

FORUM ENERGY TECHNOLOGIES, INC.

Form 10-Q

November 01, 2017

Table of Contents

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 September 30, 2017

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, 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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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 October 31, 2017, there were 108,096,622 common shares outstanding.



Table of Contents

Table of Contents

|  |           |
|--|-----------|
| <u>PART I - FINANCIAL INFORMATION</u>  | <u>3</u>  |
| <u>Item 1. Financial Statements</u>  | <u>3</u>  |
| <u>Condensed consolidated statements of comprehensive income (loss)</u>                              | <u>3</u>  |
| <u>Condensed consolidated balance sheets</u>   | <u>4</u>  |
| <u>Condensed consolidated statements of cash flows</u>   | <u>5</u>  |
| <u>Notes to condensed consolidated financial statements</u>  | <u>6</u>  |
| <u>Item 2. Management's discussion and analysis of financial condition and results of operations</u> | <u>24</u> |
| <u>Item 3. Quantitative and qualitative disclosures about market risk</u>                            | <u>36</u> |
| <u>Item 4. Controls and procedures</u>   | <u>36</u> |
| <u>PART II - OTHER INFORMATION</u>   | <u>36</u> |
| <u>Item 1. Legal proceedings</u>   | <u>36</u> |
| <u>Item 1A. Risk factors</u>   | <u>36</u> |
| <u>Item 2. Unregistered sales of equity securities and use of proceeds</u>                           | <u>36</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>   | <u>37</u> |
| <u>Item 4. Mine Safety Disclosures</u>   | <u>37</u> |
| <u>Item 5. Other Information</u>   | <u>37</u> |
| <u>Item 6. Exhibits</u>  | <u>38</u> |
| <u>SIGNATURES</u>  | <u>39</u> |

Table of Contents

## 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    |             | Nine months ended     |             |
|---|-----------------------|-------------|-----------------------|-------------|
|   | September 30,<br>2017 | 2016        | September 30,<br>2017 | 2016        |
| Net sales   | \$198,709             | \$138,268   | \$570,920             | \$440,432   |
| Cost of sales   | 151,150               | 108,984     | 435,127               | 371,310     |
| Gross profit  | 47,559                | 29,284      | 135,793               | 69,122      |
| Operating expenses  |                       |             |                       |             |
| Selling, general and administrative expenses                        | 63,191                | 53,362      | 185,760               | 171,638     |
| Transaction expenses  | 882                   | 341         | 1,755                 | 571         |
| Goodwill and intangible asset impairment                            | 638                   | —           | 68,642                | —           |
| Loss on sale of assets and other                                    | 128                   | 2,217       | 1,517                 | 2,233       |
| Total operating expenses  | 64,839                | 55,920      | 257,674               | 174,442     |
| Earnings from equity investment                                     | 3,361                 | 414         | 7,391                 | 1,207       |
| Operating loss  | (13,919 )             | (26,222 )   | (114,490 )            | (104,113 )  |
| Other expense (income)  |                       |             |                       |             |
| Interest expense  | 6,366                 | 6,746       | 19,331                | 20,664      |
| Deferred financing costs written off                                | —                     | —           | —                     | 2,588       |
| Foreign exchange losses (gains) and other, net                      | 2,360                 | (3,152 )    | 6,508                 | (14,546 )   |
| Total other expense   | 8,726                 | 3,594       | 25,839                | 8,706       |
| Loss before income taxes  | (22,645 )             | (29,816 )   | (140,329 )            | (112,819 )  |
| Income tax benefit  | (7,817 )              | (11,821 )   | (31,860 )             | (43,374 )   |
| Net loss  | (14,828 )             | (17,995 )   | (108,469 )            | (69,445 )   |
| Less: Income (loss) attributable to noncontrolling interest         | —                     | (6 )        | —                     | 24          |
| Net loss attributable to common stockholders                        | (14,828 )             | (17,989 )   | (108,469 )            | (69,469 )   |
| Weighted average shares outstanding                                 |                       |             |                       |             |
| Basic   | 96,275                | 90,860      | 96,103                | 90,682      |
| Diluted   | 96,275                | 90,860      | 96,103                | 90,682      |
| Loss per share  |                       |             |                       |             |
| Basic   | \$(0.15 )             | \$(0.20 )   | \$(1.13 )             | \$(0.77 )   |
| Diluted   | \$(0.15 )             | \$(0.20 )   | \$(1.13 )             | \$(0.77 )   |
| Other comprehensive income (loss), net of tax:                      |                       |             |                       |             |
| Net loss  | (14,828 )             | (17,995 )   | (108,469 )            | (69,445 )   |
| Change in foreign currency translation, net of tax of \$0           | 11,547                | (6,243 )    | 34,094                | (25,618 )   |
| Loss on pension liability   | (36 )                 | (14 )       | (133 )                | (33 )       |
| Comprehensive loss  | (3,317 )              | (24,252 )   | (74,508 )             | (95,096 )   |
| Less: comprehensive income attributable to noncontrolling interests | —                     | (27 )       | —                     | (156 )      |
| Comprehensive loss attributable to common stockholders              | \$(3,317 )            | \$(24,279 ) | \$(74,508 )           | \$(95,252 ) |

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



Table of Contents

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

| (in thousands, except share information)   | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current assets   |                       |                      |
| Cash and cash equivalents  | \$ 156,392            | \$ 234,422           |
| Accounts receivable—trade, net   | 154,376               | 105,268              |
| Inventories, net   | 394,103               | 338,583              |
| Income tax receivable  | 1,872                 | 32,801               |
| Prepaid expenses and other current assets  | 27,705                | 29,443               |
| Costs and estimated profits in excess of billings  | 9,395                 | 9,199                |
| Total current assets   | 743,843               | 749,716              |
| Property and equipment, net of accumulated depreciation  | 149,016               | 152,212              |
| Deferred financing costs, net  | 657                   | 1,112                |
| Intangible assets  | 224,565               | 216,418              |
| Goodwill   | 619,632               | 652,743              |
| Investment in unconsolidated subsidiary  | 64,499                | 59,140               |
| Deferred income taxes, net   | 9,719                 | 851                  |
| Other long-term assets   | 2,924                 | 3,000                |
| Total assets   | \$ 1,814,855          | \$ 1,835,192         |
| Liabilities and equity   |                       |                      |
| Current liabilities  |                       |                      |
| Current portion of long-term debt  | \$ 1,133              | \$ 124               |
| Accounts payable—trade   | 123,148               | 73,775               |
| Accrued liabilities  | 64,718                | 55,604               |
| Deferred revenue   | 8,506                 | 8,338                |
| Billings in excess of costs and profits recognized   | 1,530                 | 4,004                |
| Total current liabilities  | 199,035               | 141,845              |
| Long-term debt, net of current portion   | 398,145               | 396,747              |
| Deferred income taxes, net   | 4,175                 | 26,185               |
| Other long-term liabilities  | 34,858                | 34,654               |
| Total liabilities  | 636,213               | 599,431              |
| Commitments and contingencies  |                       |                      |
| Equity   |                       |                      |
| Common stock, \$0.01 par value, 296,000,000 shares authorized, 104,789,172 and 103,682,128 shares issued | 1,048                 | 1,037                |
| Additional paid-in capital   | 1,016,458             | 998,169              |
| Treasury stock at cost, 8,190,362 and 8,174,963 shares   | (134,293)             | (133,941)            |
| Retained earnings  | 389,705               | 498,174              |
| Accumulated other comprehensive loss   | (94,276)              | (128,237)            |
| Total stockholders' equity   | 1,178,642             | 1,235,202            |
| Noncontrolling interest in subsidiary  | —                     | 559                  |
| Total equity   | 1,178,642             | 1,235,761            |
| Total liabilities and equity   | \$ 1,814,855          | \$ 1,835,192         |

