

FORUM ENERGY TECHNOLOGIES, INC.  
Form 10-Q  
August 02, 2016  
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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, 2016

OR

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

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

Commission File Number 001-35504

FORUM ENERGY TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware 61-1488595

(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

920 Memorial City Way, Suite 1000

Houston, Texas 77024

(Address of principal executive offices)

(281) 949-2500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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  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. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

As of August 1, 2016, there were 91,349,252 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)

	Three months ended		Six months ended	
	June 30,		June 30,	
(in thousands, except per share information)	2016	2015	2016	2015
Revenue	\$142,723	\$284,415	\$302,164	\$632,511
Cost of sales	137,442	199,532	262,326	438,502
Gross profit	5,281	84,883	39,838	194,009
Operating expenses				
Selling, general and administrative expenses	58,263	66,225	118,276	139,785
Transaction expenses	64	23	230	240
Loss (gain) on sale of assets and other	48	37	16	(275 )
Total operating expenses	58,375	66,285	118,522	139,750
Earnings from equity investment	216	3,840	793	8,411
Operating income (loss)	(52,878 )	22,438	(77,891 )	62,670
Other expense (income)				
Interest expense	6,785	7,607	13,918	15,234
Deferred financing costs written off	—	—	2,588	—
Foreign exchange (gains) losses and other, net	(10,014 )	4,055	(11,394 )	(2,601 )
Total other expense (income)	(3,229 )	11,662	5,112	12,633
Income (loss) before income taxes	(49,649 )	10,776	(83,003 )	50,037
Provision (benefit) for income tax expense	(21,147 )	1,911	(31,553 )	12,516
Net income (loss)	(28,502 )	8,865	(51,450 )	37,521
Less: Income (loss) attributable to noncontrolling interest	35	(9 )	30	(25 )
Net income (loss) attributable to common stockholders	(28,537 )	8,874	(51,480 )	37,546
Weighted average shares outstanding				
Basic	90,707	89,767	90,592	89,625
Diluted	90,707	91,884	90,592	91,597
Earnings (losses) per share				
Basic	\$(0.31 )	\$0.10	\$(0.57 )	\$0.42
Diluted	\$(0.31 )	\$0.10	\$(0.57 )	\$0.41
Other comprehensive income (loss), net of tax:				
Net income (loss)	(28,502 )	8,865	(51,450 )	37,521
Change in foreign currency translation, net of tax of \$0	(22,847 )	25,491	(19,375 )	(11,806 )
Gain (loss) on pension liability	24	(29 )	(19 )	70
Comprehensive income (loss)	(51,325 )	34,327	(70,844 )	25,785
Less: comprehensive loss (income) attributable to noncontrolling interests	(36 )	11	(129 )	54
Comprehensive income (loss) attributable to common stockholders	\$(51,361 )	\$34,338	\$(70,973 )	\$25,839

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



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

(in thousands, except share information)	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 137,229	\$ 109,249
Accounts receivable—trade, net	94,414	138,597
Inventories, net	375,035	424,121
Prepaid expenses and other current assets	23,954	33,836
Costs and estimated profits in excess of billings	9,882	12,009
Total current assets	640,514	717,812
Property and equipment, net of accumulated depreciation	173,580	186,667
Deferred financing costs, net	1,581	4,125
Intangibles, net	232,519	246,650
Goodwill	662,929	669,036
Investment in unconsolidated subsidiary	58,109	57,719
Deferred income taxes, net	736	780
Other long-term assets	3,218	3,253
Total assets	\$ 1,773,186	\$ 1,886,042
Liabilities and equity		
Current liabilities		
Current portion of long-term debt	\$ 44	\$ 253
Accounts payable—trade	69,041	76,823
Accrued liabilities	51,137	58,563
Deferred revenue	9,092	7,283
Billings in excess of costs and profits recognized	2,387	8,631
Total current liabilities	131,701	151,553
Long-term debt, net of current portion	396,334	396,016
Deferred income taxes, net	18,684	51,100
Other long-term liabilities	30,859	29,956
Total liabilities	577,578	628,625
Commitments and contingencies (Note 11)		
Equity		
Common stock, \$0.01 par value, 296,000,000 shares authorized, 99,410,389 and 98,605,902 shares issued	994	986
Additional paid-in capital	900,469	891,248
Treasury stock at cost, 8,154,226 and 8,145,802 shares	(133,511 )	(133,318 )
Retained earnings	528,672	580,152
Accumulated other comprehensive income (loss)	(101,542 )	(82,048 )
Total stockholders' equity	1,195,082	1,257,020
Noncontrolling interest in subsidiary	526	397
Total equity	1,195,608	1,257,417
Total liabilities and equity	\$ 1,773,186	\$ 1,886,042

