Frank's International N.V.
Form 10-Q
August 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______
Commission file number: 001-36053

Frank's International N.V.
(Exact name of registrant as specified in its charter)

The Netherlands (State or other jurisdiction of incorporation or organization)	98-1107145 (IRS Employer Identification number)
Prins Bernhardplein 200 1097 JB Amsterdam, The Netherlands (Address of principal executive offices)	Not Applicable (Zip Code)

Registrant's telephone number, including area code: +31 (0)20 693 8597
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	þ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ
As of August 6, 2014, there were 153,524,000 shares of common stock, €0.01 par value per share, outstanding.

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Item 1. Financial Statements
FRANK'S INTERNATIONAL N.V.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$443,676	$404,947
Accounts receivables, net	360,295	364,817
Inventories	213,522	185,589
Other current assets	15,531	15,843
Total current assets	1,033,024	971,196
Property, plant and equipment, net	546,033	511,199
Goodwill and intangible assets, net	14,520	14,814
Other assets	64,477	63,986
Total assets	$1,658,054	$1,561,195
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	$340	$376
Accounts payable	15,745	22,254
Deferred revenue	69,918	62,610
Accrued and other current liabilities	95,343	90,484
Total current liabilities	181,346	175,724
Deferred tax liabilities	15,315	13,114
Other non-current liabilities	41,234	38,325
Total liabilities	237,895	227,163
Commitments and contingencies (Note 15)		
Series A preferred stock, €0.01 par value, 52,976,000 shares authorized, issued and outstanding	705	705
Stockholders' equity:		
Common stock, €0.01 par value, 745,120,000 shares authorized; 153,524,000 shares issued and outstanding	2,019	2,019
Additional paid-in capital	662,400	642,164
Retained earnings	509,681	455,632
Accumulated other comprehensive loss	(1,838)	(2,383)
Total stockholders' equity	1,172,262	1,097,432
Noncontrolling interest	247,192	235,895
Total equity	1,419,454	1,333,327
Total liabilities and equity	$1,658,054	$1,561,195

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

FRANK'S INTERNATIONAL N.V.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Equipment rentals and services	$231,838	$234,649	$452,651	$440,513
Products	41,099	58,326	84,778	85,035
Total revenue	272,937	292,975	537,429	525,548
Operating expenses:				
Cost of revenues, exclusive of depreciation and amortization				
Equipment rentals and services	90,029	82,061	174,020	149,638
Products	26,261	36,060	52,290	60,153
General and administrative expenses	71,760	51,987	131,211	95,912
Depreciation and amortization	21,895	19,013	43,088	36,706
(Gain) loss on sale of assets	154	(79)	(87)	(56)
Operating income	62,838	103,933	136,907	183,195
Other income (expense):				
Other income	2,918	5,280	5,289	7,407
Interest income (expense), net	80	(461)	36	(663)
Foreign currency gain (loss)	65	(1,688)	—	(5,275)
Total other income (expense)	3,063	3,131	5,325	1,469
Income from continuing operations before income tax expense	65,901	107,064	142,232	184,664
Income tax expense	15,852	6,081	31,821	12,384
Income from continuing operations	50,049	100,983	110,411	172,280
Income from discontinued operations, net of tax	—	40,887	—	42,635
Net income	50,049	141,870	110,411	214,915
Net income attributable to noncontrolling interest	14,833	36,506	33,332	55,351
Net income attributable to Frank's International N.V.	$35,216	$105,364	$77,079	$159,564
Basic earnings per common share:				
Continuing operations	$0.23	$0.63	$0.50	$1.07
Discontinued operations	—	0.26	—	0.27
Total	$0.23	$0.89	$0.50	$1.34
Diluted earnings per common share:				
Continuing operations	$0.23	$0.59	$0.50	$1.00
Discontinued operations	—	0.23	—	0.25
Total	$0.23	$0.82	$0.50	$1.25
Weighted average common shares outstanding:				
Basic	153,524	119,024	153,524	119,024