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



Table of Contents

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

|  | Nine Months Ended<br>September 30, |            |
|--|------------------------------------|------------|
| (in thousands, except share information)   | 2017                               | 2016       |
| Cash flows from operating activities   |                                    |            |
| Net loss   | \$(108,469)                        | \$(69,445) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities |                                    |            |
| Depreciation expense   | 25,212                             | 27,141     |
| Amortization of intangible assets  | 20,030                             | 19,709     |
| Goodwill and intangible asset impairment   | 68,642                             | —          |
| Share-based compensation expense   | 15,219                             | 15,521     |
| Inventory write down   | 1,376                              | 24,479     |
| Deferred income taxes  | (31,041)                           | (12,988)   |
| Deferred loan cost written off   | —                                  | 2,588      |
| Earnings from unconsolidated subsidiary, net of distributions                            | (4,317)                            | (804)      |
| Other  | 4,548                              | 4,137      |
| Changes in operating assets and liabilities  |                                    |            |
| Accounts receivable—trade  | (43,167)                           | 35,673     |
| Inventories  | (44,288)                           | 44,538     |
| Prepaid expenses and other current assets  | 1,684                              | 7,113      |
| Income tax receivable  | 30,929                             | (32,801)   |
| Accounts payable, deferred revenue and other accrued liabilities                         | 49,126                             | (15,130)   |
| Costs and estimated profits in excess of billings, net                                   | (2,567)                            | (5,511)    |
| Net cash provided by (used in) operating activities                                      | \$(17,083)                         | \$44,220   |
| Cash flows from investing activities   |                                    |            |
| Acquisition of businesses, net of cash acquired  | (47,890)                           | (2,700)    |
| Capital expenditures for property and equipment  | (19,656)                           | (13,438)   |
| Proceeds from sale of business, property and equipment                                   | 1,849                              | 3,710      |
| Investment in unconsolidated subsidiary  | \$(1,041)                          | \$—        |
| Net cash used in investing activities  | \$(66,738)                         | \$(12,428) |
| Cash flows from financing activities   |                                    |            |
| Repayment of debt  | (1,140)                            | (254)      |
| Cash paid for net treasury shares withheld   | (4,667)                            | (1,273)    |
| Proceeds from stock issuance   | 2,896                              | 2,742      |
| Deferred financing costs   | —                                  | (513)      |
| Net cash provided by (used in) financing activities                                      | \$(2,911)                          | \$702      |
| Effect of exchange rate changes on cash  | 8,702                              | (9,209)    |
| Net increase (decrease) in cash and cash equivalents                                     | (78,030)                           | 23,285     |
| Cash and cash equivalents  |                                    |            |
| Beginning of period  | 234,422                            | 109,249    |
| End of period  | \$156,392                          | \$132,534  |
| Noncash investing activities   |                                    |            |
| Acquisition via issuance of stock  | \$4,500                            | \$—        |

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





Table of Contents

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

1. Organization and basis of presentation

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

Basis of presentation

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

The Company's investment in an operating entity where the Company has the ability to exert significant influence, but does not control operating and financial policies is accounted for using the equity method. The Company's share of the net income of this entity is recorded as "Earnings from equity investment" in the condensed consolidated statements of comprehensive income (loss). The investment in this entity is included in "Investment in unconsolidated subsidiary" in the condensed consolidated balance sheets. The Company reports its share of equity earnings within operating income (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 nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 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, 2016, which are included in the Company's 2016 Annual Report on Form 10-K filed with the SEC on February 28, 2017 (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 September 2017, the FASB issued Accounting Standard Updates ("ASU") No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. This ASU codifies the text of the SEC announcement, as it relates to revenue recognition and leases. The ASU also rescinds certain codified SEC announcements and comments that are no longer applicable upon adoption of ASU No. 2014-09 and ASU No. 2016-02. These recent accounting pronouncements related to revenue and leases are discussed later in this footnote.

In May 2017, the FASB issued ASU No. 2017-09 Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share based payment award as a modification. Under the new ASU, an entity should apply modification accounting unless the fair value, the vesting conditions, and the classification of the award as equity or liability of the modified award all remain the same as the original award. The ASU should be adopted prospectively for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04 Intangibles- Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from

the goodwill impairment test where the implied fair value of goodwill needs to be determined and compared to the carrying amount of that goodwill to measure the impairment loss. The Company is required to adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and

6

---

Table of Contents

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

early adoption is permitted. The Company has early adopted the standard in the first quarter of 2017. During the second quarter of 2017, the Company applied this new ASU to perform the goodwill impairment analysis. See Note 6, Goodwill and intangible assets for more details.

In January 2017, the FASB issued ASU No. 2017-01 Business Combination (Topic 805) - Clarifying the Definition of a Business, in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance will be effective for annual periods beginning after December 15, 2017, including interim periods within those periods, and is not expected to have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 Statement of Cash Flows (Topic 230) - Restricted Cash a consensus of the FASB Emerging Issues Task Force. This new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, and is not expected to have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16 Income Tax (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This new guidance eliminates this exception and requires the income tax consequences of an intra-entity transfer of an asset other than inventory be recognized when the transfer occurs. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, and should be applied on a modified retrospective basis through a direct cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The ASU is not expected to have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15 Cash Flow Statement (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. This new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice, including: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The only issue currently relevant to the Company is distributions received from equity method investees, where the new guidance allows an accounting policy election between the cumulative earnings approach and the nature of the distribution approach. The Company will continue to use the cumulative earnings approach, therefore the guidance is not expected to have a material impact on the Company's consolidated financial statements. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.

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 how share-based payments are accounted for and presented in the financial statements. The Company applied the update prospectively beginning January 1, 2017. This guidance did not have a material impact on the Company's Consolidated Financial Statements.

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. Entities must apply a five-step process to (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when

Table of Contents

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

(or as) the entity satisfies a performance obligation. ASU 2014-09 also mandates disclosure of sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The disclosure requirements include qualitative and quantitative information about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance permits the entity to use either a full retrospective or modified retrospective transition method. The FASB issued several subsequent updates in 2015 through 2017 containing implementation guidance related to the new standard. These standards provide additional guidance related to principal versus agent considerations, licensing, and identifying performance obligations. Additionally, these standards provide narrow-scope improvements and practical expedients as well as technical corrections and improvements. Overall, the new guidance is to be effective for the fiscal year beginning after December 15, 2017. Companies are able to early adopt the pronouncement, but not before fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact of the pending adoption of the revised guidance. The status of implementation is as follows:

• The Company has put in place an implementation team to provide training and to review contracts subject to the new revenue standard.

• The implementation team continues to review contracts for the areas identified during the initial impact assessment and monitor the potential impact on the Company's financial statements and related disclosures.

• The implementation team is putting new processes and controls in place in anticipation of the new guidance.

• The implementation team is providing internal training and awareness related to the revised guidance to key stakeholders throughout our organization.

The Company will adopt this standard using the modified retrospective method and elect to apply the revenue standard only to contracts that are not completed as of the date of initial application. The Company does not expect a material adjustment to the consolidated financial statements upon transition.

### 3. Cash and cash equivalents

Cash and cash equivalents at September 30, 2017 are comprised of bank deposits and short-term investments with an original maturity of three months or less, such as money market funds, the fair value of which is based on quoted market prices, a Level 1 fair value measure.

### 4. Acquisitions

#### 2017 Acquisitions

On January 9, 2017, the Company acquired substantially all of the assets of Cooper Valves, LLC as well as 100% of the general partnership interests of Innovative Valve Components (collectively, "Cooper") for total aggregate consideration of \$14.0 million, after settlement of working capital adjustments. The aggregate consideration includes the issuance of stock valued at \$4.5 million and certain contingent cash payments. These acquisitions are included in the Production and Infrastructure segment. The acquired Cooper brands include the Accuseal® metal seated ball valves engineered to meet Class VI shut off standards for use in severe service applications, as well as a full line of cast and forged gate, globe, and check valves. Innovative Valve Components, in partnership with Cooper Valves, commercialized critical service valves and components for the power generation, mining and oil and natural gas industries. The fair values of the assets acquired and liabilities assumed have not been presented because they are not material to the consolidated financial statements. Pro forma results of operations for this acquisition have not been presented because the effects were not material to the consolidated financial statements.

Table of Contents

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

On July 3, 2017, the Company acquired Multilift Welltec, LLC and Multilift Wellbore Technology Limited (collectively, "Multilift") for approximately \$39.4 million in cash consideration. These acquisitions are included in the Completions segment. Based in Houston, Texas, Multilift manufactures the patented SandGuard™ and the Cyclone™ completion tools. This acquisition increases the Company's product offering related to artificial lift to our completions customers. The Company intends to utilize its distribution system to increase Multilift's sales with additional customers and through geographic expansion. As the value of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date, including any post-closing purchase price adjustments. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to identified intangibles and goodwill. The following table summarizes the current fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

|   |              |
|---|--------------|
|   | 2017         |
|   | Acquisitions |
| Current assets, net of cash acquired  | \$ 3,767     |
| Property and equipment  | 96           |
| Intangible assets (primarily developed technologies and customer relationships) | 17,211       |
| Tax-deductible goodwill   | 16,711       |
| Non-tax deductible goodwill   | 2,623        |
| Current liabilities   | (1,014 )     |
| Long-term liabilities   | —            |
| Net assets acquired   | \$ 39,394    |

Revenue and net income related to the 2017 acquisitions were not significant for the quarter ended September 30, 2017. Pro forma results of operations for the 2017 acquisitions have not been presented because the effects were not material to the consolidated financial statements.

Subsequent to September 30, 2017, the Company acquired the remaining membership interests in Global Tubing, LLC ("Global Tubing"). See Note 15, Subsequent event, for more details.

## 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 oilfield service providers, packer repair companies and distributors on a global basis. This acquisition is included in the Completions segment. The fair values of the assets acquired and liabilities assumed have not been presented because they are not material to the consolidated financial statements. Pro forma results of operations for the 2016 acquisition have not been presented because the effects were not material to the consolidated financial statements.