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



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

	Six Months Ended June 30,	
(in thousands, except share information)	2016	2015
Cash flows from operating activities		
Net income (loss)	\$(51,450 )	\$37,521
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation expense	18,329	18,996
Amortization of intangible assets	13,231	13,671
Share-based compensation expense	10,322	11,814
Deferred income taxes	(33,412 )	69
Deferred financing cost written off	2,588	—
Inventory write down	22,733	3,285
Earnings from equity investment, net of distributions	(389 )	(5,633 )
Other	2,068	2,588
Changes in operating assets and liabilities		
Accounts receivable—trade	41,679	90,944
Inventories	27,279	(42,294 )
Prepaid expenses and other current assets	6,342	(4,729 )
Accounts payable, deferred revenue and other accrued liabilities	(10,220 )	(62,388 )
Costs and estimated profits in excess of billings, net	(4,183 )	(7,960 )
Net cash provided by operating activities	\$44,917	\$55,884
Cash flows from investing activities		
Acquisition of businesses, net of cash acquired	(2,700 )	(60,836 )
Capital expenditures for property and equipment	(10,040 )	(19,680 )
Proceeds from sale of business, property and equipment	3,710	1,408
Net cash used in investing activities	\$(9,030 )	\$(79,108)
Cash flows from financing activities		
Borrowings under Credit Facility	—	79,943
Repayment of long-term debt	(238 )	(70,580 )
Excess tax benefits from stock based compensation	—	106
Repurchases of stock	(192 )	(6,194 )
Proceeds from stock issuance	203	2,280
Deferred financing costs	(513 )	—
Net cash provided by (used in) financing activities	\$(740 )	\$5,555
Effect of exchange rate changes on cash	(7,167 )	(1,069 )
Net increase (decrease) in cash and cash equivalents	27,980	(18,738 )
Cash and cash equivalents		
Beginning of period	109,249	76,579
End of period	\$137,229	\$57,841

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

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

1. Organization and basis of presentation

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

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The Company's investment in an operating entity where the Company has the ability to exert significant influence, but does not control operating and financial policies, is accounted for using the equity method. The Company's share of the net income (loss) of this entity is recorded as "Earnings from equity investment" in the unaudited condensed consolidated statements of comprehensive income (loss). The investment in this entity is included in "Investment in unconsolidated subsidiary" in the unaudited condensed consolidated balance sheets. The Company reports its share of equity earnings 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, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 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, 2015, which are included in the Company's 2015 Annual Report on Form 10-K filed with the SEC on February 26, 2016 (the "Annual Report").

2. Recent accounting pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB"), which are adopted by the Company as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's consolidated financial statements upon adoption.

In May 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-11 Revenue recognition (Topic 605) and Derivatives and Hedging (Topic 815) - Rescission of SEC Guidance Because of Accounting Standards Updates No. 2014-09 and No. 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. This new guidance rescinded certain SEC staff observer comments in Topic 605 related to revenue and expense recognition for freight services in process and accounting for shipping and handling fees and costs, Topic 932 related to gas-balancing arrangements, and Topic 815 nature of a host contract related to a hybrid instrument issued in the form of a share. ASU 2016-11 is effectively immediately and is not expected to have a material impact on the Company's consolidated financial statements.

In March, April and May 2016, the FASB issued a series of ASUs on revenue standards, including No. 2016-08 Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations, No. 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing, and No. 2016-12 Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients. ASU No. 2016-08 amended the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction, which impacts whether an entity reports revenue on a gross or net basis. ASU No. 2016-10 amended and clarified the guidance in the new revenue standard on identifying performance obligation and



accounting for licenses of intellectual property and addressed the implementation issues. ASU No. 2016-12 amended and updated only the narrow aspects of Topic 606. The above standards will take effect for public companies for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Earlier application is permitted

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Notes to condensed consolidated financial statements (continued)  
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only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of the adoption of the above guidance.

In March 2016, the FASB issued ASU No.2016-09, Improvements to Employee Share-Based Payment Accounting.