Diluted	207,822	172,000	207,641	172,000

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

FRANK'S INTERNATIONAL N.V.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$50,049	$141,870	$110,411	$214,915
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	948	(3,056)	891	(7,332)
Unrealized gain (loss) on marketable securities, net of tax	215	(513)	(157)	(320)
Total other comprehensive income (loss)	1,163	(3,569)	734	(7,652)
Comprehensive income	51,212	138,301	111,145	207,263
Less: Comprehensive income attributable to noncontrolling interest	15,131	35,591	33,521	53,388
Comprehensive income attributable to Frank's International N.V.	$36,081	$102,710	$77,624	$153,875

The accompanying notes are an integral part of these consolidated financial statements.
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FRANK'S INTERNATIONAL N.V.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

Six Months Ended June 30, 2013

	Common Stock Shares	Common Stock Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
Balances at December 31, 2012	119,024	$1,561	$651	$327,436	$ 3,254	$ 114,086	$446,988
Net income	—	—	—	159,564	—	55,351	214,915
Foreign currency translation adjustments	—	—	—	—	(5,451)	(1,881)	(7,332)
Unrealized loss on marketable securities	—	—	—	—	(238)	(82)	(320)
Distributions to stockholders	—	—	—	(78,340)	—	(27,027)	(105,367)
Balances at June 30, 2013	119,024	$1,561	$651	$408,660	$ (2,435)	$ 140,447	$548,884

Six Months Ended June 30, 2014

	Common Stock Shares	Common Stock Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
Balances at December 31, 2013	153,524	$2,019	$642,164	$455,632	$ (2,383)	$ 235,895	$1,333,327
Net income	—	—	—	77,079	—	33,332	110,411
Foreign currency translation adjustments	—	—	—	—	662	229	891
Unrealized loss on marketable securities	—	—	—	—	(117)	(40)	(157)
Stock-based compensation expense	—	—	20,236	—	—	—	20,236
Distribution to noncontrolling interest	—	—	—	—	—	(22,224)	(22,224)
Common stock dividends ($0.15 per share)	—	—	—	(23,029)	—	—	(23,029)
Preferred stock dividends	—	—	—	(1)	—	—	(1)
Balances at June 30, 2014	153,524	$2,019	$662,400	$509,681	$ (1,838)	$ 247,192	$1,419,454

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

FRANK'S INTERNATIONAL N.V.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities		
Net income	$110,411	$214,915
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	43,088	36,851
Stock-based compensation expense	20,236	—
Amortization of deferred financing costs	172	—
Venezuelan currency devaluation charge	—	1,755
Deferred tax provision	3,021	(1,201)
Provision for (recovery of) bad debts	(222)	3,757
Gain on sale of assets	(87)	(39,686)
Changes in fair value of marketable securities	(1,305)	(1,289)
Increase in value of life insurance policies	—	(815)
Changes in operating assets and liabilities		
Accounts receivable	4,371	(58,599)
Inventories	(40,178)	(48,173)
Other current assets	1,826	(2,095)
Other assets	1,556	(566)
Accounts payable	411	(150)
Deferred revenue	7,307	36,803
Accrued expenses and other current liabilities	8,432	4,449
Other noncurrent liabilities	2,906	3,998
Net cash provided by operating activities	161,945	149,954
Cash flows from investing activities		
Purchases of property, plant and equipment	(77,722)	(87,468)
Proceeds from sale of assets and equipment	2,489	50,253
Purchase of marketable securities	(1,539)	(1,024)
Premiums on life insurance policies	—	(2,366)
Net cash used in investing activities	(76,772)	(40,605)
Cash flows from financing activities		
Repayments of borrowings	(36)	(53,404)
Dividends paid on common stock	(23,029)	—
Dividends paid on preferred stock	(1)	—
Distribution to noncontrolling interest	(22,224)	—
Distributions to stockholders	—	(105,367)
Net cash used in financing activities	(45,290)	(158,771)
Effect of exchange rate changes on cash due to Venezuelan devaluation	—	575
Effect of exchange rate changes on cash	(1,154)	1,909
Net increase (decrease) in cash	38,729	(46,938)
Cash and cash equivalents at beginning of period	404,947	152,945
Cash and cash equivalents at end of period	$443,676	$106,007

