

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2019

OR

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

For the transition period from _____ to _____

Commission File Number 001-35504

FORUM ENERGY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

61-1488595

(I.R.S. Employer Identification No.)

10344 Sam Houston Park Drive Suite 300 Houston Texas 77064

(Address of Principal Executive Offices)

(Zip Code)

281 949-2500

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	FET	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of July 29, 2019 there were 110,374,606 common shares outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Forum Energy Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

(in thousands, except per share information)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 245,648	\$ 274,003	\$ 517,490	\$ 524,234
Cost of sales	182,460	201,334	384,204	384,278
Gross profit	63,188	72,669	133,286	139,956
Operating expenses				
Selling, general and administrative expenses	62,881	71,488	131,849	143,579
Transaction expenses	125	59	718	1,395
Intangible asset impairments	—	14,477	—	14,477
Contingent consideration benefit	—	—	(4,629)	—
Loss (gain) on disposal of assets and other	16	(1,303)	36	(1,700)
Total operating expenses	63,022	84,721	127,974	157,751
Earnings (loss) from equity investment	570	350	(279)	(613)
Operating income (loss)	736	(11,702)	5,033	(18,408)
Other expense (income)				
Interest expense	8,223	7,861	16,404	15,948
Foreign exchange and other losses (gains), net	(2,146)	(5,860)	131	(2,309)
Gain on contribution of subsea rentals business	—	—	—	(33,506)
Total other expense (income), net	6,077	2,001	16,535	(19,867)
Income (loss) before income taxes	(5,341)	(13,703)	(11,502)	1,459
Income tax expense (benefit)	8,393	1,646	10,120	(11,258)
Net income (loss)	(13,734)	(15,349)	(21,622)	12,717
Weighted average shares outstanding				
Basic	109,987	108,714	109,816	108,569
Diluted	109,987	108,714	109,816	110,821
Earnings (loss) per share				
Basic	\$ (0.12)	\$ (0.14)	\$ (0.20)	\$ 0.12
Diluted	(0.12)	(0.14)	(0.20)	0.11
Other comprehensive income (loss), net of tax:				
Net income (loss)	(13,734)	(15,349)	(21,622)	12,717
Change in foreign currency translation, net of tax of \$0	(1,407)	(18,635)	3,427	(12,348)
Gain (loss) on pension liability	5	55	(4)	71
Comprehensive income (loss)	\$ (15,136)	\$ (33,929)	\$ (18,199)	\$ 440

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

Forum Energy Technologies, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share information)	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 37,365	\$ 47,241
Accounts receivable—trade, net of allowances of \$8,920 and \$7,432	180,613	206,055
Inventories, net	469,073	479,023
Prepaid expenses and other current assets	31,520	23,677
Accrued revenue	873	862
Costs and estimated profits in excess of billings	8,438	9,159
Total current assets	<u>727,882</u>	<u>766,017</u>
Property and equipment, net of accumulated depreciation	171,546	177,358
Operating lease assets	53,958	—
Deferred financing costs, net	1,657	2,071
Intangible assets	341,920	359,048
Goodwill	471,466	469,647
Investment in unconsolidated subsidiary	44,537	44,982
Deferred income taxes, net	—	1,234
Other long-term assets	8,745	9,295
Total assets	<u>\$ 1,821,711</u>	<u>\$ 1,829,652</u>
Liabilities and equity		
Current liabilities		
Current portion of long-term debt	\$ 1,169	\$ 1,167
Accounts payable—trade	137,819	143,186
Accrued liabilities	74,978	81,032
Deferred revenue	8,046	8,335
Billings in excess of costs and profits recognized	2,284	3,210
Total current liabilities	<u>224,296</u>	<u>236,930</u>
Long-term debt, net of current portion	477,982	517,544
Deferred income taxes, net	20,112	15,299
Operating lease liabilities	53,206	—
Other long-term liabilities	25,904	29,753
Total liabilities	<u>801,500</u>	<u>799,526</u>
Commitments and contingencies		
Equity		
Common stock, \$0.01 par value, 296,000,000 shares authorized, 118,288,651 and 117,411,158 shares issued	1,183	1,174
Additional paid-in capital	1,223,251	1,214,928
Treasury stock at cost, 8,208,588 and 8,200,477 shares	(134,482)	(134,434)
Retained earnings	42,066	63,688
Accumulated other comprehensive loss	(111,807)	(115,230)
Total equity	<u>1,020,211</u>	<u>1,030,126</u>
Total liabilities and equity	<u>\$ 1,821,711</u>	<u>\$ 1,829,652</u>

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

Forum Energy Technologies, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities		
Net income (loss)	\$ (21,622)	\$ 12,717
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	15,067	16,358
Amortization of intangible assets	17,608	20,932
Intangible asset impairments	—	14,477
Inventory write down	1,564	8,002
Stock-based compensation expense	8,262	10,616
Loss from unconsolidated subsidiary	279	613
Contingent consideration benefit	(4,629)	—
Gain on contribution of subsea rentals business	—	(33,506)
Deferred income taxes	6,047	(22,247)
Noncash losses (gains) and other, net	4,493	1,528
<i>Changes in operating assets and liabilities</i>		
Accounts receivable—trade	24,087	(15,636)
Inventories	8,333	(52,679)
Prepaid expenses and other assets	(1,268)	(2,122)
Cost and estimated profit in excess of billings	705	109
Accounts payable, deferred revenue and other accrued liabilities	(17,216)	10,978
Billings in excess of costs and estimated profits earned	(926)	4,123
Net cash provided by (used in) operating activities	\$ 40,784	\$ (25,737)
Cash flows from investing activities		
Capital expenditures for property and equipment	(9,271)	(14,140)
Proceeds from sale of business, property and equipment	425	8,809
Net cash used in investing activities	\$ (8,846)	\$ (5,331)
Cash flows from financing activities		
Borrowings of debt	82,000	50,000
Repayments of debt	(123,083)	(91,678)
Repurchases of stock	(1,037)	(2,212)
Net cash used in financing activities	\$ (42,120)	\$ (43,890)
Effect of exchange rate changes on cash	306	(1,153)
Net decrease in cash, cash equivalents and restricted cash	(9,876)	(76,111)
Cash, cash equivalents and restricted cash at beginning of period	47,241	115,216
Cash, cash equivalents and restricted cash at end of period	\$ 37,365	\$ 39,105
Noncash activities (1)		
Assets contributed for equity method investment	\$ —	\$ 18,070
Note receivable related to equity method investment transaction	\$ —	\$ 4,067

(1) See Note 8 Leases for additional information about noncash activities related to leases and the impact from adoption of ASU 842.

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

Forum Energy Technologies, Inc. and subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

Six Months Ended June 30, 2019

(in thousands)	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income / (loss)	Total equity
Balance at December 31, 2018	\$ 1,174	\$ 1,214,928	\$ (134,434)	\$ 63,688	\$ (115,230)	\$ 1,030,126
Stock-based compensation expense	—	3,910	—	—	—	3,910
Restricted stock issuance, net of forfeitures	6	(931)	—	—	—	(925)
Shares issued in employee stock purchase plan	2	682	—	—	—	684
Contingent shares issued for acquisition of Cooper	1	374	—	—	—	375
Treasury stock	—	—	(48)	—	—	(48)
Currency translation adjustment	—	—	—	—	4,834	4,834
Change in pension liability	—	—	—	—	(9)	(9)
Net loss	—	—	—	(7,888)	—	(7,888)
Balance at March 31, 2019	\$ 1,183	\$ 1,218,963	\$ (134,482)	\$ 55,800	\$ (110,405)	\$ 1,031,059
Stock-based compensation expense	—	4,352	—	—	—	4,352
Restricted stock issuance, net of forfeitures	—	(64)	—	—	—	(64)
Currency translation adjustment	—	—	—	—	(1,407)	(1,407)
Change in pension liability	—	—	—	—	5	5
Net loss	—	—	—	(13,734)	—	(13,734)
Balance at June 30, 2019	\$ 1,183	\$ 1,223,251	\$ (134,482)	\$ 42,066	\$ (111,807)	\$ 1,020,211

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

Forum Energy Technologies, Inc. and subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

Six Months Ended June 30, 2018

(in thousands)	Common stock	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income / (loss)	Total equity
Balance at December 31, 2017	\$ 1,163	\$ 1,195,339	\$ (134,293)	\$ 438,774	\$ (91,967)	\$ 1,409,016
Stock-based compensation expense	—	5,302	—	—	—	5,302
Restricted stock issuance, net of forfeitures	4	(1,611)	—	—	—	(1,607)
Issuance of performance shares	2	(275)	—	—	—	(273)
Shares issued in employee stock purchase plan	1	995	—	—	—	996
Contingent shares issued for acquisition of Cooper	—	125	—	—	—	125
Treasury stock	—	—	(66)	—	—	(66)
Adjustment for adoption of ASU 2016-16 (Intra-entity asset transfers)	—	—	—	(1,006)	—	(1,006)
Currency translation adjustment	—	—	—	—	6,287	6,287
Change in pension liability	—	—	—	—	16	16
Net income	—	—	—	28,066	—	28,066
Balance at March 31, 2018	\$ 1,170	\$ 1,199,875	\$ (134,359)	\$ 465,834	\$ (85,664)	\$ 1,446,856
Stock-based compensation expense	—	5,314	—	—	—	5,314
Restricted stock issuance, net of forfeitures	1	(222)	—	—	—	(221)
Treasury stock	—	—	(45)	—	—	(45)
Currency translation adjustment	—	—	—	—	(18,635)	(18,635)
Change in pension liability	—	—	—	—	55	55
Net loss	—	—	—	(15,349)	—	(15,349)
Balance at June 30, 2018	\$ 1,171	\$ 1,204,967	\$ (134,404)	\$ 450,485	\$ (104,244)	\$ 1,417,975

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

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Basis of Presentation

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

Basis of Presentation

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

Our investments in operating entities where we have the ability to exert significant influence, but do not control operating and financial policies, are accounted for using the equity method of accounting, with our share of the net income (loss) reported in “Earnings (loss) from equity investment” in the condensed consolidated statements of comprehensive income (loss). These investments are included in “Investment in unconsolidated subsidiary” in the condensed consolidated balance sheets. The Company’s share of equity earnings are reported within operating income (loss), as the investee’s operations are integral to the operations of the Company.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the Company’s financial position, results of operations and cash flows have been included. Operating results for the six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 or any other interim period.

These interim financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, which are included in the Company’s 2018 Annual Report on Form 10-K filed with the SEC on February 28, 2019 (the “Annual Report”).

Change of Segment

In the first quarter 2019, we changed our reporting segments in order to align with business activity drivers and the manner in which management reviews and evaluates operating performance. Forum now operates in the following three reporting segments: Drilling & Downhole, Completions and Production. This move better aligns with the key phases of the well cycle and provides improved operating efficiencies. Historically, we operated in three business segments: Drilling & Subsea, Completions, and Production & Infrastructure. We have moved the Downhole product line from Completions to Drilling & Subsea to form the new Drilling & Downhole segment. Completions retains the Stimulation & Intervention and Coiled Tubing product lines. Finally, we renamed Production & Infrastructure as the Production segment. Our historical results of operations have been recast to retrospectively reflect these changes in accordance with generally accepted accounting principles. Refer to Note 11 *Business Segments* for further information.

2. Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”), which we adopt 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 our consolidated financial statements upon adoption.

Accounting Standards Adopted in 2019

Stranded Tax Effects from the Tax Cuts and Jobs Act. In February 2018, the FASB issued ASU No. 2018-02 Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. U.S. GAAP requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates, with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (referred to as “stranded tax effects”). The amendments in this ASU allow a specific exception for reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

from the Tax Cuts and Jobs Act. The underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. In addition, the amendments in this update also require certain disclosures about stranded tax effects. We applied the update beginning January 1, 2019. The adoption of this new guidance had no material impact on our unaudited condensed consolidated financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 842”). Under this new guidance, lessees are required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases (finance and operating). The classification as either a financing or operating lease determines whether lease expense is recognized on an effective interest method basis or on a straight-line basis over the term of the lease, respectively.

We adopted this new standard as of January 1, 2019 using the modified retrospective transition method which requires leases existing at, or entered into after, January 1, 2019 to be recognized and measured. As such, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We took advantage of various practical expedients provided by the new standard, including:

- use of the transition package of practical expedients which, among other things, allows us to carry forward the historical lease classification for existing leases;
- making an accounting policy election for leases with an initial term of 12 months or less to be excluded from the balance sheet; and
- electing to not separate non-lease components from lease components for all classes of underlying lease assets.

The adoption of this standard resulted in the recording of net operating lease assets of approximately \$54 million and operating lease liabilities of approximately \$65 million as of January 1, 2019. The new standard did not materially affect our Condensed Consolidated Statement of Comprehensive Income (Loss) for the three and six months ended June 30, 2019. For additional information, please refer to Note 8 *Leases*.

Accounting Standards Issued But Not Yet Adopted

Accounting for Implementation Costs Related to a Cloud Computing Arrangement. In August 2018, the FASB issued ASU No. 2018-15 Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This new guidance aligns the requirements for capitalizing implementation costs incurred by an entity related to a cloud computing arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, this guidance requires an entity to capitalize certain implementation costs incurred and then amortize them over the term of the cloud hosting arrangement. Furthermore, this guidance also requires an entity to present the expense, cash flows, and capitalized implementation costs in the same financial statement line items as the associated hosting service. This new guidance will take effect for public companies with fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and early adoption is permitted. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the impact of adopting this guidance.

Fair Value Measurement Disclosure. In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirement for Fair Value Measurement. This new guidance eliminated, modified and added certain disclosure requirements related to fair value measurements. The amended disclosure requirements are effective for all entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. We are evaluating the impact of adopting this guidance. However, we currently expect that the adoption of this guidance will not have a material impact on our unaudited condensed consolidated financial statements.

Financial Instruments—Credit Losses. In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments—Credit Losses (Topic 326), which introduced an expected credit loss methodology for the impairment of financial assets measured at amortized cost basis. It requires an entity to estimate credit losses expected over the life of an exposure based on historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. This guidance will take effect for public companies with fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact of adopting this guidance.

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

3. Revenues

Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. For a detailed discussion of our revenue recognition policies, refer to the Company's 2018 Annual Report on Form 10-K.

Disaggregated Revenue

Refer to Note 11 *Business Segments* for disaggregated revenue by product line and geography.

Contract Balances

Contract balances are determined on a contract by contract basis. Contract assets represent revenue recognized for goods and services provided to our customers when payment is conditioned on something other than the passage of time. Similarly, we record a contract liability when we receive consideration, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a sales contract. Such contract liabilities typically result from billings in excess of costs incurred on construction contracts and advance payments received on product sales.

The following table reflects the changes in our contract assets and contract liabilities balances for the six months ended June 30, 2019:

	June 30, 2019	December 31, 2018	Decrease	
			\$	%
Accrued revenue	\$ 873	\$ 862		
Costs and estimated profits in excess of billings	8,438	9,159		
Contract assets	\$ 9,311	\$ 10,021	\$ (710)	(7)%
Deferred revenue	\$ 8,046	\$ 8,335		
Billings in excess of costs and profits recognized	2,284	3,210		
Contract liabilities	\$ 10,330	\$ 11,545	\$ (1,215)	(11)%

During the six months ended June 30, 2019, our contract assets decreased by \$0.7 million primarily due to the timing of orders and billings in our Production Equipment product line and our contract liabilities decreased by \$1.2 million primarily due the timing of billings for customer projects in our Subsea Technologies product line.

During the six months ended June 30, 2019, we recognized revenue of \$8.0 million that was included in the contract liability balance at the beginning of the period.

In the second quarter 2018, our Subsea Technologies product line received an order to supply a submarine rescue vehicle and related equipment that we expect to deliver in 2020. We use the cost-to-cost method to measure progress on this contract to recognize revenue over time. Other than this contract, all of our other contracts are less than one year in duration. As such, we have elected to apply the practical expedient, which allows an entity to exclude disclosures about its remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

4. Acquisitions & Dispositions

2018 Acquisition of Houston Global Heat Transfer LLC

On October 5, 2018, we acquired 100% of the stock of Houston Global Heat Transfer LLC ("GHT") for total aggregate consideration of \$57.3 million, net of cash acquired. The aggregate consideration includes the estimated fair value (as of the acquisition date) of certain contingent cash payments due to the former owners of GHT if certain conditions are met in 2019 and 2020. Based in Houston, Texas, GHT designs, engineers, and manufactures premium industrial heat exchanger and cooling systems used primarily on hydraulic fracturing equipment. GHT's flagship product, the Jumbotron, is an innovative cube-style radiator that substantially reduces customer maintenance expense. This acquisition is included in the Completions segment. In the first quarter of 2019, we updated the estimated fair value of the contingent cash payments and recognized a \$4.6 million reduction in the contingent cash liability. This gain is included in contingent consideration benefit in the condensed consolidated statement of comprehensive income.

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

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

Current assets, net of cash acquired	\$	18,468
Property and equipment		2,408
Non-current assets		238
Intangible assets (primarily customer relationships)		30,400
Tax-deductible goodwill		20,746
Current liabilities		(12,633)
Long-term liabilities	\$	(2,355)
Net assets acquired, net of cash acquired	\$	<u>57,272</u>

Revenue and net income for this acquisition were not significant for the six months ended June 30, 2019. Pro forma results of operations for this acquisition have not been presented because the effects were not material to the consolidated financial statements.

2018 Acquisition of ESP Completion Technologies LLC

On July 2, 2018, we acquired certain assets of ESP Completion Technologies LLC ("ESPCT"), a subsidiary of C&J Energy Services, for cash consideration of \$8.0 million. ESPCT consists of a portfolio of early stage technologies that maximize the run life of artificial lift systems, primarily electric submersible pumps. This acquisition is included in the Drilling and Downhole segment. The fair values of the assets acquired and liabilities assumed as well as the pro forma results of operations for this acquisition have not been presented because they are not material to the consolidated financial statements.

2018 Disposition of Forum Subsea Rentals

On January 3, 2018, we contributed our subsea rentals business to Ashtead Technology to create an independent provider of subsea survey and equipment rental services. In exchange, we received a 40% interest in the combined business ("Ashtead"), a cash payment of £2.7 million British Pounds and a note receivable from Ashtead of £3.0 million British Pounds. Our 40% interest in Ashtead is accounted for as an equity method investment and reported as *Investment in unconsolidated subsidiary* in our condensed consolidated balance sheets. In the first quarter of 2018, we recognized a gain of \$33.5 million as a result of the deconsolidation of our Forum Subsea Rentals business, which is classified as *Gain on contribution of subsea rentals business* in the condensed consolidated statements of comprehensive income (loss). This gain is equal to the sum of the consideration received, which includes the fair value of our 40% interest in Ashtead, £2.7 million British Pounds in cash, and the £3.0 million British Pounds note receivable from Ashtead, less the \$18.1 million carrying value of the Forum subsea rentals assets at the time of closing. The fair value of our 40% interest in Ashtead was determined based on the present value of estimated future cash flows of the combined entity as of January 3, 2018. The difference between the fair value of our 40% interest in Ashtead of \$43.8 million and the book value of the underlying net assets resulted in a basis difference, which was allocated to fixed assets, intangible assets and goodwill based on their respective fair values as of January 3, 2018. The basis difference allocated to fixed assets and intangible assets is amortized through equity earnings (loss) over the estimated life of the respective assets. Pro forma results of operations for this transaction have not been presented because the effects were not material to the consolidated financial statements.

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

5. Inventories

Our significant components of inventory at June 30, 2019 and December 31, 2018 were as follows (in thousands):

	June 30, 2019	December 31, 2018
Raw materials and parts	\$ 189,834	\$ 212,526
Work in process	36,113	39,494
Finished goods	304,938	302,590
Gross inventories	530,885	554,610
Inventory reserve	(61,812)	(75,587)
Inventories	<u>\$ 469,073</u>	<u>\$ 479,023</u>

6. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill from December 31, 2018 to June 30, 2019, were as follows (in thousands):

	Drilling & Downhole	Completions	Production	Total
Goodwill Balance at December 31, 2018	\$ 191,151	\$ 259,280	\$ 19,216	\$ 469,647
Purchase accounting adjustments	427	187	—	614
Impact of non-U.S. local currency translation	(12)	1,110	107	1,205
Goodwill Balance at June 30, 2019	<u>\$ 191,566</u>	<u>\$ 260,577</u>	<u>\$ 19,323</u>	<u>\$ 471,466</u>

We perform our annual impairment tests of goodwill as of October 1 or when there is an indication an impairment may have occurred. There were no impairments of goodwill during the three and six months ended June 30, 2019 and 2018. Accumulated impairment losses on goodwill were \$535.6 million as of June 30, 2019 and December 31, 2018.

Intangible assets

Intangible assets consisted of the following as of June 30, 2019 and December 31, 2018, respectively (in thousands):

	June 30, 2019			
	Gross Carrying Amount	Accumulated Amortization	Net Amortizable Intangibles	Amortization Period (In Years)
Customer relationships	\$ 337,838	\$ (121,150)	\$ 216,688	4-15
Patents and technology	104,548	(20,624)	83,924	5-17
Non-compete agreements	6,261	(5,765)	496	3-6
Trade names	47,546	(20,385)	27,161	10-15
Distributor relationships	22,160	(18,234)	3,926	8-15
Trademarks	10,319	(594)	9,725	15 - Indefinite
Intangible Assets Total	<u>\$ 528,672</u>	<u>\$ (186,752)</u>	<u>\$ 341,920</u>	

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	December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Amortizable Intangibles	Amortization Period (In Years)
Customer relationships	\$ 337,546	\$ (110,228)	\$ 227,318	4-15
Patents and technology	104,394	(17,148)	87,246	5-17
Non-compete agreements	6,245	(5,600)	645	3-6
Trade names	47,493	(18,107)	29,386	10-15
Distributor relationships	22,160	(17,602)	4,558	8-15
Trademarks	10,319	(424)	9,895	15 - Indefinite
Intangible Assets Total	\$ 528,157	\$ (169,109)	\$ 359,048	

Intangible assets with definite lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In the second quarter 2018, we made the decision to exit specific products within the Subsea and Downhole product lines. As a result, we recognized \$14.5 million of impairment losses on certain intangible assets (primarily customer relationships).