## 5. Inventories

The Company's significant components of inventory at September 30, 2017 and December 31, 2016 were as follows (in thousands):

|                         | September 30,<br>2017 | December 31,<br>2016 |
|-------------------------|-----------------------|----------------------|
| Raw materials and parts | \$ 119,572            | \$ 106,329           |
| Work in process         | 45,580                | 23,303               |
| Finished goods          | 290,657               | 277,303              |
| Gross inventories       | 455,809               | 406,935              |

|                   |            |   |            |   |
|-------------------|------------|---|------------|---|
| Inventory reserve | (61,706    | ) | (68,352    | ) |
| Inventories       | \$ 394,103 |   | \$ 338,583 |   |

9

---



Table of Contents

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

## 6. Goodwill and intangible assets

## Goodwill

The changes in the carrying amount of goodwill from December 31, 2016 to September 30, 2017, were as follows (in thousands):

|   | Drilling &<br>Subsea | Completions | Production &<br>Infrastructure | Total     |
|---|----------------------|-------------|--------------------------------|-----------|
| Goodwill Balance at December 31, 2016         | \$307,806            | \$ 327,293  | \$ 17,644                      | \$652,743 |
| Acquisitions, net of dispositions             | —                    | 19,334      | 1,311                          | 20,645    |
| Impairment                                    | (68,004 )            | —           | —                              | (68,004 ) |
| Impact of non-U.S. local currency translation | 10,288               | 3,710       | 250                            | 14,248    |
| Goodwill Balance at September 30, 2017        | \$250,090            | \$ 350,337  | \$ 19,205                      | \$619,632 |

The Company performs its annual impairment tests of goodwill as of October 1 or when there is an indication an impairment may have occurred.

In the second quarter of 2017, there was a decline in oil prices and a developing consensus view that production from lower cost oil basins would be sufficient to meet anticipated demand for a longer period, delaying the need for production from higher cost basins. With this indication of further delays in the recovery of the offshore market, the Company performed an impairment test and determined that the carrying value of the goodwill in our Subsea reporting unit was impaired. The Company recorded an impairment charge of \$68.0 million for the quarter ended June 30, 2017. Following the impairment charge, the Subsea reporting unit has no remaining balance in goodwill. There was no indication an impairment may have occurred in the other reporting units.

The fair values used in the impairment analysis were determined using the net present value of the expected future cash flows for the reporting unit. During the Company's goodwill impairment analysis, the Company determines the fair value of the reporting unit as a whole using a discounted cash flow analysis, which requires significant assumptions and estimates about future operations. The assumptions about future cash flows and growth rates are based on our current budget for the remainder of the current year, for future periods, as well as our strategic plans and management's beliefs about future activity levels. The discount rate we used for future periods could change substantially if the cost of debt or equity were to significantly increase or decrease, or if we were to choose different comparable companies in determining the appropriate discount rate for our reporting units. Forecasted cash flows in future periods were estimated using a terminal value calculation, which considered long-term earnings growth rates. Accumulated impairment losses on goodwill were \$236.8 million and \$168.8 million as of September 30, 2017 and December 31, 2016.

Table of Contents

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

## Intangible assets

Intangible assets consisted of the following as of September 30, 2017 and December 31, 2016, respectively (in thousands):

|                           | September 30, 2017    |                          |                             |                                |
|---------------------------|-----------------------|--------------------------|-----------------------------|--------------------------------|
|                           | Gross carrying amount | Accumulated amortization | Net amortizable intangibles | Amortization period (in years) |
| Customer relationships    | \$280,116             | \$(131,030)              | \$ 149,086                  | 4-15                           |
| Patents and technology    | 52,260                | (14,797)                 | 37,463                      | 5-17                           |
| Non-compete agreements    | 6,621                 | (5,950)                  | 671                         | 3-6                            |
| Trade names               | 46,813                | (20,836)                 | 25,977                      | 10-15                          |
| Distributor relationships | 22,160                | (16,022)                 | 6,138                       | 8-15                           |
| Trademark                 | 5,230                 | —                        | 5,230                       | Indefinite                     |
| Intangible Assets Total   | \$413,200             | \$(188,635)              | \$ 224,565                  |                                |
|                           | December 31, 2016     |                          |                             |                                |
|                           | Gross carrying amount | Accumulated amortization | Net amortizable intangibles | Amortization period (in years) |
| Customer relationships    | \$270,586             | \$(115,381)              | \$ 155,205                  | 4-15                           |
| Patents and technology    | 33,936                | (12,225)                 | 21,711                      | 5-17                           |
| Non-compete agreements    | 6,230                 | (5,594)                  | 636                         | 3-6                            |
| Trade names               | 44,494                | (17,944)                 | 26,550                      | 10-15                          |
| Distributor relationships | 22,160                | (15,074)                 | 7,086                       | 8-15                           |
| Trademark                 | 5,230                 | —                        | 5,230                       | Indefinite                     |
| Intangible Assets Total   | \$382,636             | \$(166,218)              | \$ 216,418                  |                                |

Intangible assets with definite lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. During the quarter ended September 30, 2017, an impairment loss of \$0.6 million was recorded on certain intangible assets within the Subsea reporting unit for intangible assets related to a specific product line as the decision was made in the third quarter 2017 to abandon this specific product line.

## 7. Debt

Notes payable and lines of credit as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

|  | September 30, 2017 | December 31, 2016 |
|--|--------------------|-------------------|
| 6.25% Senior Notes due October 2021      | \$ 400,000         | \$ 400,000        |
| Unamortized debt premium                 | 1,684              | 1,989             |
| Debt issuance cost                       | (4,497)            | (5,324)           |
| Senior secured revolving credit facility | —                  | —                 |
| Other debt                               | 2,091              | 206               |
| Total debt                               | 399,278            | 396,871           |
| Less: current maturities                 | (1,133)            | (124)             |
| Long-term debt                           | \$ 398,145         | \$ 396,747        |

## 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

Table of Contents

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

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, we amended our credit facility with Wells Fargo Bank, National Association, as administrative agent, and several financial institutions as lenders (the "Credit Facility") to reduce lender commitments to \$200.0 million. On December 12, 2016, we further amended the Credit Facility (such further amendment, the "Amended Credit Facility"), to, among other things, reduce revolving credit line commitments from \$200.0 million to \$140.0 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 Credit Facility was 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.

As of September 30, 2017 and December 31, 2016, the Company had no borrowings outstanding under the Credit Facility. As of September 30, 2017, the Company had \$7.3 million of outstanding letters of credit. At September 30, 2017, the Company had the capacity to borrow an additional \$113.3 million subject to certain limitations in the Credit Facility. Weighted average interest rates under the Credit Facility for the nine months ended September 30, 2017 and the year ended December 31, 2016 were approximately 3.00%. As of September 30, 2017, there had been no changes to the financial covenants described in Item 8 of the Annual Report and the Company was in compliance with all financial covenants.

On October 30, 2017, the Company further amended and restated the Credit Facility (such amended and restated credit agreement, the "2017 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 2017 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. The Company's borrowing capacity under the 2017 Credit Facility could be reduced or eliminated, depending on future receivables and fluctuations in the Company's inventory. The 2017 Credit Facility matures in July 2021, but if the Company's outstanding Notes due October 2021 are refinanced or replaced with indebtedness maturing in or after February 2023, the final maturity of the 2017 Credit Facility will automatically extend to October 2022.

If excess availability under the 2017 Credit Facility falls below the greater of 10.0% of the line cap and \$20.0 million, the Company 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 availability under the 2017 Credit Facility exceeds such thresholds for at least 60 consecutive days.

**8. Income taxes**

The Company's effective tax rate was 22.7% for the nine months ended September 30, 2017 and 38.4% for the nine months ended September 30, 2016. The effective tax rate was 34.5% for the three months ended September 30, 2017 and 39.6% for the three months ended September 30, 2016. Impacting the tax rate for the three and nine months ended September 30, 2017 was the change in the proportion of losses being generated in the United States, which are benefited at a higher statutory tax rate, as compared to earnings being generated outside the United States in jurisdictions subject to lower tax rates. Also impacting the tax rate for the nine months ended September 30, 2017 was the implementation of new accounting guidance related to employee share-based compensation accounting, along with the impairment loss related to non-tax deductible goodwill.

**9. Fair value measurements**

At September 30, 2017 and December 31, 2016, the Company had no debt outstanding under the Credit Facility. At September 30, 2017, the Company had \$7.3 million of outstanding letters of credit.

The fair value of the Company's Senior Notes is estimated using Level 2 inputs in the fair value hierarchy and is based on quoted prices for those or similar instruments. At September 30, 2017, the fair value and the carrying value of the Company's Senior Notes approximated \$402.7 million and \$401.7 million, respectively. At December 31, 2016, the fair value and the carrying value of the Company's Senior Notes each approximated \$402.0 million.

Table of Contents

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

There were no outstanding financial assets as of September 30, 2017 and December 31, 2016 that required measuring the amounts at fair value. The Company did not change its valuation techniques associated with recurring fair value measurements from prior periods and there were no transfers between levels of the fair value hierarchy during the nine months ended September 30, 2017.

## 10. Business segments

The Company reports its results of operations in the following three reportable segments: Drilling & Subsea, Completions and Production & Infrastructure.