The accompanying notes are an integral part of these consolidated financial statements.
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FRANK’S INTERNATIONAL N.V.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Basis of Presentation

Nature of Business

Frank’s International is a global provider of highly engineered tubular services to the oil and gas industry. Frank’s International provides services to leading exploration and production companies in both offshore and onshore environments with a focus on complex and technically demanding wells.

Basis of Presentation

The consolidated financial statements of Frank's International N.V. ("FINV"), a limited liability company organized under the laws of The Netherlands, for the three and six months ended June 30, 2014 and 2013 include the activities of Frank's International C.V. ("FICV") and its wholly owned subsidiaries (collectively, the "Company," "we," "us" or "our"). All intercompany accounts and transactions have been eliminated for purposes of preparing these consolidated financial statements.

Certain information and footnote disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2013, which are included in our Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC") on March 4, 2014. In the opinion of management, these financial statements, which have been prepared pursuant to the rules of the SEC and GAAP for interim financial reporting, reflect all adjustments, which consisted only of normal recurring adjustments, that were necessary for a fair statement of the interim periods presented. The results of operations for interim periods are not necessarily indicative of those for a full year.

The consolidated financial statements have been prepared on a historical cost basis using the United States dollar as the reporting currency. Our functional currency is primarily the United States dollar.

Reclassifications

In reporting periods prior to the fourth quarter of 2013, certain costs of equipment rentals and services and product sales were misclassified between the two line items. There was no impact to previously reported operating income, income from continuing operations, net income, earnings per share or cash flow. Corrections have been made to the relevant period presented in the financial statements included herein. These corrections resulted in reductions of cost of equipment rentals and services with corresponding increases to cost of products of $3.8 million and $11.5 million for the three months and six months ended June 30, 2013.

We have evaluated and concluded that the identified amount was not material to our previously filed quarterly financial statements.

Out-Of-Period Adjustment

During our review of the three months ended June 30, 2014, we identified a non-cash error that originated in prior periods. The error related to the attribution of the cost of share-based compensation to the requisite service periods of retirement-eligible employees. Awards made pursuant to the 2013 Long-Term Incentive Plan generally provided that the awards vest if the employee retires. The requisite service period for awards does not extend beyond the date on which an employee becomes eligible to retire, which causes the requisite service period to be either two years or the period from grant date to the date on which each employee becomes retirement eligible. In the second quarter of 2014, we discovered that share-based compensation expense related to retirement-eligible employees was cumulatively understated through the first quarter of 2014 by approximately $7.5 million. Because the errors were immaterial both in the periods in which they arose and in which they were corrected, the correction was recorded as an out-of-period adjustment in the second quarter of 2014 and is included in general and administrative expenses on the consolidated statements of income.

FRANK’S INTERNATIONAL N.V.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Recent Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASUs") to the FASB’s Accounting Standards Codification.

We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

In June 2014, the FASB issued amendments to guidance on stock-based compensation which states that a performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition. The guidance is effective for us beginning January 1, 2016 and is not expected to have a material impact on our consolidated financial financial statements.

In May 2014, the FASB issued amendments to guidance that provide explicit guidance on the recognition of revenue based upon the entity’s contracts with customers to transfer goods or services. Under the new standard update, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for us in the first quarter of 2017. We are currently evaluating the impact of this accounting standard update on our consolidated financial statements.

In April 2014, the FASB issued amendments to guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The implementation of the amended guidance is not expected to have a material impact on our consolidated financial statements.