7. Debt

Notes payable and lines of credit as of June 30, 2019 and December 31, 2018 consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
6.25% Senior Notes due October 2021	\$ 400,000	\$ 400,000
Unamortized debt premium	973	1,176
Debt issuance cost	(2,570)	(3,121)
Senior secured revolving credit facility	79,000	119,000
Other debt	1,748	1,656
Total debt	479,151	518,711
Less: current maturities	(1,169)	(1,167)
Long-term debt	\$ 477,982	\$ 517,544

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 a price of 103.25% of par (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. The Senior Notes are senior unsecured obligations, and 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.

Credit Facility

On October 30, 2017, we amended and restated our credit facility (such amended and restated credit facility, the "Credit Facility") to, among other things, increase revolving credit commitments from \$140.0 million to \$300.0 million (with a sublimit of up to \$25.0 million available for the issuance of letters of credit for the account of the Company and certain of our domestic subsidiaries) (the "U.S. Line"), of which up to \$30.0 million is available to certain of our Canadian subsidiaries for loans in U.S. or Canadian dollars (with a sublimit of up to \$3.0 million available for the issuance of letters of credit for the account of our Canadian subsidiaries) (the "Canadian Line"). Lender commitments under the Credit Facility, subject to certain limitations, may be increased by an additional \$100.0 million. The Credit Facility matures in July 2021, but if our outstanding Notes due October 2021 are refinanced or replaced with indebtedness maturing in or after February 2023, the final maturity of the Credit Facility will automatically extend to October 2022.

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Availability under the Credit Facility is subject to a borrowing base calculated by reference to eligible accounts receivable in the U.S., Canada and certain other jurisdictions (subject to a cap) and eligible inventory in the U.S. and Canada. Our borrowing capacity under the Credit Facility could be reduced or eliminated, depending on future fluctuations in our balances of receivables and inventory. As of June 30, 2019, our total borrowing base was \$299.4 million, of which \$79.0 million was drawn and \$15.2 million was used for security of outstanding letters of credit, resulting in availability of \$205.1 million.

Borrowings under the U.S. Line bear interest at a rate equal to, at our option, either (a) the LIBOR rate or (b) a base rate determined by reference to the highest of (i) the rate of interest per annum determined from time to time by Wells Fargo as its prime rate in effect at its principal office in San Francisco, (ii) the federal funds rate plus 0.50% per annum and (iii) the one-month adjusted LIBOR plus 1.00% per annum, in each case plus an applicable margin. Borrowings under the Canadian Line bear interest at a rate equal to, at Forum Canada's option, either (a) the CDOR rate or (b) a base rate determined by reference to the highest of (i) the prime rate for Canadian dollar commercial loans made in Canada as reported from time to time by Thomson Reuters and (ii) the CDOR rate plus 1.00%, in each case plus an applicable margin. The applicable margin for LIBOR and CDOR loans will initially range from 1.75% to 2.25%, depending upon average excess availability under the Credit Facility. After the first quarter in which our total leverage ratio is less than or equal to 4.00:1.00, the applicable margin for LIBOR and CDOR loans will range from 1.50% to 2.00%, depending upon average excess availability under the Credit Facility. The weighted average interest rate under the Credit Facility was approximately 4.48% for the six months ended June 30, 2019.

The Credit Facility also provides for a commitment fee in the amount of (a) 0.375% per annum on the unused portion of commitments if average usage of the Credit Facility is greater than 50% and (b) 0.500% per annum on the unused portion of commitments if average usage of the Credit Facility is less than or equal to 50%. After the first quarter in which our total leverage ratio is less than or equal to 4.00:1.00, the commitment fees will range from 0.25% to 0.375%, depending upon average usage of the Credit Facility.

If excess availability under the Credit Facility falls below the greater of 10% of the borrowing base and \$20.0 million, we will be required to maintain a fixed charge coverage ratio of at least 1.00:1.00 as of the end of each fiscal quarter until excess availability under the Credit Facility exceeds such thresholds for at least 60 consecutive days.

Deferred Loan Costs

We have incurred loan costs that have been deferred and are amortized to interest expense over the term of the Senior Notes and the Credit Facility.

Other Debt

Other debt consists primarily of various capital leases.

Letters of Credit and Guarantees

We execute letters of credit in the normal course of business to secure the delivery of product from specific vendors and also to guarantee our fulfillment of performance obligations relating to certain large contracts. We had \$15.8 million and \$13.6 million in total outstanding letters of credit as of June 30, 2019 and December 31, 2018, respectively.

8. Leases

We determine if an arrangement is a lease at inception. Leases with an initial term of 12 months or less are not recorded in our condensed consolidated balance sheets. Leases with an initial term greater than 12 months are recognized in our condensed consolidated balance sheets based on lease classification as either operating or financing. Operating leases are included in operating lease assets, accrued liabilities and operating lease liabilities. Finance leases are included in property and equipment, current portion of long-term debt, and long-term debt. Some of our lease agreements include lease and non-lease components for which we have elected to not separate for all classes of underlying assets. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. We sublease certain real estate to third parties when we have no future use for the property.

Our lease portfolio primarily consists of operating leases for certain manufacturing facilities, warehouses, service facilities, office spaces, equipment and vehicles. Operating lease Right of Use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments at the commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Our leases have

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remaining terms of 1 year to 14 years and may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. The operating lease ROU assets also include any upfront lease payments made and exclude lease incentives and initial direct costs incurred. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

The following table summarizes the supplemental balance sheet information related to leases as of June 30, 2019 (in thousands, unaudited):

Classification	As of June 30, 2019
Assets	
Operating lease assets	53,958
Finance lease assets	1,045
Total lease assets	55,003
Liabilities	
Current	
Operating	13,416
Finance	269
Noncurrent	
Operating	53,206
Finance	578
Total lease liabilities	67,469

The following table summarizes the components of lease expenses for the three and six months ended June 30, 2019 (in thousands, unaudited):

Lease Cost	Classification	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	Cost of sales and Selling, general and administrative expenses	\$ 4,072	\$ 8,212
Finance lease cost			
Amortization of leased assets	Selling, general and administrative expenses	93	165
Interest on lease liabilities	Interest expense	16	32
Sublease income	Cost of sales and Selling, general and administrative expenses	(357)	(566)
Net lease cost		\$ 3,824	\$ 7,843

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The maturities of lease liabilities as of June 30, 2019 are as follows (in thousands, unaudited):

	Operating Leases	Finance Leases	Total
Remainder of 2019	\$ 8,974	\$ 73	\$ 9,047
2020	15,931	365	16,296
2021	13,561	365	13,926
2022	10,473	67	10,540
2023	7,407	17	7,424
2024	6,237	10	6,247
Thereafter	25,218	1	25,219
Total lease payments	87,801	898	88,699
Less: present value discount	(21,179)	(51)	(21,230)
Present value of lease liabilities	\$ 66,622	\$ 847	\$ 67,469

The following table summarizes the weighted-average remaining lease term and weighted average discount rates related to leases as of June 30, 2019:

Lease Term and Discount Rate	June 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	8.0 years
Financing leases	3.0 years
Weighted-average discount rate	
Operating leases	6.58%
Financing leases	6.58%

The following table summarizes the supplemental cash flow information related to leases as of June 30, 2019:

	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 9,050
Operating cash flows from finance leases	32
Financing cash flows from finance leases	1,083
Noncash activities from right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 8,798
Finance leases	525
Noncash activities from adoption of ASC 842 as of January 1, 2019	
Prepaid expenses and other current assets	\$ (884)
Operating lease assets	54,069
Operating lease liabilities	64,506
Accrued liabilities	(11,321)

9. Income Taxes

For the three and six months ended June 30, 2019, we recorded a tax expense of \$8.4 million and \$10.1 million, respectively, including \$5.9 million of tax expense to increase our valuation allowance as discussed further below. For

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the three and six months ended June 30, 2018, we recorded a tax expense of \$1.6 million and a tax benefit of \$11.3 million, respectively.

For interim periods, our income tax expense or benefit is computed based upon our estimated annual effective tax rate and any discrete items that impact the interim periods. The estimated annual effective tax rate for the six months ended June 30, 2019 is different than the comparable period in 2018 primarily due to losses in jurisdictions where the recording of a tax benefit is not available. For the three and six months ended June 30, 2019, tax expense includes an increase in our valuation allowance of \$5.9 million to write down our deferred tax assets in the U.S. and Saudi Arabia to what in our judgment is more likely than not realizable. In addition, income tax benefit for the six months ended June 30, 2018 includes a \$15.9 million tax benefit related to an adjustment of the provisional tax impact of U.S. tax reform as discussed further below. The tax benefit or expense recorded can vary from period to period depending on the Company's relative mix of U.S. and non-U.S. earnings and losses by jurisdiction.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017, a comprehensive U.S. tax reform package that, effective January 1, 2018, among other things, lowered the corporate income tax rate from 35% to 21% and moved the country towards a territorial tax system with a one-time mandatory tax on previously deferred earnings of non-U.S. subsidiaries. The effects of U.S. tax reform on us include two major categories: (i) recognition of liabilities for taxes on mandatory deemed repatriation and (ii) re-measurement of deferred taxes.

During 2018, we completed our analysis of the impact of U.S. tax reform based on further guidance provided on the new tax law by the U.S. Treasury Department and Internal Revenue Service. We finalized our accounting for the effects of U.S. tax reform during 2018 based on the additional guidance issued and recognized an income tax benefit of \$15.6 million for the year ended December 31, 2018, including the \$15.9 million provisional tax benefit recorded for the six months ended June 30, 2018.

We have deferred tax assets related to net operating loss carryforwards in the U.S. and in certain states and foreign jurisdictions. We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, including the effect of U.S. tax reform, tax-planning and recent operating results. As of June 30, 2019, we do not anticipate being able to fully utilize all of the losses prior to their expiration in the following jurisdictions: the U.S., the U.K., Germany, Saudi Arabia and Singapore. As a result, we have certain valuation allowances against our deferred tax assets as of June 30, 2019.

10. Fair Value Measurements

At June 30, 2019 and December 31, 2018, the Company had \$79.0 million and \$119.0 million, respectively, of debt outstanding under the Credit Facility which 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 our 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 June 30, 2019, the fair value and the carrying value of our Senior Notes approximated \$369.5 million and \$398.4 million, respectively. At December 31, 2018, the fair value and the carrying value of our Senior Notes approximated \$362.0 million and \$398.1 million, respectively.

There were no other outstanding financial assets as of June 30, 2019 and December 31, 2018 that required measuring the amounts at fair value. We did not change our 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 six months ended June 30, 2019.

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11. Business Segments

In the first quarter 2019, we changed our reporting segments in order to align with business activity drivers and the manner in which management reviews and evaluates operating performance. Forum now operates in the following three reporting segments: Drilling & Downhole, Completions and Production. This move better aligns with the key phases of the well cycle and provides improved operating efficiencies. Historically, we operated in three business segments: Drilling & Subsea, Completions, and Production & Infrastructure. We have moved the Downhole product line from Completions to Drilling & Subsea to form the new Drilling & Downhole segment. Completions retains the Stimulation & Intervention and Coiled Tubing product lines. Finally, we renamed Production & Infrastructure as the Production segment. Our historical results of operations have been recast to retrospectively reflect these changes in accordance with generally accepted accounting principles.