This new guidance includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements: a) All excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement; b) Excess tax benefits should be classified along with other income tax cash flows as an operating activity; c) An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur; d) The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions; e) Cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. There are also two additional provisions for non-public entities that do not apply to the Company. The standard will take effect for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the impact of the adoption of this guidance.

In February 2016, the FASB issued ASU No.2016-02, Leases. Under this new guidance, lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of greater than twelve months. The standard will take effect for public companies with fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of this guidance.

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

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## 3. Acquisitions

## 2016 Acquisition

In April 2016, the Company completed the acquisition of the wholesale completion packers business of Team Oil Tools, Inc. The acquisition includes a wide variety of completion and service tools, including retrievable and permanent packers, bridge plugs, and accessories which are sold to the oilfield service providers, packer repair companies and distributors on a global basis, and is included in the Completions segment. The fair values of the assets acquired and liabilities assumed have not been presented because it is not material to the unaudited condensed consolidated financial statements.

## 2015 Acquisition

Effective February 2, 2015, the Company completed the acquisition of J-Mac Tool, Inc. ("J-Mac") for consideration of \$61.9 million, including \$1.1 million not yet paid until the review of working capital is finalized. J-Mac is a Fort Worth, Texas based manufacturer of high quality hydraulic fracturing pumps, power ends, fluid ends and other pump accessories. J-Mac is included in the Completions segment. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

	2015 Acquisition
Current assets, net of cash acquired	\$ 36,174
Property and equipment	11,506
Intangible assets (primarily customer relationships)	10,400
Tax-deductible goodwill	13,977
Current liabilities	(10,129 )
Long-term liabilities	(22 )
Net assets acquired	\$ 61,906

Revenues and net income (loss) related to the acquisitions were not significant for the current and prior periods presented in this report. Pro forma results of operations for 2015 and 2016 acquisitions have not been presented because the effects were not material to the unaudited condensed consolidated financial statements on either an individual or aggregate basis.

## 4. Inventories

The Company's significant components of inventory at June 30, 2016 and December 31, 2015 were as follows (in thousands):

	June 30, 2016	December 31, 2015
Raw materials and parts	\$ 121,140	\$ 148,372
Work in process	29,071	38,381
Finished goods	311,004	315,256
Gross inventories	461,215	502,009
Inventory reserve	(86,180 )	(77,888 )
Inventories	\$ 375,035	\$ 424,121

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## 5. Goodwill and intangible assets

## Goodwill

The changes in the carrying amount of goodwill from December 31, 2015 to June 30, 2016, were as follows (in thousands):

	Drilling & Subsea	Completions	Production & Infrastructure	Total
Goodwill Balance at December 31, 2015, net	\$334,595	\$ 316,914	\$ 17,527	\$669,036
Acquisitions	—	—	—	—
Impact of non-U.S. local currency translation	(8,014 )	1,689	218	(6,107 )
Goodwill Balance at June 30, 2016, net	\$326,581	\$ 318,603	\$ 17,745	\$662,929

The Company performs its annual impairment tests of goodwill as of October 1. There was no impairment of goodwill during the three months and six months ended June 30, 2016. Accumulated impairment losses on goodwill were \$168.8 million as of June 30, 2016 and December 31, 2015.

## Intangible assets

Intangible assets consisted of the following as of June 30, 2016 and December 31, 2015, respectively (in thousands):

	June 30, 2016			
	Gross carrying amount	Accumulated amortization	Net amortizable intangibles	Amortization period (in years)
Customer relationships	\$275,707	\$(108,591 )	\$ 167,116	4-15
Patents and technology	34,271	(11,228 )	23,043	5-17
Non-compete agreements	7,550	(6,494 )	1,056	3-6
Trade names	45,113	(16,757 )	28,356	10-15
Distributor relationships	22,160	(14,442 )	7,718	8-15
Trademark	5,230	—	5,230	Indefinite
Intangible Assets Total	\$390,031	\$(157,512 )	\$ 232,519	
	December 31, 2015			
	Gross carrying amount	Accumulated amortization	Net amortizable intangibles	Amortization period (in years)
Customer relationships	\$280,297	\$(101,636 )	\$ 178,661	4-15
Patents and technology	34,140	(10,264 )	23,876	5-17
Non-compete agreements	7,269	(6,292 )	977	3-6
Trade names	45,446	(15,890 )	29,556	10-15
Distributor relationships	22,160	(13,810 )	8,350	8-15
Trademark	5,230	—	5,230	Indefinite
Intangible Assets Total	\$394,542	\$(147,892 )	\$ 246,650	