In order to better align with the predominant customer base of the segment, the Company has moved management and financial reporting of our AMC branded fully rotational torque machine operations from the Drilling and Subsea segment to the Completions segment. Prior period financial information has been revised to conform with current period presentation with no impact to total segment operating results.

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 |             | Nine months ended |              |
|--|--------------------|-------------|-------------------|--------------|
|  | September 30,      |             | September 30,     |              |
|  | 2017               | 2016        | 2017              | 2016         |
| Revenue:                                 |                    |             |                   |              |
| Drilling & Subsea                        | \$54,700           | \$50,565    | \$180,607         | \$170,120    |
| Completions                              | 60,037             | 34,393      | 156,938           | 95,920       |
| Production & Infrastructure              | 84,979             | 54,030      | 235,676           | 176,364      |
| Intersegment eliminations                | (1,007 )           | (720 )      | (2,301 )          | (1,972 )     |
| Total Revenue                            | \$198,709          | \$138,268   | \$570,920         | \$440,432    |
| Operating income (loss):                 |                    |             |                   |              |
| Drilling & Subsea                        | \$(8,872 )         | \$(10,869 ) | \$(23,580 )       | \$(41,545 )  |
| Completions                              | 1,614              | (5,676 )    | (1,223 )          | (39,838 )    |
| Production & Infrastructure              | 4,258              | (713 )      | 7,124             | 494          |
| Corporate                                | (9,271 )           | (6,406 )    | (24,897 )         | (20,420 )    |
| Total segment operating loss             | (12,271 )          | (23,664 )   | (42,576 )         | (101,309 )   |
| Transaction expenses                     | 882                | 341         | 1,755             | 571          |
| Goodwill and intangible asset impairment | 638                | —           | 68,642            | —            |
| Loss on sale of assets and other         | 128                | 2,217       | 1,517             | 2,233        |
| Operating loss                           | \$(13,919 )        | \$(26,222 ) | \$(114,490 )      | \$(104,113 ) |

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

|                             | September 30, December 31, |              |
|-----------------------------|----------------------------|--------------|
|                             | 2017                       | 2016         |
| Assets                      |                            |              |
| Drilling & Subsea           | \$ 650,136                 | \$ 766,234   |
| Completions                 | 768,998                    | 696,208      |
| Production & Infrastructure | 241,433                    | 175,940      |
| Corporate                   | 154,288                    | 196,810      |
| Total assets                | \$ 1,814,855               | \$ 1,835,192 |

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

Table of Contents

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

## 11. Commitments and contingencies

In the ordinary course of business, the Company is, and in the future could be, involved in various pending or threatened legal actions that may or may not be covered by insurance. Management has reviewed such pending judicial and legal proceedings, the reasonably anticipated costs and expenses in connection with such proceedings, and the availability and limits of insurance coverage, and has established reserves that are believed to be appropriate in light of those outcomes that are considered to be probable and can be reasonably estimated. The reserves accrued at September 30, 2017 and December 31, 2016, respectively, are immaterial. It is management's opinion that the Company's ultimate liability, if any, with respect to these actions is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

## 12. 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 |            | Nine Months Ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2017               | 2016       | 2017              | 2016       |
| Net loss attributable to common stockholders | \$(14,828)         | \$(17,989) | \$(108,469)       | \$(69,469) |
| Average shares outstanding (basic)           | 96,275             | 90,860     | 96,103            | 90,682     |
| Common stock equivalents                     | —                  | —          | —                 | —          |
| Diluted shares                               | 96,275             | 90,860     | 96,103            | 90,682     |
| Loss per share                               |                    |            |                   |            |
| Basic loss per share                         | \$(0.15 )          | \$(0.20 )  | \$(1.13 )         | \$(0.77 )  |
| Diluted loss per share                       | \$(0.15 )          | \$(0.20 )  | \$(1.13 )         | \$(0.77 )  |

The diluted loss per share calculation excludes all stock options for the three and nine months ended September 30, 2017 and September 30, 2016 because there was a net loss for the periods.

## 13. Stockholders' equity

## Shares issued for Acquisition

Subsequent to September 30, 2017, the Company issued 11.5 million shares to acquire the remaining membership interests in Global Tubing. See Note 15 for further information.

## Share-based compensation

During the nine months ended September 30, 2017, the Company granted 278,958 options and 971,722 shares of restricted stock or restricted stock units, which includes 124,213 performance share awards with a market condition. The stock options were granted with an exercise price of \$20.10. Of the restricted stock or restricted stock units granted, 789,762 generally vest ratably over four years on each anniversary of the date of grant. 55,971 shares of restricted stock or restricted stock units were granted to the non-employee members of the Board of Directors, which have a twelve month vesting period from the date of grant. The performance share awards granted may settle for between zero and two shares of the Company's common stock. The number of shares issued pursuant to the performance share awards will be determined based on the total shareholder return of the Company's common stock as compared to a group of peer companies, measured annually over a one year, two year and three year performance period.

Table of Contents

Forum Energy Technologies, Inc. and subsidiaries

Notes to condensed consolidated financial statements (continued)

(Unaudited)

14. 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 condensed consolidated financial statements.

15. Subsequent event

On October 2, 2017, the Company acquired the remaining membership interests in Global Tubing from its joint venture partner and management for total consideration of approximately \$294.0 million, including approximately \$120.5 million in cash and approximately 11.5 million shares of the Company's common stock. The Company acquired Global Tubing with a joint venture partner in 2013. Prior to acquiring a 100% ownership interest in Global Tubing, the Company reported this investment through its Completions segment using the equity method of accounting. Located in Dayton, Texas, Global Tubing provides coiled tubing, coiled line pipe and related services to customers worldwide.

Table of Contents

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

## 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 September 30, 2017 |                           |  |              |              |
|--|---------------------------------------|---------------------------|--|--------------|--------------|
|  | FET<br>(Parent)                       | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in<br>thousands) | Eliminations | Consolidated |
| Net sales  | \$—                                   | \$ 171,031                | \$ 43,121  | \$ (15,443 ) | \$ 198,709   |
| Cost of sales  | —                                     | 133,503                   | 32,877   | (15,230 )    | 151,150      |
| Gross profit   | —                                     | 37,528                    | 10,244   | (213 )       | 47,559       |
| Operating expenses   |                                       |                           |  |              |              |
| Selling, general and administrative expenses                               | —                                     | 51,127                    | 12,064   | —            | 63,191       |
| Transaction expenses   | —                                     | 882                       | —  | —            | 882          |
| Goodwill and intangible asset impairment                                   | —                                     | 638                       | —  | —            | 638          |
| Loss on sale of assets and other   | —                                     | 91                        | 37   | —            | 128          |
| Total operating expenses   | —                                     | 52,738                    | 12,101   | —            | 64,839       |
| Earnings from equity investment  | —                                     | 3,361                     | —  | —            | 3,361        |
| Equity earnings from affiliate, net of tax                                 | (10,467 )                             | (3,959 )                  | —  | 14,426       | —            |
| Operating income (loss)  | (10,467 )                             | (15,808 )                 | (1,857 )   | 14,213       | (13,919 )    |
| Other expense (income)   |                                       |                           |  |              |              |
| Interest expense (income)  | 6,710                                 | (188 )                    | (156 )   | —            | 6,366        |
| Deferred loan costs written off  | —                                     | —                         | —  | —            | —            |
| Foreign exchange (gains) losses and other, net                             | —                                     | (110 )                    | 2,470  | —            | 2,360        |
| Total other expense (income)   | 6,710                                 | (298 )                    | 2,314  | —            | 8,726        |
| Income (loss) before income taxes  | (17,177 )                             | (15,510 )                 | (4,171 )   | 14,213       | (22,645 )    |
| Benefit for income tax expense   | (2,349 )                              | (5,043 )                  | (425 )   | —            | (7,817 )     |
| Net income (loss)  | (14,828 )                             | (10,467 )                 | (3,746 )   | 14,213       | (14,828 )    |
| Less: Income (loss) attributable to noncontrolling interest                | —                                     | —                         | —  | —            | —            |
| Net income (loss) attributable to common stockholders                      | (14,828 )                             | (10,467 )                 | (3,746 )   | 14,213       | (14,828 )    |
| Other comprehensive income (loss), net of tax:                             |                                       |                           |  |              |              |
| Net income (loss)  | (14,828 )                             | (10,467 )                 | (3,746 )   | 14,213       | (14,828 )    |
| Change in foreign currency translation, net of tax of \$0                  | 11,547                                | 11,547                    | 11,547   | (23,094 )    | 11,547       |
| Change in pension liability  | (36 )                                 | (36 )                     | (36 )  | 72           | (36 )        |
| Comprehensive income (loss)  | (3,317 )                              | 1,044                     | 7,765  | (8,809 )     | (3,317 )     |
| Less: comprehensive (income) loss attributable to noncontrolling interests | —                                     | —                         | —  | —            | —            |
| Comprehensive income (loss) attributable to common stockholders            | \$(3,317 )                            | \$ 1,044                  | \$ 7,765   | \$ (8,809 )  | \$(3,317 )   |