The Drilling & Downhole segment designs and manufactures products and provides related services to the drilling, well construction, artificial lift and subsea energy construction and services markets as well as other markets such as alternative energy, defense and communications. The Completions segment designs, manufactures and supplies products and provides related services to the completion, stimulation and intervention markets. The Production segment designs, manufactures and supplies products, and provides related equipment and services for 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 and our board of directors view the business. We consider the Chief Operating Decision Maker 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):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue:				
Drilling & Downhole	\$ 82,352	\$ 86,476	\$ 168,292	\$ 163,340
Completions	81,520	100,049	176,179	188,103
Production	83,255	88,599	175,250	175,020
Eliminations	(1,479)	(1,121)	(2,231)	(2,229)
Total revenue	\$ 245,648	\$ 274,003	\$ 517,490	\$ 524,234
Operating income (loss)				
Drilling & Downhole	\$ 1,342	\$ (7,520)	\$ (1,157)	\$ (17,830)
Completions	2,841	14,190	9,692	23,151
Production	3,589	3,704	7,924	7,866
Corporate	(6,895)	(8,843)	(15,301)	(17,423)
Segment operating income (loss)	877	1,531	1,158	(4,236)
Transaction expenses	125	59	718	1,395
Intangible asset impairments	—	14,477	—	14,477
Contingent consideration benefit	—	—	(4,629)	—
Loss (gain) on disposal of assets and other	16	(1,303)	36	(1,700)
Operating income (loss)	\$ 736	\$ (11,702)	\$ 5,033	\$ (18,408)

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

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	June 30, 2019	December 31, 2018
Drilling & Downhole	\$ 670,333	\$ 663,414
Completions	848,010	872,731
Production	247,030	243,354
Corporate	56,338	50,153
Total assets	\$ 1,821,711	\$ 1,829,652

Corporate assets include, among other items, cash, prepaid assets and deferred financing costs.

The following table presents our revenues disaggregated by product line (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Drilling Technologies	\$ 37,311	\$ 46,393	\$ 79,237	\$ 89,150
Downhole Technologies	28,785	26,571	59,210	51,098
Subsea Technologies	16,256	13,512	29,845	23,092
Stimulation and Intervention	46,898	60,526	98,209	111,586
Coiled Tubing	34,622	39,523	77,970	76,517
Production Equipment	33,009	35,269	69,577	66,725
Valve Solutions	50,246	53,330	105,673	108,295
Eliminations	(1,479)	(1,121)	(2,231)	(2,229)
Total revenue	\$ 245,648	\$ 274,003	\$ 517,490	\$ 524,234

The following table presents our revenues disaggregated by geography (in thousands):

	Three months ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
United States	\$ 183,700	\$ 203,966	\$ 380,667	\$ 394,030
Canada	13,754	16,511	30,217	35,705
Europe & Africa	17,815	17,237	35,412	31,127
Middle East	12,460	16,388	31,745	26,958
Asia-Pacific	11,459	14,087	26,218	22,937
Latin America	6,460	5,814	13,231	13,477
Total Revenue	\$ 245,648	\$ 274,003	\$ 517,490	\$ 524,234

12. Commitments and Contingencies

In the ordinary course of business, the Company is, and in the future could be, involved in various pending or threatened legal actions that may or may not be covered by insurance. Management has reviewed such pending judicial and legal proceedings and the availability and limits of insurance coverage, and has established reserves that are believed to be appropriate in light of those outcomes that are considered to be probable and can be reasonably estimated. The reserves accrued at June 30, 2019 and December 31, 2018, respectively, are immaterial. It is management's opinion that the Company's ultimate liability, if any, with respect to these actions is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

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13. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income (loss)	\$ (13,734)	\$ (15,349)	\$ (21,622)	\$ 12,717
Basic - weighted average shares outstanding	109,987	108,714	109,816	108,569
Dilutive effect of stock options and restricted stock	—	—	—	2,252
Diluted - weighted average shares outstanding	109,987	108,714	109,816	110,821
Earnings (loss) per share				
Basic	\$ (0.12)	\$ (0.14)	\$ (0.20)	\$ 0.12
Diluted	\$ (0.12)	\$ (0.14)	\$ (0.20)	\$ 0.11

The calculation of diluted earnings per share excludes approximately 3.5 million shares that were anti-dilutive for the six months ended June 30, 2018. The calculation of diluted loss per share excludes all potentially dilutive shares for the three months ended June 30, 2018, and three and six months ended June 30, 2019, because there was a net loss for these periods.

14. Stockholders' Equity

Stock-based compensation

During the six months ended June 30, 2019, the Company granted 1,362,621 shares of restricted stock and restricted stock units and 390,896 performance share awards with a market condition.

The 1,362,621 shares of restricted stock and restricted stock units include 1,128,173 shares granted to employees that vest ratably over 3 years and 234,448 shares granted to non-employee members of the Board of Directors that have a vesting period of 12 months.

The performance share awards granted may settle for between zero and two shares of the Company's common stock. The number of shares issued pursuant to the performance share award agreements will be determined based on the total shareholder return of the Company's common stock as compared to a group of peer companies. The performance share awards granted in February 2019 are measured over a three year performance period.

15. Related Party Transactions

The Company has sold and purchased equipment and services to and from certain affiliates of our directors. The dollar amounts related to these related party activities are not material to the Company's unaudited condensed consolidated financial statements.

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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 comprehensive income (loss)

	Three Months Ended June 30, 2019				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	\$ —	\$ 205,953	\$ 49,964	\$ (10,269)	\$ 245,648
Cost of sales	—	157,317	35,780	(10,637)	182,460
Gross Profit	—	48,636	14,184	368	63,188
Operating Expenses					
Selling, general and administrative expenses	—	52,148	10,733	—	62,881
Transaction Expenses	—	175	(50)	—	125
Loss (gain) on disposal of assets and other	—	81	(65)	—	16
Total operating expenses	—	52,404	10,618	—	63,022
Earnings from equity investment	—	107	463	—	570
Equity earnings (loss) from affiliate, net of tax	(5,386)	4,187	—	1,199	—
Operating income (loss)	(5,386)	526	4,029	1,567	736
Other expense (income)					
Interest expense (income)	8,348	(70)	(55)	—	8,223
Foreign exchange and other gains, net	—	(123)	(2,023)	—	(2,146)
Total other (income) expense, net	8,348	(193)	(2,078)	—	6,077
Income (loss) before income taxes	(13,734)	719	6,107	1,567	(5,341)
Income tax expense	—	6,105	2,288	—	8,393
Net income (loss)	(13,734)	(5,386)	3,819	1,567	(13,734)
Other comprehensive income (loss), net of tax:					
Net income (loss)	(13,734)	(5,386)	3,819	1,567	(13,734)
Change in foreign currency translation, net of tax of \$0	(1,407)	(1,407)	(1,407)	2,814	(1,407)
Gain on pension liability	5	5	5	(10)	5
Comprehensive income (loss)	\$ (15,136)	\$ (6,788)	\$ 2,417	\$ 4,371	\$ (15,136)

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Condensed consolidating statements of comprehensive loss

	Three Months Ended June 30, 2018				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ —	\$ 241,127	\$ 47,987	\$ (15,111)	\$ 274,003
Cost of sales	—	177,090	39,801	(15,557)	201,334
Gross Profit	—	64,037	8,186	446	72,669
Operating Expenses					
Selling, general and administrative expenses	—	58,739	12,749	—	71,488
Transaction Expenses	—	59	—	—	59
Goodwill and intangible asset impairments	—	—	14,477	—	14,477
Loss (gain) on disposal of assets and other	—	(1,703)	400	—	(1,303)
Total operating expenses	—	57,095	27,626	—	84,721
Earnings from equity investment	—	15	335	—	350
Equity loss from affiliate, net of tax	(9,072)	(18,300)	—	27,372	—
Operating loss	(9,072)	(11,343)	(19,105)	27,818	(11,702)
Other expense (income)					
Interest expense (income)	7,946	31	(116)	—	7,861
Foreign exchange and other gains, net	—	(109)	(5,751)	—	(5,860)
Total other expense (income), net	7,946	(78)	(5,867)	—	2,001
Loss before income taxes	(17,018)	(11,265)	(13,238)	27,818	(13,703)
Income tax expense (benefit)	(1,669)	(2,193)	5,508	—	1,646
Net loss	(15,349)	(9,072)	(18,746)	27,818	(15,349)
Other comprehensive income (loss), net of tax:					
Net loss	(15,349)	(9,072)	(18,746)	27,818	(15,349)
Change in foreign currency translation, net of tax of \$0	(18,635)	(18,635)	(18,635)	37,270	(18,635)
Gain on pension liability	55	55	55	(110)	55
Comprehensive loss	\$ (33,929)	\$ (27,652)	\$ (37,326)	\$ 64,978	\$ (33,929)

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Condensed consolidating statements of comprehensive income (loss)

	Six Months Ended June 30, 2019				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	\$ —	\$ 442,759	\$ 100,177	\$ (25,446)	\$ 517,490
Cost of sales	—	333,171	75,873	(24,840)	384,204
Gross Profit	—	109,588	24,304	(606)	133,286
Operating Expenses					
Selling, general and administrative expenses	—	109,558	22,291	—	131,849
Transaction Expenses	—	718	—	—	718
Contingent consideration benefit	—	(4,629)	—	—	(4,629)
Loss (gain) on disposal of assets and other	—	159	(123)	—	36
Total operating expenses	—	105,806	22,168	—	127,974
Earnings (loss) from equity investment	—	(364)	85	—	(279)
Equity loss from affiliate, net of tax	(5,028)	(2,421)	—	7,449	—
Operating income (loss)	(5,028)	997	2,221	6,843	5,033
Other expense (income)					
Interest expense (income)	16,594	(81)	(109)	—	16,404
Foreign exchange and other losses (gains), net	—	(51)	182	—	131
Total other (income) expense, net	16,594	(132)	73	—	16,535
Income (loss) before income taxes	(21,622)	1,129	2,148	6,843	(11,502)
Income tax expense	—	6,157	3,963	—	10,120
Net loss	(21,622)	(5,028)	(1,815)	6,843	(21,622)
Other comprehensive income (loss), net of tax:					
Net loss	(21,622)	(5,028)	(1,815)	6,843	(21,622)
Change in foreign currency translation, net of tax of \$0	3,427	3,427	3,427	(6,854)	3,427
Loss on pension liability	(4)	(4)	(4)	8	(4)
Comprehensive income (loss)	\$ (18,199)	\$ (1,605)	\$ 1,608	\$ (3)	\$ (18,199)

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Condensed consolidating statements of comprehensive income (loss)