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

## 6. Debt

Notes payable and lines of credit as of June 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
6.25% Senior Notes due October 2021	\$400,000	\$ 400,000
Unamortized debt premium	2,192	2,395
Deferred financing cost	(5,874 )	(6,425 )
Senior secured revolving credit facility	—	—
Other debt	60	299
Total debt	396,378	396,269
Less: current maturities	44	253
Long-term debt	\$396,334	\$ 396,016

## Senior Notes Due 2021

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

## Credit Facility

On February 25, 2016, the Company amended its senior secured credit facility (the "Credit Facility" and such amendment, the "Amended Facility") to reduce commitment fees and provide borrowing capacity for general corporate purposes. The Amended Facility provides for a revolving credit line of up to \$200.0 million, including up to \$25.0 million available for letters of credit and up to \$10.0 million in swingline loans. Availability under the Amended Facility is subject to a borrowing base calculated by reference to eligible accounts receivable in the United States, United Kingdom and Canada, eligible inventory in the United States, and cash on hand.

The Amended Facility reduced the borrowing capacity from \$600.0 million to \$200.0 million. Accordingly, the Company has written off \$2.6 million of the deferred financing costs related to the Credit Facility.

The Credit Facility matures in November 2018. As of June 30, 2016, we had no borrowings outstanding under the Credit Facility, and \$10.5 million of outstanding letters of credit. As of June 30, 2016, the Company had the capacity to borrow an additional \$189.5 million subject to certain limitations in the Credit Facility.

There have been no changes to the financial covenants disclosed in Item 8 of the Annual Report and the Company was in compliance with all financial covenants at June 30, 2016.

## 7. Income taxes

The Company's effective tax rate was 38.0% for the six months ended June 30, 2016 and 25.0% for the six months ended June 30, 2015. The effective tax rate was 42.6% for the three months ended June 30, 2016 and 17.7% for the three months ended June 30, 2015. The tax rates for the three months ended and six months ended June 30, 2016 are higher than the comparable period in 2015 primarily due to the losses incurred in the United States, which are benefited at a higher statutory tax rate, offset by earnings outside the United States in jurisdictions subject to lower tax rates. The effective tax rate can vary from period to period depending on the Company's relative mix of U.S. and non-U.S. earnings and losses.

## 8. Fair value measurements

At June 30, 2016, the Company had no debt outstanding under the Credit Facility, and \$10.5 million of outstanding letters of credit. Substantially all of the debt, if any, under the Credit Facility 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.



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The fair value of the Company's Senior Notes is estimated using Level 2 inputs in the fair value hierarchy and is based on quoted prices for those or similar instruments. At June 30, 2016, the fair value and the carrying value of the Company's Senior Notes approximated \$371.0 million and \$402.2 million, respectively. At December 31, 2015, the fair value and the carrying value of the Company's Senior Notes approximated \$334.1 million and \$402.5 million, respectively.

There were no outstanding financial assets as of June 30, 2016 and December 31, 2015 that required measuring the amounts at fair value. The Company did not change its valuation techniques associated with recurring fair value measurements from prior periods and there were no transfers between levels of the fair value hierarchy during the six months ended June 30, 2016.

## 9. Business segments

Beginning with the first quarter of 2016, the Company realigned its segments. Completions was designated as a separate segment in recognition of its expanded operations and its significant growth potential. The Company is reporting its results of operations in the following three reportable segments: Drilling & Subsea, Completions and Production & Infrastructure, instead of the original two reportable segments. Management's change in the composition of the Company's reporting segments was made in order to align with activity drivers and the customers of our product group, and how management reviews and evaluates operating performance. This change will be reflected on a retrospective basis in accordance with GAAP, with prior years adjusted to reflect the change in reporting segments. The amounts indicated below as "Corporate" relate to costs and assets not allocated to the reportable operating segments. Summary financial data by segment follows (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenue:				
Drilling & Subsea	\$56,734	\$129,719	\$122,029	\$293,272
Completions	24,467	72,342	58,771	166,838
Production & Infrastructure	61,823	82,536	122,334	173,059
Intersegment eliminations	(301 )	(182 )	(970 )	(658 )
Total revenue	\$142,723	\$284,415	\$302,164	\$632,511
Operating income (loss):				
Drilling & Subsea	\$(20,533 )	\$10,292	\$(30,356 )	\$30,131
Completions	(28,024 )	10,856	(34,482 )	31,425
Production & Infrastructure	2,578	9,433	1,207	17,423
Corporate	(6,787 )	(8,083 )	(14,014 )	(16,344 )
Total segment operating income (loss)	(52,766 )	22,498	(77,645 )	62,635
Transaction expenses	64	23	230	240
Loss (gain) on sale of assets and other	48	37	16	(275 )
Income (loss) from operations	\$(52,878 )	\$22,438	\$(77,891 )	\$62,670