In July 2013, the FASB issued amendments to guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments require entities to present an unrecognized tax benefit netted against certain deferred tax assets when specific requirements are met. However, the amendments only affect gross versus net presentation and do not impact the calculation of the unrecognized tax benefit. We adopted this guidance on January 1, 2014 and the adoption did not have a material impact on our consolidated financial statements.

Note 2—Noncontrolling Interest

We hold an approximate 74.3% economic interest in FICV and are responsible for all operational, management and administrative decisions relating to FICV’s business. As a result, the financial results of FICV are consolidated with ours and we record a noncontrolling interest on our consolidated balance sheet with respect to the remaining approximately 25.7% economic interest in FICV held by Mosing Holdings, Inc. ("Mosing Holdings"). Net income attributable to noncontrolling interest on the statements of income represents the portion of earnings or loss attributable to the economic interest in FICV held by Mosing Holdings. The allocable domestic income from FICV to FINV is subject to U.S. taxation.

FRANK'S INTERNATIONAL N.V.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of net income attributable to noncontrolling interest is detailed as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$50,049	$141,870	$110,411	$214,915
Add: Provision for U.S. income taxes of FINV (1)	7,936	—	19,360	—
Less: (Income) loss of FINV (2)	(155)	456	180	880
Net income subject to noncontrolling interest	57,830	142,326	129,951	215,795
Noncontrolling interest percentage	25.7%	25.7%	25.7%	25.7%
Net income attributable to noncontrolling interest	$14,833	$36,506	$33,332	$55,351

(1) Represents income tax expense attributable to U.S. operations of our 74.3% partnership interests in FICV.
(2) Represents results of operations for entities outside of FICV.

Note 3—Discontinued Operations

On June 14, 2013, we sold a component of our Tubular Sales segment, which manufactured centralizers for sales to third parties and recognized a gain on the sale of $39.6 million, which is included in income from discontinued operations on the consolidated statements of income. As a result, for the three and six months ended June 30, 2013, the operations from that component have been reported as discontinued operations on the consolidated statement of income.

Revenue and net income from the discontinued component were $3.4 million and $40.9 million, respectively, for the three months ended June 30, 2013 and $7.6 million and $42.6 million, respectively, for the six months ended June 30, 2013. Net assets of $10.4 million as of June 14, 2013 were included in the disposition.

Cash flows from discontinued operations are included with cash flows from continuing operations in the consolidated statements of cash flows for the six months ended June 30, 2013.

Note 4—Accounts Receivable, net

Accounts receivable at June 30, 2014 and December 31, 2013 were as follows (in thousands):

	June 30, 2014	December 31, 2013
Trade accounts receivable, net of allowance of $13,333 and $13,614, respectively	$242,652	$232,409
Unbilled receivables	86,759	105,824
Taxes receivable	24,355	20,075
Affiliated (1)	3,242	3,921
Other receivables	3,287	2,588
Total accounts receivable	$360,295	$364,817

(1) Amounts represent expenditures on behalf of non-consolidated affiliates and receivables for aircraft charter income.

FRANK’S INTERNATIONAL N.V.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5—Inventories

Inventories at June 30, 2014 and December 31, 2013 were as follows (in thousands):

	June 30, 2014	December 31, 2013
Pipe and connectors	$197,102	$168,639
Finished goods	2,831	4,114
Work in progress	2,659	2,284
Raw materials, components and supplies	10,930	10,552
Total inventories	$213,522	$185,589

Note 6—Property, Plant and Equipment

The following is a summary of property, plant and equipment at June 30, 2014 and December 31, 2013 (in thousands):

	Estimated Useful Lives in Years	June 30, 2014	December 31, 2013
Land and land improvements (1)	8-15	$23,193	$22,460
Buildings and improvements	39	64,120	63,412
Rental machinery and equipment	7	716,101	669,729
Machinery and equipment - other	7	68,052	55,306
Furniture, fixtures and computers	5	18,781	18,265
Automobiles and other vehicles	5	36,878	35,649
Aircraft	7	14,868	14,868
Leasehold improvements	7	6,131	5,729
Construction in progress - machinery and equipment and buildings	—	98,707	88,801
		1,046,831	974,219
Less: Accumulated depreciation		(500,798)	(463,020)
Total property, plant and equipment, net		$546,033	$511,199

(1) The estimated useful life presented is only land improvements. Land does not have a depreciable life.