	Six Months Ended June 30, 2018				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	\$ —	\$ 460,076	\$ 91,740	\$ (27,582)	\$ 524,234
Cost of sales	—	336,395	75,699	(27,816)	384,278
Gross Profit	—	123,681	16,041	234	139,956
Operating Expenses					
Selling, general and administrative expenses	—	118,812	24,767	—	143,579
Transaction Expenses	—	1,388	7	—	1,395
Goodwill and intangible asset impairments	—	—	14,477	—	14,477
Loss (gain) on disposal of assets and other	—	(2,334)	634	—	(1,700)
Total operating expenses	—	117,866	39,885	—	157,751
Earnings (loss) from equity investment	—	5	(618)	—	(613)
Equity earnings from affiliate, net of tax	25,249	10,007	—	(35,256)	—
Operating income (loss)	25,249	15,827	(24,462)	(35,022)	(18,408)
Other expense (income)					
Interest expense (income)	15,864	374	(290)	—	15,948
Foreign exchange and other gains, net	—	(109)	(2,200)	—	(2,309)
(Gain) loss on contribution of subsea rentals business	—	5,856	(39,362)	—	(33,506)
Total other (income) expense, net	15,864	6,121	(41,852)	—	(19,867)
Income before taxes	9,385	9,706	17,390	(35,022)	1,459
Income tax expense (benefit)	(3,332)	(15,543)	7,617	—	(11,258)
Net income	12,717	25,249	9,773	(35,022)	12,717
Other comprehensive income (loss), net of tax:					
Net income	12,717	25,249	9,773	(35,022)	12,717
Change in foreign currency translation, net of tax of \$0	(12,348)	(12,348)	(12,348)	24,696	(12,348)
Gain on pension liability	71	71	71	(142)	71
Comprehensive income (loss)	\$ 440	\$ 12,972	\$ (2,504)	\$ (10,468)	\$ 440

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Condensed consolidating balance sheets

	June 30, 2019				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)					
Assets					
Current assets					
Cash and cash equivalents	\$ —	\$ 20,277	\$ 17,088	\$ —	\$ 37,365
Accounts receivable—trade, net	—	148,730	31,883	—	180,613
Inventories, net	—	396,518	80,253	(7,698)	469,073
Prepaid expenses and other current assets	—	30,230	1,290	—	31,520
Accrued revenue	—	376	497	—	873
Costs and estimated profits in excess of billings	—	4,037	4,401	—	8,438
Total current assets	—	600,168	135,412	(7,698)	727,882
Property and equipment, net of accumulated depreciation	—	151,462	20,084	—	171,546
Operating lease assets	—	33,973	19,985	—	53,958
Deferred financing costs, net	1,657	—	—	—	1,657
Intangible assets	—	304,866	37,054	—	341,920
Goodwill	—	434,029	37,437	—	471,466
Investment in unconsolidated subsidiary	—	858	43,679	—	44,537
Deferred income taxes, net	—	—	—	—	—
Other long-term assets	—	4,331	4,414	—	8,745
Investment in affiliates	876,161	266,720	—	(1,142,881)	—
Long-term advances to affiliates	626,446	—	97,481	(723,927)	—
Total assets	<u>\$ 1,504,264</u>	<u>\$ 1,796,407</u>	<u>\$ 395,546</u>	<u>\$ (1,874,506)</u>	<u>\$ 1,821,711</u>
Liabilities and equity					
Current liabilities					
Current portion of long-term debt	\$ —	\$ 1,143	\$ 26	\$ —	\$ 1,169
Accounts payable—trade	—	110,500	27,319	—	137,819
Accrued liabilities	6,650	30,554	37,774	—	74,978
Deferred revenue	—	2,651	5,395	—	8,046
Billings in excess of costs and profits recognized	—	1,567	717	—	2,284
Total current liabilities	6,650	146,415	71,231	—	224,296
Long-term debt, net of current portion	477,403	525	54	—	477,982
Deferred income taxes, net	—	4,632	15,480	—	20,112
Operating lease liabilities	—	32,255	20,951	—	53,206
Other long-term liabilities	—	12,492	13,412	—	25,904
Long-term payables to affiliates	—	723,927	—	(723,927)	—
Total liabilities	<u>484,053</u>	<u>920,246</u>	<u>121,128</u>	<u>(723,927)</u>	<u>801,500</u>
Total equity	1,020,211	876,161	274,418	(1,150,579)	1,020,211
Total liabilities and equity	<u>\$ 1,504,264</u>	<u>\$ 1,796,407</u>	<u>\$ 395,546</u>	<u>\$ (1,874,506)</u>	<u>\$ 1,821,711</u>

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Condensed consolidating balance sheets

	December 31, 2018				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Assets					
Current assets					
Cash and cash equivalents	\$ —	\$ 24,977	\$ 22,264	\$ —	\$ 47,241
Accounts receivable—trade, net	—	177,986	28,069	—	206,055
Inventories, net	—	416,237	69,878	(7,092)	479,023
Prepaid expenses and other current assets	—	23,585	92	—	23,677
Accrued revenue	—	—	862	—	862
Costs and estimated profits in excess of billings	—	6,202	2,957	—	9,159
Total current assets	—	648,987	124,122	(7,092)	766,017
Property and equipment, net of accumulated depreciation	—	156,434	20,924	—	177,358
Deferred financing costs, net	2,071	—	—	—	2,071
Intangible assets	—	320,056	38,992	—	359,048
Goodwill	—	433,415	36,232	—	469,647
Investment in unconsolidated subsidiary	—	1,222	43,760	—	44,982
Deferred income taxes, net	—	1,170	64	—	1,234
Other long-term assets	—	4,194	5,101	—	9,295
Investment in affiliates	877,764	265,714	—	(1,143,478)	—
Long-term advances to affiliates	674,220	—	98,532	(772,752)	—
Total assets	<u>\$ 1,554,055</u>	<u>\$ 1,831,192</u>	<u>\$ 367,727</u>	<u>\$ (1,923,322)</u>	<u>\$ 1,829,652</u>
Liabilities and equity					
Current liabilities					
Current portion of long-term debt	\$ —	\$ 1,150	\$ 17	\$ —	\$ 1,167
Accounts payable—trade	—	121,019	22,167	—	143,186
Accrued liabilities	6,873	40,913	33,246	—	81,032
Deferred revenue	—	4,742	3,593	—	8,335
Billings in excess of costs and profits recognized	—	84	3,126	—	3,210
Total current liabilities	6,873	167,908	62,149	—	236,930
Long-term debt, net of current portion	517,056	480	8	—	517,544
Deferred income taxes, net	—	—	15,299	—	15,299
Other long-term liabilities	—	12,288	17,465	—	29,753
Long-term payables to affiliates	—	772,752	—	(772,752)	—
Total liabilities	523,929	953,428	94,921	(772,752)	799,526
Total equity	1,030,126	877,764	272,806	(1,150,570)	1,030,126
Total liabilities and equity	<u>\$ 1,554,055</u>	<u>\$ 1,831,192</u>	<u>\$ 367,727</u>	<u>\$ (1,923,322)</u>	<u>\$ 1,829,652</u>

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Condensed consolidating statements of cash flows

	Six Months Ended June 30, 2019				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Cash flows from operating activities	\$ (7,138)	\$ 53,246	\$ (5,324)	\$ —	\$ 40,784
Cash flows from investing activities					
Capital expenditures for property and equipment	—	(8,452)	(819)	—	(9,271)
Proceeds from sale of business, property and equipment	—	425	—	—	425
Long-term loans and advances to affiliates	48,175	(606)	—	(47,569)	—
Net cash provided by (used in) investing activities	\$ 48,175	\$ (8,633)	\$ (819)	\$ (47,569)	\$ (8,846)
Cash flows from financing activities					
Borrowings of debt	82,000	—	—	—	82,000
Repayments of debt	(122,000)	(1,138)	55	—	(123,083)
Repurchases of stock	(1,037)	—	—	—	(1,037)
Long-term loans and advances from affiliates	—	(48,175)	606	47,569	—
Net cash provided by (used in) financing activities	\$ (41,037)	\$ (49,313)	\$ 661	\$ 47,569	\$ (42,120)
Effect of exchange rate changes on cash	—	—	306	—	306
Net decrease in cash, cash equivalents and restricted cash	—	(4,700)	(5,176)	—	(9,876)
Cash, cash equivalents and restricted cash at beginning of period	—	24,977	22,264	—	47,241
Cash, cash equivalents and restricted cash at end of period	\$ —	\$ 20,277	\$ 17,088	\$ —	\$ 37,365

Forum Energy Technologies, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Condensed consolidating statements of cash flows

	Six Months Ended June 30, 2018				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Cash flows from operating activities	\$ (34)	\$ (3,738)	\$ 1,985	\$ (23,950)	\$ (25,737)
Cash flows from investing activities					
Capital expenditures for property and equipment	—	(12,339)	(1,801)	—	(14,140)
Proceeds from sale of business, property and equipment	—	4,743	4,066	—	8,809
Long-term loans and advances to affiliates	43,049	(6,282)	—	(36,767)	—
Net cash provided by (used in) investing activities	\$ 43,049	\$ (13,878)	\$ 2,265	\$ (36,767)	\$ (5,331)
Cash flows from financing activities					
Borrowings of debt	50,000	—	—	—	50,000
Repayments of debt	(90,803)	(805)	(70)	—	(91,678)
Repurchases of stock	(2,212)	—	—	—	(2,212)
Long-term loans and advances to affiliates	—	(43,049)	6,282	36,767	—
Dividend paid to affiliates	—	—	(23,950)	23,950	—
Net cash used in financing activities	\$ (43,015)	\$ (43,854)	\$ (17,738)	\$ 60,717	\$ (43,890)
Effect of exchange rate changes on cash	—	—	(1,153)	—	(1,153)
Net decrease in cash, cash equivalents and restricted cash	—	(61,470)	(14,641)	—	(76,111)
Cash, cash equivalents and restricted cash at beginning of period	—	73,981	41,235	—	115,216
Cash, cash equivalents and restricted cash at end of period	\$ —	\$ 12,511	\$ 26,594	\$ —	\$ 39,105

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- business strategy;
- cash flows and liquidity;
- the volatility and impact of changes in oil and natural gas prices;
- the availability of raw materials and specialized equipment;
- our ability to accurately predict customer demand;
- customer order cancellations or deferrals;
- competition in the oil and natural gas industry;
- governmental regulation and taxation of the oil and natural gas industry, including the application of tariffs by governmental authorities;
- environmental liabilities;
- political, social and economic issues affecting the countries in which we do business;
- changes in relative activities of U.S. and international operations;
- 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;
- our ability to successfully manage our growth, including risks and uncertainties associated with integrating and retaining key employees of the businesses we acquire;
- benefits of our acquisitions;
- availability of key management personnel;
- availability of skilled and qualified labor;
- 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;
- financial strategy, budget, projections and operating results;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this report that are not historical.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We disclaim any obligation to update or revise these statements unless required by law, and you should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Quarterly Report on Form 10-Q are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 28, 2019, and elsewhere in this Quarterly Report on Form 10-Q. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Overview

We are a global oilfield products company, serving the drilling, downhole, subsea, completions, and production 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 frequently replaced consumable products and highly engineered capital products that are used in the exploration, development, production and transportation of oil and natural gas. Our consumable products are used in drilling, well construction and completions activities, within the supporting infrastructure, and at processing centers and refineries. Our engineered capital products are directed at: drilling rig equipment for new rigs, upgrades and refurbishment projects; subsea construction and development projects; pressure pumping equipment; the placement of production equipment on new producing wells; and downstream capital projects. For the six months ended June 30, 2019, approximately 86% of our revenue was derived from consumable products and activity-based equipment, while the balance was primarily derived from capital products with a small amount from rental and other services.

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

In the first quarter 2019, we changed our reporting segments in order to align with business activity drivers and the manner in which management reviews and evaluates operating performance. Forum now operates in the following three reporting segments: Drilling & Downhole, Completions and Production. This move better aligns with the key phases of the well cycle and provides improved operating efficiencies. Historically, we operated in three business segments: Drilling & Subsea, Completions, and Production & Infrastructure. We have moved the Downhole product line from Completions to Drilling & Subsea to form the new Drilling & Downhole segment. Completions retains the Stimulation & Intervention and Coiled Tubing product lines. Finally, we renamed Production & Infrastructure as the Production segment. Our historical results of operations have been recast to retrospectively reflect these changes in accordance with generally accepted accounting principles.