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

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

	June 30, 2016	December 31, 2015
Assets		
Drilling & Subsea	\$818,996	\$912,324
Completions	700,588	728,745
Production & Infrastructure	183,770	187,741
Corporate	69,832	57,232
Total assets	\$1,773,186	\$1,886,042

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

## 10. Earnings per share

The calculation of basic and diluted earnings (losses) 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,	
	2016	2015	2016	2015
Net Income (loss) attributable to common stockholders	\$(28,537)	\$8,874	\$(51,480)	\$37,546
Average shares outstanding (basic)	90,707	89,767	90,592	89,625
Common stock equivalents	—	2,117	—	1,972
Diluted shares	90,707	91,884	90,592	91,597
Earnings (losses) per share				
Basic earnings (losses) per share	\$(0.31 )	\$0.10	\$(0.57 )	\$0.42
Diluted earnings (losses) per share	\$(0.31 )	\$0.10	\$(0.57 )	\$0.41

The diluted earnings per share calculation excludes all stock options for the three months and six months ended June 30, 2016, because there is a net loss for each period. The diluted earnings per share calculation excludes approximately 1.3 million stock options for the three months ended June 30, 2015, and 1.7 million stock options for the six months ended June 30, 2015, because they were anti-dilutive as the option exercise price was greater than the average market price of the common stock.

## 11. Commitments and contingencies

In the ordinary course of business, the Company is, and in the future could be, involved in various pending or threatened legal actions that may or may not be covered by insurance. Management has reviewed such pending judicial and legal proceedings, the reasonably anticipated costs and expenses in connection with such proceedings, and the availability and limits of insurance coverage. Reserves have been established that are believed to be appropriate in light of the outcomes that are considered to be probable and can be reasonably estimated. The reserves accrued at June 30, 2016 and December 31, 2015, respectively, are immaterial.

## 12. Stockholders' equity

## Share-based compensation

During the six months ended June 30, 2016, the Company granted 818,620 options and 1,712,639 shares of restricted stock or restricted stock units, which includes 257,900 performance share awards with a market condition. The stock options were granted with exercise prices of \$9.39. Of the restricted stock or restricted stock units granted, 1,334,922 vest ratably over four years on each anniversary of the grant date. 119,817 shares of restricted stock or restricted stock units were granted to the non-employee members of the Board of Directors, which have a twelve month vesting period



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from the grant date. The performance share awards granted may settle for between zero and two shares of the Company's common stock. The number of shares issued pursuant to the performance share awards will be determined based on the total shareholder return of the Company's common stock as compared to a group of peer companies, measured annually over a one year, two year and three-year performance period.

## 13. Related party transactions

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

## 14. Condensed consolidating financial statements

The Senior Notes are guaranteed by our domestic subsidiaries which are 100% owned, directly or indirectly, by the Company. The guarantees are full and unconditional, joint and several and on an unsecured basis.

Condensed consolidating statements of comprehensive income (loss)