Note 7—Other Assets

Other assets at June 30, 2014 and December 31, 2013 consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Marketable securities held in Rabbi Trust (1)	$45,028	$42,184
Deferred tax asset	6,895	7,391
Deposits	3,368	3,132
Other	9,186	11,279
Total other assets	$64,477	$63,986

(1) See Note 10 – Fair Value Measurements

FRANK'S INTERNATIONAL N.V.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 8—Accrued and Other Current Liabilities

Accrued and other current liabilities at June 30, 2014 and December 31, 2013 consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Accrued compensation	$30,780	$26,252
Accrued property and other taxes	28,112	23,018
Income taxes	2,395	2,870
Accrued inventory	2,758	5,419
Accrued capital expenditures	3,072	4,188
Accrued medical claims	2,533	2,779
Accrued purchase orders	4,575	5,632
Other	21,118	20,326
Total accrued and other current liabilities	$95,343	$90,484

Note 9—Debt

We have two revolving credit facilities with certain financial institutions: (i) a $100.0 million revolving credit facility, including up to $20.0 million for letters of credit and up to $10.0 million in swingline loans, which matures in August 2018 (the "Five Year Facility"); and (ii) a $100.0 million revolving credit facility which matures in August 2014 (the "One Year Facility" and, together with the Five Year Facility, the "Credit Facilities"). Subject to the terms of the credit agreements, we have the ability to increase the commitments under the Credit Facilities by $150.0 million. At June 30, 2014 and December 31, 2013, we did not have any outstanding indebtedness under the Credit Facilities. In addition, we had $10.0 million in letters of credit outstanding as of June 30, 2014.

Borrowings under the Credit Facilities bear interest, at our option, at either a base rate or an adjusted Eurodollar rate. Base rate loans under the credit facilities bear interest at a rate equal to the higher of (a) the prime rate as published in the Wall Street Journal, (b) the Federal Funds Effective Rate plus 0.50% or (c) the adjusted Eurodollar rate plus 1.00%, plus an applicable margin ranging from 0.50% to 1.50%, subject to adjustment based on the leverage ratio. Interest is in each case payable quarterly for base-rate loans. Eurodollar loans under the Credit Facilities bear interest at an adjusted Eurodollar rate equal to the Eurodollar rate for such interest period multiplied by the statutory reserves, plus an applicable margin ranging from 1.50% to 2.50%. Interest is payable at the end of applicable interest periods for Eurodollar loans, except that if the interest period for a Eurodollar loan is longer than three months, interest is paid at the end of each three-month period. The unused portion of the Five Year Facility is subject to a commitment fee of up to 0.375%.

The Credit Facilities contain various covenants that, among other things, limit our ability to grant certain liens, make certain loans and investments, enter into mergers or acquisitions, enter into hedging transactions, change our lines of business, prepay certain indebtedness, enter into certain affiliate transactions, incur additional indebtedness or engage in certain asset dispositions.

The Credit Facilities also contain financial covenants, which, among other things, require us, on a consolidated basis, to maintain: (i) a ratio of total consolidated funded debt to adjusted EBITDA (as defined in the credit agreements) of not more than 2.50 to 1.0; and (ii) a ratio of EBITDA to interest expense of not less than 3.0 to 1.0. As of June 30, 2014, we were in compliance with all financial covenants under the Credit Facilities.