A summary of the products and services offered by each segment is as follows:

- *Drilling & Downhole segment.* This segment designs and manufactures products and provides related services to the drilling, well construction, artificial lift and subsea energy construction and services markets as well as other markets such as alternative energy, defense and communications. The products and related services consist primarily of: (i) capital equipment and a broad line of expendable drilling products consumed in the drilling process; (ii) well construction casing and cementing equipment, protectors for artificial lift equipment and cables used in completions, and composite plugs used for zonal isolation in hydraulic fracturing; and (iii) subsea remotely operated vehicles and trenchers, specialty components and tooling, products used in subsea pipeline infrastructure, and a broad suite of complementary subsea technical services and rental items.
- *Completions segment.* This segment designs, manufactures and supplies products and provides related services to the completion, stimulation and intervention markets. The products and related services consist primarily of: (i) capital and consumable products sold to the pressure pumping, hydraulic fracturing and flowback services markets, including hydraulic fracturing pumps, pump consumables, cooling systems and flow iron as well as wireline cable, and pressure control equipment used in the well completion and intervention service markets; and (ii) coiled tubing strings and coiled line pipe and related services.
- *Production segment.* This segment designs, manufactures and supplies products and provides related equipment and services for production and infrastructure markets. The products and related services consist primarily of: (i) engineered process systems, production equipment and related field services, as well as specialty separation equipment; and (ii) a wide range of industrial valves focused on serving upstream, midstream, and downstream oil and natural gas customers as well as power and other general industries.

Market Conditions

The level of demand for our products is directly related to activity levels and the capital and operating budgets of our customers, which in turn are heavily influenced by energy prices and expectations as to future price trends. In addition, the availability of existing capital equipment adequate to serve exploration and production requirements, or lack thereof, drives demand for our capital equipment products.

The probability of any cyclical change in energy prices and the extent and duration of such a change are difficult to predict. Oil prices strengthened through much of 2018, giving rise to higher drilling and completions activity and spending by our customers, primarily in North America. The volume of rigs drilling for oil and natural gas in North America and the level of hydraulic fracturing and other well completion activities are drivers for our revenue from this region. In the fourth quarter of 2018, oil prices declined significantly as a result of slowing growth in global oil demand and a surge in U.S. oil production. This decline in prices occurred during the time when oil and natural gas operators were establishing their 2019 capital expenditure budgets, resulting in lower levels of drilling and completions activity in the U.S. in 2019. As a result, oilfield service companies are reducing spending on new capital equipment by utilizing idle equipment and reducing the amount of consumable items in their inventories. This decrease in spending negatively impacts the demand for our products.

Drilling and completions activity for the U.S. onshore market has recovered significantly from the low point reached in the second quarter of 2016. Activity in international regions has lagged the U.S. onshore recovery; however, increases in certain international regions have started to materialize in 2019. Global offshore and subsea activity have recently seen a modest recovery but still remain at low levels compared to historical activity. Current demand for our drilling and completions capital equipment offerings remains far below the level achieved during the last newbuild cycle due to the oversupply of relatively new or recently upgraded equipment, especially onshore and offshore drilling rigs. In addition, publicly traded exploration and production and oilfield service companies are under pressure from their investors to live within their budgets and generate positive cash flow. This factor has contributed to recent declines in U.S. onshore completions activity and has led service companies to reduce capital expenditures and defer maintenance of existing equipment.

The revenue of our Valve Solutions product line is also influenced by energy prices, but to a lesser extent compared to our other product lines, resulting in more stable operating and financial results over time. Demand for valves from the oil and natural gas industry worldwide is driven by planned investments in global refinery and petrochemical projects, as well as the construction of additional pipeline capacity. While total demand for valves is relatively stable, our valve distribution customers have also been under pressure to produce positive free cash flow. This has led them to decrease the amount of valves in their inventories, causing what we believe to be a short term decrease in orders from our valve distribution customers until their inventories reach targeted levels.

The U.S. government has imposed tariffs on imports of selected products, including those sourced from China. In response, China and other countries have imposed retaliatory tariffs on a wide range of U.S. products, including those containing steel and aluminum. These tariffs have caused our cost of raw materials to increase, primarily in our Coiled Tubing and Valve Solutions product lines. In response, we are taking actions to mitigate the impact, including through the diversification of our supply chain.

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

	Three Months Ended		
	June 30,	March 31,	June 30,
	2019	2019	2018
Average global oil, \$/bbl			
West Texas Intermediate	\$ 59.88	\$ 54.82	\$ 68.07
United Kingdom Brent	\$ 69.04	\$ 63.10	\$ 74.53
Average North American Natural Gas, \$/Mcf			
Henry Hub	\$ 2.57	\$ 2.92	\$ 2.85

The price of oil has increased over the first half of 2019 with the spot prices for WTI and Brent increasing from \$45.15 and \$50.57 per barrel, respectively, as of December 31, 2018 to \$58.20 and \$67.52 per barrel, respectively, as of June 30, 2019. Average WTI and Brent oil prices in the second quarter of 2019 increased 9% compared to the first quarter of 2019, but were 12% and 7% lower, respectively, compared to the second quarter of 2018. In addition, average natural gas prices in the second quarter of 2019 were 12% lower compared to the first quarter of 2019 and 10% lower compared to the second quarter of 2018.

The table below shows the average number of active drilling rigs, based on the weekly Baker Hughes Incorporated rig count, operating by geographic area and drilling for different purposes.

	Three Months Ended		
	June 30,	March 31,	June 30,
	2019	2019	2018
Active Rigs by Location			
United States	989	1,043	1,039
Canada	82	183	108
International	1,109	1,030	968
Global Active Rigs	2,180	2,256	2,115
Land vs. Offshore Rigs			
Land	1,908	1,987	1,898
Offshore	272	269	217
Global Active Rigs	2,180	2,256	2,115
U.S. Commodity Target			
Oil/Gas	805	848	842
Gas	184	195	195
Unclassified	—	—	2
Total U.S. Active Rigs	989	1,043	1,039
U.S. Well Path			
Horizontal	868	919	914
Vertical	50	61	58
Directional	71	63	67
Total U.S. Active Rigs	989	1,043	1,039

A substantial portion of our revenue is impacted by the level of rig activity and the number of wells completed. The average U.S. rig count for the second quarter of 2019 was 5% lower compared to the first quarter of 2019 and the second quarter of 2018. Average activity levels for the remainder of 2019 are projected to remain below prior year levels.

The table below shows the amount of total orders by segment:

(in millions of dollars)	Three months ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2019	2019	2018	2019	2018
Drilling & Downhole	\$ 78.3	\$ 82.0	\$ 115.1	\$ 160.3	\$ 192.2
Completions	70.7	80.3	96.1	151.0	183.2
Production	75.6	79.9	98.8	155.5	195.6
Total Orders	\$ 224.6	\$ 242.2	\$ 310.0	\$ 466.8	\$ 571.0

Results of operations

Three months ended June 30, 2019 compared with three months ended June 30, 2018

	Three Months Ended June 30,		Change	
	2019	2018	\$	%
(in thousands of dollars, except per share information)				
Revenue:				
Drilling & Downhole	\$ 82,352	\$ 86,476	\$ (4,124)	(4.8)%
Completions	81,520	100,049	(18,529)	(18.5)%
Production	83,255	88,599	(5,344)	(6.0)%
Eliminations	(1,479)	(1,121)	(358)	*
Total revenue	245,648	274,003	(28,355)	(10.3)%
Operating income (loss):				
Drilling & Downhole	\$ 1,342	\$ (7,520)	\$ 8,862	117.8 %
<i>Operating margin %</i>	<i>1.6%</i>	<i>(8.7)%</i>		
Completions	2,841	14,190	(11,349)	(80.0)%
<i>Operating margin %</i>	<i>3.5%</i>	<i>14.2 %</i>		
Production	3,589	3,704	(115)	(3.1)%
<i>Operating margin %</i>	<i>4.3%</i>	<i>4.2 %</i>		
Corporate	(6,895)	(8,843)	1,948	22.0 %
Total segment operating income	877	1,531	(654)	(42.7)%
<i>Operating margin %</i>	<i>0.4%</i>	<i>0.6 %</i>		
Transaction expenses	125	59	66	*
Intangible asset impairments	—	14,477	(14,477)	*
Loss (gain) on disposal of assets and other	16	(1,303)	1,319	*
Operating income (loss)	736	(11,702)	12,438	106.3 %
Interest expense	8,223	7,861	362	4.6 %
Foreign exchange gains and other, net	(2,146)	(5,860)	3,714	*
Total other expense	6,077	2,001	4,076	203.7 %
Loss before income taxes	(5,341)	(13,703)	8,362	61.0 %
Income tax expense	8,393	1,646	6,747	409.9 %
Net loss	\$ (13,734)	\$ (15,349)	\$ 1,615	10.5 %
Weighted average shares outstanding				
Basic	109,987	108,714		
Diluted	109,987	108,714		
Loss per share				
Basic	\$ (0.12)	\$ (0.14)		
Diluted	\$ (0.12)	\$ (0.14)		

* not meaningful

We acquired two businesses in 2018. Therefore, our results of operations for the second quarter of 2019 may not be comparable to the results of operations for the second quarter of 2018. Refer to Note 4 *Acquisitions & Dispositions* for additional information.

Revenue

Our revenue for the three months ended June 30, 2019 was \$245.6 million, a decrease of \$28.4 million, or 10.3%, compared to the three months ended June 30, 2018. For the three months ended June 30, 2019, our Drilling & Downhole, Completions, and Production segments comprised 33.5%, 32.6%, and 33.9% of our total revenue, respectively, which compared to 31.6%, 36.1%, and 32.3% of total revenue, respectively, for the three months ended June 30, 2018. The changes in revenue by operating segment consisted of the following:

Drilling & Downhole segment — Revenue was \$82.4 million for the three months ended June 30, 2019, a decrease of \$4.1 million, or 4.8%, compared to the three months ended June 30, 2018. This change was driven by a \$9.1 million decrease in revenue for our Drilling product line, primarily due to lower sales volumes for our consumable products. This decline was partially offset by a \$2.7 million increase in revenue for our Subsea product line, primarily due to higher sales of non-oil and natural gas capital equipment and a \$2.2 million increase in revenue for our Downhole product line due to continued sales volume growth for our artificial lift products, including the revenue contribution from ESPCT which was acquired in the third quarter of 2018.

Completions segment — Revenue was \$81.5 million for the three months ended June 30, 2019, a decrease of \$18.5 million, or 18.5%, compared to the three months ended June 30, 2018. This change includes a \$13.6 million decrease in revenue for our Stimulation and Intervention product line attributable to lower capital spending by our pressure pumping service customers, partially offset by the revenue contribution from GHT, which was acquired in the fourth quarter of 2018. The remaining decline was driven by a \$4.9 million decrease in sales volumes for our Coiled Tubing product line.

Production segment — Revenue was \$83.3 million for the three months ended June 30, 2019, a decrease of \$5.3 million, or 6.0%, compared to the three months ended June 30, 2018. This decrease was primarily driven by a \$3.1 million decline in sales volumes of our valve products, particularly sales into the North America oil and natural gas market, and a \$2.3 million decrease in sales for our Production Equipment product line as a result of lower sales volumes of our oil treatment equipment used in downstream applications.

