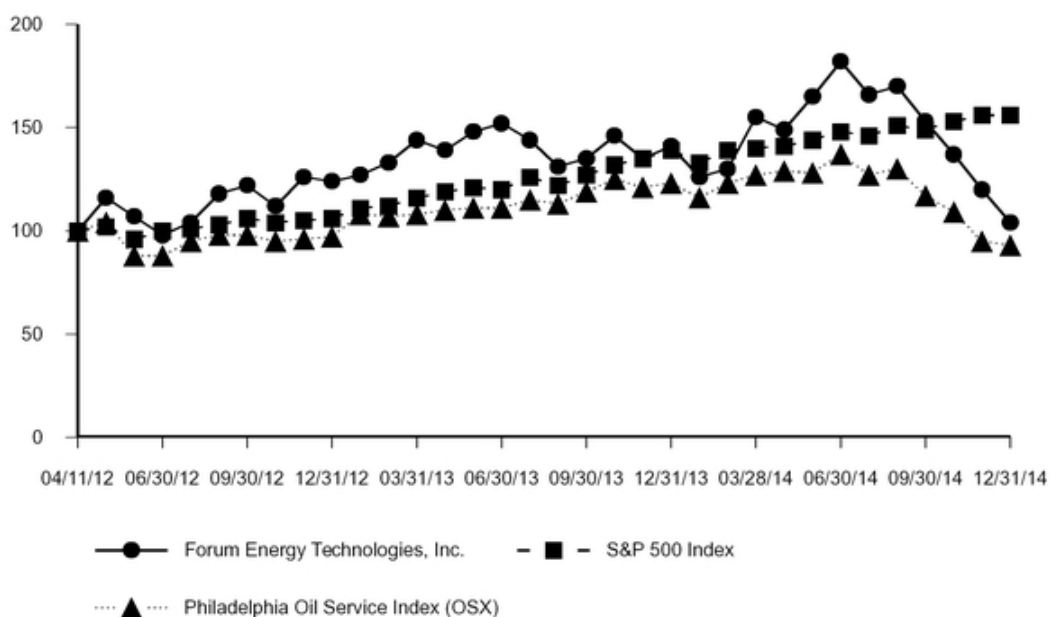
Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plan or programs	Maximum value of shares that may yet be purchased under the plan or program (in thousands)
October 1, 2014 - October 31, 2014	9,540	\$ 28.04	—	\$ 150,000
November 1, 2014 - November 30, 2014	1,627,204	\$ 26.35	1,626,898	(42,875)
December 1, 2014 - December 31, 2014	2,844,671	\$ 20.27	2,821,000	(57,125)
Total	4,481,415	\$ 22.50	4,447,898	\$ 50,000

(a) 33,517 of the 4,481,415 shares purchased during the three months ended December 31, 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 or stock options. The remaining 4,447,898 of these shares were purchased as part of the share repurchase program described above.

**Performance Graph**

The following graph compares total shareholder return on our common stock with the Standard & Poor’s 500 Stock Index and the Philadelphia Oil Service Sector Index (“OSX”), an index of oil and gas related companies that represents an industry composite of our peers. This graph covers the period from April 13, 2012, using the closing price for the first day of trading immediately following the effectiveness of our initial public offering per SEC regulations (rather than the IPO offering price of \$20.00 per share), through December 31, 2014. This comparison assumes the investment of \$100 on April 13, 2012, and the reinvestment of all dividends. The shareholder return set forth is not necessarily indicative of future performance.

**COMPARISON OF 34 MONTH CUMULATIVE TOTAL RETURN  
Among Forum Energy Technologies, Inc., The S&P 500 Index  
and the Philadelphia Oil Service Index (OSX)**





The performance graph above is furnished and not filed for purposes of Section 18 of the Exchange Act and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933 (the "Securities Act") unless specifically identified therein as being incorporated therein by reference. The performance graph is not soliciting material subject to Regulation 14A.

## Item 6. Selected Financial Data

The following selected historical consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing in Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K to fully understand the factors that may affect the comparability of the information presented below.

The selected historical financial data as of December 31, 2014 and 2013, and for the years ended December 31, 2014, 2013 and 2012 are derived from our audited consolidated financial statements and related notes thereto included herein. The selected historical data as of December 31, 2012, 2011 and 2010 and for the years ended December 31, 2011 and 2010 have been derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results to be expected in any future period.

(in thousands, except per share information)	Year ended December 31,				
	2014	2013	2012	2011	2010
<b>Income Statement Data:</b>					
Net sales	\$ 1,739,717	\$ 1,524,811	\$ 1,414,933	\$ 1,128,131	\$ 747,335
Total operating expenses	1,496,843	1,322,569	1,174,053	967,518	674,058
Earnings from equity investment	25,164	7,312	—	—	—
<b>Operating income</b>	<b>268,038</b>	<b>209,554</b>	<b>240,880</b>	<b>160,613</b>	<b>73,277</b>
Total other expenses	25,516	23,472	18,085	19,910	28,931
<b>Income from continuing operations before income taxes</b>	<b>242,522</b>	<b>186,082</b>	<b>222,795</b>	<b>140,703</b>	<b>44,346</b>
Provision for income tax expense	68,145	56,478	71,265	47,110	20,297
<b>Net income</b>	<b>174,377</b>	<b>129,604</b>	<b>151,530</b>	<b>93,593</b>	<b>24,049</b>
Less: Income attributable to noncontrolling interest	12	65	74	251	111
<b>Net income attributable to common stockholders</b>	<b>174,365</b>	<b>129,539</b>	<b>151,456</b>	<b>93,342</b>	<b>23,938</b>
<b>Weighted average shares outstanding</b>					
Basic	92,628	90,697	80,111	63,270	53,798
Diluted	95,308	94,604	86,937	67,488	54,316
<b>Earnings per share</b>					
Basic	\$ 1.88	\$ 1.43	\$ 1.89	\$ 1.48	\$ 0.44
Diluted	\$ 1.83	\$ 1.37	\$ 1.74	\$ 1.38	\$ 0.44

(in thousands)	As of December 31,				
	2014	2013	2012	2011	2010
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 76,579	\$ 39,582	\$ 41,063	\$ 20,548	\$ 20,348
Net property, plant and equipment	189,974	180,292	152,983	124,840	90,632
Total assets	2,221,628	2,168,869	1,892,980	1,607,315	818,332
Long-term debt	428,010	512,077	400,201	660,379	204,715
Total stockholders' equity	1,395,356	1,330,355	1,161,472	654,493	462,523

(in thousands)	Year ended December 31,				
	2014	2013	2012	2011	2010
<b>Other financial data:</b>					
Net cash provided by operating activities	\$ 269,966	\$ 211,393	\$ 137,941	\$ 39,275	\$ 65,981
Net cash used in investing activities	(70,691)	(289,030)	(184,523)	(550,114)	(19,216)
Net cash provided by / (used in) financing activities	(162,018)	77,054	65,782	510,148	(54,265)

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected historical consolidated financial data" included under Item 6 of this Annual Report on Form 10-K and our financial statements and related notes included under Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements based on our current expectations, estimates and projections about our operations and the industry in which we operate. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of risks and uncertainties, including those described in "Risk factors", "— Cautionary note regarding forward-looking statements" and elsewhere in this Annual Report on Form 10-K. We assume no obligation to update any of these forward-looking statements.

### 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, oilfield service companies, 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, 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 valve solutions, which includes a broad range of industrial and process valves.

### Market Conditions

The demand for our products and services is ultimately driven by energy prices and the expectation of exploration and production companies as to future trends in those prices. 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. 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 are difficult to predict.

As discussed in more detail below, energy prices have decreased significantly from the first half of 2014. Although the extent and duration of the decline in energy prices is difficult to predict, we expect the current market conditions to have a significant, adverse impact on our business in 2015.

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:

	2014		2013		2012	
<b>Average global oil, \$/bbl</b>						
West Texas Intermediate	\$	93.21	\$	97.98	\$	94.10
United Kingdom Brent	\$	98.97	\$	108.64	\$	112.77
<b>Average North American Natural Gas, \$/Mcf</b>						
Henry Hub	\$	4.37	\$	3.73	\$	2.75

Average oil prices were approximately 7% lower in 2014 than 2013. Average natural gas prices were approximately 17% higher in 2014 than 2013. These oil and natural gas price levels during 2014 were sufficient to support high levels of exploration and production activity, including the continued development of offshore projects. Oil prices experienced a significant decline in the second half of 2014, declining over 17% from the average price during the first half and ending the year more than 50% off their June peak. As of February 25, 2015, the West Texas Intermediate oil price has continued to decline another 7% from the end of 2014. We expect the precipitous decline in oil prices over the last several months to have a significant negative impact on spending by our customers and therefore on our results of operations in 2015.

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, completion and production related products and services.

	2014		2013		2012	
<b>Active Rigs by Location</b>						
United States		1,862		1,761		1,919
Canada		379		353		364
International		1,337		1,296		1,233
<b>Global Active Rigs</b>		<b>3,578</b>		<b>3,410</b>		<b>3,516</b>
<b>Land vs. Offshore Rigs</b>						
Land		3,193		3,033		3,165
Offshore		385		377		351
<b>Global Active Rigs</b>		<b>3,578</b>		<b>3,410</b>		<b>3,516</b>
<b>U.S. Commodity Target, Land</b>						
Oil/Gas		1,526		1,373		1,359
Gas		333		383		556
Unclassified		3		5		4
<b>Total U.S. Land Rigs</b>		<b>1,862</b>		<b>1,761</b>		<b>1,919</b>
<b>U.S. Well Path, Land</b>						
Horizontal		1,273		1,102		1,151
Vertical		377		435		552
Directional		212		224		216
<b>Total U.S. Active Land Rigs</b>		<b>1,862</b>		<b>1,761</b>		<b>1,919</b>

Generally, our sales are impacted by changes in rig activity and wells completed. The average U.S. rig count increased 6% from 2013, the international rig count increased 3% from 2013 and the Canadian rig count remained stable. The U.S. rig count peaked in September 2014 at 1,931 rigs. As a result of lower oil prices, the U.S. rig count experienced a 5% decline in the fourth quarter. As of February 25, 2015, the U.S. rig count has continued to decline an additional 29% from the end of 2014. Many oil and gas companies have announced substantially reduced capital spending plans, which is expected to result in a significant decline in the rig count in 2015.

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. Although well completions are expected to decrease in 2015, we expect the decline to be less than the decrease in the overall rig count.

## Acquisitions

On May 1, 2014, we 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.

On July 1, 2013, we completed two acquisitions and an investment in a joint venture for aggregate consideration of approximately \$230.0 million, each of which were financed with cash on hand and borrowings under our Credit Facility. The three transactions included the following:

- B+V Oil Tools, a manufacturer of pipe handling equipment used on offshore and onshore drilling rigs with locations in Hamburg, Germany and Willis, Texas. B+V Oil Tools is included in the Drilling & Subsea segment;
- 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; and
- The joint purchase of 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. Our equity investment is reported in the Production & Infrastructure segment and is accounted for using the equity method of accounting.

None of these transactions included potential future payments contingent on financial performance.

We completed four acquisitions in the fourth quarter 2012, Syntech Technology, Incorporated, Wireline Solutions, LLC, Dynacon, Inc. and Merrimac Manufacturing, Inc., all of which are included in the Drilling & Subsea segment. We paid aggregate cash consideration of approximately \$139.7 million for these acquisitions in 2012.

There are factors related to the businesses we have acquired that may result in lower net profit margins on a going-forward basis, primarily the federal income tax status of the legal entity and the level of depreciation and amortization charges arising out of the accounting for the purchase.

In February 2015, we completed the acquisition of J-Mac Tool, Inc. ("J-Mac") for aggregate consideration of approximately \$65.0 million. J-Mac, located in Fort Worth, Texas, manufactures hydraulic fracturing pumps, power ends, fluid ends and other pump accessories. The acquired business also provides repair and refurbishment services at its main location in Fort Worth and at other service center locations. J-Mac will be included in the Production & Infrastructure segment.

For additional information regarding our 2014, 2013, and 2012 acquisitions, please read Note 3 of the Notes to the Consolidated Financial Statements in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

## Evaluation of operations

We manage our operations through the two business segments described above. We have focused on implementing financial reporting and controls at all of our operations to accelerate the availability of critical information necessary to support informed decision making. We use a number of financial and non-financial measures to routinely analyze and evaluate, on a segment and corporate level, the performance of our business. As an example of a non-financial measure, we measure our safety by tracking the total recordable incident rate and we consider this as an indication of the quality of our products. Financial measures include the following:

*Revenue growth.* We compare actual revenue achieved each month to the most recent estimate for that month and to the annual plan for the month established at the beginning of the year. We monitor our revenue to analyze trends in the relative performance of each of our product lines as compared to standard revenue drivers or market metrics applicable to that product. We are particularly interested in identifying positive or negative trends and investigating to understand the root causes. In addition, we review these metrics on a quarterly basis. We also evaluate changes in the mix of products sold and the resultant impact on reported gross margins.

*Gross margin percentage.* We define gross margin percentage as our gross margin, or net sales minus cost of sales, divided by our net sales. Our management continually evaluates our consolidated gross margin percentage and our

gross margin percentage by segment to determine how each segment is performing. This metric aids management in capital resource allocation and pricing decisions.

*Selling, general and administrative expenses as a percentage of total revenue.* Selling, general and administrative expenses include payroll related costs for sales, marketing, administrative, accounting, information technology, certain engineering and human resources functions; audit, legal and other professional fees; insurance; franchise taxes not based on income; travel and entertainment; advertising and promotions; depreciation and amortization expense; bad debt expense; and other office and administrative related costs. Our management continually evaluates the level of our selling, general and administrative expenses in relation to our revenue and makes appropriate changes in light of activity levels to preserve and improve our profitability while meeting the on-going support and regulatory requirements of the business.

*Operating income and operating margin percentage.* We define operating income as revenue less cost of goods sold less selling, general and administrative expenses. We define our operating margin percentage as operating income divided by revenue. These metrics assist management in evaluating the performance of each segment as a whole, especially to determine whether the amount of administrative burden is appropriate to support current business activity levels.

*Earnings per share.* We calculate fully-diluted earnings per share as prescribed under generally accepted accounting principles ("GAAP"), that is net income divided by common shares outstanding, giving effect for the assumed exercise of all outstanding options and warrants with a strike price less than the average fair value of the shares over the period covered for the calculation. We believe this measure is important as it reflects the sum total of operating results and all attendant capital decisions, showing in one number the amount earned for the stockholders of our Company.

*Free cash flow.* We define free cash flow as net income, increased by non-cash charges included in net income (e.g., depreciation and amortization and deferred income taxes), increased or decreased by changes in net working capital, less capital expenditures. We believe that this measure is important because it encompasses both profitability and capital management in evaluating results. Free cash flow represents the business' contribution in the generation of funds available to pay debt outstanding, invest in other areas, or return funds to our stockholders.

### **Factors affecting the comparability of our future results of operations to our historical results of operations**

Our future results of operations may not be comparable to our historical results of operations for the periods presented, primarily for the following reasons:

- On April 17, 2012, we sold 13,889,470 shares of common stock in the IPO and 2,666,666 shares of common stock in a private placement to a private equity fund (not affiliated with the original sponsor) for aggregate net proceeds of approximately \$256.4 million and \$50 million, respectively. We used all of the net proceeds to repay a portion of the outstanding borrowings under the revolving portion of the Credit Facility.
- Since 2012, we have grown our business both organically and through strategic acquisitions. We have expanded and diversified our product portfolio and business lines with the acquisition of one business in 2014, two businesses and our joint venture investment in 2013 and four businesses in 2012. The historical financial data for periods prior to the acquisitions does not include the results of any of the acquired companies for the periods presented and, as such, does not provide an accurate indication of our future results.
- As we integrate acquired companies and further implement internal controls, processes and infrastructure to operate in compliance with the regulatory requirements applicable to companies with publicly traded shares, it is likely that we will incur incremental selling, general and administrative expenses relative to historical periods.

Our future results will depend on our ability to efficiently manage our combined operations and execute our business strategy.

## Results of operations

Year ended December 31, 2014 compared with year ended December 31, 2013

	Year ended December 31,		Favorable / (Unfavorable)	
	2014	2013	\$	%
<i>(in thousands of dollars, except per share information)</i>				
<b>Revenue:</b>				
Drilling & Subsea	\$ 1,126,575	\$ 940,807	\$ 185,768	19.7 %
Production & Infrastructure	614,442	585,495	28,947	4.9 %
Eliminations	(1,300)	(1,491)	191	*
<b>Total revenue</b>	<b>\$ 1,739,717</b>	<b>\$ 1,524,811</b>	<b>\$ 214,906</b>	<b>14.1 %</b>
<b>Cost of sales:</b>				
Drilling & Subsea	\$ 732,408	\$ 616,543	\$ (115,865)	(18.8)%
Production & Infrastructure	449,157	434,534	(14,623)	(3.4)%
Eliminations	(1,300)	(1,491)	(191)	*
<b>Total cost of sales</b>	<b>\$ 1,180,265</b>	<b>\$ 1,049,586</b>	<b>\$ (130,679)</b>	<b>(12.5)%</b>
<b>Gross profit:</b>				
Drilling & Subsea	394,167	\$ 324,264	\$ 69,903	21.6 %
Production & Infrastructure	165,285	150,961	14,324	9.5 %
<b>Total gross profit</b>	<b>\$ 559,452</b>	<b>\$ 475,225</b>	<b>\$ 84,227</b>	<b>17.7 %</b>
<b>Selling, general and administrative expenses:</b>				
Drilling & Subsea	192,897	\$ 168,436	\$ (24,461)	(14.5)%
Production & Infrastructure	77,909	71,802	(6,107)	(8.5)%
Corporate	42,015	29,431	(12,584)	(42.8)%
<b>Total selling, general and administrative expenses</b>	<b>\$ 312,821</b>	<b>\$ 269,669</b>	<b>\$ (43,152)</b>	<b>(16.0)%</b>
<b>Operating income:</b>				
Drilling & Subsea	\$ 201,269	\$ 155,828	\$ 45,441	29.2 %
<i>Operating income margin %</i>	<i>17.9%</i>	<i>16.6%</i>		
Production & Infrastructure	112,541	86,471	26,070	30.1 %
<i>Operating income margin %</i>	<i>18.3%</i>	<i>14.8%</i>		
Corporate	(42,015)	(29,431)	(12,584)	(42.8)%
<b>Total segment operating income</b>	<b>\$ 271,795</b>	<b>\$ 212,868</b>	<b>\$ 58,927</b>	<b>27.7 %</b>
<i>Operating income margin %</i>	<i>15.6%</i>	<i>14.0%</i>		
Transaction expenses	2,326	2,700	374	13.9 %
(Gain)/loss on sale of assets	1,431	614	(817)	*
<b>Income from operations</b>	<b>268,038</b>	<b>209,554</b>	<b>58,484</b>	<b>27.9 %</b>
Interest expense, net	29,847	18,370	(11,477)	(62.5)%
Other, net	(4,331)	2,953	7,284	*
Deferred loan costs written off	—	2,149	2,149	100.0 %
<b>Other (income) expense, net</b>	<b>25,516</b>	<b>23,472</b>	<b>(2,044)</b>	<b>(8.7)%</b>
<b>Income before income taxes</b>	<b>242,522</b>	<b>186,082</b>	<b>56,440</b>	<b>30.3 %</b>
Income tax expense	68,145	56,478	(11,667)	(20.7)%
<b>Net income</b>	<b>174,377</b>	<b>129,604</b>	<b>44,773</b>	<b>34.5 %</b>
<b>Less: Income attributable to non-controlling interest</b>	<b>12</b>	<b>65</b>	<b>(53)</b>	<b>*</b>
<b>Income attributable to common stockholders</b>	<b>\$ 174,365</b>	<b>\$ 129,539</b>	<b>\$ 44,826</b>	<b>34.6 %</b>
<b>Weighted average shares outstanding</b>				
Basic	92,628	90,697		
Diluted	95,308	94,604		
<b>Earnings per share</b>				
Basic	\$ 1.88	\$ 1.43		
Diluted	\$ 1.83	\$ 1.37		

\* not meaningful

## **Revenue**

Our revenue for the year ended December 31, 2014 increased \$214.9 million, or 14.1%, to \$1,739.7 million compared to the year ended December 31, 2013. For the year ended December 31, 2014, our Drilling & Subsea segment and our Production & Infrastructure segment comprised 64.7% and 35.3% of our total revenue, respectively, compared to 61.6% and 38.4%, respectively, for the year ended December 31, 2013. The revenue changes by operating segment consisted of the following:

*Drilling & Subsea segment* — Revenue increased \$185.8 million, or 19.7%, to \$1,126.6 million during the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase is primarily attributable to increased market activity as reflected in higher average rig counts as compared to the prior year. We have had particularly strong increases in sales of our pipe handling tools, other drilling capital and consumable products, downhole products and workclass remotely operated vehicles. A portion of the increase is attributable to two acquisitions closed in the third quarter 2013 and one in the second quarter 2014, offset by a small divestiture in the first quarter 2014.