FRANK’S INTERNATIONAL N.V.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In addition, the Credit Facilities contain customary events of default, including, among others, the failure to make required payments, the failure to comply with certain covenants or other agreements, breach of the representations and covenants contained in the agreements, default of certain other indebtedness, certain events of bankruptcy or insolvency and the occurrence of a change in control (as defined in the credit agreements).

Note 10—Fair Value Measurements

We follow fair value measurement authoritative accounting guidance for measuring fair values of assets and liabilities in financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants who are independent, knowledgeable, and willing and able to transact would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. We are able to classify fair value balances based on the observability of these inputs. The authoritative guidance for fair value measurements establishes three levels of the fair value hierarchy, defined as follows:

- Level 1: Unadjusted, quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Significant, unobservable inputs for use when little or no market data exists, requiring a significant degree of judgment.

The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements. Depending on the particular asset or liability, input availability can vary depending on factors such as product type, longevity of a product in the market and other particular transaction conditions. In some cases, certain inputs used to measure fair value may be categorized into different levels of the fair value hierarchy. For disclosure purposes under the accounting guidance, the lowest level that contains significant inputs used in valuation should be chosen.

FRANK’S INTERNATIONAL N.V.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Financial Assets and Liabilities

A summary of financial assets and liabilities that are measured at fair value on a recurring basis, as of June 30, 2014 and December 31, 2013 were as follows (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2014				
Assets:				
Investments available-for-sale:				
Marketable securities - deferred compensation plan	$—	$45,028	$—	$45,028
Marketable securities - other	6,881	—	—	6,881
Liabilities:				
Marketable securities - deferred compensation plan	—	41,234	—	41,234
December 31, 2013				
Assets:				
Investments available-for-sale:				
Marketable securities - deferred compensation plan	$—	$42,184	$—	$42,184
Marketable securities - other	7,038	—	—	7,038
Liabilities:				
Marketable securities - deferred compensation plan	—	37,980	—	37,980

Our investments associated with our deferred compensation plan consist of marketable securities that are held in the form of investments in mutual funds and insurance contracts. Assets and liabilities measured using significant observable inputs are reported at fair value based on third-party broker statements which are derived from the fair value of the funds' underlying investments. Other marketable securities are included in other assets on the consolidated balance sheets.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

We apply the provisions of the fair value measurement standard to our non-recurring, non-financial measurements including business combinations as well as impairment related to goodwill and other long-lived assets. For business combinations, the purchase price is allocated to the assets acquired and liabilities assumed based on a discounted cash flow model for most intangibles as well as market assumptions for the valuation of equipment and other fixed assets. We utilize a discounted cash flow model in evaluating impairment considerations related to goodwill and long-lived assets. Given the unobservable nature of the inputs, the discounted cash flow models are deemed to use Level 3 inputs. There were no non-recurring measurements during the interim periods presented.

Other Fair Value Considerations

The carrying values on our consolidated balance sheet of our cash and cash equivalents, trade accounts receivable, other current assets, accounts payable, accrued and other current liabilities and lines of credit approximates fair values due to their short maturities.

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Note 11—Preferred Stock

At June 30, 2014, we had 52,976,000 shares of Preferred Stock issued and outstanding, which were held by Mosing Holdings. Each share of Preferred Stock has a liquidation preference equal to its par value of €0.01 per share and is entitled to an annual dividend equal to 0.25% of its par value. The preferred dividend of $705 was paid on May 29, 2014. Additionally, each share of Preferred Stock entitles its holder to one vote. Preferred stockholders vote with the common stock as a single class on all matters presented to FINV's shareholders for their vote.

Mosing Holdings has the right to convert all or a portion of its Preferred Stock into shares of our common stock by delivery of an equivalent portion of its interest in FICV to us. Accordingly, the increase in our interest in FICV in connection with such conversion will decrease the noncontrolling interest in our financial statements that is attributable to Mosing Holdings' interest in FICV. As of June 30, 2014, there have been no redemptions of the Preferred Stock or conversions of the FICV limited partner interests. Exchanges are subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications.