Table of Contents

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

## Condensed consolidating statements of comprehensive income (loss)

|  | Three months ended September 30, 2016 |                           |  |              |              |
|--|---------------------------------------|---------------------------|--|--------------|--------------|
|  | FET<br>(Parent)                       | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in<br>thousands) | Eliminations | Consolidated |
| Net sales  | \$—                                   | \$ 101,357                | \$ 44,869  | \$ (7,958 )  | \$ 138,268   |
| Cost of sales  | —                                     | 81,250                    | 36,767   | (9,033 )     | 108,984      |
| Gross profit   | —                                     | 20,107                    | 8,102  | 1,075        | 29,284       |
| Operating expenses   |                                       |                           |  |              |              |
| Selling, general and administrative expenses                               | —                                     | 42,569                    | 10,793   | —            | 53,362       |
| Transaction Expense  | —                                     | 306                       | 35   | —            | 341          |
| Loss (gain) on sale of assets and other                                    | —                                     | 2,130                     | 87   | —            | 2,217        |
| Total operating expenses   | —                                     | 45,005                    | 10,915   | —            | 55,920       |
| Earnings from equity investment  | —                                     | 414                       | —  | —            | 414          |
| Equity earnings from affiliates, net of tax                                | (13,579 )                             | 1,620                     | —  | 11,959       | —            |
| Operating income (loss)  | (13,579 )                             | (22,864 )                 | (2,813 )   | 13,034       | (26,222 )    |
| Other expense (income)   |                                       |                           |  |              |              |
| Interest expense (income)  | 6,785                                 | (84 )                     | 45   | —            | 6,746        |
| Foreign exchange gains and other, net                                      | —                                     | (19 )                     | (3,133 )   | —            | (3,152 )     |
| Total other expense (income)   | 6,785                                 | (103 )                    | (3,088 )   | —            | 3,594        |
| Income before income taxes   | (20,364 )                             | (22,761 )                 | 275  | 13,034       | (29,816 )    |
| Provision for income tax expense (benefit)                                 | (2,375 )                              | (9,182 )                  | (264 )   | —            | (11,821 )    |
| Net income (loss)  | (17,989 )                             | (13,579 )                 | 539  | 13,034       | (17,995 )    |
| Less: Income (loss) attributable to noncontrolling interest                | —                                     | —                         | (6 )   | —            | (6 )         |
| Net income (loss) attributable to common stockholders                      | (17,989 )                             | (13,579 )                 | 545  | 13,034       | (17,989 )    |
| Other comprehensive income (loss), net of tax:                             |                                       |                           |  |              |              |
| Net income (loss)  | (17,989 )                             | (13,579 )                 | 539  | 13,034       | (17,995 )    |
| Change in foreign currency translation, net of tax of \$0                  | (6,243 )                              | (6,243 )                  | (6,243 )   | 12,486       | (6,243 )     |
| Change in pension liability  | (14 )                                 | (14 )                     | (14 )  | 28           | (14 )        |
| Comprehensive income (loss)  | (24,246 )                             | (19,836 )                 | (5,718 )   | 25,548       | (24,252 )    |
| Less: comprehensive (income) loss attributable to noncontrolling interests | —                                     | —                         | (27 )  | —            | (27 )        |
| Comprehensive income (loss) attributable to common stockholders            | \$(24,246)                            | \$(19,836 )               | \$ (5,745 )  | \$ 25,548    | \$(24,279 )  |



Table of Contents

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

## Condensed consolidating statements of comprehensive income (loss)

|  | Nine months ended September 30, 2017 |                           |                               |              |              |
|--|--------------------------------------|---------------------------|-------------------------------|--------------|--------------|
|  | FET<br>(Parent)                      | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|  | (in thousands)                       |                           |                               |              |              |
| Revenue  | \$—                                  | \$ 486,683                | \$ 133,798                    | \$ (49,561 ) | \$ 570,920   |
| Cost of sales  | —                                    | 375,990                   | 108,390                       | (49,253 )    | 435,127      |
| Gross profit   | —                                    | 110,693                   | 25,408                        | (308 )       | 135,793      |
| Operating expenses   |                                      |                           |                               |              |              |
| Selling, general and administrative expenses                               | —                                    | 149,030                   | 36,730                        | —            | 185,760      |
| Transaction expenses   | —                                    | 1,644                     | 111                           | —            | 1,755        |
| Goodwill and intangible asset impairment                                   | —                                    | 32,881                    | 35,761                        | —            | 68,642       |
| Loss on sale of assets and other   | —                                    | 1,433                     | 84                            | —            | 1,517        |
| Total operating expenses   | —                                    | 184,988                   | 72,686                        | —            | 257,674      |
| Earnings from equity investment  | —                                    | 7,391                     | —                             | —            | 7,391        |
| Equity earnings from affiliates, net of tax                                | (95,415 )                            | (48,535 )                 | —                             | 143,950      | —            |
| Operating income (loss)  | (95,415 )                            | (115,439 )                | (47,278 )                     | 143,642      | (114,490 )   |
| Other expense (income)   |                                      |                           |                               |              |              |
| Interest expense (income)  | 20,083                               | (374 )                    | (378 )                        | —            | 19,331       |
| Foreign exchange (gains) losses and other, net                             | —                                    | (297 )                    | 6,805                         | —            | 6,508        |
| Total other expense (income)   | 20,083                               | (671 )                    | 6,427                         | —            | 25,839       |
| Income (loss) before income taxes  | (115,498 )                           | (114,768 )                | (53,705 )                     | 143,642      | (140,329 )   |
| Provision (benefit) for income tax expense                                 | (7,029 )                             | (19,353 )                 | (5,478 )                      | —            | (31,860 )    |
| Net income (loss)  | (108,469 )                           | (95,415 )                 | (48,227 )                     | 143,642      | (108,469 )   |
| Less: Income (loss) attributable to noncontrolling interest                | —                                    | —                         | —                             | —            | —            |
| Net income (loss) attributable to common stockholders                      | (108,469 )                           | (95,415 )                 | (48,227 )                     | 143,642      | (108,469 )   |
| Other comprehensive income (loss), net of tax:                             |                                      |                           |                               |              |              |
| Net income (loss)  | (108,469 )                           | (95,415 )                 | (48,227 )                     | 143,642      | (108,469 )   |
| Change in foreign currency translation, net of tax of \$0                  | 34,094                               | 34,094                    | 34,094                        | (68,188 )    | 34,094       |
| Change in pension liability  | (133 )                               | (133 )                    | (133 )                        | 266          | (133 )       |
| Comprehensive income (loss)  | (74,508 )                            | (61,454 )                 | (14,266 )                     | 75,720       | (74,508 )    |
| Less: comprehensive (income) loss attributable to noncontrolling interests | —                                    | —                         | —                             | —            | —            |
| Comprehensive income (loss) attributable to common stockholders            | \$(74,508)                           | \$(61,454 )               | \$(14,266 )                   | \$ 75,720    | \$(74,508 )  |



Table of Contents

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

## Condensed consolidating statements of comprehensive income (loss)

|  | Nine Months Ended September 30, 2016 |              |               |              |              |
|--|--------------------------------------|--------------|---------------|--------------|--------------|
|  | FET                                  | Guarantor    | Non-Guarantor | Eliminations | Consolidated |
|  | (Parent)                             | Subsidiaries | Subsidiaries  |              |              |
|  | (in thousands)                       |              |               |              |              |
| Revenue  | \$—                                  | \$ 321,734   | \$ 151,383    | \$ (32,685 ) | \$ 440,432   |
| Cost of sales  | —                                    | 281,666      | 123,631       | (33,987 )    | 371,310      |
| Gross profit   | —                                    | 40,068       | 27,752        | 1,302        | 69,122       |
| Operating expenses   |                                      |              |               |              |              |
| Selling, general and administrative expenses                               | —                                    | 137,099      | 34,539        | —            | 171,638      |
| Transaction expenses   | —                                    | 536          | 35            | —            | 571          |
| Loss (gain) on sale of assets and other                                    | —                                    | 2,310        | (77 )         | —            | 2,233        |
| Total operating expenses   | —                                    | 139,945      | 34,497        | —            | 174,442      |
| Earnings from equity investment  | —                                    | 1,207        | —             | —            | 1,207        |
| Equity earnings from affiliates, net of tax                                | (54,323 )                            | 7,765        | —             | 46,558       | —            |
| Operating income (loss)  | (54,323 )                            | (90,905 )    | (6,745 )      | 47,860       | (104,113 )   |
| Other expense (income)   |                                      |              |               |              |              |
| Interest expense (income)  | 20,713                               | (97 )        | 48            | —            | 20,664       |
| Deferred loan costs written off  | 2,588                                | —            | —             | —            | 2,588        |
| Foreign exchange gains and other, net                                      | —                                    | (553 )       | (13,993 )     | —            | (14,546 )    |
| Total other expense (income)   | 23,301                               | (650 )       | (13,945 )     | —            | 8,706        |
| Income (loss) before income taxes  | (77,624 )                            | (90,255 )    | 7,200         | 47,860       | (112,819 )   |
| Provision (benefit) for income tax expense                                 | (8,155 )                             | (35,932 )    | 713           | —            | (43,374 )    |
| Net income (loss)  | (69,469 )                            | (54,323 )    | 6,487         | 47,860       | (69,445 )    |
| Less: Income (loss) attributable to noncontrolling interest                | —                                    | —            | 24            | —            | 24           |
| Net income (loss) attributable to common stockholders                      | (69,469 )                            | (54,323 )    | 6,463         | 47,860       | (69,469 )    |
| Other comprehensive income (loss), net of tax:                             |                                      |              |               |              |              |
| Net income (loss)  | (69,469 )                            | (54,323 )    | 6,487         | 47,860       | (69,445 )    |
| Change in foreign currency translation, net of tax of \$0                  | (25,618 )                            | (25,618 )    | (25,618 )     | 51,236       | (25,618 )    |
| Change in pension liability  | (33 )                                | (33 )        | (33 )         | 66           | (33 )        |
| Comprehensive income (loss)  | (95,120 )                            | (79,974 )    | (19,164 )     | 99,162       | (95,096 )    |
| Less: comprehensive (income) loss attributable to noncontrolling interests | —                                    | —            | (156 )        | —            | (156 )       |
| Comprehensive income (loss) attributable to common stockholders            | \$(95,120)                           | \$(79,974 )  | \$ (19,320 )  | \$ 99,162    | \$(95,252 )  |