Segment operating income and segment operating margin percentage

Segment operating income for the three months ended June 30, 2019 was \$0.9 million, a decline of \$0.7 million compared to the three months ended June 30, 2018. For the three months ended June 30, 2019, segment operating margin percentage was 0.4% compared to 0.6% for the three months ended June 30, 2018. The segment operating margin percentage is calculated by dividing segment operating income by revenue for the period. The change in operating margin for each segment is explained as follows:

Drilling & Downhole segment — The operating margin percentage for this segment was 1.6% for the three months ended June 30, 2019 compared to (8.7)% for the three months ended June 30, 2018. The improvement in operating margins is attributable to a more favorable sales mix and lower selling, general and administration expenses including a decrease in employee related costs as a result of cost reduction actions and a \$2.2 million reduction in amortization expense following intangible asset impairments recognized in the fourth quarter of 2018.

Completions segment — The operating margin percentage for this segment was 3.5% for the three months ended June 30, 2019 compared to 14.2% for the three months ended June 30, 2018. The decline in operating margin percentage is due to decreased operating leverage on lower sales volumes of our well stimulation products. In addition, the three months ended June 30, 2019 includes incremental costs from steel tariffs in our Coiled Tubing product line and incremental selling, general and administrative expenses following the fourth quarter 2018 acquisition of GHT.

Production segment — The operating margin percentage for this segment was 4.3% for the three months ended June 30, 2019 which was consistent with the comparable three months ended June 30, 2018. Segment operating margins have been negatively impacted by incremental cost from steel tariffs in our Valves product line, offset by a reduction in selling, general and administrative expenses, primarily lower employee related costs as a result of cost reduction actions.

Corporate — Selling, general and administrative expenses for Corporate decreased by \$1.9 million, or 22.0%, to \$6.9 million for the three months ended June 30, 2019 compared to \$8.8 million for the three months ended June 30, 2018. This decrease was primarily attributable to lower employee related costs and a decrease in professional fees. Corporate costs include, among other items, payroll related costs for management, administration, finance, legal, and human resources personnel; professional fees for legal, accounting and related services; and marketing costs.

Other items not included in segment operating income (loss)

Several items are not included in segment operating income (loss), but are included in total operating income (loss). These items include transaction expenses, intangible asset impairments, and gain on the disposal of assets and other. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses and are not considered to be part of segment operating income (loss). In the second quarter of 2018, we made the decision to exit specific products within the Subsea and Downhole product lines. As a result, we recognized \$14.5 million of impairment losses on certain intangible assets (primarily customer relationships).

Other income and expense

Other income and expense includes interest expense and foreign exchange gains and other, net. We incurred \$8.2 million of interest expense during the three months ended June 30, 2019, an increase of \$0.4 million from the three months ended June 30, 2018.

The foreign exchange gains are primarily the result of movements in the British pound and the Euro relative to the U.S. dollar. These movements in exchange rates create foreign exchange gains or losses when applied to monetary assets or liabilities denominated in currencies other than the location's functional currency, primarily U.S. dollar denominated cash, trade account receivables and net intercompany receivable balances for our entities using a functional currency other than the U.S. dollar.

Taxes

We recorded tax expense of \$8.4 million for the three months ended June 30, 2019, compared to a tax expense of \$1.6 million for the three months ended June 30, 2018. Tax expense for the three months ended June 30, 2019 includes an increase in our valuation allowance of \$5.9 million to write down our deferred tax assets in the U.S. and Saudi Arabia. In addition, the estimated annual effective tax rate for the three months ended June 30, 2019 is different than the comparable period in 2018 primarily due to losses in jurisdictions where the recording of a tax benefit is not available. Furthermore, the tax expense or benefit recorded can vary from period to period depending on the Company's relative mix of U.S. and non-U.S. earnings and losses by jurisdiction.

Six months ended June 30, 2019 compared with six months ended June 30, 2018

	Six Months Ended June 30,		Favorable / (Unfavorable)	
	2019	2018	\$	%
(in thousands of dollars, except per share information)				
Revenue:				
Drilling & Downhole	\$ 168,292	\$ 163,340	\$ 4,952	3.0 %
Completions	176,179	188,103	(11,924)	(6.3)%
Production	175,250	175,020	230	0.1 %
Eliminations	(2,231)	(2,229)	(2)	*
Total revenue	517,490	524,234	(6,744)	(1.3)%
Operating income (loss):				
Drilling & Downhole	(1,157)	(17,830)	16,673	93.5 %
<i>Operating margin %</i>	<i>(0.7)%</i>	<i>(10.9)%</i>		
Completions	9,692	23,151	(13,459)	(58.1)%
<i>Operating margin %</i>	<i>5.5 %</i>	<i>12.3 %</i>		
Production	7,924	7,866	58	0.7 %
<i>Operating margin %</i>	<i>4.5 %</i>	<i>4.5 %</i>		
Corporate	(15,301)	(17,423)	2,122	12.2 %
Total segment operating income (loss)	1,158	(4,236)	5,394	127.3 %
<i>Operating margin %</i>	<i>0.2 %</i>	<i>(0.8)%</i>		
Transaction expenses	718	1,395	677	48.5 %
Intangible asset impairments	—	14,477	14,477	*
Contingent consideration benefit	(4,629)	—	4,629	*
Loss (gain) on disposal of assets and other	36	(1,700)	(1,736)	*
Operating income (loss)	5,033	(18,408)	23,441	127.3 %
Interest expense	16,404	15,948	(456)	(2.9)%
Foreign exchange losses (gains) and other, net	131	(2,309)	(2,440)	(105.7)%
Gain on contribution of subsea rentals business	—	(33,506)	(33,506)	*
Total other (income) expense, net	16,535	(19,867)	(36,402)	*
Income (loss) before income taxes	(11,502)	1,459	(12,961)	(888.3)%
Income tax expense (benefit)	10,120	(11,258)	(21,378)	(189.9)%
Net income (loss)	\$ (21,622)	\$ 12,717	\$ (34,339)	(270.0)%
Weighted average shares outstanding				
Basic	109,816	108,569		
Diluted	109,816	110,821		
Earnings (loss) per share				
Basic	\$ (0.20)	\$ 0.12		
Diluted	\$ (0.20)	\$ 0.11		

* not meaningful

We acquired two businesses in 2018. Therefore, our results of operations for the six months ended June 30, 2019 may not be comparable to historical results of operations for the six months ended June 30, 2018. Refer to Note 4 *Acquisitions & Dispositions* for additional information.

Revenue

Our revenue for the six months ended June 30, 2019 was \$517.5 million, a decrease of \$6.7 million, or 1.3%, compared to the six months ended June 30, 2018. For the six months ended June 30, 2019, our Drilling & Downhole, Completions, and Production segments comprised 32.5%, 33.6%, and 33.9% of our total revenue, respectively, which compared to 31.2%, 35.4%, and 33.4% of total revenue, respectively, for the six months ended June 30, 2018. The changes in revenue by operating segment consisted of the following:

Drilling & Downhole segment — Revenue was \$168.3 million for the six months ended June 30, 2019, an increase of \$5.0 million, or 3.0%, compared to the six months ended June 30, 2018. This change includes an \$8.1 million increase in revenue for our Downhole product line due to continued sales volume growth for our artificial lift products, including the revenue contribution from ESPCT which was acquired in the third quarter of 2018. Revenue for our Subsea product line increased by \$6.8 million primarily due to higher sales of ROVs and other subsea capital equipment in the six months ended June 30, 2019. These increases were partially offset by a \$9.9 million decrease in revenues for our Drilling product line primarily due to lower sales volumes for our consumable products.

Completions segment — Revenue was \$176.2 million for the six months ended June 30, 2019, a decrease of \$11.9 million, or 6.3%, compared to the six months ended June 30, 2018. This decline was driven by a \$13.4 million decrease in revenue for our Stimulation and Intervention product line attributable to lower capital spending by our pressure pumping service customers partially offset by the revenue contribution from GHT, which was acquired in the fourth quarter of 2018, and a \$1.5 million increase in revenue for our Coiled Tubing product line due to higher sales into international markets.

Production segment — Revenue was \$175.3 million for the six months ended June 30, 2019, an increase of \$0.2 million, or 0.1%, compared to the six months ended June 30, 2018. The increase was primarily driven by a \$2.9 million increase in sales for our Production Equipment product line as a result of higher sales volumes of surface production equipment to oil and natural gas operators. This increase was partially offset by a \$2.6 million decline in sales volumes of valve products, particularly sales into the North America oil and natural gas market.

Segment operating income (loss) and segment operating margin percentage

Segment operating income for the six months ended June 30, 2019 was \$1.2 million, an improvement of \$5.4 million compared to the six months ended June 30, 2018. For the six months ended June 30, 2019, segment operating margin percentage was 0.2% compared to (0.8)% for the six months ended June 30, 2018. The segment operating margin percentage is calculated by dividing segment operating income (loss) by revenue for the period. The change in operating margin percentage for each segment is explained as follows:

Drilling & Downhole segment — The operating margin percentage for this segment was (0.7)% for the six months ended June 30, 2019 compared to (10.9)% for the six months ended June 30, 2018. The improvement in operating margins is attributable to increased operating leverage and a more favorable sales mix on the higher sales volumes described above. In addition, segment operating margins increased due to lower selling, general and administrative expenses as a result of a \$4.4 million reduction in amortization expense following intangible asset impairments recognized in the fourth quarter of 2018 and lower employee related costs as a result of cost reduction actions.

Completions segment — The operating margin percentage for this segment was 5.5% for the six months ended June 30, 2019 compared to 12.3% for the six months ended June 30, 2018. The decline in operating margin percentage is due to decreased operating leverage on lower sales volumes of our well stimulation products. In addition, the six months ended June 30, 2019 includes incremental costs from steel tariffs in our Coiled Tubing product line and incremental selling, general and administrative expenses following the fourth quarter 2018 acquisition of GHT.

Production segment — The operating margin percentage for this segment was 4.5% for the six months ended June 30, 2019 which was consistent with the comparable six months ended June 30, 2018. Segment operating margins have been negatively impacted by incremental cost from steel tariffs in our Valves product line, offset by a reduction in selling, general and administrative expenses, primarily lower employee related costs as a result of cost reduction actions.

Corporate — Selling, general and administrative expenses for Corporate were \$15.3 million for the six months ended June 30, 2019, a decrease of \$2.1 million, or 12.2%, compared to the six months ended June 30, 2018. This decrease was primarily attributable to lower employee related costs and a decrease in professional fees, partially offset by an increase in employee severance costs. Corporate costs include, among other items, payroll related costs for management, administration, finance, legal, and human resources personnel; professional fees for legal, accounting and related services; and marketing costs.

Other items not included in segment operating income (loss)

Several items are not included in segment operating income (loss), but are included in total operating income (loss). These items include transaction expenses, intangible asset impairments, contingent consideration benefit and gains on the disposal of assets and other. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses and are not considered to be part of segment operating income (loss). These costs were \$0.7 million for the six months ended June 30, 2019 and \$1.4 million for the six months ended June 30, 2018.

In the second quarter of 2018, we made the decision to exit specific products within the Subsea and Downhole product lines. As a result, we recognized \$14.5 million of impairment losses on certain intangible assets (primarily customer relationships).