*Production & Infrastructure segment* - Revenue increased \$28.9 million, or 4.9%, to \$614.4 million during the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase in revenue was primarily due to a strong recovery in the market for our flow equipment products as sales of well stimulation products increased 45% over the prior year. This revenue increase was partially offset by lower shipments of surface production equipment products during the year as we experienced more intense competition for projects.

## **Segment operating income and segment operating margin percentage**

Segment operating income for the year ended December 31, 2014 increased \$58.9 million, or 27.7%, to \$271.8 million compared to the year ended December 31, 2013. The segment operating margin percentage is calculated by dividing segment operating income by revenue. For the year ended December 31, 2014, the segment operating margin percentage of 15.6% represents an increase of 160 basis points from the 14.0% operating margin percentage for the year ended December 31, 2013. The change in operating margin percentage for each segment is explained as follows:

*Drilling & Subsea segment* — The operating margin percentage improved 130 basis points to 17.9% for the year ended December 31, 2014, from 16.6% for the year ended December 31, 2013. Severance and facility closure costs of \$6.1 million were incurred in the third quarter 2013 to bring our cost structure in line with activity levels at that time and additional severance costs of \$1.5 million were incurred in the fourth quarter 2014. Excluding these costs, the operating margin increased from 17.3% in 2013 to 18.0% in 2014. We believe these operating margins, that have excluded the costs described above, are useful to investors to assess operating performance especially when comparing periods. This increase of 70 basis points in the normalized operating margin is primarily attributable to greater volumes of higher margin drilling products, and overall lower selling, general and administrative costs as a percentage of revenue.

*Production & Infrastructure segment* — Operating margin percentage improved 350 basis points to 18.3% for the year ended December 31, 2014, from 14.8% for the year ended December 31, 2013. The improvement in operating margin percentage was attributable to improved margins in flow equipment on higher activity levels and higher 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 \$12.6 million, or 42.8%, for the year ended December 31, 2014 compared to the year ended December 31, 2013 due to higher personnel costs and professional fees. Included in the 2014 and 2013 expenses are severance charges of \$1.5 million and \$0.4 million, respectively. 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/losses from the sale of assets. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses, including fees to accomplish an internal legal entity restructuring, and are not considered to be part of segment operating income. These costs were \$2.3 million and \$2.7 million for the years ended December 31, 2014 and 2013, respectively. Included as a reduction to the equity earnings of Global Tubing LLC for the year ended December 31, 2013 were \$0.8 million of transaction expenses. In the year ended December 31, 2014, we recognized a loss of \$1.4 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, foreign exchange gains and losses and deferred loan costs written off. We incurred \$29.8 million of interest expense during the year ended December 31, 2014, an increase of \$11.5 million from the year ended December 31, 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 relatively lower variable interest rate under our Credit Facility. The term loan under our Credit Facility was paid off from the net proceeds on our Senior Notes. Accordingly, unamortized debt issue costs of \$2.1 million associated with the term loan were charged to expense during 2013. The change in foreign exchange gains or losses is primarily the result of movements in the British pound relative to the U.S. dollar, resulting in net losses in 2013 and net gains in 2014.

**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 28.1% and 30.4% for the years ended December 31, 2014 and 2013, respectively. The effective tax rate for the year ended December 31, 2014 is lower than the comparable period in 2013 primarily due to a higher proportion of our earnings being generated outside the United States in jurisdictions subject to lower tax rates and benefits received from certain domestic tax incentives. The effective tax rate can vary from period to period depending on our relative mix of U.S. and non-U.S. earnings.

Year ended December 31, 2013 compared to year ended December 31, 2012

	Year ended December 31,		Favorable / (Unfavorable)	
	2013	2012	\$	%
<i>(in thousands of dollars, except per share information)</i>				
<b>Revenue:</b>				
Drilling & Subsea	\$ 940,807	\$ 826,500	\$ 114,307	13.8 %
Production & Infrastructure	585,495	589,204	(3,709)	(0.6)%
Eliminations	(1,491)	(771)	\$ (720)	*
<b>Total revenue</b>	<b>\$ 1,524,811</b>	<b>\$ 1,414,933</b>	<b>\$ 109,878</b>	<b>7.8 %</b>
<b>Cost of sales:</b>				
Drilling & Subsea	\$ 616,543	529,294	\$ (87,249)	(16.5)%
Production & Infrastructure	434,534	423,353	(11,181)	(2.6)%
Eliminations	(1,491)	(771)	\$ 720	*
<b>Total cost of sales</b>	<b>\$ 1,049,586</b>	<b>\$ 951,876</b>	<b>\$ (97,710)</b>	<b>(10.3)%</b>
<b>Gross profit:</b>				
Drilling & Subsea	\$ 324,264	297,206	\$ 27,058	9.1 %
Production & Infrastructure	150,961	165,851	(14,890)	(9.0)%
<b>Total gross profit</b>	<b>\$ 475,225</b>	<b>\$ 463,057</b>	<b>\$ 12,168</b>	<b>2.6 %</b>
<b>Selling, general and administrative expenses:</b>				
Drilling & Subsea	\$ 168,436	136,046	\$ (32,390)	(23.8)%
Production & Infrastructure	71,802	68,594	(3,208)	(4.7)%
Corporate	29,431	20,628	(8,803)	(42.7)%
<b>Total selling, general and administrative expenses</b>	<b>\$ 269,669</b>	<b>\$ 225,268</b>	<b>\$ (44,401)</b>	<b>(19.7)%</b>
<b>Operating income:</b>				
Drilling & Subsea	\$ 155,828	161,160	\$ (5,332)	(3.3)%
<i>Operating income margin %</i>	<i>16.6%</i>	<i>19.5%</i>		
Production & Infrastructure	86,471	97,257	(10,786)	(11.1)%
<i>Operating income margin %</i>	<i>14.8%</i>	<i>16.5%</i>		
Corporate	(29,431)	(20,628)	(8,803)	(42.7)%
<b>Total segment operating income</b>	<b>\$ 212,868</b>	<b>\$ 237,789</b>	<b>\$ (24,921)</b>	<b>(10.5)%</b>
<i>Operating income margin %</i>	<i>14.0%</i>	<i>16.8%</i>		
Contingent consideration expense (benefit)	—	(4,568)	(4,568)	*
Impairment of intangible assets	—	1,161	1,161	*
Transaction expenses	2,700	1,751	(949)	54.2 %
(Gain)/loss on sale of assets	614	(1,435)	(2,049)	(142.8)%
<b>Income from operations</b>	<b>209,554</b>	<b>240,880</b>	<b>(31,326)</b>	<b>13.0 %</b>
Interest expense, net	18,370	16,372	(1,998)	(12.2)%
Other, net	2,953	1,713	(1,240)	*
Deferred loan costs written off	2,149	—	(2,149)	100.0 %
<b>Other (income) expense, net</b>	<b>23,472</b>	<b>18,085</b>	<b>(5,387)</b>	<b>(29.8)%</b>
<b>Income before income taxes</b>	<b>186,082</b>	<b>222,795</b>	<b>(36,713)</b>	<b>(16.5)%</b>
Income tax expense	56,478	71,265	14,787	20.7 %
<b>Net income</b>	<b>129,604</b>	<b>151,530</b>	<b>(21,926)</b>	<b>(14.5)%</b>
<b>Less: Income attributable to non-controlling interest</b>	<b>65</b>	<b>74</b>	<b>(9)</b>	<b>*</b>
<b>Income attributable to common stockholders</b>	<b>\$ 129,539</b>	<b>\$ 151,456</b>	<b>\$ (21,917)</b>	<b>(14.5)%</b>
<b>Weighted average shares outstanding</b>				
Basic	90,697	80,111		
Diluted	94,604	86,937		
<b>Earnings per share</b>				
Basic	\$ 1.43	\$ 1.89		
Diluted	\$ 1.37	\$ 1.74		

\* not meaningful

## **Revenue**

Our revenue for the year ended December 31, 2013 increased \$109.9 million, or 7.8%, to \$1,524.8 million compared to the year ended December 31, 2012. For the year ended December 31, 2013, our Drilling & Subsea segment and our Production & Infrastructure segment comprised 61.6% and 38.4% of our total revenue, respectively, compared to 58.4% and 41.6%, respectively, for the year ended December 31, 2012. The revenue changes by operating segment consisted of the following:

*Drilling & Subsea segment* — Revenue increased \$114.3 million, or 13.8%, to \$940.8 million during the year ended December 31, 2013 compared to the year ended December 31, 2012. The increase in revenue is attributable to acquisitions in the third quarter 2013 and fourth quarter 2012, contributing \$166.0 million in incremental revenue, offset by lower sales of other drilling products and equipment on reduced drilling activity levels.

*Production & Infrastructure segment* — Revenue decreased \$3.7 million, or 0.6%, to \$585.5 million during the year ended December 31, 2013 compared to the year ended December 31, 2012. The net decrease in revenue was driven by 18.7% lower sales of our well stimulation products, as orders remain at depressed levels compared to 2012 on lower utilization of our customers' pressure pumping equipment. This decrease is partially offset by 10.6% higher sales of our surface production equipment.

## **Segment operating income and segment operating margin percentage**

Segment operating income for the year ended December 31, 2013 decreased \$24.9 million, or 10.5%, to \$212.9 million compared to the year ended December 31, 2012. The segment operating margin percentage is calculated by dividing segment operating income by revenue. For the year ended December 31, 2013, the segment operating margin percentage of 14.0% represents a decline of 280 basis points over the 16.8% operating margin percentage for the year ended December 31, 2012. As discussed further below, the decrease in operating margin percentage arose on drilling and well stimulation products as reduced activity levels in these areas resulted in higher fixed cost per unit sold.

The Company undertook several actions during the third and fourth quarter 2013 to adjust its cost structure in line with lower North American activity levels. Segment operating income for the year ended December 31, 2013 included \$7.7 million in principally non-cash charges for severance and facility closures. In addition, equity in earnings from the Company's investment in Global Tubing included a \$0.8 million charge for transaction expenses related to the initial investment. The change in operating margin percentage for each segment is explained as follows:

*Drilling & Subsea segment* — The operating margin percentage declined 290 basis points to 16.6% for the year ended December 31, 2013 from 19.5% for the year ended December 31, 2012. Excluding the severance and facility closure charges, the adjusted operating margin percentage of 17.3% is down 220 basis points compared to the year earlier period. The decline in operating margin percentage is primarily attributable to drilling products, with most of that decline occurring in the first half of the year. International orders for drilling products received in the first half of 2013 had longer lead times compared to our historical experience, with delivery in late 2013 and early 2014. We carried a higher cost base into 2013 on the expectation of improving drilling activity levels; however, as revenue declined in the first half of the year, our margins suffered. The cost saving measures implemented in the second half of the year, coupled with increased shipments of the longer dated international orders received in the first half of the year, contributed to good margin recovery for drilling products in the second half of 2013. We also experienced a decline in our downhole products operating margin percentage as a higher proportion of shipments were destined for lower margin international projects.

*Production & Infrastructure segment* — Operating margin percentage declined 170 basis points to 14.8% for the year ended December 31, 2013, from 16.5% for the year ended December 31, 2012. The decline in operating margin percentage is attributable to lower margins in well stimulation products on significantly lower activity levels and increased pricing competition. The decline was offset partially by the inclusion of \$7.3 million of equity in earnings of the Global Tubing LLC joint venture in the second half of 2013.

*Corporate* — Selling, general and administrative expenses for Corporate increased \$8.8 million, or 42.7%, for the year ended December 31, 2013 compared to the year ended December 31, 2012 due to higher personnel costs and various professional fees primarily associated with being a publicly traded company and complying with applicable regulations. Corporate costs included, among other items, payroll related costs for general management and management of finance and administration, legal, human resources and information technology; professional fees for external legal, accounting and related services; and marketing costs. Corporate costs also included \$0.4 million in severance charges in 2013.

### ***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, gains/losses from the sale of assets, contingent consideration and impairment of intangible assets. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses and are not considered to be part of segment operating income. Including \$0.8 million reported as part of equity in earnings of Global Tubing LLC, transaction costs were \$3.5 million for the year ended December 31, 2013, for two acquisitions and an investment in a joint venture all closed effective July 1, 2013, and \$1.8 million for the year ended December 31, 2012. Refer to Note 3, Acquisitions, for further information.

The contingent consideration credit recorded during the year ended December 31, 2012 was related to two acquisitions in 2011 in which part of the purchase price was payable in cash and/or shares of the our common stock based on the earnings of the acquired entities through the end of 2012. The net change in the accrual was recorded as part of operating income, and the reduction in this obligation resulted in an increase to operating income of \$4.6 million during the year ended December 31, 2012. During the year ended December 31, 2012, an impairment loss of \$1.2 million was recorded on certain intangible assets resulting from a lack of orders related to a specific service line.

### ***Other income and expense***

Other income and expense includes interest expense, foreign exchange gains and losses and deferred loan costs written off. We incurred \$18.4 million of interest expense during the year ended December 31, 2013, an increase of \$2.0 million from the year ended December 31, 2012. The increase in interest expense was partially attributable to an increase in debt incurred to finance the two acquisitions and an investment in a joint venture completed in the third quarter 2013, and a higher interest rate under our Senior Notes issued in the fourth quarter 2013 compared to the variable interest rate under our Credit Facility. The term loan under our Credit Facility was paid off from the net proceeds on our Senior Notes. Accordingly, unamortized debt issue costs of \$2.1 million associated with the term loan were charged to expense during 2013.

### ***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 30.4% and 32.0% for the years ended December 31, 2013 and 2012, respectively. The effective tax rate for the year ended December 31, 2013 is lower than the comparable period in 2012 primarily due to a higher proportion of our earnings being generated outside the United States in jurisdictions subject to lower tax rates and due to a reduction in the tax provision from the finalization of certain prior year tax returns.

## **Liquidity and capital resources**

### ***Sources and uses of liquidity***

Our internal sources of liquidity are cash on hand and cash flows from operations, while our primary external sources have included our Credit Facility described below, trade credit, the issuance of our senior notes described below and sales of our common stock. Our primary uses of capital have been for acquisitions, ongoing maintenance and growth capital expenditures, inventories and sales on credit to our customers. We continually monitor potential capital sources, including equity and debt financing, to meet our investment and target liquidity requirements. Our future success and growth will be highly dependent on our ability to continue to access outside sources of capital.

At December 31, 2014, we had cash and cash equivalents of \$76.6 million and total debt of \$428.9 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.

Our total 2015 capital expenditure budget is approximately \$35.0 million, which consists of, among other items, investments in maintaining and expanding certain manufacturing facilities, replacing end of life machinery and equipment, maintaining our rental fleet of subsea equipment, and general maintenance capital expenditures of approximately \$30.0 million. This budget does not include expenditures for potential business acquisitions.

The amount of capital expenditures incurred in 2014 was \$53.8 million. These expenditures were funded from internally generated funds. We believe cash flows from operations should be sufficient to fund our capital requirements for 2015.

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, two businesses and our joint venture investment in 2013 for total consideration (net of cash acquired) of approximately \$230.0 million, and four businesses in 2012 for total consideration (net of cash acquired) of approximately \$139.3 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. In the fourth quarter of 2014, we purchased approximately 4.4 million shares of stock under this program for aggregate consideration of approximately \$100 million.

Our cash flows for the years ended December 31, 2014, 2013 and 2012 are presented below (in millions):

	Year ended December 31,		
	2014	2013	2012
Net cash provided by operating activities	\$ 270.0	\$ 211.4	\$ 137.9
Net cash used in investing activities	(70.7)	(289.0)	(184.5)
Net cash provided by (used in) financing activities	(162.0)	77.1	65.8
Net increase (decrease) in cash and cash equivalents	37.0	(1.5)	20.5
Free cash flow, before acquisitions	\$ 218.9	\$ 152.1	\$ 100.4

Free cash flow, a non-GAAP financial measure, is defined as net income, increased by non-cash charges included in net income (e.g., depreciation and amortization and deferred income taxes), increased or decreased by changes in net working capital, less capital expenditures for property and equipment net of proceeds from sale of property and equipment and other, plus the payment of contingent consideration included in operating activities. Management believes free cash flow is an important measure because it encompasses both profitability and capital management in evaluating results. A reconciliation of cash flow from operating activities to free cash flow, before acquisitions, is as follows (in millions):

	Year ended December 31,		
	2014	2013	2012
Cash flow from operating activities	\$ 270.0	\$ 211.4	\$ 137.9
Payment of contingent consideration included in operating activities	—	—	7.1
Capital expenditures for property and equipment	(53.8)	(60.3)	(49.7)
Proceeds from sale of property and equipment	2.7	1.0	5.1
Free cash flow, before acquisitions	\$ 218.9	\$ 152.1	\$ 100.4

#### **Cash flows provided by operating activities**

Net cash provided by operating activities was \$270.0 million and \$211.4 million for the year ended December 31, 2014 and 2013, respectively. Cash provided by operations increased as a result of higher earnings offset slightly by higher incremental investments in working capital as a result of higher activity levels as compared to the year ended December 31, 2013.

Net cash provided by operating activities was \$211.4 million and \$137.9 million for the years ended December 31, 2013 and 2012, respectively. Cash provided by operations increased as a result of reduced investments in working capital as compared to the prior year, primarily inventory, which added \$33.1 million as compared to the use of cash of \$100.3 million in the prior year. Offsetting the positive impacts of the reduced investments in working capital was a

decrease in net income to \$129.6 million for the year ended December 31, 2013, from \$151.5 million for the year ended December 31, 2012.