Table of Contents

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

## Condensed consolidating balance sheets

|   | September 30, 2017 |                           |   |               |              |
|---|--------------------|---------------------------|---|---------------|--------------|
|   | FET<br>(Parent)    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations  | Consolidated |
| Assets  |                    |                           |   |               |              |
| Current assets  |                    |                           |   |               |              |
| Cash and cash equivalents                               | \$413              | \$86,552                  | \$69,427  | \$—           | \$156,392    |
| Accounts receivable—trade, net                          | —                  | 121,199                   | 33,177  | —             | 154,376      |
| Inventories   | —                  | 324,444                   | 78,407  | (8,748)       | 394,103      |
| Income tax receivable                                   | —                  | 1,872                     | —   | —             | 1,872        |
| Cost and profits in excess of billings                  | —                  | 8,515                     | 880   | —             | 9,395        |
| Other current assets                                    | —                  | 16,251                    | 11,454  | —             | 27,705       |
| Total current assets                                    | 413                | 558,833                   | 193,345   | (8,748)       | 743,843      |
| Property and equipment, net of accumulated depreciation | —                  | 122,196                   | 26,820  | —             | 149,016      |
| Deferred financing costs, net                           | 657                | —                         | —   | —             | 657          |
| Deferred income taxes, net                              | —                  | 1,279                     | 8,440   | —             | 9,719        |
| Intangibles   | —                  | 171,865                   | 52,700  | —             | 224,565      |
| Goodwill  | —                  | 467,337                   | 152,295   | —             | 619,632      |
| Investment in unconsolidated subsidiary                 | —                  | 64,499                    | —   | —             | 64,499       |
| Investment in affiliates                                | 1,020,649          | 443,255                   | —   | (1,463,904)   | —            |
| Long-term advances to affiliates                        | 566,987            | —                         | 76,105  | (643,092)     | —            |
| Other long-term assets                                  | —                  | 2,260                     | 664   | —             | 2,924        |
| Total assets  | \$1,588,706        | \$1,831,524               | \$510,369                                       | \$(2,115,744) | \$1,814,855  |
| Liabilities and equity                                  |                    |                           |   |               |              |
| Current liabilities                                     |                    |                           |   |               |              |
| Current portion of long-term debt                       | \$—                | \$1,023                   | \$110   | \$—           | \$1,133      |
| Accounts payable—trade                                  | —                  | 104,244                   | 18,904  | —             | 123,148      |
| Accrued liabilities                                     | 12,877             | 41,691                    | 10,150  | —             | 64,718       |
| Deferred revenue  | —                  | 3,889                     | 4,617   | —             | 8,506        |
| Billings in excess of costs and profits                 | —                  | 1,018                     | 512   | —             | 1,530        |
| Total current liabilities                               | 12,877             | 151,865                   | 34,293  | —             | 199,035      |
| Long-term debt, net of current portion                  | 397,187            | 949                       | 9   | —             | 398,145      |
| Long-term payables to affiliates                        | —                  | 643,092                   | —   | (643,092)     | —            |
| Deferred income taxes, net                              | —                  | —                         | 4,175   | —             | 4,175        |
| Other long-term liabilities                             | —                  | 14,969                    | 19,889  | —             | 34,858       |
| Total liabilities                                       | 410,064            | 810,875                   | 58,366  | (643,092)     | 636,213      |
| Total stockholder's equity                              | 1,178,642          | 1,020,649                 | 452,003   | (1,472,652)   | 1,178,642    |
| Noncontrolling interest in subsidiary                   | —                  | —                         | —   | —             | —            |
| Equity  | 1,178,642          | 1,020,649                 | 452,003   | (1,472,652)   | 1,178,642    |
| Total liabilities and equity                            | \$1,588,706        | \$1,831,524               | \$510,369                                       | \$(2,115,744) | \$1,814,855  |





Table of Contents

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

## Condensed consolidating balance sheets

|   | December 31, 2016 |                           |   |                |              |
|---|-------------------|---------------------------|---|----------------|--------------|
|   | FET<br>(Parent)   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations   | Consolidated |
| Assets  |                   |                           |   |                |              |
| Current assets  |                   |                           |   |                |              |
| Cash and cash equivalents                               | \$ 65             | \$ 143,275                | \$ 91,082                                       | \$—            | \$ 234,422   |
| Accounts receivable—trade, net                          | —                 | 77,229                    | 28,039  | —              | 105,268      |
| Inventories   | —                 | 269,036                   | 77,987  | (8,440 )       | 338,583      |
| Income tax receivable                                   | —                 | 32,801                    | —   | —              | 32,801       |
| Cost and profits in excess of billings                  | —                 | 4,477                     | 4,722   | —              | 9,199        |
| Other current assets                                    | —                 | 21,013                    | 8,430   | —              | 29,443       |
| Total current assets                                    | 65                | 547,831                   | 210,260   | (8,440 )       | 749,716      |
| Property and equipment, net of accumulated depreciation | —                 | 127,094                   | 25,118  | —              | 152,212      |
| Deferred financing costs, net                           | 1,112             | —                         | —   | —              | 1,112        |
| Deferred income taxes, net                              | —                 | —                         | 851   | —              | 851          |
| Intangibles   | —                 | 166,437                   | 49,981  | —              | 216,418      |
| Goodwill  | —                 | 481,374                   | 171,369   | —              | 652,743      |
| Investment in unconsolidated subsidiary                 | —                 | 59,140                    | —   | —              | 59,140       |
| Investment in affiliates                                | 1,080,337         | 460,166                   | —   | (1,540,503 )   | —            |
| Long-term advances to affiliates                        | 557,061           | —                         | 71,057  | (628,118 )     | —            |
| Other long-term assets                                  | —                 | 2,322                     | 678   | —              | 3,000        |
| Total assets  | \$ 1,638,575      | \$ 1,844,364              | \$ 529,314                                      | \$ (2,177,061) | \$ 1,835,192 |
| Liabilities and equity                                  |                   |                           |   |                |              |
| Current liabilities                                     |                   |                           |   |                |              |
| Current portion of long-term debt                       | \$—               | \$ 23                     | \$ 101  | \$—            | \$ 124       |
| Accounts payable—trade                                  | —                 | 59,261                    | 14,514  | —              | 73,775       |
| Accrued liabilities                                     | 6,708             | 40,630                    | 8,266   | —              | 55,604       |
| Deferred revenue  | —                 | 1,206                     | 7,132   | —              | 8,338        |
| Billings in excess of costs and profits recognized      | —                 | 1,799                     | 2,205   | —              | 4,004        |
| Total current liabilities                               | 6,708             | 102,919                   | 32,218  | —              | 141,845      |
| Long-term debt, net of current portion                  | 396,665           | —                         | 82  | —              | 396,747      |
| Long-term payables to affiliates                        | —                 | 628,118                   | —   | (628,118 )     | —            |
| Deferred income taxes, net                              | —                 | 17,650                    | 8,535   | —              | 26,185       |
| Other long-term liabilities                             | —                 | 15,340                    | 19,314  | —              | 34,654       |
| Total liabilities                                       | 403,373           | 764,027                   | 60,149  | (628,118 )     | 599,431      |
| Total stockholder's equity                              | 1,235,202         | 1,080,337                 | 468,606   | (1,548,943 )   | 1,235,202    |
| Noncontrolling interest in subsidiary                   | —                 | —                         | 559   | —              | 559          |
| Equity  | 1,235,202         | 1,080,337                 | 469,165   | (1,548,943 )   | 1,235,761    |
| Total liabilities and equity                            | \$ 1,638,575      | \$ 1,844,364              | \$ 529,314                                      | \$ (2,177,061) | \$ 1,835,192 |