	Three months ended June 30, 2016				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Revenue	\$—	\$ 103,062	\$ 50,880	\$ (11,219 )	\$ 142,723
Cost of sales	—	107,801	41,734	(12,093 )	137,442
Gross profit	—	(4,739 )	9,146	874	5,281
Operating expenses					
Selling, general and administrative expenses	—	46,866	11,397	—	58,263
Transaction expenses	—	64	—	—	64
Loss (gain) on sale of assets and other	—	215	(167 )	—	48
Total operating expenses	—	47,145	11,230	—	58,375
Earnings from equity investment	—	216	—	—	216
Equity earnings from affiliate, net of tax	(24,128 )	7,235	—	16,893	—
Operating income (loss)	(24,128 )	(44,433 )	(2,084 )	17,767	(52,878 )
Other expense (income)					
Interest expense (income)	6,783	(2 )	4	—	6,785
Foreign exchange (gains) losses and other, net	—	(451 )	(9,563 )	—	(10,014 )
Total other expense (income)	6,783	(453 )	(9,559 )	—	(3,229 )
Income (loss) before income taxes	(30,911 )	(43,980 )	7,475	17,767	(49,649 )
Provision (benefit) for income tax expense	(2,374 )	(19,852 )	1,079	—	(21,147 )
Net income (loss)	(28,537 )	(24,128 )	6,396	17,767	(28,502 )
Less: Income (loss) attributable to noncontrolling interest	—	—	35	—	35
Net income (loss) attributable to common stockholders	(28,537 )	(24,128 )	6,361	17,767	(28,537 )
Other comprehensive income (loss), net of tax:					
Net income (loss)	(28,537 )	(24,128 )	6,396	17,767	(28,502 )
Change in foreign currency translation, net of tax of \$0	(22,847 )	(22,847 )	(22,847 )	45,694	(22,847 )
Change in pension liability	24	24	24	(48 )	24
Comprehensive income (loss)	(51,360 )	(46,951 )	(16,427 )	63,413	(51,325 )

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Less: comprehensive (income) loss attributable to noncontrolling interests	—	—	(36	)	—	(36	)	
Comprehensive income (loss) attributable to common stockholders	\$(51,360)	\$(46,951	)	\$(16,463	)	\$63,413	\$(51,361	)

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Forum Energy Technologies, Inc. and subsidiaries  
Notes to condensed consolidated financial statements (continued)  
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## Condensed consolidating statements of comprehensive income (loss)

	Three months ended June 30, 2015				Consolidated
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in thousands)	Eliminations	
Revenue	\$—	\$ 209,234	\$ 102,363	\$ (27,182 )	\$ 284,415
Cost of sales	—	155,127	71,771	(27,366 )	199,532
Gross profit	—	54,107	30,592	184	84,883
Operating expenses					
Selling, general and administrative expenses	—	52,426	13,799	—	66,225
Transaction expenses	—	23	—	—	23
Loss (gain) on sale of assets and other	—	53	(16 )	—	37
Total operating expenses	—	52,502	13,783	—	66,285
Earnings from equity investment	—	3,840	—	—	3,840
Equity earnings from affiliates, net of tax	13,830	10,594	—	(24,424 )	—
Operating income (loss)	13,830	16,039	16,809	(24,240 )	22,438
Other expense (income)					
Interest expense (income)	7,624	—	(17 )	—	7,607
Foreign exchange (gains) losses and other, net	—	31	4,024	—	4,055
Total other expense (income)	7,624	31	4,007	—	11,662
Income (loss) before income taxes	6,206	16,008	12,802	(24,240 )	10,776
Provision (benefit) for income tax expense	(2,668 )	2,178	2,401	—	1,911
Net income (loss)	8,874	13,830	10,401	(24,240 )	8,865
Less: Income (loss) attributable to noncontrolling interest	—	—	(9 )	—	(9 )
Net income (loss) attributable to common stockholders	8,874	13,830	10,410	(24,240 )	8,874
Other comprehensive income (loss), net of tax:					
Net income (loss)	8,874	13,830	10,401	(24,240 )	8,865
Change in foreign currency translation, net of tax of \$0	25,491	25,491	25,491	(50,982 )	25,491
Change in pension liability	(29 )	(29 )	(29 )	58	(29 )
Comprehensive income (loss)	34,336	39,292	35,863	(75,164 )	34,327
Less: comprehensive (income) loss attributable to noncontrolling interests	—	—	11	—	11
Comprehensive income (loss) attributable to common stockholders	\$34,336	\$ 39,292	\$ 35,874	\$ (75,164 )	\$ 34,338

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Forum Energy Technologies, Inc. and subsidiaries  
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## Condensed consolidating statements of comprehensive income (loss)