Our operating cash flows are sensitive to a number of variables, the most significant of which is the level of drilling and production activity for oil and natural gas reserves. These activity levels are in turn impacted by the volatility of oil and natural gas prices, regional and worldwide economic activity and its effect on demand for hydrocarbons, weather, infrastructure capacity to reach markets and other variable factors. These factors are beyond our control and are difficult to predict.

#### ***Cash flows used in investing activities***

Net cash used in investing activities was \$70.7 million and \$289.0 million for the year ended December 31, 2014 and 2013, respectively, a \$218.3 million decrease. The decrease was primarily due to consideration of \$38.3 million paid for an acquisition during the year ended December 31, 2014 compared to the consideration of \$229.7 million paid for two acquisitions and an investment in a joint venture closed during the year ended December 31, 2013. Additionally, a lower investment in property and equipment of \$53.8 million was made during the year ended December 31, 2014 compared an investment of \$60.3 million during the year ended December 31, 2013.

Net cash used in investing activities was \$289.0 million and \$184.5 million for the years ended December 31, 2013 and December 31, 2012, respectively, a \$104.5 million increase. Of this increase, \$229.7 million was used to fund the acquisitions during the year ended December 31, 2013 compared with \$139.9 million used for acquisitions in the year ended December 31, 2012. Additionally, a higher investment in property and equipment of \$60.3 million was made during the year ended December 31, 2013 compared an investment of \$49.7 million during the year ended December 31, 2012.

Other than capital required for acquisitions, we expect to fund all maintenance and other growth capital expenditures from our current cash on hand and from internally generated funds.

#### ***Cash flows provided by (used in) financing activities***

Net cash used in financing activities was \$162.0 million for the year ended December 31, 2014 and was primarily due to the repurchase of our stock for \$96.6 million and the net pay down of long-term debt during the period of \$84.2 million.

Net cash provided by financing activities was \$77.1 million for the year ended December 31, 2013 and consisted primarily of net proceeds from our issuance of the senior notes and other borrowings under our Credit Facility, net of long-term debt repayment, contingent consideration payment and deferred financing costs. The net proceeds from the senior notes issuance were used to repay amounts outstanding under our Credit Facility.

Net cash provided by financing activities was \$65.8 million for the year ended December 31, 2012 and consisted primarily of net proceeds from our IPO and concurrent private placement which were used to pay down a portion of the outstanding borrowings under our Credit Facility, and payment of contingent consideration with respect to acquisitions.

#### ***Senior Notes Due 2021***

In October 2013, we issued \$300.0 million of 6.25% senior unsecured notes due 2021 at par, and in November 2013 we issued an additional \$100.0 million aggregate principal amount of the notes at 103.25% of par, plus accrued interest from October 2, 2013 (the "Senior Notes"). The Senior Notes bear interest at a rate of 6.25% per annum, payable on April 1 and October 1 of each year, and mature on October 1, 2021. Net proceeds from the issuances of approximately \$394.0 million, after deducting initial purchasers' discounts and offering expenses and excluding accrued interest paid by the purchasers, were used for the repayment of the then-outstanding term loan balance and a portion of the revolving Credit Facility balance.

The terms of the Senior Notes are governed by the indenture, dated October 2, 2013 (the "Indenture"), by and among us, the guarantors named therein and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Senior Notes are senior unsecured obligations, are 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. The Senior Notes contain customary covenants including some limitations and restrictions on our ability to pay dividends on, purchase or redeem our common stock or purchase or redeem our subordinated debt; make certain investments; incur or guarantee additional indebtedness or issue certain types of equity securities; create certain liens, sell assets, including equity interests in our restricted subsidiaries; redeem or prepay subordinated debt; restrict dividends or other payments of our restricted subsidiaries; consolidate, merge or

transfer all or substantially all of our assets; engage in transactions with affiliates; and create unrestricted subsidiaries. Many of these restrictions will terminate if the Senior Notes become rated investment grade. The Indenture also contains customary events of default, including nonpayment, breach of covenants in the Indenture, payment defaults or acceleration of other indebtedness, failure to pay certain judgments and certain events of bankruptcy and insolvency. We are required to offer to repurchase the Senior Notes in connection with specified change in control events or with excess proceeds of asset sales not applied for permitted purposes.

We may redeem the Senior Notes due 2021:

- beginning on October 1, 2016 at a redemption price of 104.688% of their principal amount plus accrued and unpaid interest and additional interest, if any; then
- at a redemption price of 103.125% of their principal amount plus accrued and unpaid interest and additional interest, if any, for the twelve-month period beginning October 1, 2017; then
- at a redemption price of 101.563% of their principal amount plus accrued and unpaid interest and additional interest, if any, for the twelve-month period beginning October 1, 2018; and then
- at a redemption price of 100.000% of their principal amount plus accrued interest and unpaid interest and additional interest, if any, beginning on October 1, 2019.
- We may also redeem some or all of the Senior Notes due 2021 before October 1, 2016 at a redemption price of 100.000% of the principal amount, plus accrued and unpaid interest and additional interest, if any, to the redemption date, plus an applicable premium.
- In addition, before October 1, 2016, we may redeem up to 35% of the aggregate principal amount with the proceeds of certain equity offerings at 106.250% of their principal amount plus accrued and unpaid interest and additional interest, if any; we may make such redemption only if, after any such redemption, at least 65% of the aggregate principal amount originally issued remains outstanding.

### **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 facility, including 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 Credit Facility by an additional \$300.0 million. Our Credit Facility matures in November 2018. Weighted average interest rates under the Credit Facility at December 31, 2014 and 2013 were 1.91% and 2.17%, respectively.

All of the obligations under the Credit Facility are secured by first priority liens (subject to permitted liens) on substantially all of the assets of the Company and its wholly-owned domestic restricted subsidiaries, with exceptions for real property and certain other assets set forth in the Credit Facility. Additionally, all of the obligations under the Credit Facility are guaranteed by the wholly-owned domestic restricted subsidiaries of the Company. As of December 31, 2014, we had \$25.0 million of borrowings outstanding under our Credit Facility, \$10.7 million of outstanding letters of credit and the capacity to borrow an additional \$564.3 million under the Credit Facility.

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.

The Credit Facility contains various covenants that, among other things, limit our ability to grant certain liens, make certain loans and investments, make distributions, enter into mergers or acquisitions unless certain conditions are satisfied, enter into hedging transactions, change our lines of business, prepay certain indebtedness, enter into certain affiliate transactions or engage in certain asset dispositions. Additionally, the Credit Facility limits our ability to incur additional indebtedness with certain exceptions, including the ability to incur up to \$150.0 million of additional unsecured debt, \$25.0 million of capital leases, \$30.0 million of foreign overdraft lines and \$50.0 million of other debt.

The Credit Facility also contains financial covenants, which, among other things, require us, on a consolidated basis, to maintain specified financial ratios or conditions summarized as follows:

- Total funded debt to adjusted earnings before interest, taxes and depreciation ("EBITDA") (defined as the "Leverage Ratio" in the Credit Facility) of not more than 4.50 to 1.0;
- Senior secured debt to adjusted EBITDA (defined as the "Senior Secured Leverage Ratio" in the Credit Facility) of not more than 3.50 to 1.0; and

- EBITDA to interest expense (defined as the "Interest Coverage Ratio" in the Credit Facility) of not less than 3.0 to 1.0.

We were in compliance with all financial covenants at December 31, 2014 and we anticipate that we will continue to be in compliance in 2015.

Under the Credit Facility, EBITDA is defined to generally exclude the effect of non-cash items, and to give pro forma effect to acquisitions and non-ordinary course asset sales (with adjustments to EBITDA of the acquired businesses or related to the sold assets to be made in accordance with the guidelines for pro forma presentations set forth by the SEC or in a manner otherwise reasonably acceptable to the Administrative Agent under the Credit Facility). The EBITDA of Global Tubing is excluded until such time as it is distributed cash to the Company.

We have the ability to elect the interest rate applicable to borrowings under the Credit Facility. Interest under the Credit Facility may be determined by reference to (1) the London interbank offered rate, or LIBOR, plus an applicable margin which ranges from 1.50% to 3.50% per annum (with the applicable margin depending upon our ratio of total funded debt to EBITDA) or (2) the Adjusted Base Rate plus an applicable margin which ranges from 0.00% to 2.00% per annum (with the applicable margin depending upon our ratio of total funded debt to EBITDA). The Adjusted Base Rate will be equal to the highest of (1) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus one half of 1.0%, (2) the prime rate of Wells Fargo Bank, National Association, as established from time to time at its principal U.S. office and (3) daily LIBOR for an interest period of one-month plus 1.0%.

Interest is payable quarterly for base rate loans and at the end of each interest period for LIBOR loans, except that if the interest period for a LIBOR loan is longer than three months, interest is paid at the end of each three-month period.

The Credit Facility also provides for a commitment fee in the amount of 0.25% to 0.50% per annum (with the applicable rate depending upon our ratio of total funded debt to EBITDA) on the unused portion of commitments.

If an event of default exists under the Credit Facility, lenders holding greater than 50% of the aggregate outstanding loans and letter of credit obligations and unfunded commitments have the right to accelerate the maturity of the obligations outstanding under the Credit Facility and exercise other rights and remedies. Each of the following constitutes an event of default under the Credit Facility:

- Failure to pay any principal when due or any interest, fees or other amount within certain grace periods;
- Representations and warranties in the Credit Facility or other loan documents being incorrect or misleading in any material respect;
- Failure to perform or otherwise comply with the covenants in the Credit Facility or other loan documents, subject, in certain instances, to grace periods;
- Impairment of security under the loan documents affecting collateral having a fair market value in excess of \$25 million;
- The actual or asserted invalidity of any material provisions of the guarantees of the indebtedness under the Credit Facility;
- Default by us or our restricted subsidiaries in the payment of any other indebtedness with a principal amount in excess of \$50 million, any default in the performance of any obligation or condition with respect to such indebtedness beyond the applicable grace period if the effect of the default is to permit or cause the acceleration of the indebtedness, or such indebtedness will be declared due and payable prior to its scheduled maturity;
- Bankruptcy or insolvency events involving us or our restricted subsidiaries;
- The entry, and failure to pay, of one or more adverse judgments in excess of \$50 million, upon which enforcement proceedings are commenced or that are not stayed pending appeal; and
- The occurrence of a change in control (as defined in the Credit Facility).

#### ***Off-balance sheet arrangements***

As of December 31, 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**

Our debt, lease and financial obligations as of December 31, 2014 will mature and become due and payable according to the following table (in thousands):

	2015	2016	2017	2018	2019	After 2019	Total
Senior notes due October 2021 <sup>(1)</sup>	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 443,750	\$ 568,750
Senior secured credit facility <sup>(2)</sup>	478	478	478	25,398	—	—	26,832
Other debt	840	209	—	—	—	—	1,049
Operating leases	19,110	16,921	12,117	8,823	7,443	20,084	84,498
Letters of credit	7,340	2,618	747	—	—	—	10,705
Pension	495	371	357	364	361	6,719	8,667
Total	\$ 53,263	\$ 45,597	\$ 38,699	\$ 59,585	\$ 32,804	\$ 470,553	\$ 700,501

<sup>(1)</sup> Includes 8 years of interest on \$400 million of senior notes at 6.25% that become due in 2021.

<sup>(2)</sup> Includes interest on the Credit Facility calculated using the weighted average interest rate of 1.91% at December 31, 2014.

### **Inflation**

Global inflation has been relatively low in recent years and did not have a material impact on our results of operations during 2014, 2013 or 2012. Although the impact of inflation has been insignificant in recent years, it is still a factor in the global economy and we tend to experience inflationary pressure on the cost of raw materials and components used in our products.

### **Critical accounting policies and estimates**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our consolidated financial statements. We provide expanded discussion of our most critical accounting policies, estimates and judgments below. We believe that these accounting policies reflect our more significant estimates and assumptions used in preparation of our consolidated financial statements.

### **Revenue recognition**

The substantial majority of our revenue is recognized when the associated goods are shipped and title passes to the customer or when services have been rendered, as long as all of the criteria for recognition described in Note 2 of the Notes to the Consolidated Financial Statements in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K have been met. The only revenue recognition criteria requiring judgment on these sales is assurance of collectability. We carefully evaluate creditworthiness of our customers before extending payment terms other than cash upfront, and historically we have not incurred significant losses for bad debt.

Revenue generated from long-term contracts, typically longer than six months in duration, is recognized on the percentage-of-completion method of accounting. Approximately 10% of our 2014 revenue was accounted for on this basis. There are significant estimates and judgments involved in recognizing revenue over the term of the contract. For that portion of our business accounted for on the percentage-of-completion method, we generally recognize revenue and cost of goods sold each period based upon the advancement of the work-in-progress. The percentage complete is determined based on the ratio of costs incurred to date to total estimated costs for the project. The percentage-of-completion method requires management to calculate reasonably dependable estimates of progress towards completion and total contract costs. Each period these long-term contracts are reevaluated and may result in upward or downward revisions in estimated total costs, which are accounted for in the period of the change to reflect a catch up adjustment for the cumulative impact from inception of the contract to date in the period of the revision. Whenever

revisions of estimated contract costs and contract value indicates that the contract costs will exceed estimated revenue, thus creating a loss, a provision for the total estimated loss is recorded in that period.

Revenue from the rental of equipment or providing of services is recognized over the period when the asset is rented or services are rendered and collectability is reasonably assured. Rates for asset rental and service provision are priced on a per day, per man hour, or similar basis. There are typically delays in receiving some field tickets reporting utilization of equipment or personnel requiring us to make estimates for revenue recognition in the period. In the following period, these estimates are adjusted to actual field tickets received late.

### ***Share-based compensation***

We account for awards of share-based compensation at fair value on the date granted to employees and recognize the compensation expense in the financial statements over the requisite service period. Fair value of the share-based compensation was measured using the fair value of the common stock for restricted stock and restricted stock units, the Black-Scholes model for most of the outstanding options, and a lattice model for performance share units. These models require assumptions and estimates for inputs, especially the estimate of the volatility in the value of the underlying share price, that affect the resultant values and hence the amount of compensation expense recognized.

### ***Inventories***

Inventory, consisting of finished goods and materials and supplies held for resale, is carried at the lower of cost or market. We evaluate our inventories, based on an analysis of stocking levels, historical sales experience and future sales forecasts, to determine obsolete, slow-moving and excess inventory. While we have policies for calculating and recording reserves against inventory carrying values, we exercise judgment in establishing and applying these policies.

### ***Business combinations, goodwill and other intangible assets***

Goodwill acquired in connection with business combinations represents the excess of consideration over the fair value of net assets acquired. Certain assumptions and estimates are employed in determining the fair value of assets acquired, evaluating the fair value of liabilities assumed, as well as in determining the allocation of goodwill to the appropriate reporting unit. These estimates may be affected by factors such as changing market conditions, technological advances in the oil and natural gas industry or changes in regulations governing that industry. The most significant assumptions requiring the most judgment involve identifying and estimating the fair value of intangible assets and the associated useful lives for establishing amortization periods. To finalize purchase accounting for significant acquisitions, we utilize the services of independent valuation specialists to assist in the determination of the fair value of acquired intangible assets.

There are also significant judgments involved in estimating the value of any contingent purchase consideration, for example, additional cash or stock consideration to be earned based on the future results of the acquired business. The value of this potential additional consideration is required to be estimated and recorded as part of the purchase accounting for the acquisition in the period when the transaction is effective. Each quarter these estimates must be reevaluated based on actual results achieved and changes in circumstances, and the contingent consideration marked-to-market with any change in value reflected in profit and loss for the period.

For goodwill and intangible assets with indefinite lives, an assessment for impairment is performed annually or whenever an event indicating impairment may have occurred. We typically complete our annual impairment test for goodwill and other indefinite-lived intangibles using an assessment date of December 31. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets, including allocated goodwill, to the estimated fair value of the reporting unit. As of December 31, 2014, we had six reporting units. We determine the fair value of our reporting units using a discounted cash flow approach. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. Such estimates and assumptions include revenue growth rates, future operating margins, the weighted average cost of capital, and future market conditions, among others. We believe that the estimates and assumptions used in our impairment assessments are reasonable. If the reporting unit's carrying value is greater than its fair value, a second step is performed whereby the implied fair value of goodwill is estimated by allocating the fair value of the reporting unit in a hypothetical purchase price allocation analysis. We recognize a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds its reassessed fair value. At December 31, 2014, we performed our annual impairment test on each of our reporting units and concluded that there had been no impairment because the estimated fair values of each of those reporting units exceeded its carrying value.

## ***Income taxes***

We follow the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based upon temporary differences between the carrying amounts and tax bases of our assets and liabilities at the balance sheet date, and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. We record a valuation allowance whenever management believes that it is more likely than not that any deferred tax asset will not be realized. We must apply judgment in assessing the realizability of deferred tax assets, including estimating our future taxable income, to predict whether a future cash tax reduction will be realized from the deferred tax asset. Any changes in the valuation allowance due to changes in circumstances and estimates are recognized in income tax expense in the period the change occurs.

The accounting guidance for income taxes requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. If a tax position meets the "more likely than not" recognition criteria, the accounting guidance requires the tax position be measured at the largest amount of benefit greater than 50% likely of being realized upon ultimate settlement. If management determines that likelihood of sustaining the realization of the tax benefit is less than or equal to 50%, then the tax benefit is not recognized in the financial statements.

We have operations in countries other than the United States. Consequently, we are subject to the jurisdiction of a number of taxing authorities. The final determination of tax liabilities involves the interpretation of local tax laws, tax treaties, and related authorities in each jurisdiction. Changes in the operating environment, including changes in tax law or interpretation of tax law and currency repatriation controls, could impact the determination of our tax liabilities for a given tax year.

## ***Property and equipment***

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated useful lives of assets, generally 3 to 20 years. We have established standard lives for certain classes of assets.

We review long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. In performing the review for impairment, future cash flows expected to result from the use of the asset and its eventual disposal are estimated. If the undiscounted future cash flows are less than the carrying amount of the assets, there is an indication that the asset may be impaired. The amount of the impairment is measured as the difference between the carrying value and the estimated fair value of the asset. The fair value is determined either through the use of an external valuation, or by means of an analysis of discounted future cash flows based on expected utilization. The impairment loss recognized represents the excess of the assets carrying value as compared to its estimated fair value.

## ***Recognition of provisions for contingencies***

In the ordinary course of business, we are subject to various claims, suits and complaints. We, in consultation with internal and external advisors, will provide for a contingent loss in the consolidated financial statements if it is probable that a liability has been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. If it is determined that the reasonable estimate of the loss is a range and that there is no best estimate within the range, provision will be made for the lower amount of the range. Legal costs are expensed as incurred.

An assessment is made of the areas where potential claims may arise under the contract warranty clauses. Where a specific risk is identified and the potential for a claim is assessed as probable and can be reasonably estimated, an appropriate warranty provision is recorded. Warranty provisions are eliminated at the end of the warranty period except where warranty claims are still outstanding. The liability for product warranty is included in other accrued liabilities on the consolidated balance sheet.

## ***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.

### **Cautionary note regarding forward-looking statements**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K, the words "will," "could," "believe," "anticipate," "intend," "estimate," "expect," "may," "continue," "predict," "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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K 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" and elsewhere in this Annual Report on Form 10-K. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

**Item 7A. 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. A discussion of our market risk exposure in financial instruments follows.