Table of Contents

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

## Condensed consolidating statements of cash flows

|  | Nine months ended September 30, 2017 |                           |   |              |              |
|--|--------------------------------------|---------------------------|---|--------------|--------------|
|  | FET<br>(Parent)                      | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations | Consolidated |
| Cash flows from (used in) operating activities       | \$(7,671)                            | \$ 2,262                  | \$ (11,674 )                                    | \$ —         | \$(17,083 )  |
| Cash flows from investing activities                 |                                      |                           |   |              |              |
| Acquisition of businesses, net of cash acquired      | —                                    | (42,204 )                 | (5,686 )  | —            | (47,890 )    |
| Capital expenditures for property and equipment      | —                                    | (14,625 )                 | (5,031 )  | —            | (19,656 )    |
| Investment in unconsolidated subsidiary              | —                                    | (1,041 )                  | —   | —            | (1,041 )     |
| Long-term loans and advances to affiliates           | 9,790                                | 7,902                     | —   | (17,692 )    | —            |
| Other  | —                                    | 1,849                     | —   | —            | 1,849        |
| Net cash provided by (used in) investing activities  | \$9,790                              | \$(48,119 )               | \$(10,717 )                                     | \$(17,692 )  | \$(66,738 )  |
| Cash flows from financing activities                 |                                      |                           |   |              |              |
| Repayment of long-term and short-term debt           | —                                    | (1,076 )                  | (64 )   | —            | (1,140 )     |
| Long-term loans and advances to affiliates           | —                                    | (9,790 )                  | (7,902 )  | 17,692       | —            |
| Net treasury shares withheld                         | (4,667 )                             | —                         | —   | —            | (4,667 )     |
| Proceeds from stock issuance                         | 2,896                                | —                         | —   | —            | 2,896        |
| Net cash provided by (used in) financing activities  | \$(1,771)                            | \$(10,866 )               | \$(7,966 )                                      | \$ 17,692    | \$(2,911 )   |
| Effect of exchange rate changes on cash              | —                                    | —                         | 8,702   | —            | 8,702        |
| Net increase (decrease) in cash and cash equivalents | 348                                  | (56,723 )                 | (21,655 )                                       | —            | (78,030 )    |
| Cash and cash equivalents                            |                                      |                           |   |              |              |
| Beginning of period                                  | 65                                   | 143,275                   | 91,082  | —            | 234,422      |
| End of period  | \$413                                | \$ 86,552                 | \$ 69,427                                       | \$ —         | \$ 156,392   |

Table of Contents

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

## Condensed consolidating statements of cash flows

|  | Nine Months Ended September 30, 2016 |                           |   |              |              |
|--|--------------------------------------|---------------------------|---|--------------|--------------|
|  | FET<br>(Parent)                      | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations | Consolidated |
| Cash flows from (used in) operating activities       | \$(6,940)                            | \$ 20,042                 | \$ 51,118                                       | \$(20,000)   | \$ 44,220    |
| Cash flows from investing activities                 |                                      |                           |   |              |              |
| Acquisition of businesses, net of cash acquired      | —                                    | (2,700)                   | —   | —            | (2,700)      |
| Capital expenditures for property and equipment      | —                                    | (9,530)                   | (3,908)   | —            | (13,438)     |
| Long-term loans and advances to affiliates           | 6,049                                | 3,148                     | —   | (9,197)      | —            |
| Other  | —                                    | 3,389                     | 321   | —            | 3,710        |
| Net cash provided by (used in) investing activities  | \$6,049                              | \$ (5,693)                | \$ (3,587)                                      | \$ (9,197)   | \$ (12,428)  |
| Cash flows from financing activities                 |                                      |                           |   |              |              |
| Repayment of long-term debt                          | —                                    | (254)                     | —   | —            | (254)        |
| Long-term loans and advances to affiliates           | —                                    | (6,049)                   | (3,148)   | 9,197        | —            |
| Dividend paid to affiliates                          | —                                    | —                         | (20,000)  | 20,000       | —            |
| Other  | 956                                  | —                         | —   | —            | 956          |
| Net cash provided by (used in) financing activities  | \$956                                | \$ (6,303)                | \$ (23,148)                                     | \$ 29,197    | \$ 702       |
| Effect of exchange rate changes on cash              | —                                    | —                         | (9,209)   | —            | (9,209)      |
| Net increase (decrease) in cash and cash equivalents | 65                                   | 8,046                     | 15,174  | —            | 23,285       |
| Cash and cash equivalents                            |                                      |                           |   |              |              |
| Beginning of period                                  | —                                    | 36,884                    | 72,365  | —            | 109,249      |
| End of period  | \$65                                 | \$ 44,930                 | \$ 87,539                                       | \$ —         | \$ 132,534   |

Table of Contents

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

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

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

Forward-looking statements may include statements about:

- business strategy;
- cash flows and liquidity;
- the volatility and impact of fluctuations 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 gas industry;
- governmental regulation and taxation of the oil and natural gas industry;
- environmental liabilities;
- political, social and economic issues affecting the countries in which we do business;
- our ability to deliver our backlog in a timely fashion;
- our ability to implement new technologies and services;
- availability and terms of capital;
- general economic conditions;
- 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, 2017, 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, subsea, completion, production and infrastructure sectors of the oil and natural gas industry. We design, manufacture and distribute products, and engage in aftermarket services, parts supply and related services that complement our product offering. Our product offering includes a mix of highly engineered capital products and frequently replaced items that are used in the exploration, development, production and transportation of oil and natural gas. Our capital products are directed at: drilling rig equipment for new rigs, upgrades and refurbishment projects; subsea construction and development projects; the placement of production equipment on new producing wells; pressure pumping equipment; and downstream capital projects. Our engineered systems are critical components used on drilling rigs, for completions or in the course of subsea operations, while our consumable products are used to maintain efficient and safe operations at well sites in the well construction process, within the supporting infrastructure, and at processing centers and refineries. Historically, over 60% of our revenue is derived from consumable products and activity-based equipment, while the balance is derived from capital products, and a small amount from rental and other services.

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

We operate three business segments:

**Drilling & Subsea segment.** This segment designs and manufactures products and provides related services to the drilling, energy subsea construction and services markets, and 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; and (ii) 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 well construction, completion, stimulation and intervention markets. The products and related services consist primarily of: (i) well construction casing and cementing equipment, cable protectors used in completions, composite plugs used for zonal isolation in hydraulic fracturing and wireline flow-control products; and (ii) capital and consumable products sold to the pressure pumping, hydraulic fracturing and flowback services markets, including hydraulic fracturing pumps, pump consumables and flow iron as well as coiled tubing, wireline cable, and pressure control equipment used in the well completion and intervention service markets.

**Production & Infrastructure 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 oil and produced water treatment 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 and services is directly related to activity levels and the capital and operating budgets of our customers, which in turn are influenced heavily by energy prices and the expectation as to future trends in those prices.

The probability of any cyclical change in energy prices and the extent and duration of such a change are difficult to predict. In November 2016 the Organization of Petroleum Exporting Countries and other unaffiliated countries

announced that their production levels would be capped or reduced, which led to a modest increase in oil prices in late 2016 and early 2017. These increases in prices and the expectation of an improvement in supply and demand balance led 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 is a driver for our revenue from this region, and the number of those rigs has increased substantially over the past year. Exploration and production operators have continued to drill and complete wells and continue to have improved well economics derived from concentrating activity in basins with the best returns on investment, and enhanced drilling and completion techniques. This increased activity has caused us to experience improved revenue and orders during the first nine months of 2017. Activity in high cost areas, however, especially offshore and in some international areas, is lagging the North America onshore activity recovery. The pace and strength of a recovery in energy markets and in our results remain uncertain. The table below shows average crude oil and natural gas prices for West Texas Intermediate crude oil ("WTI"), United Kingdom Brent crude oil ("Brent"), and Henry Hub natural gas:

|                            | Three months ended |           |           |
|----------------------------|--------------------|-----------|-----------|
|                            | September          | September | September |
|                            | 30,                | 30,       | 30,       |
|                            | 2017               | 2017      | 2016      |
| Average global oil, \$/bbl |                    |           |           |
| West Texas Intermediate    | \$48.18            | \$48.10   | \$ 44.85  |
| United Kingdom Brent       | \$52.10            | \$49.55   | \$ 45.80  |

|  |        |        |         |
|--|--------|--------|---------|
| Average North American Natural Gas, \$/Mcf |        |        |         |
| Henry Hub                                  | \$2.95 | \$3.08 | \$ 2.88 |

Average WTI and Brent oil prices were flat and 5% higher, respectively, in the third quarter of 2017 than in the second quarter of 2017, and were 7% and 14% higher, respectively, than in the third quarter of 2016. Average natural gas prices were 4% lower in the third quarter of 2017 compared to the second quarter of 2017, and 2% higher than in the third quarter of 2016.