	Six months ended June 30, 2016				
	FET	Guarantor	Non-Guarantor	Eliminations	Consolidated
	(Parent)	Subsidiaries	Subsidiaries		
	(in thousands)				
Revenue	\$—	\$ 220,377	\$ 106,514	\$ (24,727 )	\$ 302,164
Cost of sales	—	200,417	86,864	(24,955 )	262,326
Gross profit	—	19,960	19,650	228	39,838
Operating expenses					
Selling, general and administrative expenses	—	94,530	23,746	—	118,276
Transaction expenses	—	230	—	—	230
Loss (gain) on sale of assets and other	—	180	(164 )	—	16
Total operating expenses	—	94,940	23,582	—	118,522
Earnings from equity investment	—	793	—	—	793
Equity earnings from affiliates, net of tax	(40,741 )	6,147	—	34,594	—
Operating income (loss)	(40,741 )	(68,040 )	(3,932 )	34,822	(77,891 )
Other expense (income)					
Interest expense (income)	13,931	(16 )	3	—	13,918
Deferred loan costs written off	2,588	—	—	—	2,588
Foreign exchange (gains) losses and other, net	—	(533 )	(10,861 )	—	(11,394 )
Total other expense (income)	16,519	(549 )	(10,858 )	—	5,112
Income (loss) before income taxes	(57,260 )	(67,491 )	6,926	34,822	(83,003 )
Provision (benefit) for income tax expense	(5,780 )	(26,750 )	977	—	(31,553 )
Net income (loss)	(51,480 )	(40,741 )	5,949	34,822	(51,450 )
Less: Income (loss) attributable to noncontrolling interest	—	—	30	—	30
Net income (loss) attributable to common stockholders	(51,480 )	(40,741 )	5,919	34,822	(51,480 )
Other comprehensive income (loss), net of tax:					
Net income (loss)	(51,480 )	(40,741 )	5,949	34,822	(51,450 )
Change in foreign currency translation, net of tax of \$0	(19,375 )	(19,375 )	(19,375 )	38,750	(19,375 )
Change in pension liability	(19 )	(19 )	(19 )	38	(19 )
Comprehensive income (loss)	(70,874 )	(60,135 )	(13,445 )	73,610	(70,844 )
Less: comprehensive (income) loss attributable to noncontrolling interests	—	—	(129 )	—	(129 )
Comprehensive income (loss) attributable to common stockholders	\$(70,874)	\$(60,135 )	\$(13,574 )	\$ 73,610	\$(70,973 )

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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, 2015				Eliminations	Consolidated
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	(in thousands)		
Revenue	\$—	\$ 478,433	\$ 222,680	\$ (68,602 )		\$ 632,511
Cost of sales	—	343,894	161,446	(66,838 )		438,502
Gross profit	—	134,539	61,234	(1,764 )		194,009
Operating expenses						
Selling, general and administrative expenses	—	109,798	29,987	—		139,785
Transaction expenses	—	240	—	—		240
Loss (gain) on sale of assets and other	—	(58 )	(217 )	—		(275 )
Total operating expenses	—	109,980	29,770	—		139,750
Earnings from equity investment	—	8,411	—	—		8,411
Equity earnings from affiliates, net of tax	47,434	26,830	—	(74,264 )		—
Operating income (loss)	47,434	59,800	31,464	(76,028 )		62,670
Other expense (income)						
Interest expense (income)	15,212	14	8	—		15,234
Foreign exchange (gains) losses and other, net	—	(154 )	(2,447 )	—		(2,601 )
Total other expense (income)	15,212	(140 )	(2,439 )	—		12,633
Income (loss) before income taxes	32,222	59,940	33,903	(76,028 )		50,037
Provision (benefit) for income tax expense	(5,324 )	12,506	5,334	—		12,516
Net income (loss)	37,546	47,434	28,569	(76,028 )		37,521
Less: Income (loss) attributable to noncontrolling interest	—	—	(25 )	—		(25 )
Net income (loss) attributable to common stockholders	37,546	47,434	28,594	(76,028 )		37,546
Other comprehensive income (loss), net of tax:						
Net income (loss)	37,546	47,434	28,569	(76,028 )		37,521
Change in foreign currency translation, net of tax of \$0	(11,806 )	(11,806 )	(11,806 )	23,612		(11,806 )
Change in pension liability	70	70	70	(140 )		70
Comprehensive income (loss)	25,810	35,698	16,833	(52,556 )		25,785
Less: comprehensive (income) loss attributable to noncontrolling interests	—	—	54	—		54
Comprehensive income (loss) attributable to common stockholders	\$25,810	\$ 35,698	\$ 16,887	\$ (52,556 )		\$ 25,839

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(Unaudited)