***Non-U.S. currency exchange rates***

In certain regions, we conduct our business in currencies other than the U.S. dollar and the functional currency is the applicable local currency. We operate primarily in the U.S., Canadian and UK markets, and as a result our primary exposure to fluctuations in currency exchange rates relates to fluctuations between the U.S. dollar and the Canadian dollar, the British pound sterling, the Euro, and, to a lesser degree, the Mexican Peso and the Singapore dollar. In countries in which we operate in the local currency, the effects of currency fluctuations are largely mitigated because local expenses of such operations are also generally denominated in the local currency. There may be instances, however, in which costs and revenue will not be matched with respect to currency denomination and we may experience economic loss and a negative impact on earnings or net assets solely as a result of foreign currency exchange rate fluctuations. To the extent that we continue our expansion on a global basis, management expects that increasing portions of revenue, costs, assets and liabilities will be subject to fluctuations in foreign currency valuations.

Assets and liabilities for which the functional currency is the local currency are translated using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected as accumulated other comprehensive income in the stockholders' equity section on our consolidated balance sheet. We recorded \$43.6 million in net foreign currency translation loss, net of tax, that is included in other comprehensive income for the year ended December 31, 2014 to reflect the net impact of the general weakening of other applicable currencies against the U.S. dollar. This translation loss was caused primarily by the relative weakening of the Euro and the British pound sterling, as the Euro and the British pound sterling depreciated 12% and 6%, respectively, relative to the U.S. dollar from December 31, 2013 to December 31, 2014.

***Interest rates***

At December 31, 2014, our long-term debt consisted of \$402.8 million in 6.25% Senior Notes and \$25.0 million in long-term borrowings under our Credit Facility. At December 31, 2014, the fair value of the Senior Notes approximated \$378.1 million. We are subject to interest rate risk on our floating interest rate borrowings. Floating rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. All of the long-term debt outstanding under our Credit Facility is structured on floating interest rate terms. A one percentage point increase in the interest rates on our long-term debt outstanding under our Credit Facility as of December 31, 2014 would cause a \$0.3 million pre-tax annual increase in interest expense.

**Item 8. Financial Statements and Supplementary Data**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Forum Energy Technologies, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Forum Energy Technologies, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Houston, Texas

February 27, 2015



**Forum Energy Technologies, Inc. and subsidiaries**  
**Consolidated statements of comprehensive income**

(in thousands, except per share information)	Year ended December 31,		
	2014	2013	2012
Net sales	\$ 1,739,717	\$ 1,524,811	\$ 1,414,933
Cost of sales	1,180,265	1,049,586	951,876
Gross profit	559,452	475,225	463,057
<b>Operating expenses</b>			
Selling, general and administrative expenses	312,821	269,669	225,268
Contingent consideration (benefit)	—	—	(4,568)
Impairment of intangible assets	—	—	1,161
Transaction expenses	2,326	2,700	1,751
(Gain) loss on sale of assets	1,431	614	(1,435)
Total operating expenses	316,578	272,983	222,177
Earnings from equity investment	25,164	7,312	—
Operating income	268,038	209,554	240,880
<b>Other expense (income)</b>			
Interest expense	29,847	18,370	16,372
Foreign exchange (gains) losses and other, net	(4,331)	2,953	1,713
Deferred loan costs written off	—	2,149	—
Total other expense	25,516	23,472	18,085
<b>Income before income taxes</b>	242,522	186,082	222,795
Provision for income tax expense	68,145	56,478	71,265
<b>Net income</b>	174,377	129,604	151,530
Less: Income attributable to noncontrolling interest	12	65	74
<b>Net income attributable to common stockholders</b>	174,365	129,539	151,456
<b>Weighted average shares outstanding</b>			
Basic	92,628	90,697	80,111
Diluted	95,308	94,604	86,937
<b>Earnings per share</b>			
Basic	\$ 1.88	\$ 1.43	\$ 1.89
Diluted	\$ 1.83	\$ 1.37	\$ 1.74
<b>Other comprehensive income, net of tax:</b>			
Net income	174,377	129,604	151,530
Change in foreign currency translation, net of tax of \$0	(43,694)	7,525	15,887
Gain (loss) on pension liability	(1,110)	223	—
<b>Comprehensive income</b>	129,573	137,352	167,417
Less: comprehensive (income) loss attributable to noncontrolling interests	46	72	(44)
<b>Comprehensive income attributable to common stockholders</b>	\$ 129,619	\$ 137,424	\$ 167,373

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

**Forum Energy Technologies, Inc. and subsidiaries**  
**Consolidated balance sheets**

(in thousands, except share information)	December 31, 2014	December 31, 2013
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 76,579	\$ 39,582
Accounts receivable—trade, net	287,045	250,272
Inventories, net	461,515	441,049
Prepaid expenses and other current assets	32,985	29,707
Costs and estimated profits in excess of billings	14,646	24,012
Deferred income taxes, net	22,389	24,846
Total current assets	895,159	809,468
Property and equipment, net of accumulated depreciation	189,974	180,292
Deferred financing costs, net	13,107	15,658
Intangibles, net	271,739	295,352
Goodwill	798,481	802,318
Investment in unconsolidated subsidiary	49,675	60,292
Other long-term assets	3,493	5,489
Total assets	\$ 2,221,628	\$ 2,168,869
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 840	\$ 998
Accounts payable—trade	127,757	100,221
Accrued liabilities	126,890	96,529
Deferred revenue	10,919	15,837
Billings in excess of costs and profits recognized	15,785	6,398
Total current liabilities	282,191	219,983
Long-term debt, net of current portion	428,010	512,077
Deferred income taxes, net	98,188	97,774
Other long-term liabilities	17,318	8,069
Total liabilities	825,707	837,903
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Common stock, \$0.01 par value, 296,000,000 shares authorized, 97,865,278 and 96,306,753 shares issued	979	964
Additional paid-in capital	864,313	826,028
Treasury stock at cost, 8,108,983 and 3,585,098 shares	(132,480)	(30,249)
Warrants	—	687
Retained earnings	699,505	525,140
Accumulated other comprehensive income/(loss)	(36,961)	7,785
Total stockholders' equity	1,395,356	1,330,355
Noncontrolling interest in subsidiary	565	611
Total equity	1,395,921	1,330,966
Total liabilities and equity	\$ 2,221,628	\$ 2,168,869

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

**Forum Energy Technologies, Inc. and subsidiaries**  
**Consolidated statements of cash flows**

(in thousands, except share information)	Year ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities</b>			
Net income	\$ 174,377	\$ 129,604	\$ 151,530
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation expense	37,414	36,166	31,458
Amortization of intangible assets	27,658	24,413	20,346
Share-based compensation expense	18,770	19,038	8,179
Earnings from equity investment, net of distributions	1,376	(1,376)	—
Payment of contingent consideration included in operating expense	—	—	(7,127)
Change in contingent consideration	—	—	(4,568)
Impairment of intangible assets	—	—	1,161
Deferred income taxes	(3,270)	15,622	(6,349)
Deferred loan costs written off	—	2,149	—
Other	6,601	1,083	2,108
Changes in operating assets and liabilities			
Accounts receivable—trade	(44,727)	1,188	12,872
Inventories	(25,880)	33,135	(100,268)
Prepaid expenses and other current assets	(4,107)	(20,415)	15,636
Cost and estimated profit in excess of billings	8,742	(16,705)	5,403
Accounts payable, deferred revenue and other accrued liabilities	62,772	(1,475)	(4,781)
Billings in excess of costs and estimated profits earned	10,240	(11,034)	12,341
Net cash provided by operating activities	\$ 269,966	\$ 211,393	\$ 137,941
<b>Cash flows from investing activities</b>			
Acquisition of businesses, net of cash acquired	(38,289)	(181,718)	(139,889)
Investment in unconsolidated subsidiary	—	(112,241)	—
Distribution from unconsolidated subsidiary	—	64,228	—
Capital expenditures for property and equipment	(53,792)	(60,263)	(49,685)
Return of investment in unconsolidated subsidiary	9,240	—	—
Proceeds from sale of business, property and equipment	12,150	964	5,051
Net cash (used in) investing activities	\$ (70,691)	\$ (289,030)	\$ (184,523)
<b>Cash flows from financing activities</b>			
Borrowings under Credit Facility	15,423	404,953	203,286
Issuance of Senior Notes	—	403,250	—
Repayment of long-term debt	(98,415)	(715,131)	(454,019)
Proceeds of IPO, net of offering costs	—	—	256,381
Proceeds from concurrent private placement	—	—	50,000
Payment of contingent consideration accrued at acquisition	—	(11,435)	(11,100)
Repurchases of stock	(96,632)	(4,316)	(56)
Excess tax benefits from stock based compensation	7,742	7,202	7,337
Proceeds from stock issuance	11,101	5,458	14,432
Payment of capital lease obligation	(1,231)	(924)	(464)
Deferred financing costs	(6)	(12,003)	(15)
Net cash provided by (used in) financing activities	\$ (162,018)	\$ 77,054	\$ 65,782
Effect of exchange rate changes on cash	(260)	(898)	1,315
Net increase (decrease) in cash and cash equivalents	36,997	(1,481)	20,515
<b>Cash and cash equivalents</b>			
Beginning of period	39,582	41,063	20,548
End of period	\$ 76,579	\$ 39,582	\$ 41,063
<b>Supplemental cash flow disclosures</b>			
Interest paid	27,628	17,977	15,224
Income taxes paid	55,576	41,356	59,439
<b>Noncash investing and financing activities</b>			
Insurance policy financed through notes payable	\$ —	\$ —	\$ 6,348
Payment of contingent consideration via stock	—	4,075	3,341
Accrued purchases of property and equipment	765	1,526	—



**Forum Energy Technologies, Inc. and subsidiaries**  
**Consolidated statements of changes in stockholders' equity**

	Common Stock		Additional paid in capital	Treasury Shares		Warrants	Retained earnings	Accumulated other comprehensive income / (loss)	Total common stockholders' equity	Non controlling Interest	Total Equity
	Shares	Amount		Shares	Amount						
(in thousands of dollars, except share information)											
<b>Balance at December 31, 2011</b>	71,447,389	\$ 715	\$424,430	(3,374,770)	\$ (25,877)	\$ 27,097	\$244,145	\$ (16,017)	\$ 654,493	\$ 639	\$ 655,132
Stock issuance	30,821	—	499	—	—	—	—	—	499	—	499
Issuance of stock upon IPO, net of offering costs	13,889,470	139	256,242	—	—	—	—	—	256,381	—	256,381
Issuance of stock upon concurrent private placement	2,666,666	27	49,973	—	—	—	—	—	50,000	—	50,000
Restricted stock issuance	869,826	9	(9)	—	—	—	—	—	—	—	—
Stock based compensation expense	—	—	8,179	—	—	—	—	—	8,179	—	8,179
Exercised stock options	1,573,268	16	10,726	—	—	—	—	—	10,742	—	10,742
Exercise of warrants	363,044	3	3,883	—	—	(703)	—	—	3,183	—	3,183
Treasury stock	—	—	—	(2,829)	(56)	—	—	—	(56)	—	(56)
Excess tax benefits	—	—	7,337	—	—	—	—	—	7,337	—	7,337
Equity related to contingent consideration	206,053	2	3,339	—	—	—	—	—	3,341	—	3,341
Currency translation adjustment	—	—	—	—	—	—	—	15,917	15,917	(30)	15,887
Net income	—	—	—	—	—	—	151,456	—	151,456	74	151,530
<b>Balance at December 31, 2012</b>	91,046,537	\$ 911	\$764,599	(3,377,599)	\$ (25,933)	\$ 26,394	\$395,601	\$ (100)	\$ 1,161,472	\$ 683	\$1,162,155
Restricted stock issuance, net of forfeitures	26,017	—	(1)	—	—	—	—	—	(1)	—	(1)
Stock based compensation expense	—	—	19,038	—	—	—	—	—	19,038	—	19,038
Exercised stock options	796,848	8	5,453	—	—	—	—	—	5,461	—	5,461
Exercise of warrants	4,272,775	43	25,664	—	—	(25,707)	—	—	—	—	—
Treasury stock	—	—	—	(207,499)	(4,316)	—	—	—	(4,316)	—	(4,316)
Excess tax benefits	—	—	7,202	—	—	—	—	—	7,202	—	7,202
Equity related to contingent consideration	164,576	2	4,073	—	—	—	—	—	4,075	—	4,075
Change in pension liability	—	—	—	—	—	—	—	223	223	—	223
Currency translation adjustment	—	—	—	—	—	—	—	7,662	7,662	(137)	7,525
Net income	—	—	—	—	—	—	129,539	—	129,539	65	129,604
<b>Balance at December 31, 2013</b>	96,306,753	\$ 964	\$826,028	(3,585,098)	\$ (30,249)	\$ 687	\$525,140	\$ 7,785	\$ 1,330,355	\$ 611	\$1,330,966
Restricted stock issuance, net of forfeitures	70,179	1	(680)	—	—	—	—	—	(679)	—	(679)
Stock based compensation expense	—	—	18,770	—	—	—	—	—	18,770	—	18,770
Exercised stock options	1,108,045	11	9,174	—	—	—	—	—	9,185	—	9,185
Exercise of warrants	248,189	2	685	—	—	(687)	—	—	—	—	—
Issuance of performance shares	21,603	—	(70)	—	—	—	—	—	(70)	—	(70)
Shares issued in employee stock purchase plan	110,509	1	2,664	—	—	—	—	—	2,665	—	2,665
Treasury stock	—	—	—	(4,523,885)	(102,231)	—	—	—	(102,231)	—	(102,231)
Excess tax benefits	—	—	7,742	—	—	—	—	—	7,742	—	7,742
Change in pension liability	—	—	—	—	—	—	—	(1,110)	(1,110)	—	(1,110)
Currency translation adjustment	—	—	—	—	—	—	—	(43,636)	(43,636)	(58)	(43,694)
Net income	—	—	—	—	—	—	174,365	—	174,365	12	174,377
<b>Balance at December 31, 2014</b>	97,865,278	\$ 979	\$864,313	(8,108,983)	\$ (132,480)	\$ —	\$699,505	\$ (36,961)	\$ 1,395,356	\$ 565	\$1,395,921

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

**Forum Energy Technologies, Inc. and subsidiaries**  
**Notes to consolidated financial statements**

## **1. Nature of operations**

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.

On August 2, 2010, the Company completed the combination (the "Combination") of Forum Oilfield Technologies, Inc. ("FOT"), Global Flow Technologies, Inc. ("Global Flow"), Triton Group Holdings, LLC ("Triton"), Allied Production Services, Inc. ("Allied"), and Subsea Services International, Inc. ("Subsea") pursuant to which each company's shareholders, other than FOT, exchanged all of their common stock for the common stock of FOT. In conjunction with the Combination, FOT changed its name to Forum Energy Technologies, Inc. After the completion of the Combination, the Company's common stock was owned by three private equity funds with the same sponsor, certain current and former employees and directors of the Company, and former owners of previously acquired companies.

On April 17, 2012, the Company closed its initial public offering (the "IPO") pursuant to which the Company sold 13,889,470 shares of common stock and the selling stockholders sold 7,900,000 shares of common stock, including 2,842,104 shares of common stock pursuant to the underwriters' option to purchase additional shares, each at an offering price of \$20.00 per share, all issued at par value. After deducting estimated expenses and underwriting discounts, the Company and the selling stockholders received net proceeds of approximately \$256.4 million and \$147.2 million, respectively. The Company did not receive any proceeds from the sale of common stock by the selling stockholders. Concurrently with the closing of the IPO, the Company sold 2,666,666 shares of common stock in a private placement to Tinicum L.P. ("Tinicum"), a private equity fund, for net proceeds of \$50.0 million. The Company used all of the net proceeds from the IPO and concurrent private placement to repay a portion of the outstanding borrowings under the revolving portion of the Company's senior secured credit facility ("Credit Facility"). The Company's common shares are listed on the New York Stock Exchange under the symbol "FET."

## **2. Summary of significant accounting policies**

### ***Basis of presentation***

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### ***Principles of consolidation***

The consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries after elimination of intercompany balances and transactions. Noncontrolling interest principally represents ownership by others of the equity in our consolidated majority owned South African subsidiary.

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 consolidated statements of comprehensive income. The investment in this entity is included in "Investment in unconsolidated subsidiary" in the consolidated balance sheets. The Company reports its share of equity earnings within operating income as the investee's operations are similar in nature to the operations of the Company.

### ***Reclassifications***

Certain reclassifications have been made in prior period financial statements to conform with the current period presentation. Reclassifications have no impact on the Company's financial position, results of operations or cash flows.

### ***Use of estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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

In the preparation of these consolidated financial statements, estimates and assumptions have been made by management including, among others, costs to complete contracts, an assessment of percentage of completion of projects, the selection of useful lives of tangible and intangible assets, fair value of reporting units used for goodwill impairment testing, expected future cash flows from long lived assets to support impairment tests, provisions necessary for trade receivables, amounts of deferred taxes and income tax contingencies. Actual results could differ from these estimates.

The financial reporting of contracts depends on estimates, which are assessed continually during the term of those contracts. Recognized revenues and income are subject to revisions as the contract progresses to completion and changes in estimates are reflected in the period in which the facts that give rise to the revisions become known. Additional information that enhances and refines the estimating process that is obtained after the balance sheet date, but before issuance of the financial statements is reflected in the financial statements.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and high quality, short term money market instruments with an original maturity of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

**Accounts receivable-trade**

Trade accounts receivables are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus receivables do not bear interest, although a finance charge may be applied to amounts past due. The Company maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its customers to make required payments. Such allowances are based upon several factors including, but not limited to, credit approval practices, industry and customer historical experience as well as the current and projected financial condition of the specific customer. Accounts receivable outstanding longer than contractual terms are considered past due. The Company writes off accounts receivable to the allowance for doubtful accounts when they become uncollectible. Any payments subsequently received on receivables previously written off are credited to bad debt expense.

The change in amounts of the allowance for doubtful accounts during the three year period ended December 31, 2014 is as follows (in thousands):

Period ended	Balance at beginning of period	Charged to expense	Deductions or other	Balance at end of period
December 31, 2012	\$ 5,795	\$ 2,115	\$ (2,019)	\$ 5,891
December 31, 2013	5,891	2,925	(3,091)	5,725
December 31, 2014	5,725	2,492	(2,571)	5,646

**Inventories**

Inventory consisting of finished goods and materials and supplies held for resale is carried at the lower of cost or market. For certain operations, cost, which includes the cost of raw materials and labor for finished goods, is determined on a first-in first-out basis. For other operations, this cost is determined on an average cost basis. Market means current replacement cost except that (1) market should not exceed net realizable value and (2) market should not be less than net realizable value reduced by an allowance for a normal profit margin. The Company continuously evaluates inventories, based on an analysis of inventory levels, historical sales experience and future sales forecasts, to determine obsolete, slow-moving and excess inventory. Adjustments to reduce such inventory to its estimated recoverable value have been recorded by management.

***Property and equipment***

Property and equipment are stated at cost less accumulated depreciation. Equipment held under capital leases are stated at the present value of minimum lease payments. Expenditures for property and equipment and for items which substantially increase the useful lives of existing assets are capitalized at cost and depreciated over their estimated useful life utilizing the straight-line method. Routine expenditures for repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method based on the estimated useful lives of assets, generally three to twenty years. Property and equipment held under capital leases are amortized straight-line over the shorter of the lease term or estimated useful life of the asset. Gains or losses resulting from the disposition of assets are recognized in income, and the related asset cost and accumulated depreciation are removed from the accounts. Assets acquired in connection with business combinations are recorded at fair value.