The Preferred Stock is classified outside of permanent equity in our consolidated balance sheet at its redemption value of par plus accrued and unpaid dividends because the conversion provisions are not solely within our control.

Note 12—Related Party Transactions

We have engaged in certain transactions with other companies related to us by common ownership. We have entered into various operating leases to lease office space from an affiliated partnership. Rent expense related to these leases was $1.6 million and $0.8 million for the three months ended June 30, 2014 and 2013, respectively, and $3.5 million and $2.0 million for the six months ended June 30, 2014 and 2013, respectively.

We are a party to certain agreements relating to the rental of aircraft to Western Airways ("WA"), an entity owned by the Mosing family. Prior to our initial public offering (the "IPO"), we had entered into agreements, whereby we leased the aircraft as needed for a rental fee per hour and reimbursed WA for a management fee and hangar rental. The rental fees exceeded the reimbursement costs and we recorded net charter income. Subsequent to the IPO, we entered into new agreements with WA for the aircraft that was retained by us whereby we are paid a flat monthly fee for dry lease rental and are charged block hours monthly. We recorded net charter expense of $0.3 million and net charter revenue of $0.3 million for the three months ended June 30, 2014 and 2013, respectively, and net charter expense of $0.7 million and net charter revenue of $0.5 million for the six months ended June 30, 2014 and 2013, respectively.

Tax Receivable Agreement

Mosing Holdings and its permitted transferees may exchange the required proportion of the holder's interest in FICV for cash accompanied by the conversion of such shares into shares of our common stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications and other similar transactions (the "Exchange"). FICV intends to make an election under Section 754 of the Code effective for each taxable year in which an Exchange occurs. Pursuant to the Section 754 election, each future Exchange is expected to result in an adjustment to the tax basis of the tangible and intangible assets of FICV, and these adjustments will be allocated to FINV. Certain of the adjustments to the tax basis of the tangible and intangible assets of FICV described above would not have been available absent these future Exchanges. The anticipated basis adjustments are expected to increase the tax basis (and thereby reduce the amount of tax that FINV would otherwise be required to pay in the future). These basis adjustments may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

The tax receivable agreement generally provides for the payment by FINV of 85% of actual reductions, if any, in payments of U.S. federal, state and local income tax or franchise tax (which reductions we refer to as “cash savings”) in periods after our initial public offering as a result of (i) the basis increases resulting from the Exchanges and (ii) imputed interest deemed to be paid by FINV as a result of, and additional tax basis arising from, payments under the tax receivable agreement. In addition, the tax receivable agreement will provide for payment by FINV of interest earned from the due date (without extensions) of the corresponding tax return to the date of payment specified by the tax receivable agreement.

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The payment obligations under the tax receivable agreement are FINV's obligations and are not obligations of FICV. The term of the tax receivable agreement will continue until all such tax benefits have been utilized or expired, unless FINV exercises its right to terminate the tax receivable agreement.

Estimating the amount of payments that may be made under the tax receivable agreement is by its nature imprecise. The actual increase in tax basis, as well as the amount and timing of any payments under the tax receivable agreement, will vary depending upon a number of factors, including the timing of exchanges, the relative value of FINV's U.S. and international assets at the time of the exchange, the price of FINV's common stock at the time of the exchange, the extent to which such exchanges are taxable, the amount and timing of the taxable income FINV realizes in the future and the tax rate then applicable, FINV's use of loss carryovers and the portion of its payments under the tax receivable agreement constituting imputed interest or depreciable or amortizable basis. FINV expects that the payments that it will be required to make under the tax receivable agreement will be substantial but that it will be able to fund such payments. There may be a negative impact on our liquidity if, as a result of timing discrepancies, the payments under the tax receivable agreement exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement. The payments under the tax receivable agreement will not be conditioned upon a holder of rights under a tax receivable agreement having a continued ownership interest in either FICV or FINV.