The contingent consideration benefit relates to a gain of \$4.6 million recognized in the first quarter of 2019 due to reducing the estimated fair value of the contingent cash liability associated with the acquisition of GHT. Refer to Note 4 *Acquisitions & Dispositions* for additional information.

Other income and expense

Other income and expense includes interest expense, foreign exchange losses (gains) and a gain recognized on the contribution of our subsea rentals business. We incurred \$16.4 million of interest expense during the six months ended June 30, 2019, an increase of \$0.5 million from the six months ended June 30, 2018 primarily due to an increase in average outstanding borrowings under our revolving line of credit.

The foreign exchange losses (gains) are primarily the result of movements in the British pound and the Euro relative to the U.S. dollar. These movements in exchange rates create foreign exchange gains or losses when applied to monetary assets or liabilities denominated in currencies other than the location's functional currency, primarily U.S. dollar denominated cash, trade account receivables and net intercompany receivable balances for our entities using a functional currency other than the U.S. dollar.

In the first quarter of 2018, we recognized a gain of \$33.5 million as a result of the deconsolidation of our Forum Subsea Rentals business. Refer to Note 4 *Acquisitions & Dispositions* for additional information.

Taxes

We recorded a tax expense of \$10.1 million for the six months ended June 30, 2019, compared to a tax benefit of \$11.3 million for the six months ended June 30, 2018. Tax expense for the three months ended June 30, 2019 includes an increase in our valuation allowance of \$5.9 million to write down our deferred tax assets in the U.S. and Saudi Arabia. The tax benefit for the six months ended June 30, 2018 included a \$15.9 million tax benefit related to an adjustment of the provisional tax impact of U.S. tax reform. See Note 9 *Income Taxes* for additional information on the impact of U.S. Tax Reform. In addition, the estimated annual effective tax rate for 2019 is significantly different than the comparable period in 2018 primarily due to losses in jurisdictions where the recording of a tax benefit is not available. Furthermore, the tax benefit or expense recorded can vary from period to period depending on the Company's relative mix of U.S. and non-U.S. earnings and losses by jurisdiction.

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 include trade credit and our Credit Facility and Senior Notes described below. Our primary uses of capital have been for inventories, sales on credit to our customers and ongoing maintenance and growth capital expenditures. 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 generating positive operating cash flow and access outside sources of capital. Based on existing market conditions and our expected liquidity needs, among other factors, we may use a portion of our cash flows from operations, proceeds from divestitures, securities offerings or borrowings to reduce debt prior to scheduled maturities or to repay bank borrowings.

At June 30, 2019, we had cash and cash equivalents of \$37.4 million, availability under our Credit Facility of \$205.1 million and total debt of \$479.2 million. Our 2019 capital expenditures consist of, among other items, investments in certain manufacturing facilities, replacing end of life machinery and equipment, and continuing the implementation of our enterprise resource planning solution globally. We believe that cash on hand, cash generated from operations and availability under our Credit Facility will be sufficient to fund operations, working capital needs, and capital expenditure requirements for the foreseeable future.

In 2018, we expanded and diversified our product portfolio with the acquisition of two businesses for total consideration of \$65.3 million. We did not have any acquisitions in the first half of 2019. For additional information, see Note 4 *Acquisitions & Dispositions*. We may pursue acquisitions in the future, which may be funded with cash and/or equity. Our ability to make significant additional acquisitions for cash may require us to pursue additional equity or debt financing, which we may not be able to obtain on terms acceptable to us or at all.

Our cash flows for the six months ended June 30, 2019 and 2018 are presented below (in millions):

	Six Months Ended June 30,	
	2019	2018
Net cash provided by (used in) operating activities	\$ 40.8	\$ (25.7)
Net cash used in investing activities	(8.8)	(5.3)
Net cash used in financing activities	(42.1)	(43.9)
Effect of exchange rate changes on cash	0.2	(1.2)
Net decrease in cash, cash equivalents and restricted cash	\$ (9.9)	\$ (76.1)

Net cash provided by (used in) operating activities

Net cash provided by operating activities was \$40.8 million for the six months ended June 30, 2019 compared to \$25.7 million of cash used in operating activities for the six months ended June 30, 2018. This improvement is primarily attributable to changes in working capital which provided cash of \$13.7 million for the six months ended June 30, 2019 compared to a \$55.2 million use of cash for the same period in 2018.

Net cash used in investing activities

Net cash used in investing activities was \$8.8 million for the six months ended June 30, 2019 compared to \$5.3 million used in investing activities for the same period in 2018. Net cash used in investing activities for the six months ended June 30, 2019 includes \$9.3 million of capital expenditures for property and equipment. In comparison, net cash used in investing activities for the six months ended June 30, 2018 included \$14.1 million of capital expenditures for property and equipment offset by \$8.8 million of proceeds from the sale of business, property and equipment.

Net cash used in financing activities

Net cash used in financing activities was \$42.1 million and \$43.9 million for the six months ended June 30, 2019 and 2018, respectively. Net cash used in financing activities includes approximately \$41.1 million of net repayments of debt for the six months ended June 30, 2019 compared to \$41.7 million for the same period in 2018.

Senior Notes Due 2021

Our Senior Notes have \$400.0 million principal amount outstanding which 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. The Senior Notes are senior unsecured obligations guaranteed on a senior unsecured basis by our subsidiaries that guarantee the Credit Facility and rank junior to, among other indebtedness, the Credit Facility to the extent of the value of the collateral securing the Credit Facility.

Credit Facility

On October 30, 2017, we amended and restated our Credit Facility to, among other things, increase revolving credit commitments from \$140.0 million to \$300.0 million, including up to \$30.0 million available to certain Canadian subsidiaries of the Company for loans in United States or Canadian dollars, \$25.0 million available for letters of credit issued for the account of the Company and certain of its domestic subsidiaries and \$3.0 million available for letters of credit issued for the account of Canadian subsidiaries of the Company. Availability under the Credit Facility is subject to a borrowing base calculated by reference to eligible accounts receivable in the United States, Canada and certain other jurisdictions (subject to a cap) and eligible inventory in the United States and Canada. Our borrowing capacity under the Credit Facility could be reduced or eliminated, depending on future fluctuations in our receivables and inventory. The Credit Facility matures in July 2021, but if our outstanding Notes due October 2021 are refinanced or replaced with indebtedness maturing in or after February 2023, the final maturity of the Credit Facility will automatically extend to October 2022.

If excess availability under the Credit Facility falls below the greater of 10.0% of the borrowing base and \$20.0 million, we will be required to maintain a fixed charge coverage ratio of at least 1.00:1.00 as of the end of each fiscal quarter until excess availability under the Credit Facility exceeds such thresholds for at least 60 consecutive days.

Off-balance sheet arrangements

As of June 30, 2019, we had no off-balance sheet instruments or financial arrangements, other than letters of credit entered into in the ordinary course of business. Operating leases were excluded from our balance sheet as of December 31, 2018, but are included in the balance sheet as of June 30, 2019 following the January 1, 2019 adoption of ASC 842. For additional information, refer to Note 2 *Recent Accounting Pronouncements* and Note 8 *Leases*.

Contractual obligations

Except for net repayments under the Credit Facility, as of June 30, 2019, there have been no material changes in our contractual obligations and commitments disclosed in our 2018 Annual Report on Form 10-K.

Critical accounting policies and estimates

There have been no material changes in our critical accounting policies and procedures during the six months ended June 30, 2019. For a detailed discussion of our critical accounting policies and estimates, refer to our 2018 Annual Report on Form 10-K. For recent accounting pronouncements, refer to Note 2 *Recent Accounting Pronouncements*.

Item 3. Quantitative and qualitative disclosures about market risk

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

There have been no significant changes to our market risk since December 31, 2018. For a discussion of our exposure to market risk, refer to Part II, Item 7(a), "Quantitative and Qualitative Disclosures About Market Risk," in our 2018 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures have been designed 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.

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 June 30, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2019.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Information related to Item 1. Legal Proceedings is included in Note 12 *Commitments and Contingencies*, which is incorporated herein by reference.

Item 1A. Risk Factors

For additional information about our risk factors, see "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

Following is a summary of our repurchases of our common stock during the three months ended June 30, 2019.

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 (b)	Maximum value of shares that may yet be purchased under the plan or program (in thousands) (b)
April 1, 2019 - April 30, 2019	—	\$ —	—	\$ 49,752
May 1, 2019 - May 31, 2019	—	\$ —	—	\$ 49,752
June 1, 2019 - June 30, 2019	—	\$ —	—	\$ 49,752
Total	—	\$ —	—	—

(a) No shares were purchased during the three months ended June 30, 2019.

(b) In October 2014, our board of directors approved a program for the repurchase of outstanding shares of our common stock with an aggregate purchase amount of up to \$150 million. From the inception of this program through June 30, 2019, we have repurchased approximately 4.5 million shares of our common stock for aggregate consideration of approximately \$100.2 million. Remaining authorization under this program is \$49.8 million.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

We are hereby correcting a typographical error that appeared in our proxy statement, dated April 2, 2019, concerning the deadline, under our bylaws, for stockholders to give timely notice of business and director nominations to be brought before our 2020 annual meeting of stockholders. The error appeared in the section of our proxy statement titled "Additional Information - Stockholder Proposals for the 2020 Annual Meeting," and the corrected deadline is as follows:

For notice to be timely, it must be delivered to our Secretary at our principal executive offices no later than close of business on the 90th day prior to the anniversary of the prior year's annual meeting date but not earlier than the 120th day prior to such anniversary. Accordingly, for the 2020 Annual Meeting of stockholders, notice will have to be delivered to our Secretary at our principal offices no earlier than January 15, 2020 or later than February 14, 2020.

Item 6. Exhibits

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

*Filed herewith.

**Furnished herewith.

SIGNATURES

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

FORUM ENERGY TECHNOLOGIES, INC.

Date: July 31, 2019

By: /s/ Pablo G. Mercado

Pablo G. Mercado

Senior Vice President, Chief Financial Officer and Treasurer

(As Duly Authorized Officer and Principal Financial Officer)

By: /s/ Tylar K. Schmitt

Tylar K. Schmitt

Vice President and Chief Accounting Officer

(As Duly Authorized Officer and Principal Accounting Officer)

**Forum Energy Technologies, Inc.
Certification**

I, C. Christopher Gaut, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: July 31, 2019

By: /s/ C. Christopher Gaut

C. Christopher Gaut

President, Chief Executive Officer and Chairman of the Board

**Forum Energy Technologies, Inc.
Certification**

I, Pablo G. Mercado, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: July 31, 2019

By: /s/ Pablo G. Mercado

Pablo G. Mercado

Senior Vice President, Chief Financial Officer and Treasurer

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 Quarterly Report on Form 10-Q of Forum Energy Technologies, Inc. (the "Company") for the quarter ended June 30, 2019, 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.

Date: July 31, 2019

By: /s/ C. Christopher Gaut

C. Christopher Gaut

President, Chief Executive Officer and Chairman of the Board

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 Quarterly Report on Form 10-Q of Forum Energy Technologies, Inc. (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Pablo G. Mercado, 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.

Date: July 31, 2019

By: /s/ Pablo G. Mercado

Pablo G. Mercado

Senior Vice President, Chief Financial Officer and Treasurer

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.