Rental equipment consists of equipment leased to customers under operating leases. Rental equipment is recorded at cost and depreciated using the straight-line method over the estimated useful life of three to ten years.

The Company reviews long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. In performing the review for impairment, future cash flows expected to result from the use of the asset and its eventual disposal are estimated. If the undiscounted future cash flows are less than the carrying amount of the assets, there is an indication that the asset may be impaired. The amount of the impairment is measured as the difference between the carrying value and the estimated fair value of the asset. The fair value is determined either through the use of an external valuation, or by means of an analysis of discounted future cash flows based on expected utilization. The impairment loss recognized represents the excess of the assets carrying value as compared to its estimated fair value. For the years ended December 31, 2014, 2013 and 2012, no impairments were recorded.

To the extent that asset retirement obligations are incurred, the Company records the fair value of an asset retirement obligation as a liability in the period in which the associated legal obligation is incurred. The fair values of these obligations are recorded as liabilities on a discounted basis. The costs associated with these liabilities are capitalized as part of the related assets and depreciated. Over time, the liabilities are accreted for any change in their present value. Asset retirement obligations as of December 31, 2014, 2013 and 2012 are not significant.

***Goodwill and intangible assets***

For goodwill and intangible assets with indefinite lives, an assessment for impairment is performed annually or whenever an event indicating impairment may have occurred. The Company completes its annual impairment test for goodwill and other indefinite-lived intangibles using an assessment date of December 31. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of the reporting unit. The Company has six reporting units. The fair value of the reporting units is determined using a discounted cash flow approach. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. Such estimates and assumptions include revenue growth rates, operating margins, weighted average costs of capital and future market conditions, among others. The Company believes that the estimates and assumptions used in impairment assessments are reasonable. If the reporting unit's carrying value is greater than its fair value, a second step is performed whereby the implied fair value of goodwill is estimated by allocating the fair value of the reporting unit in a hypothetical purchase price allocation analysis. The Company recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds its fair value. The impairment test is a fair value test which includes assumptions such as growth and discount rates. Any impairment losses are reflected in operating income. In 2014, 2013 and 2012, no goodwill impairment losses were recorded as the estimated fair values of each reporting unit exceeded its carrying value.

Intangible assets with definite lives comprised of customer and distributor relationships, non-compete agreements, and patents are amortized on a straight-line basis over the life of the intangible asset, generally three to seventeen years. These assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No impairments to intangible assets were recorded in 2014 and 2013. During the year ended December 31, 2012, an impairment loss of \$1.2 million was recorded on certain intangible assets resulting from a lack of business and orders related to a specific service line within the Production & Infrastructure segment. Refer to Note 7, Goodwill and intangible assets, for further discussion.



**Recognition of provisions for contingencies**

In the ordinary course of business, the Company is subject to various claims, suits and complaints. The Company, in consultation with internal and external advisors, will provide for a contingent loss in the consolidated financial statements if it is probable that a liability has been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. If it is determined that the reasonable estimate of the loss is a range and that there is no best estimate within the range, provision will be made for the lower amount of the range. Legal costs are expensed as incurred.

An assessment is made of the areas where potential claims may arise under the contract warranty clauses. Where a specific risk is identified and the potential for a claim is assessed as probable and can be reasonably estimated, an appropriate warranty provision is recorded. Warranty provisions are eliminated at the end of the warranty period except where warranty claims are still outstanding. The liability for product warranty is included in other accrued liabilities on the consolidated balance sheet.

Changes in the Company's warranty liability were as follows (in thousands):

Period ended	Balance at beginning of period	Charged to expense	Deductions or other	Balance at end of period
December 31, 2012	\$ 4,914	\$ 2,083	\$ (3,220)	\$ 3,777
December 31, 2013	3,777	3,442	(1,939)	5,280
December 31, 2014	5,280	2,588	(2,554)	5,314

**Revenue recognition and deferred revenue**

Revenue is recognized when all of the following criteria have been met: (a) persuasive evidence of an arrangement exists, (b) delivery of the equipment has occurred or services have been rendered, (c) the price of the product or service is fixed and determinable and (d) collectability is reasonably assured. Revenue from product sales, including shipping costs, is recognized as title passes to the customer, which generally occurs when items are shipped from the Company's facilities. Revenue from services is recognized when the service is completed to the customer's specifications.

Customers are sometimes billed in advance of services performed or products manufactured, and the Company recognizes the associated liability as deferred revenue.

Revenue generated from long-term contracts typically longer than six months in duration are recognized on the percentage-of-completion method of accounting. The Company recognizes revenue and cost of goods sold each period based upon the advancement of the work-in-progress unless the stage of completion is insufficient to enable a reasonably certain forecast of profit to be established. In such cases, no profit is recognized during the period. The percentage-of-completion is calculated based on the ratio of costs incurred to-date to total estimated costs, taking into account the level of completion. The percentage-of-completion method requires management to calculate reasonably dependable estimates of progress toward completion of contract revenues and contract costs. Whenever revisions of estimated contract costs and contract values indicate that the contract costs will exceed estimated revenues, thus creating a loss, a provision for the total estimated loss is recorded in that period.

Primarily related to the remotely operated vehicles ("ROVs"), which may take longer to manufacture, accounting estimates during the course of the project may change. The effect of such a change, which can be upward as well as downward, is accounted for in the period of change and the cumulative income recognized to date is adjusted to reflect the latest estimates. These revisions to estimates are accounted for on a prospective basis.

On a contract by contract basis, cost and profit in excess of billings represents the cumulative revenue recognized less the cumulative billings to the customer. Similarly, billings in excess of costs and profits represent the cumulative billings to the customer less the cumulative revenue recognized.

Revenue from the rental of equipment or providing of services is recognized over the period when the asset is rented or services are rendered and collectability is reasonably assured. Rates for asset rental and service provision are priced on a per day, per man hour, or similar basis.

### **Concentration of credit risk**

Financial instruments which potentially subject the Company to credit risk include trade accounts receivable. Trade accounts receivable consist of uncollateralized receivables from domestic and internationally based customers. For the years ended December 31, 2014, 2013 and 2012, no one customer accounted for 10% or more of the total revenue or 10% or more of the total accounts receivable balance at the end of the respective period.

### **Share-based compensation**

The Company measures all share-based compensation awards at fair value on the date they are granted to employees and directors, and recognizes compensation cost, net of forfeitures, over the requisite service period for awards with only a service condition, and over a graded vesting period for awards with service and performance or market conditions.

The fair value of share-based compensation awards with market conditions is measured using a lattice model and in accordance with Accounting Standards Codification ("ASC") 718, is not adjusted based on actual achievement of the performance goals. The Black-Scholes option pricing model is used to measure the fair value of options. The following sections address the assumptions used related to the Black-Scholes option pricing model.

#### Expected life

The expected term of stock options represents the period the stock options are expected to remain outstanding and is based on the simplified method, which is the weighted average vesting term plus the original contractual term divided by two. The Company uses the simplified method due to a lack of sufficient historical share option exercise experience upon which to estimate an expected term.

#### Expected volatility

Expected volatility measures the amount that a stock price has fluctuated or is expected to fluctuate during a period and is estimated based on a weighted average of the Company's historical stock price.

#### Dividend yield

The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future. Therefore, a zero expected dividend yield was used in the valuation model.

#### Risk-free interest rate

The risk-free interest rate is based on United States Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

#### Forfeitures

The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. If the Company's actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be different from what the Company has recorded in the current period. Historically, estimated forfeitures have been in line with actual forfeitures.

### **Income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based upon temporary differences between the carrying amounts and tax bases of the Company's assets and liabilities at the balance sheet date, and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period in which the change occurs. The Company records a valuation allowance in each reporting period when management believes that it is more likely than not that any deferred tax asset created will not be realized.

Accounting guidance for income taxes requires that the Company recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. If a tax position meets the "more likely than not" recognition criteria, accounting guidance requires the tax position be measured at the largest amount of benefit greater than 50% likely of being realized upon ultimate settlement.

**Earnings per share**

Basic earnings per share for all periods presented equals net income divided by the weighted average number of the shares of the Company's common stock outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of the Company's common stock outstanding during the period as adjusted for the dilutive effect of the Company's stock options, restricted share plans and warrants.

The exercise price of each option is based on the Company's stock price at the date of grant. The diluted earnings per share calculation excludes approximately 0.5 million stock options, 0.3 million stock options and warrants, and 1.0 million stock options and warrants for the years ended December 31, 2014, 2013 and 2012, respectively, because they were anti-dilutive as the option exercise price or warrant conversion price was greater than the average market price of the common stock.

The following is a reconciliation of the number of shares used for the basic and diluted earnings per share computations (shares in thousands):

	December 31,		
	2014	2013	2012
Basic weighted average shares outstanding	92,628	90,697	80,111
Dilutive effect of stock option, restricted share plan and warrants	2,680	3,907	6,826
Diluted weighted average shares outstanding	95,308	94,604	86,937

**Non-U.S. local currency translation**

The Company operates globally and its primary functional currency is the U.S. dollar (\$). The majority of the Company's non-U.S. operations have designated the local currency as their functional currency. Financial statements of these non-U.S. operations are translated into U.S. dollars using the current rate method whereby assets and liabilities are translated at the balance sheet rate and income and expenses are translated into U.S. dollars at the average exchange rates in effect during the period. The resultant translation adjustments are reported as a component of accumulated other comprehensive income within stockholders' equity.

**Noncontrolling interest**

Noncontrolling interests are classified as equity in the consolidated balance sheets. Net earnings include the net earnings for both controlling and noncontrolling interests, with disclosure of both amounts on the consolidated statements of earnings.

**Fair value**

The carrying amounts for financial instruments classified as current assets and current liabilities approximate fair value, due to the short maturity of such instruments. The book values of other financial instruments, such as the Company's debt related to the Credit Facility, approximates fair value because interest rates charged are similar to other financial instruments with similar terms and maturities and the rates vary in accordance with a market index.

For the financial assets and liabilities disclosed at fair value, fair value is determined as the exit price, or the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The established fair value hierarchy divides fair value measurement into three broad levels:

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly; and
- Level 3 - inputs are unobservable for the asset or liability, which reflect the best judgment of management.

The financial assets and liabilities that are disclosed at fair value for disclosure purposes are categorized in one of the above three levels based on the lowest level input that is significant to the fair value measurement in its entirety. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

**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 us for the fiscal year beginning January 1, 2016 and interim periods thereafter. The guidance is not expected to have a material impact on the Company's 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 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 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**

**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 fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

	<b>2014 Acquisition</b>
Current assets, net of cash acquired	\$ 7,596
Property and equipment	3,837
Intangible assets (primarily customer relationships)	11,527
Non-tax-deductible goodwill	20,573
Current liabilities	(1,615)
Long term liabilities	—
Deferred tax liabilities	(3,629)
Net assets acquired	<u>\$ 38,289</u>

Revenue and net income related to the 2014 acquisition were not significant for the year ended December 31, 2014. Pro forma results of operations for the 2014 acquisition have not been presented because the effects were not material to the consolidated financial statements.

**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 Oil Tools"), a manufacturer of pipe handling equipment used on offshore and onshore drilling rigs with locations in Hamburg, Germany and Willis, Texas. B+V Oil Tools 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):

	<b>2013 Acquisitions</b>
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	<u>\$ 179,107</u>

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

**2012 Acquisitions**

The Company completed four acquisitions in the fourth quarter 2012 for aggregate consideration of \$139.7 million (the "2012 acquisitions"). These acquisitions, all of which are included in the Drilling & Subsea segment, included:

- Syntech Technology, Incorporated ("Syntech"), a Lorton, Virginia based manufacturer of syntactic foam buoyancy materials used for ROVs and other deepwater flotation applications;
- Wireline Solutions, LLC ("Wireline"), a Sanger, Texas based manufacturer of downhole completion tools, including composite plugs used for plug, perforate and fracture applications and wireline flow control products;
- Dynacon, Inc. ("Dynacon"), a Bryan, Texas based provider of launch and recovery systems used for the deployment of ROVs and high quality specialized cable and umbilical handling equipment; and
- Merrimac Manufacturing, Inc. ("Merrimac"), a Plantersville, Texas based manufacturer of consumable parts for drilling, well servicing and pressure pumping applications, including mud pump parts, power swivel parts and valves and seats for hydraulic fracturing pumps.

**Contingent consideration from 2011 Acquisitions**

The total purchase consideration for two acquisitions completed in 2011, Wood Flowline Products, LLC ("WFP") and Phoinix Global, LLC ("Phoinix"), included two separate contingent consideration payments based on each of the acquired company's 2011 and 2012 calendar year earnings as defined in the applicable purchase and sale agreement. The contingent consideration payment related to the WFP acquisition included a portion payable in shares. Upon resolution of the results of operations for WFP for the year ended December 31, 2012, the portion of the contingent consideration payable in shares of the Company's common stock was finalized and \$4.1 million was reclassified to equity in May 2013. The cash portion of the contingent consideration payments based on WFP's and Phoinix's 2012 earnings in the amount of \$3.5 million and \$7.9 million, respectively, were paid during the quarter ended June 30, 2013.

**Subsequent event**

In February 2015, the Company completed the acquisition of J-Mac Tool, Inc. ("J-Mac") for aggregate consideration of approximately \$65.0 million. J-Mac, located in Fort Worth, Texas, manufactures hydraulic fracturing pumps, power ends, fluid ends and other pump accessories. The acquired business also provides repair and refurbishment services at its main location in Fort Worth and at other service center locations. J-Mac will be included in the Production & Infrastructure segment.

**4. Investment in unconsolidated subsidiary**

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.

Condensed financial data for the equity investment in the unconsolidated subsidiary is summarized as follows:

	December 31, 2014	December 31, 2013
Current assets	\$ 69,281	\$ 48,673
Long-term assets	143,764	141,799
Current liabilities	17,835	13,718
Long-term liabilities	115,000	73,239
	Year ended December 31, 2014	Six months ended December 31, 2013
Net revenues	\$ 141,708	\$ 53,371
Gross profit	68,086	23,538
Net income	52,590	15,067
The Company's earnings from equity investment	25,164	7,312

**5. Inventories**

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

	December 31, 2014	December 31, 2013
Raw materials and parts	\$ 153,768	\$ 139,573
Work in process	50,913	51,819
Finished goods	286,290	276,076
Gross inventories	490,971	467,468
Inventory reserve	(29,456)	(26,419)
Inventories	\$ 461,515	\$ 441,049

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

The change in the amounts of the inventory reserve during the three year period ended December 31, 2014 is as follows (in thousands):

Period ended	Balance at beginning of period	Charged to expense	Deductions or other	Balance at end of period
December 31, 2012	\$ 17,440	\$ 6,107	\$ (2,422)	\$ 21,125
December 31, 2013	21,125	10,093	(4,799)	\$ 26,419
December 31, 2014	26,419	8,171	(5,134)	\$ 29,456

## 6. Property and equipment

Property and equipment consists of the following (in thousands):

	Estimated useful lives	December 31,	
		2014	2013
Land		\$ 10,200	\$ 6,718
Buildings and leasehold improvements	7-20	74,829	53,025
Computer equipment	3-5	35,419	29,374
Machinery & equipment	5-10	116,157	102,937
Furniture & fixtures	3-10	7,125	6,625
Vehicles	3-5	10,615	11,247
Construction in progress		16,023	25,202
		<u>270,368</u>	<u>235,128</u>
Less: accumulated depreciation		(105,806)	(88,526)
Property & equipment, net		164,562	146,602
Rental equipment	3-10	78,709	110,455
Less: accumulated depreciation		(53,297)	(76,765)
Rental equipment, net		25,412	33,690
Total property & equipment, net		<u>\$ 189,974</u>	<u>\$ 180,292</u>

Depreciation expense was \$37.4 million, \$36.2 million and \$31.5 million for the years ended December 31, 2014, 2013 and 2012.

## 7. Goodwill and intangible assets

### Goodwill

The changes in the carrying amount of goodwill from January 1, 2013 to December 31, 2014, were as follows (in thousands):

	Drilling & Subsea		Production & Infrastructure		Total	
	2014	2013	2014	2013	2014	2013
<b>Goodwill Balance at January 1, net</b>	\$ 723,355	\$ 616,520	\$ 78,963	\$ 79,279	\$ 802,318	\$ 695,799
Acquisitions, net of dispositions	16,918	100,257	—	—	16,918	100,257
Purchase accounting adjustment	—	97	—	—	—	97
Impact of non-U.S. local currency translation	(20,413)	6,481	(342)	(316)	(20,755)	6,165
<b>Goodwill Balance at December 31, net</b>	<b>\$ 719,860</b>	<b>\$ 723,355</b>	<b>\$ 78,621</b>	<b>\$ 78,963</b>	<b>\$ 798,481</b>	<b>\$ 802,318</b>

The Company performs its annual impairment tests of goodwill as of December 31. There was no impairment of goodwill during the years ended December 31, 2014, 2013 and 2012. The fair values were determined using the net present value of the expected future cash flows for each reporting unit. Accumulated impairment losses on goodwill were \$40.0 million as of December 31, 2014 and 2013.

### Intangible assets

At December 31, 2014 and 2013, intangible assets consisted of the following, respectively (in thousands):

	December 31, 2014			
	Gross carrying amount	Accumulated amortization	Net amortizable intangibles	Amortization period (in years)
Customer relationships	\$ 284,120	\$ (84,947)	\$ 199,173	4-15
Patents and technology	31,069	(8,074)	22,995	5-17
Non-compete agreements	7,086	(5,761)	1,325	3-6
Trade names	48,149	(14,747)	33,402	10-15
Distributor relationships	22,160	(12,546)	9,614	8-15
Trademark	5,230	—	5,230	Indefinite
<b>Intangible Assets Total</b>	<b>\$ 397,814</b>	<b>\$ (126,075)</b>	<b>\$ 271,739</b>	

	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
<b>Intangible Assets Total</b>	<b>\$ 397,635</b>	<b>\$ (102,283)</b>	<b>\$ 295,352</b>	

During the year ended December 31, 2012, an impairment loss of \$1.2 million was recorded on certain intangible assets resulting from a lack of business and orders related to a specific service line within the Production & Infrastructure segment. The impairment loss was measured using a discounted cash flows approach and was recorded for the amount by which the carrying value exceeded the estimated fair value of the intangible assets. The impaired intangible assets included customer relationships and trade names and is recorded under "Impairment of intangible assets" in the



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

consolidated statement of comprehensive income. No other indicators of intangible asset impairment occurred during the years ended December 31, 2014, 2013 and 2012.

Amortization expense was \$27.7 million, \$24.4 million and \$20.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. The total weighted average amortization period is 14 years and the estimated future amortization expense for the next five years is as follows (in thousands):

Year ending December 31,	
2015	27,676
2016	26,993
2017	26,647
2018	26,566
2019	26,418

## 8. Debt

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

	December 31, 2014	December 31, 2013
6.25% Senior notes due October 2021	\$ 402,801	\$ 403,208
Senior secured revolving credit facility	25,000	108,000
Other debt	1,049	1,867
Total debt	428,850	513,075
Less: current maturities	(840)	(998)
Long-term debt	\$ 428,010	\$ 512,077

### Senior Notes Due 2021

In October 2013, the Company issued \$300.0 million of 6.25% senior unsecured notes due 2021 at par, and in November 2013, the Company issued an additional \$100.0 million aggregate principal amount of the notes at a price of 103.25% of par, plus accrued interest from October 2, 2013 (the "Senior Notes"). The Senior Notes bear interest at a rate of 6.25% per annum, payable on April 1 and October 1 of each year, and mature on October 1, 2021. Net proceeds from the issuance of approximately \$394.0 million, after deducting initial purchasers' discounts and offering expenses and excluding accrued interest paid by the purchasers, were used for the repayment of the then-outstanding term loan balance and a portion of the revolving Credit Facility balance.