The tax receivable agreement provides that we may terminate it early. If FINV elects to terminate the tax receivable agreement early, it would be required to make an immediate payment equal to the present value of the anticipated future tax benefits subject to the tax receivable agreement (based upon certain assumptions and deemed events set forth in the tax receivable agreement, including the assumption that it has sufficient taxable income to fully utilize such benefits and that any FICV interests that Mosing Holdings or its transferees own on the termination date are deemed to be exchanged on the termination date). Any early termination payment may be made significantly in advance of the actual realization, if any, of such future benefits. In addition, payments due under the tax receivable agreement will be similarly accelerated following certain mergers or other changes of control. In these situations, FINV's obligations under the tax receivable agreement could have a substantial negative impact on FINV's liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. For example, if the tax receivable agreement were terminated on June 30, 2014, the estimated termination payment would be approximately $76.0 million (calculated using a discount rate of 3.4%). The foregoing number is merely an estimate and the actual payment could differ materially.

Because FINV is a holding company with no operations of its own, its ability to make payments under the tax receivable agreement is dependent on the ability of FICV to make distributions to it in an amount sufficient to cover FINV's obligations under such agreements; this ability, in turn, may depend on the ability of FICV's subsidiaries to provide payments to it. The ability of FICV and its subsidiaries to make such distributions will be subject to, among other things, the applicable provisions of Dutch law that may limit the amount of funds available for distribution and restrictions in our debt instruments. To the extent that FINV is unable to make payments under the tax receivable agreement for any reason, such payments will be deferred and will accrue interest until paid, and FINV will be prohibited from paying dividends on its common stock.

Note 13—Earnings Per Common Share

Basic earnings per common share is determined dividing net income, less preferred stock dividends, by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding, assuming all potentially dilutive shares were issued.

We apply the treasury stock method to determine the dilutive weighted average common shares represented by the unvested restricted stock units. The diluted earnings per share calculation assumes exchange of 100% of our outstanding Preferred Stock on an as if converted basis. Accordingly, the numerator is also adjusted to include the earnings allocated to the noncontrolling interest after taking into account the tax effect of such exchange.

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The following table summarizes the basic and diluted earnings per share calculations (in thousands, except per share amounts):

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Numerator - Basic				
Income from continuing operations	$50,049	$100,983	$110,411	$172,280
Less: Net income attributable to noncontrolling interest	(14,833)	(36,506)	(33,332)	(55,351)
Discontinued operations attributable to noncontrolling interest	—	10,488	—	10,936
Less: Preferred stock dividends	(1)	—	(1)	—
Income from continuing operations attributable to common shareholders	35,215	74,965	77,078	127,865
Income from discontinued operations attributable to FINV	—	30,399	—	31,699
Net income available to common shareholders	$35,215	$105,364	$77,078	$159,564
Numerator - Diluted				
Income from continuing operations attributable to common shareholders	$35,215	$74,965	$77,078	$127,865
Add: Exchange of noncontrolling interest for common stock (1)	11,776	26,018	26,336	44,415
Add: Preferred stock dividends	1	—	1	—
Diluted income from continuing operations attributable to common shareholders	46,992	100,983	103,415	172,280
Income from discontinued operations, net of tax	—	40,887	—	42,635
Dilutive net income available to common shareholders	$46,992	$141,870	$103,415	$214,915
Denominator				
Basic weighted average common shares	153,524	119,024	153,524	119,024
Exchange of noncontrolling interest for common stock (Note 11)	52,976	52,976	52,976	52,976
Restricted stock units	1,322	—	1,141	—
Diluted weighted average common shares	207,822	172,000	207,641	172,000
Basic earnings per common share:				
Continuing operations	$0.23	$0.63	$0.50	$1.07
Discontinued operations	—	0.26	—	0.27
Total				