## Condensed consolidating balance sheets

	June 30, 2016				
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Assets					
Current assets					
Cash and cash equivalents	\$—	\$ 56,637	\$ 80,592	\$—	\$ 137,229
Accounts receivable—trade, net	—	57,119	37,295	—	94,414
Inventories	—	289,728	94,483	(9,176 )	375,035
Cost and profits in excess of billings	—	6,574	3,308	—	9,882
Other current assets	—	16,759	7,195	—	23,954
Total current assets	—	426,817	222,873	(9,176 )	640,514
Property and equipment, net of accumulated depreciation	—	145,035	28,545	—	173,580
Deferred financing costs, net	1,581	—	—	—	1,581
Deferred income taxes, net	—	—	736	—	736
Intangibles	—	176,649	55,870	—	232,519
Goodwill	—	481,374	181,555	—	662,929
Investment in unconsolidated subsidiary	—	58,109	—	—	58,109
Investment in affiliates	1,128,470	481,545	—	(1,610,015 )	—
Long-term advances to affiliates	468,023	—	60,621	(528,644 )	—
Other long-term assets	—	2,485	733	—	3,218
Total assets	\$ 1,598,074	\$ 1,772,014	\$ 550,933	\$ (2,147,835)	\$ 1,773,186
Liabilities and equity					
Current liabilities					
Current portion of long-term debt	\$—	\$ 33	\$ 11	\$—	\$ 44
Accounts payable—trade	—	54,250	14,791	—	69,041
Accrued liabilities	6,674	35,939	8,524	—	51,137
Deferred revenue	—	1,831	7,261	—	9,092
Billings in excess of costs and profits	—	365	2,022	—	2,387
Total current liabilities	6,674	92,418	32,609	—	131,701
Long-term debt, net of current portion	396,318	9	7	—	396,334
Long-term payables to affiliates	—	528,644	—	(528,644 )	—
Deferred income taxes, net	—	6,353	12,331	—	18,684
Other long-term liabilities	—	16,120	14,739	—	30,859
Total liabilities	402,992	643,544	59,686	(528,644 )	577,578
Total stockholder's equity	1,195,082	1,128,470	490,721	(1,619,191 )	1,195,082
Noncontrolling interest in subsidiary	—	—	526	—	526
Equity	1,195,082	1,128,470	491,247	(1,619,191 )	1,195,608
Total liabilities and equity	\$ 1,598,074	\$ 1,772,014	\$ 550,933	\$ (2,147,835)	\$ 1,773,186

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Forum Energy Technologies, Inc. and subsidiaries  
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## Condensed consolidating balance sheets

	December 31, 2015				Consolidated
	FET (Parent)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (in thousands)	Eliminations	
Assets					
Current assets					
Cash and cash equivalents	\$—	\$ 36,884	\$ 72,365	\$—	\$ 109,249
Accounts receivable—trade, net	—	85,537	53,060	—	138,597
Inventories	—	318,360	115,165	(9,404 )	424,121
Cost and profits in excess of billings	—	6,477	5,532	—	12,009
Other current assets	—	25,447	8,389	—	33,836
Total current assets	—	472,705	254,511	(9,404 )	717,812
Property and equipment, net of accumulated depreciation	—	153,995	32,672	—	186,667
Deferred financing costs, net	4,125	—	—	—	4,125
Deferred income tax, net	—	—	780	—	780
Intangibles	—	186,234	60,416	—	246,650
Goodwill	—	481,374	187,662	—	669,036
Investment in unconsolidated subsidiary	—	57,719	—	—	57,719
Investment in affiliates	1,188,707	514,893	—	(1,703,600 )	—
Long-term advances to affiliates	467,184	—	60,221	(527,405 )	—
Other long-term assets	—	2,549	704	—	3,253
Total assets	\$ 1,660,016	\$ 1,869,469	\$ 596,966	\$ (2,240,409)	\$ 1,886,042
Liabilities and equity					
Current liabilities					
Current portion of long-term debt	\$—	\$ 243	\$ 10	\$—	\$ 253
Accounts payable—trade	\$—	\$ 57,529	\$ 19,294	\$—	\$ 76,823
Accrued liabilities	7,027	40,874	10,662	—	58,563
Deferred revenue	—	1,334	5,949	—	7,283
Billings in excess of costs and profits recognized	—	1,872	6,759	—	8,631
Total current liabilities	7,027	101,852	42,674	—	151,553
Long-term debt, net of current portion	395,970	34	12	—	396,016
Long-term payables to affiliates	—	527,406	—	(527,406 )	—
Deferred income taxes, net	—	36,937	14,163	—	51,100
Other long-term liabilities	—	14,533	—	—	14,533