The terms of the Senior Notes are governed by the indenture, dated October 2, 2013 (the "Indenture"), between the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee (the "Trustee"). 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. The Senior Notes contain customary covenants including some limitations and restrictions on the Company's ability to pay dividends on, purchase or redeem its common stock or purchase or redeem its subordinated debt; make certain investments; incur or guarantee additional indebtedness or issue certain types of equity securities; create certain liens, sell assets, including equity interests in its restricted subsidiaries; redeem or prepay subordinated debt; restrict dividends or other payments of its restricted subsidiaries; consolidate, merge or transfer all or substantially all of its assets; engage in transactions with affiliates; and create unrestricted subsidiaries. Many of these restrictions will terminate if the Senior Notes become rated investment grade. The Indenture also contains customary events of default, including nonpayment, breach of covenants in the Indenture, payment defaults or acceleration of other indebtedness, failure to pay certain judgments and certain events of bankruptcy and insolvency. The Company is required to offer to repurchase the Senior Notes in connection with specified change in control events or with excess proceeds of asset sales not applied for permitted purposes.

The Company may redeem the Senior Notes due 2021:

- beginning on October 1, 2016 at a redemption price of 104.688% of their principal amount plus accrued and unpaid interest and additional interest, if any; then
- at a redemption price of 103.125% of their principal amount plus accrued and unpaid interest and additional interest, if any, for the twelve-month period beginning October 1, 2017; then
- at a redemption price of 101.563% of their principal amount plus accrued and unpaid interest and additional interest, if any, for the twelve-month period beginning October 1, 2018; and then
- at a redemption price of 100.000% of their principal amount plus accrued interest and unpaid interest and additional interest, if any, beginning on October 1, 2019.
- We may also redeem some or all of the Senior Notes due 2021 before October 1, 2016 at a redemption price of 100.000% of the principal amount, plus accrued and unpaid interest and additional interest, if any, to the redemption date, plus an applicable premium.
- In addition, before October 1, 2016, we may redeem up to 35% of the aggregate principal amount with the proceeds of certain equity offerings at 106.250% of their principal amount plus accrued and unpaid interest and additional interest, if any; we may make such redemption only if, after any such redemption, at least 65% of the aggregate principal amount originally issued remains outstanding.

### ***Credit Facility***

The Company has a Credit Facility, with a maturity date of November 2018, with several financial institutions as lenders, which provides for a \$600.0 million 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. Weighted average interest rates under the Credit Facility at December 31, 2014 and 2013 were 1.91% and 2.17%, respectively.

The Credit Facility contains covenants which require the Company, on a consolidated basis, to maintain specified financial ratios or conditions summarized as follows:

- Total funded debt to adjusted EBITDA (as defined as the "Leverage Ratio" in the Credit Facility) of not more than 4.50 to 1.0;
- Senior secured debt to adjusted EBITDA (defined as the "Senior Secured Leverage Ratio" in the Credit Facility) of not more than 3.50 to 1.0; and
- EBITDA to interest expense (defined as the "Interest Coverage Ratio" in the Credit Facility) of not less than 3.0 to 1.0.

As of December 31, 2014, we had \$25.0 million of borrowings outstanding under the Credit Facility, \$10.7 million of outstanding letters of credit and the capacity to borrow an additional \$564.3 million. The Company was in compliance with all financial covenants at December 31, 2014.

### ***Other debt***

Other debt consists primarily of various capital leases of equipment.

### ***Debt issue costs***

The Company has incurred loan costs that have been capitalized and are amortized to interest expense over the term of the Senior Notes and the Credit Facility. As a result, approximately \$2.6 million, \$2.2 million and \$2.1 million were amortized to interest expense for the years ended December 31, 2014, 2013 and 2012, respectively. The estimated term over which debt issue costs related to the term loan were being amortized was revised in connection with the repayment of the term loan from the issuance of the Senior Notes. Accordingly, debt issue costs of \$2.1 million that had been previously capitalized were charged to expense in 2013.

**Future payments**

Future principal payments under long-term debt for each of the years ending December 31 are as follows (in thousands):

2015	\$	840
2016		209
2017		—
2018		25,000
2019		—
Thereafter		402,801
	<u>\$</u>	<u>428,850</u>

**9. Income taxes**

The components of the Company's income before income taxes for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012
U.S.	\$ 127,270	\$ 108,680	\$ 140,179
Non-U.S.	115,252	77,402	82,616
Income before income taxes	<u>\$ 242,522</u>	<u>\$ 186,082</u>	<u>\$ 222,795</u>

The Company's provision (benefit) for income taxes from continuing operations for the years ended December 31, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012
<b>Current</b>			
U.S. Federal and state	47,100	20,589	\$ 55,591
Non-U.S.	24,315	20,748	22,023
Total current	71,415	41,337	77,614
<b>Deferred</b>			
U.S. Federal and state	(2,080)	16,317	(4,788)
Non-U.S.	(1,190)	(1,176)	(1,561)
Total deferred	(3,270)	15,141	(6,349)
Provision for income tax expense	<u>\$ 68,145</u>	<u>\$ 56,478</u>	<u>\$ 71,265</u>

The reconciliation between the actual provision for income taxes from continuing operations and that computed by applying the U.S. statutory rate to income before income taxes and noncontrolling interests are outlined below (in thousands):

	2014		2013		2012	
Income tax expense at the statutory rate	\$ 84,882	35.0 %	\$ 65,129	35.0 %	\$ 77,978	35.0 %
State taxes, net of federal tax benefit	4,132	1.7 %	3,428	1.9 %	3,847	1.7 %
Non-U.S. operations	(15,060)	(6.2)%	(6,908)	(3.7)%	(7,363)	(3.3)%
Domestic incentives	(4,412)	(1.8)%	(2,544)	(1.4)%	(2,202)	(1.0)%
Prior year federal, non-U.S. and state tax	(1,692)	(0.7)%	(4,059)	(2.2)%	(1,736)	(0.8)%
Nondeductible expenses	663	0.3 %	1,341	0.7 %	666	0.3 %
Other	(368)	(0.2)%	91	0.1 %	75	0.1 %
Provision for income tax expense	<u>\$ 68,145</u>	<u>28.1 %</u>	<u>\$ 56,478</u>	<u>30.4 %</u>	<u>\$ 71,265</u>	<u>32.0 %</u>

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

The primary components of deferred taxes include (in thousands):

	2014	2013
<b>Deferred tax assets</b>		
Reserves and accruals	\$ 10,387	\$ 7,149
Inventory	12,679	12,538
Stock awards	7,892	6,284
Other	820	146
Net operating loss and other tax credit carryforwards	365	1,858
Total deferred tax assets	<u>32,143</u>	<u>27,975</u>
<b>Deferred tax liabilities</b>		
Property and equipment	(21,947)	(16,387)
Goodwill and intangible assets	(73,215)	(71,406)
Investment in unconsolidated subsidiary	(11,259)	(10,993)
Unremitted non-U.S. earnings	(740)	(740)
Prepaid expenses and other	(781)	(1,377)
Total deferred tax liabilities	<u>(107,942)</u>	<u>(100,903)</u>
Net deferred tax liabilities	<u>\$ (75,799)</u>	<u>\$ (72,928)</u>

At December 31, 2014, the Company had no U.S. net operating loss carryforwards. The Company had \$0.4 million of non-U.S. net operating loss carryforwards with indefinite expiration dates. The Company anticipates being able to fully utilize the losses prior to their expiration.

At December 31, 2014, the Company had no foreign tax credit carryforwards.

Goodwill from certain acquisitions is tax deductible due to the acquisition structure as an asset purchase or due to tax elections made by the Company and the respective sellers at the time of acquisition.

The Company believes that it is more likely than not that deferred tax assets at December 31, 2014 and 2013 will be utilized to offset future taxable income and the reversal of taxable temporary differences. Consequently, no valuation allowance has been recorded in the financial statements.

Taxes are provided as necessary with respect to non-U.S. earnings that are not permanently reinvested. For all other non-U.S. earnings, no U.S. taxes are provided because such earnings are intended to be reinvested indefinitely to finance non-U.S. activities.

The Company files income tax returns in the U.S. as well as in various states and non-U.S. jurisdictions. With few exceptions, the Company is no longer subject to income tax examination by tax authorities in these jurisdictions prior to 2008.

The Company accounts for uncertain tax positions in accordance with guidance in FASB ASC 740, which prescribes the minimum recognition threshold a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. A reconciliation of the beginning and ending amount of uncertain tax positions is as follows (in thousands):

Balance at January 1, 2014	\$ 4,607
Additional based on tax positions related to prior years	2,579
Reduction based on tax positions related to prior years	(620)
Lapse of statute of limitations	(310)
Balance at December 31, 2014	6,256
Deferred tax benefits on uncertain tax position related to U.S. and non-U.S. income tax	—
Net balance at December 31, 2014	<u>\$ 6,256</u>

The Company does not anticipate any significant changes to the unrecognized tax benefits within the next twelve months.

The Company recognizes interest and penalties related to uncertain tax positions within the provision for income taxes in the consolidated statement of income. As of December 31, 2014 and 2013, we had accrued approximately \$0.2 million and \$0.1 million, respectively, in interest and penalties. During the years ended December 31, 2014 and 2013, we recognized no material change in the interest and penalties related to uncertain tax positions.

## **10. Fair value measurements**

At December 31, 2014, the carrying value of the Credit Facility was \$25.0 million and all of this 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 December 31, 2014, the fair value and the carrying value of the Company's unsecured Senior Notes approximated \$378.1 million and \$402.8 million, respectively.

There were no other outstanding financial instruments as of December 31, 2014 and 2013 that required measuring the amounts at fair value on a recurring basis. 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 year ended December 31, 2014.

## **11. Commitments and contingencies**

### ***Litigation***

In the ordinary course of business, the Company is, and in the future, could be involved in various pending or threatened legal actions, some of which 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 believed to be probable and can be estimated. The reserves accrued at December 31, 2014 and 2013 are immaterial. In the opinion of management, 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.

### ***Portland Harbor Superfund litigation***

In May 2009, one of the Company's subsidiaries (which is presently a dormant company with nominal assets except for rights under insurance policies) was named along with many defendants in a suit filed by the Port of Portland, Oregon seeking reimbursement of costs related to a five-year study of contaminated sediments at the port. In March 2010, the subsidiary also received a notice letter from the Environmental Protection Agency indicating that it had been identified as a potentially responsible party with respect to environmental contamination in the "study area" for the Portland Harbor Superfund Site. Under a 1997 indemnity agreement, the subsidiary is indemnified by a third party with respect to losses relating to environmental contamination. As required under the indemnity agreement, the subsidiary provided notice of these claims, and the indemnitor has assumed responsibility and is providing a defense of the claims. Although the Company believes that it is unlikely that the subsidiary contributed to the contamination at the Portland Harbor Superfund Site, the potential liability of the subsidiary and the ability of the indemnitor to fulfill its indemnity obligations cannot be quantified at this time.

**Operating leases**

The Company has operating leases for warehouse, office space, manufacturing facilities and equipment. The leases generally require the Company to pay certain expenses including taxes, insurance, maintenance, and utilities. The minimum future lease commitments under noncancelable leases in effect at December 31, 2014 are as follows:

2015	\$	19,110
2016		16,921
2017		12,117
2018		8,823
2019		7,443
Thereafter		20,084
	\$	84,498

Total rent expense was \$20.8 million, \$19.0 million and \$16.1 million under operating leases for the years ended December 31, 2014, 2013 and 2012, respectively.

**Letters of credit and guarantees**

The Company executes letters of credit in the normal course of business to secure the delivery of product from specific vendors and also to guarantee the Company fulfilling certain performance obligations relating to certain large contracts. At December 31, 2014, the Company had \$10.7 million in letters of credit.

**12. Stockholders' equity and employee benefit plans**

**Warrants**

The warrants outstanding as of December 31, 2013 were recorded to stockholders' equity at their fair value at the time of issuance. During the year ended December 31, 2013, the Company's largest shareholder converted all of its 6,366,072 warrants pursuant to the terms of a warrant agreement and received 4,227,358 shares of the Company's common stock. All outstanding warrants expired on October 11, 2014 and were converted into shares of the Company's common stock.

**Employee benefit plans**

The Company sponsors a 401(k) savings plan, which benefits eligible employees by allowing them the opportunity to make contributions up to certain limits. The Company contributes by matching a percentage of each employee's contributions. Subsequent to the closing of all acquisitions, employees of those acquired entities will generally be eligible to participate in the Company's 401(k) savings plan. The Company also has the discretion to provide a profit sharing contribution to each participant depending on the Company's performance for the applicable year. The expense under the Company's plan was \$10.8 million, \$8.2 million and \$5.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

During 2013, the Company adopted the Employee Stock Purchase Plan, which allows eligible employees to purchase shares of the Company's common stock at six-month intervals through periodic payroll deductions at a price per share equal to 85% of the lower of the fair market value at the beginning and ending of the six-month intervals. This plan is deemed to be non-compensatory, and accordingly, no share-based compensation expense for shares purchased under the plan is recognized.

**Stock repurchases**

In October 2014, the Board of Directors approved a share repurchase program for the repurchase of outstanding shares of the Company's common stock with an aggregate purchase price of up to \$150.0 million. Shares may be repurchased under the program from time to time, in amounts and at prices that are deemed appropriate, subject to market and business conditions, applicable legal requirements and other considerations. In the fourth quarter of 2014, the Company purchased approximately 4.4 million shares under this program for aggregate consideration of approximately \$100.0 million.

### 13. Stock based compensation

#### *FET share-based compensation plan*

In August 2010, the Company created the 2010 Stock Incentive Plan (the "Plan") to allow for employees, directors and consultants of the Company and its subsidiaries to maintain stock ownership in the Company through the award of stock options, restricted stock, restricted stock units or any combination thereof. Under the terms of the Plan, 18.5 million shares have been authorized for awards and approximately 8.8 million shares remained available for future grants as of December 31, 2014.

The total amount of share-based compensation expense recorded was approximately \$18.8 million, \$19.0 million and \$8.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, the Company expects to record share-based compensation expense of approximately \$25.4 million over the remaining term of the restricted stock and options of approximately 3 years. Future stock option grants will result in additional compensation expense.

#### *Stock options*

The exercise price of each option is based on the fair market value of the Company's stock at the date of grant. Options may generally be exercised over a ten-year period and vest annually in equal increments over four years. The Company's policy for issuing stock upon a stock option exercise is to issue new shares. Compensation expense is generally recognized on a straight line basis over the vesting period. The following tables provide additional information related to the options:

2014 Activity	Number of shares (in millions)	Weighted average exercise price	Remaining weighted average contractual life in years	Intrinsic value (in millions)
Beginning balance	6.0	\$ 10.76	6.8	\$ 106.5
Granted	0.4	\$ 26.96		—
Exercised	(1.1)	\$ 8.31		—
Forfeited/expired	(0.1)	\$ 18.46		—
Total outstanding	5.2	\$ 12.23	6.2	\$ 44.5
Options exercisable	4.2	\$ 9.42	5.8	\$ 47.0

The assumptions used in the Black-Scholes pricing model to estimate the fair value of the options granted in 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Weighted average fair value	\$8.47	\$8.41	\$6.81
<b>Assumptions</b>			
Expected life (in years)	6.25	6.25	6.25
Volatility	27%	30%	36%
Dividend yield	—%	—%	—%
Risk free interest rate	1.96%	1.17%	1.13% - 1.22%

The intrinsic value of the options exercised was \$24.8 million in 2014, \$19.2 million in 2013 and \$25.0 million 2012. The intrinsic value is the amount by which the fair value of the underlying share exceeds the exercise price of an option.

**Restricted stock**

Restricted stock generally vests over a three or four year period from the date of grant. Further information about the restricted stock follows (shares in thousands):

	<b>Restricted stock</b>
<b>2014 Activity</b>	
Nonvested at beginning of year	822.3
Granted	56.8
Vested	(364.3)
Forfeited	(92.9)
Nonvested at the end of year	421.9

The weighted average grant date fair value of the restricted stock was \$31.71, \$29.83 and \$22.26 per share during the years ended December 31, 2014, 2013 and 2012, respectively. The total fair value of shares vested was \$10.9 million during 2014, \$13.5 million during 2013 and \$4.4 million during 2012.

**Restricted stock units**

Restricted stock units generally vest over a four year period from the date of grant. Further information about the restricted stock units follows (shares in thousands):

	<b>Restricted stock units</b>
<b>2014 Activity</b>	
Nonvested at beginning of year	404.4
Granted	631.2
Vested	(112.1)
Forfeited	(74.4)
Nonvested at the end of year	849.1

The weighted average grant date fair value of the restricted stock units was \$27.81 and \$25.53 per share during the years ended December 31, 2014 and 2013, respectively. The total fair value of units vested was \$3.0 million during 2014.

**Performance share awards**

During 2014, the Company granted 115,610 performance share awards with service-vesting and market-vesting conditions. These awards may settle 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.

**14. Related party transactions**

The Company entered into lease agreements for office and warehouse space and 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 consolidated financial statements.



## 15. 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 D&S segment designs and manufactures products and provides related services to the subsea, drilling, well construction, completion and intervention markets. The Company's P&I segment designs and manufactures products and provides related equipment and services to the well stimulation, completion, production and infrastructure markets.

The Company's reportable segments are strategic units that offer distinct products and services. They are managed separately since each business segment requires different marketing strategies. Operating segments have not been aggregated as part of a reportable segment. The Company evaluates the performance of its reportable segments based on operating income. This segmentation is representative of the manner in which our Chief Operating Decision Maker ("CODM") and our Board of Directors view the business. We consider the CODM to be the Chief Executive Officer.

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):

	Year ended December 31,		
	2014	2013	2012
<b>Net sales:</b>			
Drilling & Subsea	\$ 1,126,575	\$ 940,807	\$ 826,500
Production & Infrastructure	614,442	585,495	589,204
Intersegment eliminations	(1,300)	(1,491)	(771)
<b>Total net sales</b>	<b>\$ 1,739,717</b>	<b>\$ 1,524,811</b>	<b>\$ 1,414,933</b>
<b>Operating income:</b>			
Drilling & Subsea	\$ 201,269	\$ 155,828	\$ 161,160
Production & Infrastructure	112,541	86,471	97,257
Corporate	(42,015)	(29,431)	(20,628)
<b>Total segment operating income</b>	<b>271,795</b>	<b>212,868</b>	<b>237,789</b>
Intangible asset impairment	—	—	1,161
Contingent consideration	—	—	(4,568)
Transaction expenses	2,326	2,700	1,751
(Gain)/loss on sale of assets	1,431	614	(1,435)
<b>Income from operations</b>	<b>\$ 268,038</b>	<b>\$ 209,554</b>	<b>\$ 240,880</b>
<b>Depreciation and amortization</b>			
Drilling & Subsea	\$ 47,201	\$ 43,971	\$ 37,737
Production & Infrastructure	12,283	13,952	13,163
Corporate	5,588	2,656	904
<b>Total depreciation and amortization</b>	<b>\$ 65,072</b>	<b>\$ 60,579</b>	<b>\$ 51,804</b>
<b>Capital expenditures</b>			
Drilling & Subsea	\$ 28,115	\$ 40,991	\$ 31,118
Production & Infrastructure	19,287	10,940	13,644
Corporate	6,390	8,332	4,923
<b>Total capital expenditures</b>	<b>\$ 53,792</b>	<b>\$ 60,263</b>	<b>\$ 49,685</b>

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

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

	As of December 31,		
	2014	2013	2012
<b>Assets</b>			
Drilling & Subsea	1,674,934	1,655,355	\$ 1,413,944
Production & Infrastructure	488,225	468,520	435,496
Corporate	58,469	44,994	43,540
<b>Total assets</b>	<b>\$ 2,221,628</b>	<b>\$ 2,168,869</b>	<b>\$ 1,892,980</b>

Corporate assets include primarily deferred tax assets and deferred loan costs.

Net sales by shipping destination and long-lived assets by country were as follows (in thousands):

Net sales:	Year ended December 31,					
	2014		2013		2012	
	\$	%	\$	%	\$	%
United States	1,049,609	60.3%	918,795	60.2%	\$ 894,969	63.3%
Europe & Africa	305,376	17.6%	225,381	14.8%	196,841	13.9%
Asia-Pacific	154,669	8.9%	151,790	10.0%	100,938	7.1%
Canada	103,077	5.9%	99,081	6.5%	114,197	8.1%
Middle East	65,498	3.8%	65,724	4.3%	49,568	3.5%
Latin America	61,488	3.5%	64,040	4.2%	58,420	4.1%
<b>Total net sales</b>	<b>\$ 1,739,717</b>	<b>100.0%</b>	<b>\$ 1,524,811</b>	<b>100.0%</b>	<b>\$ 1,414,933</b>	<b>100.0%</b>

Long-lived assets:	As of December 31,		
	2014	2013	2012
United States	939,699	970,109	\$ 849,470
Europe & Africa	313,589	346,017	224,093
Canada	59,207	28,839	31,956
Asia-Pacific	9,132	9,465	7,512
Middle East	3,192	3,182	3,159
Latin America	1,650	1,789	1,913
<b>Total long-lived assets</b>	<b>\$ 1,326,469</b>	<b>\$ 1,359,401</b>	<b>\$ 1,118,103</b>

Net sales by product lines were as follows (in thousands):

Net sales:	Year ended December 31,					
	2014		2013		2012	
	\$	%	\$	%	\$	%
Drilling Technologies	614,765	35.4 %	462,420	30.3 %	\$ 434,240	30.7 %
Subsea Technologies	321,039	18.5 %	316,418	20.8 %	250,554	17.7 %
Downhole Technologies	190,771	11.0 %	161,970	10.6 %	141,706	10.0 %
Production Equipment	228,769	13.1 %	251,428	16.5 %	227,286	16.1 %
Valve Solutions	207,456	11.9 %	211,170	13.8 %	210,608	14.9 %
Flow Equipment	178,217	10.2 %	122,896	8.1 %	151,310	10.7 %
Eliminations	(1,300)	(0.1)%	(1,491)	(0.1)%	(771)	(0.1)%
<b>Total net sales</b>	<b>\$ 1,739,717</b>	<b>100.0 %</b>	<b>\$ 1,524,811</b>	<b>100.0 %</b>	<b>\$ 1,414,933</b>	<b>100.0 %</b>

## 16. 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

	December 31, 2014				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net sales	\$ —	\$ 1,266,376	\$ 637,205	\$ (163,864)	\$ 1,739,717
Cost of sales	—	887,428	453,785	(160,948)	1,180,265
Gross profit	—	378,948	183,420	(2,916)	559,452
<b>Operating expenses</b>					
Selling, general and administrative expenses	—	244,577	68,244	—	312,821
Transaction expenses	—	2,326	—	—	2,326
(Gain) loss on sale of assets	—	1,238	193	—	1,431
Total operating expenses	—	248,141	68,437	—	316,578
Earnings from equity investment	—	25,164	—	—	25,164
Equity earnings from affiliate, net of tax	193,724	90,067	—	(283,791)	—
Operating income	193,724	246,038	114,983	(286,707)	268,038
<b>Other expense (income)</b>					
Interest expense	29,783	78	(14)	—	29,847
Interest income with affiliate	—	(5,770)	—	5,770	—
Interest expense with affiliate	—	—	5,770	(5,770)	—
Foreign exchange (gains) losses and other, net	—	116	(4,447)	—	(4,331)
Deferred loan costs written off	—	—	—	—	—
Total other expense (income)	29,783	(5,576)	1,309	—	25,516
<b>Income before income taxes</b>	163,941	251,614	113,674	(286,707)	242,522
Provision for income tax expense	(10,424)	57,890	20,679	—	68,145
<b>Net income</b>	174,365	193,724	92,995	(286,707)	174,377
Less: Income attributable to noncontrolling interest	—	—	12	—	12
<b>Net income attributable to common stockholders</b>	174,365	193,724	92,983	(286,707)	174,365
Other comprehensive income, net of tax:					
Net income	174,365	193,724	92,995	(286,707)	174,377
Change in foreign currency translation, net of tax of \$0	(43,694)	(43,694)	(43,694)	87,388	(43,694)
Change in pension liability	(1,110)	(1,110)	(1,110)	2,220	(1,110)
Comprehensive income	129,561	148,920	48,191	(197,099)	129,573
Less: comprehensive (income) loss attributable to noncontrolling interests	—	—	46	—	46
<b>Comprehensive income attributable to common stockholders</b>	<u>\$ 129,561</u>	<u>\$ 148,920</u>	<u>\$ 48,237</u>	<u>\$ (197,099)</u>	<u>\$ 129,619</u>

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

**Condensed consolidating statements of operations and comprehensive income**

	December 31, 2013				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net sales	\$ —	\$ 1,142,000	\$ 510,460	\$ (127,649)	\$ 1,524,811
Cost of sales	—	804,413	370,517	(125,344)	1,049,586
Gross profit	—	337,587	139,943	(2,305)	475,225
<b>Operating expenses</b>					
Selling, general and administrative expenses	—	211,863	57,806	—	269,669
Other operating expense (income)	—	2,821	493	—	3,314
Total operating expenses	—	214,684	58,299	—	272,983
Earnings from equity investment	—	7,312	—		7,312
Equity earnings from affiliate, net of tax	142,799	53,520	—	(196,319)	—
Operating income	142,799	183,735	81,644	(198,624)	209,554
<b>Other expense (income)</b>					
Interest expense	18,251	101	18	—	18,370
Interest income with affiliate	—	(3,987)	—	3,987	—
Interest expense with affiliate	—	—	3,987	(3,987)	—
Foreign exchange (gains) losses and other, net	—	(624)	3,577	—	2,953
Deferred loan costs written off	2,149	—	—	—	2,149
Total other expense (income)	20,400	(4,510)	7,582	—	23,472
<b>Income before income taxes</b>	122,399	188,245	74,062	(198,624)	186,082
Provision for income tax expense	(7,140)	45,446	18,172	—	56,478
<b>Net income</b>	129,539	142,799	55,890	(198,624)	129,604
Less: Income attributable to noncontrolling interest	—	—	65	—	65
<b>Net income attributable to common stockholders</b>	129,539	142,799	55,825	(198,624)	129,539
Other comprehensive income, net of tax:					
Net income	129,539	142,799	55,890	(198,624)	129,604
Change in foreign currency translation, net of tax of \$0	7,525	7,525	7,525	(15,050)	7,525
Change in pension liability	223	223	223	(446)	223
Comprehensive income	137,287	150,547	63,638	(214,120)	137,352
Less: comprehensive (income) loss attributable to noncontrolling interests	—	—	72	—	72
Comprehensive income attributable to common stockholders	\$ 137,287	\$ 150,547	\$ 63,710	\$ (214,120)	\$ 137,424

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

**Condensed consolidating statements of operations and comprehensive income**

	December 31, 2012				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Net sales	\$ —	\$ 1,072,732	\$ 474,864	\$ (132,663)	\$ 1,414,933
Cost of sales	—	742,473	340,240	(130,837)	951,876
Gross profit	—	330,259	134,624	(1,826)	463,057
<b>Operating expenses</b>					
Selling, general and administrative expenses	—	176,417	48,851	—	225,268
Contingent consideration expense	—	(4,568)	—	—	(4,568)
Other operating expense	—	3,446	(1,969)	—	1,477
Total operating expenses	—	175,295	46,882	—	222,177
Equity earnings from affiliate, net of tax	157,847	58,417	—	(216,264)	—
Operating income	157,847	213,381	87,742	(218,090)	240,880
<b>Other expense (income)</b>					
Interest expense	15,997	361	14	—	16,372
Interest income with affiliate	(6,164)	—	—	6,164	—
Interest expense with affiliate	—	—	6,164	(6,164)	—
Foreign exchange (gains) losses and other, net	—	(21)	1,734	—	1,713
Total other expense (income)	9,833	340	7,912	—	18,085
<b>Income before income taxes</b>	148,014	213,041	79,830	(218,090)	222,795
Provision for income tax expense	(3,442)	55,194	19,513	—	71,265
<b>Net income</b>	151,456	157,847	60,317	(218,090)	151,530
Less: Income attributable to noncontrolling interest	—	—	74	—	74
<b>Net income attributable to common stockholders</b>	151,456	157,847	60,243	(218,090)	151,456
<b>Other comprehensive income, net of tax:</b>					
Net income	151,456	157,847	60,317	(218,090)	151,530
Change in foreign currency translation, net of tax of \$0	15,887	15,887	15,887	(31,774)	15,887
Comprehensive income	167,343	173,734	76,204	(249,864)	167,417
Less: comprehensive (income) loss attributable to noncontrolling interests	—	—	(44)	—	(44)
Comprehensive income attributable to common stockholders	\$ 167,343	\$ 173,734	\$ 76,160	\$ (249,864)	\$ 167,373

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

**Condensed consolidating balance sheets**

	December 31, 2014				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 5,551	\$ 4,006	\$ 67,022	\$ —	\$ 76,579
Accounts receivable—trade, net	—	194,964	92,081	—	287,045
Inventories	—	343,902	125,594	(7,981)	461,515
Cost and profits in excess of billings	—	4,871	9,775	—	14,646
Other current assets	—	38,920	16,454	—	55,374
Total current assets	5,551	586,663	310,926	(7,981)	895,159
Property and equipment, net of accumulated depreciation	—	153,016	36,958	—	189,974
Deferred financing costs, net	13,107	—	—	—	13,107
Intangibles	—	198,819	72,920	—	271,739
Goodwill	—	522,898	275,583	—	798,481
Investment in unconsolidated subsidiary	—	49,675	—	—	49,675
Investment in affiliates	1,333,701	590,421	—	(1,924,122)	—
Long-term loan and advances to affiliates	483,534	—	22,531	(506,065)	—
Other long-term assets	—	2,760	733	—	3,493
Total assets	<u>\$ 1,835,893</u>	<u>\$ 2,104,252</u>	<u>\$ 719,651</u>	<u>\$ (2,438,168)</u>	<u>\$ 2,221,628</u>
<b>Liabilities and equity</b>					
Current liabilities					
Current portion of long-term debt	\$ —	\$ 828	\$ 12	\$ —	\$ 840
Accounts payable—trade	—	85,179	42,578	—	127,757
Accrued liabilities	12,733	84,824	29,333	—	126,890
Deferred revenue	—	3,783	7,136	—	10,919
Billings in excess of costs and profits recognized	—	1,189	14,596	—	15,785
Total current liabilities	12,733	175,803	93,655	—	282,191
Long-term debt, net of current portion	427,801	183	26	—	428,010
Long-term loans and payables to affiliates	—	506,065	—	(506,065)	—
Deferred income taxes, net	—	77,311	20,877	—	98,188
Other long-term liabilities	—	11,189	6,129	—	17,318
Total liabilities	440,534	770,551	120,687	(506,065)	825,707
Total stockholder's equity	1,395,359	1,333,701	598,399	(1,932,103)	1,395,356
Noncontrolling interest in subsidiary	—	—	565	—	565
Equity	1,395,359	1,333,701	598,964	(1,932,103)	1,395,921
Total liabilities and equity	<u>\$ 1,835,893</u>	<u>\$ 2,104,252</u>	<u>\$ 719,651</u>	<u>\$ (2,438,168)</u>	<u>\$ 2,221,628</u>

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

**Condensed consolidating balance sheets**

	<b>December 31, 2013</b>				
	<b>FET (Parent)</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	(in thousands)				
<b>Assets</b>					
<b>Current assets</b>					
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
<b>Total current assets</b>	<b>63</b>	<b>524,249</b>	<b>290,222</b>	<b>(5,066)</b>	<b>809,468</b>
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 advances to affiliates	623,337	97,316	—	(720,653)	—
Other long-term assets	15,658	4,168	1,321	—	21,147
<b>Total assets</b>	<b>\$ 1,848,757</b>	<b>\$ 2,030,292</b>	<b>\$ 679,262</b>	<b>\$ (2,389,442)</b>	<b>\$ 2,168,869</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
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
<b>Total current liabilities</b>	<b>7,194</b>	<b>122,377</b>	<b>90,412</b>	<b>—</b>	<b>219,983</b>
Long-term debt, net of current portion	511,208	824	45	—	512,077
Long-term payables to affiliates	—	619,778	100,875	(720,653)	—
Other long-term liabilities	—	77,614	28,229	—	105,843
<b>Total liabilities</b>	<b>518,402</b>	<b>820,593</b>	<b>219,561</b>	<b>(720,653)</b>	<b>837,903</b>
<b>Total stockholder's equity</b>	<b>1,330,355</b>	<b>1,209,699</b>	<b>459,090</b>	<b>(1,668,789)</b>	<b>1,330,355</b>
Noncontrolling interest in subsidiary	—	—	611	—	611
<b>Equity</b>	<b>1,330,355</b>	<b>1,209,699</b>	<b>459,701</b>	<b>(1,668,789)</b>	<b>1,330,355</b>
<b>Total liabilities and equity</b>	<b>\$ 1,848,757</b>	<b>\$ 2,030,292</b>	<b>\$ 679,262</b>	<b>\$ (2,389,442)</b>	<b>\$ 2,168,869</b>

**Condensed consolidating statements of cash flows**

	Year ended December 31, 2014				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
<b>Cash flows from (used in) operating activities</b>	\$ (16,796)	\$ 175,700	\$ 111,062	\$ —	\$ 269,966
<b>Cash flows from investing activities</b>					
Acquisition of businesses, net of cash acquired	—	—	(38,289)	—	(38,289)
Investment in unconsolidated subsidiary	—	—	—	—	—
Capital expenditures for property and equipment	—	(42,334)	(11,458)	—	(53,792)
Long-term loans and advances to affiliates	191,290	34,010	—	(225,300)	—
Other	—	20,862	528	—	21,390
Net cash provided by (used in) investing activities	191,290	12,538	(49,219)	(225,300)	(70,691)
<b>Cash flows from financing activities</b>					
Borrowings under Credit Facility due to acquisitions	—	—	—	—	—
Borrowings under Credit Facility	15,000	423	—	—	15,423
Issuance of Senior Notes	—	—	—	—	—
Repayment of long-term debt	(98,406)	124	(133)	—	(98,415)
Long-term loans and advances to affiliates	—	(191,290)	(34,010)	225,300	—
Repurchases of stock	(96,632)	—	—	—	(96,632)
Proceeds from stock issuance	11,101	—	—	—	11,101
Other	(6)	6,511	—	—	6,505
Net cash provided by (used in) financing activities	(168,943)	(184,232)	(34,143)	225,300	(162,018)
Effect of exchange rate changes on cash	—	—	(260)	—	(260)
Net increase (decrease) in cash and cash equivalents	5,551	4,006	27,440	—	36,997
<b>Cash and cash equivalents</b>					
Beginning of period	—	—	39,582	—	39,582
End of period	\$ 5,551	\$ 4,006	\$ 67,022	\$ —	\$ 76,579



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

**Condensed consolidating statements of cash flows**

	Year ended December 31, 2013				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
<b>Cash flows from (used in) operating activities</b>	\$ (3,683)	\$ 157,198	\$ 57,878	\$ —	\$ 211,393
<b>Cash flows from investing activities</b>					
Acquisition of businesses, net of cash acquired	—	(54,389)	(127,329)	—	(181,718)
Investment in unconsolidated subsidiary	—	(48,013)	—	—	(48,013)
Capital expenditures for property and equipment	—	(48,270)	(11,993)	—	(60,263)
Long-term loans and advances to affiliates	(77,933)	(97,316)	—	175,249	—
Other	—	392	572	—	964
Net cash provided by (used in) investing activities	(77,933)	(247,596)	(138,750)	175,249	(289,030)
<b>Cash flows from financing activities</b>					
Borrowings under Credit Facility due to acquisitions	—	54,389	127,329	—	181,718
Borrowings under Credit Facility	402,748	(52,184)	(127,329)	—	223,235
Issuance of Senior Notes	403,250	—	—	—	403,250
Repayment of long-term debt	(713,521)	(1,639)	29	—	(715,131)
Long-term loans and advances to affiliates	—	86,897	88,352	(175,249)	—
Deferred financing costs	(12,003)	—	—	—	(12,003)
Payment of contingent consideration	—	(11,435)	—	—	(11,435)
Other	1,142	6,278	—	—	7,420
Net cash provided by (used in) financing activities	81,616	82,306	88,381	(175,249)	77,054
Effect of exchange rate changes on cash	—	—	(898)	—	(898)
Net increase (decrease) in cash and cash equivalents	—	(8,092)	6,611	—	(1,481)
<b>Cash and cash equivalents</b>					
Beginning of period	—	8,092	32,971	—	41,063
End of period	\$ —	\$ —	\$ 39,582	\$ —	\$ 39,582

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

**Condensed consolidating statements of cash flows**

	Year ended December 31, 2012				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
<b>Cash flows from (used in) operating activities</b>	\$ (6,078)	\$ 79,366	\$ 64,653	\$ —	\$ 137,941
<b>Cash flows from investing activities</b>					
Acquisition of businesses, net of cash acquired	—	(139,889)	—	—	(139,889)
Capital expenditures for property and equipment	—	(36,354)	(13,331)	—	(49,685)
Long-term loans and advances to affiliates	(69,701)	—	—	69,701	—
Other	—	2,296	2,755	—	5,051
Net cash provided by (used in) investing activities	(69,701)	(173,947)	(10,576)	69,701	(184,523)
<b>Cash flows from financing activities</b>					
Borrowings under Credit Facility due to acquisitions	—	139,889	—	—	139,889
Borrowings under Credit Facility	203,155	(139,758)	—	—	63,397
Repayment of long-term debt	(448,118)	(5,655)	(246)	—	(454,019)
Long-term loans and advances to affiliates	—	110,111	(40,410)	(69,701)	—
Proceeds from IPO	256,381	—	—	—	256,381
Proceeds from concurrent private placement	50,000	—	—	—	50,000
Payment of contingent consideration	—	(11,100)	—	—	(11,100)
Proceeds from stock issuance	14,432	—	—	—	14,432
Other	(71)	6,873	—	—	6,802
Net cash provided by (used in) financing activities	75,779	100,360	(40,656)	(69,701)	65,782
Effect of exchange rate changes on cash	—	—	1,315	—	1,315
Net increase (decrease) in cash and cash equivalents	—	5,779	14,736	—	20,515
<b>Cash and cash equivalents</b>					
Beginning of period	—	2,313	18,235	—	20,548
End of period	\$ —	\$ 8,092	\$ 32,971	\$ —	\$ 41,063

## 17. Quarterly results of operations (unaudited)

The following tables summarize the Company's results by quarter for the years ended December 31, 2014 and 2013. The quarterly results may not be comparable primarily due to acquisitions in 2014, 2013 and 2012. Refer to Note 3, Acquisitions, for further information.

(in thousands, except per share information)	2014			
	Q1	Q2	Q3	Q4
Net sales	\$ 403,938	\$ 428,279	\$ 468,822	\$ 438,678
Cost of sales	276,000	290,286	316,784	297,195
Gross profit	127,938	137,993	152,038	141,483
Total operating expenses	71,857	78,129	82,747	83,845
Earnings from equity investment	5,308	5,940	6,749	7,167
Operating income	61,389	65,804	76,040	64,805
Total other expense	9,227	10,854	2,477	2,958
<b>Income before income taxes</b>	<b>52,162</b>	<b>54,950</b>	<b>73,563</b>	<b>61,847</b>
Provision for income tax expense	15,656	15,407	21,332	15,750
<b>Net income</b>	<b>36,506</b>	<b>39,543</b>	<b>52,231</b>	<b>46,097</b>
Less: Income (loss) attributable to noncontrolling interest	(24)	21	5	10
<b>Net income attributable to common stockholders</b>	<b>\$ 36,530</b>	<b>\$ 39,522</b>	<b>\$ 52,226</b>	<b>\$ 46,087</b>
<b>Weighted average shares outstanding</b>				
Basic	92,129	92,649	93,331	92,376
Diluted	95,191	95,695	96,198	94,666
<b>Earnings per share</b>				
Basic	\$ 0.40	\$ 0.43	\$ 0.56	\$ 0.50
Diluted	\$ 0.38	\$ 0.41	\$ 0.54	\$ 0.49

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

(in thousands, except per share information)	2013			
	Q1	Q2	Q3	Q4
Net sales	\$ 372,999	\$ 367,887	\$ 390,192	\$ 393,733
Cost of sales	258,193	253,404	265,021	272,968
Gross profit	114,806	114,483	125,171	120,765
Total operating expenses	65,593	67,345	72,179	67,866
Earnings from equity investment	—	—	2,946	4,366
Operating income	49,213	47,138	55,938	57,265
Total other expense	1,896	4,130	8,833	8,613
<b>Income before income taxes</b>	47,317	43,008	47,105	48,652
Provision for income tax expense	15,379	13,068	13,924	14,107
<b>Net income</b>	31,938	29,940	33,181	34,545
Less: Income (loss) attributable to noncontrolling interest	(2)	21	40	6
<b>Net income attributable to common stockholders</b>	\$ 31,940	\$ 29,919	\$ 33,141	\$ 34,539
<b>Weighted average shares outstanding</b>				
Basic	88,533	91,032	91,443	91,743
Diluted	94,356	94,606	94,734	94,936
<b>Earnings per share</b>				
Basic	\$ 0.36	\$ 0.33	\$ 0.36	\$ 0.38
Diluted	\$ 0.34	\$ 0.32	\$ 0.35	\$ 0.36

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. 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 December 31, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 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.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Management's intent is to design a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP in the United States of America.

Our management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014, utilizing the criteria described in the "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, management believes that, as of December 31, 2014, the Company's internal control over financial reporting is effective.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, independently assessed the effectiveness of our internal control over financial reporting as of December 31, 2014, as stated in their report which appears herein.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Item 9B. Other information**

None.

## **PART III**

## **Item 10. Directors, executive officers and corporate governance**

Information required by this item is incorporated herein by reference from our Proxy Statement for the 2015 Annual Meeting of Stockholders.

### **Code of Ethics**

We have adopted a Financial Code of Ethics, which applies to our Chief Executive Officer, Chief Financial Officer (or other principal financial officer), Controller (or other principal accounting officer) and other senior financial officers. We have posted a copy of the code under "Corporate Governance" in the "Investors" section of our internet website at [www.f-e-t.com](http://www.f-e-t.com). Copies of the code may be obtained free of charge on our website. Any waivers of the code must be approved by our Board of Directors or a designated committee of our Board of Directors. Any change to, or waiver from, the Code of Ethics will be promptly disclosed as required by applicable U.S. federal securities laws and the corporate governance rules of the NYSE.

## **Item 11. Executive compensation**

Information required by this item is incorporated herein by reference from our Proxy Statement for the 2015 Annual Meeting of Stockholders.

**Item 12. Security ownership of certain beneficial owners and management and related stockholder matters**

Information required by this item is incorporated herein by reference from our Proxy Statement for the 2015 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information required by this item is incorporated herein by reference from our Proxy Statement for the 2015 Annual Meeting of Stockholders.

**Item 14. Principal accountant fees and services**

Information required by this item is incorporated herein by reference from our Proxy Statement for the 2015 Annual Meeting of Stockholders.

**Item 15. Exhibits**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

**1. Financial Statements filed as part of this report**

<a href="#">Index to Consolidated Financial Statements</a>	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	55
<a href="#">Consolidated Statements of Comprehensive Income</a>	56
<a href="#">Consolidated Balance Sheets</a>	57
<a href="#">Consolidated Statements of Cash Flows</a>	58
<a href="#">Consolidated Statements of Changes in Stockholders' Equity</a>	59
<a href="#">Notes to Consolidated Financial Statements</a>	60

**2. Financial Statement Schedules**

All financial statement schedules have been omitted since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included on the Consolidated Financial Statements and Notes thereto.

**3. Exhibits**Index to Exhibits

Exhibit Number	DESCRIPTION
2.1*	— Combination Agreement dated July 16, 2010 by and among Forum Oilfield Technologies, Inc., Allied Production Services, Inc., Allied Merger Sub, LLC, Global Flow Technologies, Inc., Global Flow Merger Sub, LLC, Subsea Services International, Inc., Subsea Merger Sub, LLC, Triton Group Holdings LLC, Triton Merger Sub, LLC and SCF-VII, L.P. (incorporated herein by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 File No. 333-180676 (the "Registration Statement"), filed on August 31, 2011).
3.1*	— Third Amended and Restated Certificate of Incorporation of Forum Energy Technologies, Inc. dated March 28, 2011 (incorporated herein by reference to Exhibit 3.2 to Amendment No. 5 to the Registration Statement, filed on March 29, 2012).
3.2*	— Second Amended and Restated Bylaws of Forum Energy Technologies, Inc. dated April 17, 2012 (incorporated herein by reference to Exhibit 3.1 on the Company's Current Report on Form 8-K, filed on April 17, 2012).
4.1*	— Indenture, dated October 2, 2013, among Forum Energy Technologies, Inc., the guarantors named therein and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on October 4, 2013).
4.2*	— Registration Rights Agreement by and among Forum Energy Technologies and the other parties thereto (incorporated herein by reference to Exhibit B to Exhibit 4.2 to the Registration Statement, filed on August 31, 2011).
4.3*	— Form of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to Amendment No. 3 to the Registration Statement, filed on December 29, 2011).

- 4.4\* — Form of Note (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on October 4, 2013).
- 10.1\* — Stock Purchase Agreement between Forum Energy Technologies, Inc. and Tinicum, L.P., dated as of March 28, 2012 (incorporated herein by reference to Exhibit 10.30 to Amendment No. 5 to the Registration Statement, filed on March 29, 2012).
- 10.2\* — Second Amended and Restated Credit Agreement, dated as of November 26, 2013, among Forum Energy Technologies, Inc., Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on November 29, 2013).
- 10.3\*# — Form of Restricted Stock Unit Agreement (Directors) (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on November 6, 2012).
- 10.4\*# — Form of Restricted Stock Agreement (Directors) (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed on November 6, 2012).
- 10.5\*# — Form of Restricted Stock Agreement (Employees and Consultants) (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, filed on November 6, 2012).
- 10.6\*# — Form of Nonstatutory Stock Option Agreement (Employees and Consultants) (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, filed on November 6, 2012).
- 10.7\*# — Form of Restricted Stock Unit Agreement (Directors) (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on April 29, 2014).
- 10.8\*# — Form of Restricted Stock Agreement (Directors) (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on April 29, 2014).
- 10.9\*# — Form of Restricted Stock Unit Agreement (Employees and Consultants) (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed April 29, 2014).
- 10.10\*# — Form of Nonstatutory Stock Option Agreement (Employees and Consultants) (incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on April 29, 2014).
- 10.11\*# — Form of Performance Share Award Agreement (Employees and Consultants) (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed on April 29, 2014).
- 10.12\*# — Form of Warrant Agreement (with attached schedule of parties thereto) (incorporated herein by reference to Exhibit 10.23 to the Registration Statement, filed on August 31, 2011).
- 10.13\*# — Employment Agreement dated as of August 2, 2010 between Forum Energy Technologies, Inc. and C. Christopher Gaut (incorporated herein by reference to Exhibit 10.2 to the Registration Statement, filed on August 31, 2011).
- 10.14\*# — Employment Agreement dated as of August 2, 2010 between Forum Energy Technologies, Inc. and Charles E. Jones (incorporated herein by reference to Exhibit 10.3 to the Registration Statement, filed on August 31, 2011).
- 10.15\*# — Employment Agreement dated as of August 2, 2010 between Forum Energy Technologies, Inc. and Wendell Brooks (incorporated herein by reference to Exhibit 10.5 to the Registration Statement, filed on August 31, 2011).
- 10.16\*# — Employment Agreement dated as of August 2, 2010 between Forum Energy Technologies, Inc. and James W. Harris (incorporated herein by reference to Exhibit 10.6 to the Registration Statement, filed on August 31, 2011).
- 10.17\*# — Employment Agreement dated as of October 25, 2010 between Forum Energy Technologies, Inc. and James L. McCulloch (incorporated herein by reference to Exhibit 10.7 to the Registration Statement, filed on August 31, 2011).
- 10.18\*# — Amendment to Employment Agreement dated as of April 12, 2012 between Forum Energy Technologies, Inc. and C. Christopher Gaut (incorporated herein by reference to Exhibit 10.2 on the Company's Current Report on Form 8-K, filed on April 17, 2012).

- 10.19\*# — Amendment to Employment Agreement dated as of April 12, 2012 between Forum Energy Technologies, Inc. and Wendell R. Brooks (incorporated herein by reference to Exhibit 10.3 on the Company's Current Report on Form 8-K, filed on April 17, 2012).
- 10.20\*# — Amendment to Employment Agreement dated as of April 12, 2012 between Forum Energy Technologies, Inc. and James W. Harris (incorporated herein by reference to Exhibit 10.4 on the Company's Current Report on Form 8-K, filed on April 17, 2012).
- 10.21\*# — Amendment to Employment Agreement dated as of April 12, 2012 between Forum Energy Technologies, Inc. and James L. McCulloch (incorporated herein by reference to Exhibit 10.5 on the Company's Current Report on Form 8-K, filed on April 17, 2012).
- 10.22\*# — Indemnification Agreement dated as of August 2, 2010 between Forum Energy Technologies and C. Christopher Gaut (incorporated herein by reference to Exhibit 10.9 to the Registration Statement, filed on August 31, 2011).
- 10.23\*# — Form of Indemnification Agreement between Forum Energy Technologies, Inc. and the executive officers identified on Annex A thereto (incorporated herein by reference to Exhibit 10.10 to the Registration Statement, filed on August 31, 2011).
- 10.24\*# — Form of Indemnification Agreement between Forum Energy Technologies and each of the non-SCF directors identified on Annex A thereto (incorporated herein by reference to Exhibit 10.11 to the Registration Statement, filed on August 31, 2011).
- 10.25\*# — Form of Indemnification Agreement between Forum Energy Technologies and each of the SCF directors identified on Annex A thereto (incorporated herein by reference to Exhibit 10.12 to the Registration Statement, filed on August 31, 2011).
- 10.26\*# — 2011 Management Incentive Plan (incorporated herein by reference to Exhibit 10.13 to the Registration Statement, filed on August 31, 2011).
- 10.27\*# — Forum Energy Technologies, Inc. Severance Plan (incorporated herein by reference to Exhibit 10.15 to the Registration Statement, filed on August 31, 2011).
- 10.28\*# — Forum Energy Technologies, Inc. Deferred Compensation and Restoration Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 10-Q, filed on May 3, 2013).
- 10.29\*# — Letter Agreement dated March 28, 2012 between Forum Energy Technologies, Inc. and Tinicum, L.P. (incorporated herein by reference to Exhibit 10.31 to Amendment No. 5 to the Registration Statement, filed on March 29, 2012).
- 10.30\*# — Forum Energy Technologies, Inc. 2010 Stock Incentive Plan (as amended and restated effective August 15, 2012).
- 10.31\*# — Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, filed on August 2, 2013).
- 10.32\*# — Subscription Agreement dated July 16, 2010 by and among Forum Oilfield Technologies, Inc., SCF-VII, L.P., Sunray Capital, LP, C. Christopher Gaut and W. Patrick Connelly, as amended (incorporated herein by reference to Exhibit 10.21 to the Registration Statement, filed on August 31, 2011).
- 10.33\*# — Agreement by and between Forum Energy Technologies, Inc. and Charles E. Jones, dated August 1, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on November 4, 2013).
- 10.34\*# — Retirement and Separation Agreement, effective as of December 18, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on December 18, 2014).
- 21.1\*\* — Subsidiaries of Forum Energy Technologies, Inc.
- 23.1\*\* — Consent of PricewaterhouseCoopers LLP
- 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.

\* Previously filed.

\*\* Filed herewith.

# Identifies management contracts and compensatory plans or arrangements.

**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.**

By: /s/ James W. Harris

James W. Harris  
Senior Vice President and Chief Financial Officer  
(As Duly Authorized Officer and Principal Financial Officer)

By: /s/ Tylar K. Schmitt

Tylar K. Schmitt  
Vice President and Corporate Controller  
(As Duly Authorized Officer and Principal Accounting Officer)

As required by the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ C. Christopher Gaut</u> C. Christopher Gaut	President, Chief Executive Officer and Chairman of the Board	February 27, 2015
<u>/s/ James W. Harris</u> James W. Harris	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2015
<u>/s/ Tylar K. Schmitt</u> Tylar K. Schmitt	Vice President and Corporate Controller (Principal Accounting Officer)	February 27, 2015
<u>/s/ Evelyn M. Angelle</u> Evelyn M. Angelle	Director	February 27, 2015
<u>/s/ David C. Baldwin</u> David C. Baldwin	Director	February 27, 2015
<u>/s/ John A. Carrig</u> John A. Carrig	Director	February 27, 2015
<u>/s/ Michael McShane</u> Michael McShane	Director	February 27, 2015
<u>/s/ Terence O'Toole</u> Terence O'Toole	Director	February 27, 2015
<u>/s/ Franklin Myers</u> Franklin Myers	Director	February 27, 2015
<u>/s/ Louis A. Raspino</u> Louis A. Raspino	Director	February 27, 2015
<u>/s/ John Schmitz</u> John Schmitz	Director	February 27, 2015
<u>/s/ Andrew L. Waite</u> Andrew L. Waite	Director	February 27, 2015

## List of Subsidiaries of Forum Energy Technologies, Inc.

Name	Jurisdiction
ABZ Peru	Peru
AMC Engineering Ltd.	United Kingdom
Blohm + Voss Oil Tools GmbH	Germany
Blohm + Voss Oil Tools Holding Inc.	Delaware
Blohm + Voss Oil Tools LLC	Delaware
Dynacon, Inc.	Texas
FET Finance Ltd.	Cayman Islands
FET Global Finance Limited	Ireland
FET Global Holdings Limited	United Kingdom
FET Global L.P.	United Kingdom
FET Holdings LLC	Delaware
FET Worldwide L.P.	United Kingdom
Forum Australia Pty. Ltd.	Australia
Forum Canada ULC	Canada
Forum Energia, Tecnologia, Equipamentos, e Servicos Ltda.	Brazil
Forum Energy Asia Pacific Pte. Ltd.	Singapore
Forum Energy Services, Inc.	Delaware
Forum Energy Solutions de Mexico, S. de R.L. de C.V.	Mexico
Forum Energy Technologies (UK) Limited	United Kingdom
Forum Global Holdings, LLC	Delaware
Forum Global Tubing LLC	Delaware
Forum Global Tubing LP	Delaware
Forum Holdings, LLC	Delaware
Forum International Holdings, Inc.	Delaware
Forum Luxembourg Limited S.a.r.l.	Luxembourg
Forum Middle East Limited	British Virgin Islands
Forum Oilfield Solutions de Mexico	Mexico
Forum Oilfield Technologies De Mexico S de RL	Mexico
Forum Singapore Holdings Limited	United Kingdom
Forum US, Inc.	Delaware
Forum Worldwide Holdings Limited	United Kingdom
Global Flow Technologies, Inc.	Delaware
Merrimac Manufacturing, Inc.	Texas
Moffat 2000 Limited	United Kingdom
Oilfield Bearing International Limited	United Kingdom
Pro-Tech Valve Sales, Inc.	Canada
Quality Wireline & Cable Inc.	Canada
Syntech Technology, Inc.	Virginia
TGH (AP) Pte. Ltd.	Singapore
TGH (US), Inc.	Delaware

Tube Tec (Tubular Protection Services) Limited  
UK Project Support Ltd.  
Wireline Solutions, L.L.C.  
Z Resources, Inc.  
Z Explorations, Inc.  
Zy-Tech de Venezuela S.A.  
Zy-Tech Global Industries, Inc.  
Zy-Tech Valvestock Africa (PTY) Ltd.

United Kingdom  
United Kingdom  
Texas  
Texas  
Texas  
Venezuela  
Delaware  
South Africa

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333- 180769 and 333-188915), on Form S-3 (No. 333-191294) and on Form S-4 (No. 333-197798) of Forum Energy Technologies, Inc. of our report dated February 27, 2015 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Houston, Texas  
February 27, 2015

**Forum Energy Technologies, Inc.  
Certification**

I, C. Christopher Gaut, certify that:

1. I have reviewed this Annual Report on Form 10-K of Forum Energy Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

By: /s/ C. Christopher Gaut  
C. Christopher Gaut  
Chief Executive Officer

**Forum Energy Technologies, Inc.  
Certification**

I, James W. Harris, certify that:

1. I have reviewed this Annual Report on Form 10-K of Forum Energy Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2015

By: /s/ James W. Harris  
James W. Harris  
Chief Financial Officer



Certification Pursuant to 18 U.S.C. Section 1350  
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report on Form 10-K of Forum Energy Technologies, Inc. (the "Company") for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), C. Christopher Gaut, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2015

By: /s/ C. Christopher Gaut  
C. Christopher Gaut  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Exchange Act.

Certification Pursuant to 18 U.S.C. Section 1350  
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report on Form 10-K of Forum Energy Technologies, Inc. (the "Company") for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), James W. Harris, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2015

By: /s/ James W. Harris  
James W. Harris  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Exchange Act.