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 |             |             |
|-------------------------|--------------------|-------------|-------------|
|                         | September          |             | September   |
|                         | 30,<br>2017        | 30,<br>2017 | 30,<br>2016 |
| Active Rigs by Location |                    |             |             |
| United States           | 946                | 895         | 479         |
| Canada                  | 208                | 117         | 121         |
| International           | 947                | 958         | 936         |
| Global Active Rigs      | 2,101              | 1,970       | 1,536       |

| Land vs. Offshore Rigs |       |       |       |
|------------------------|-------|-------|-------|
| Land                   | 1,883 | 1,748 | 1,291 |
| Offshore               | 218   | 222   | 245   |
| Global Active Rigs     | 2,101 | 1,970 | 1,536 |

| U.S. Commodity Target  |     |     |     |
|------------------------|-----|-----|-----|
| Oil/Gas                | 759 | 717 | 389 |
| Gas                    | 186 | 177 | 88  |
| Unclassified           | 1   | 1   | 2   |
| Total U.S. Active Rigs | 946 | 895 | 479 |

| U.S. Well Path         |     |     |     |
|------------------------|-----|-----|-----|
| Horizontal             | 799 | 751 | 372 |
| Vertical               | 70  | 77  | 62  |
| Directional            | 77  | 67  | 45  |
| Total U.S. Active Rigs | 946 | 895 | 479 |

The U.S. rig count reached a trough of 404 rigs in the second quarter of 2016. Since then the number of working rigs has increased to 940 rigs at the end of September 2017. The average U.S. rig count increased 6% from the second quarter of 2017. A substantial portion of our revenue is impacted by the level of rig activity and the number of wells completed. While the U.S. land rig count has continued to recover, it remains low compared to historical norms.

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

| (in millions of dollars)    | Three months ended |         | Nine months ended |         |
|-----------------------------|--------------------|---------|-------------------|---------|
|                             | September 30,      |         | September 30,     |         |
|                             | 2017               | 2016    | 2017              | 2016    |
| Orders:                     |                    |         |                   |         |
| Drilling & Subsea           | \$49.3             | \$46.3  | \$170.1           | \$150.8 |
| Completions                 | 72.4               | 33.1    | 190.8             | 92.2    |
| Production & Infrastructure | 108.7              | 65.6    | 277.5             | 171.5   |
| Total Orders                | \$230.4            | \$145.0 | \$638.4           | \$414.5 |

## Results of operations

Three months ended September 30, 2017 compared with three months ended September 30, 2016

|   | Three months ended<br>September 30, |             | Favorable /<br>(Unfavorable) |          |
|---|-------------------------------------|-------------|------------------------------|----------|
|   | 2017                                | 2016        | \$                           | %        |
| (in thousands of dollars, except per share information) |                                     |             |                              |          |
| Revenue:  |                                     |             |                              |          |
| Drilling & Subsea                                       | \$54,700                            | \$50,565    | \$4,135                      | 8.2 %    |
| Completions   | 60,037                              | 34,393      | 25,644                       | 74.6 %   |
| Production & Infrastructure                             | 84,979                              | 54,030      | 30,949                       | 57.3 %   |
| Eliminations  | (1,007 )                            | (720 )      | (287 )                       | *        |
| Total revenue   | \$198,709                           | \$138,268   | \$60,441                     | 43.7 %   |
| Operating income (loss):                                |                                     |             |                              |          |
| Drilling & Subsea                                       | \$(8,872 )                          | \$(10,869 ) | \$1,997                      | 18.4 %   |
| Operating income margin %                               | (16.2 )%                            | (21.5 )%    |                              |          |
| Completions   | 1,614                               | (5,676 )    | 7,290                        | 128.4 %  |
| Operating income margin %                               | 2.7 %                               | (16.5 )%    |                              |          |
| Production & Infrastructure                             | 4,258                               | (713 )      | 4,971                        | 697.2 %  |
| Operating income margin %                               | 5.0 %                               | (1.3 )%     |                              |          |
| Corporate   | (9,271 )                            | (6,406 )    | (2,865 )                     | (44.7 )% |
| Total segment operating loss                            | \$(12,271 )                         | \$(23,664 ) | \$11,393                     | 48.1 %   |
| Operating income margin %                               | (6.2 )%                             | (17.1 )%    |                              |          |
| Transaction expenses                                    | 882                                 | 341         | (541 )                       | *        |
| Goodwill and intangible asset impairment                | 638                                 | —           | (638 )                       | *        |
| Loss on sale of assets and other                        | 128                                 | 2,217       | 2,089                        | *        |
| Operating loss  | (13,919 )                           | (26,222 )   | 12,303                       | 46.9 %   |
| Interest expense, net                                   | 6,366                               | 6,746       | 380                          | 5.6 %    |
| Foreign exchange losses (gains) and other, net          | 2,360                               | (3,152 )    | (5,512 )                     | *        |
| Other (income) expense, net                             | 8,726                               | 3,594       | (5,132 )                     | *        |
| Loss before income taxes                                | (22,645 )                           | (29,816 )   | 7,171                        | 24.1 %   |
| Income tax benefit                                      | (7,817 )                            | (11,821 )   | (4,004 )                     | (33.9 )% |
| Net loss  | (14,828 )                           | (17,995 )   | 3,167                        | 17.6 %   |
| Less: Income attributable to non-controlling interest   | —                                   | (6 )        | 6                            | *        |
| Loss attributable to common stockholders                | \$(14,828 )                         | \$(17,989 ) | \$3,161                      | 17.6 %   |
| Weighted average shares outstanding                     |                                     |             |                              |          |
| Basic   | 96,275                              | 90,860      |                              |          |
| Diluted   | 96,275                              | 90,860      |                              |          |
| Loss per share  |                                     |             |                              |          |
| Basic   | \$(0.15 )                           | \$(0.20 )   |                              |          |
| Diluted   | \$(0.15 )                           | \$(0.20 )   |                              |          |

\* not meaningful

## Revenue

Our revenue for the three months ended September 30, 2017 increased \$60.4 million, or 43.7%, to \$198.7 million compared to the three months ended September 30, 2016. In general, the increase in revenue is due to the higher market activity resulting from higher commodity prices. In the third quarter of 2017, we were adversely affected by Hurricane Harvey, which temporarily idled facilities and operations, resulting in foregone revenue. For the three months ended September 30, 2017, our Drilling & Subsea, Completions, and Production & Infrastructure segments comprised 27.0%, 30.2%, and 42.8% of our total revenue, respectively, which compared to 36.0%, 24.9%, and 39.1% of total revenue, respectively, for the three months ended September 30, 2016. The changes in revenue by operating segment consisted of the following:

**Drilling & Subsea segment** — Revenue increased \$4.1 million, or 8.2%, to \$54.7 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase in segment revenue is attributable to increased volumes of our drilling products caused by the significant increase in the average U.S. rig count of 97% compared to the prior year period. In these drilling products, the increase was primarily volume driven as we had particularly strong increases in drilling consumable products to serve the higher rig count. Partially offsetting this increase was a \$4.3 million decrease in the volume of sales of our remotely operated subsea vehicles, and associated systems and other offshore products, which was largely attributable to reduced investment in global offshore projects.

**Completions segment** — Revenue increased \$25.6 million, or 74.6%, to \$60.0 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase in drilling and completions budgets of exploration and production companies have led to an increase in market demand for our completions products. Approximately \$20.5 million of the increase is a result of this increased demand, particularly in North America, for our well stimulation and intervention products. The remaining segment revenue increase was due to higher sales of our downhole products, including revenue from our acquisition of Multilift in the third quarter of 2017. Substantially all of the increase in segment revenue was attributable to higher volumes.

**Production & Infrastructure segment** — Revenue increased \$30.9 million, or 57.3%, to \$85.0 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase in drilling and completions budgets of exploration and production companies and resulting infrastructure spending have led to increased sales of our surface production equipment and valve products. Approximately half of the increase in segment revenue is attributable to higher sales volumes in our activity-based production equipment. The remaining segment revenue increase was due to higher sales of valves, including revenue from our acquisition of Cooper in the first quarter of 2017.

## Segment operating loss and segment operating margin percentage

Segment operating loss for the three months ended September 30, 2017, improved \$11.4 million from \$(23.7) million for the three months ended September 30, 2016 to \$(12.3) million for the three months ended September 30, 2017. For the three months ended September 30, 2017, the segment operating margin percentage of (6.2)% represents an improvement from the (17.1)% operating margin percentage for three months ended September 30, 2016. In the third quarter of 2017, we were adversely affected by Hurricane Harvey, which temporarily idled facilities and operations, resulting in foregone revenue and under-absorption of manufacturing costs. The segment operating margin percentage is calculated by dividing segment operating loss by revenue for the period. The change in operating margin percentage for each segment is explained as follows:

**Drilling & Subsea segment** — The operating margin percentage for this segment improved to (16.2)% for the three months ended September 30, 2017, from (21.5)% for the three months ended September 30, 2016. The third quarter of 2017 included \$2.0 million of severance and facility closure costs. The third quarter of 2016 included \$1.0 million of inventory write-downs due to lower activity levels and reduced pricing and severance and facility closure costs. Operating margins improved in our drilling product line due to higher activity levels, which caused an improvement in manufacturing scale efficiencies, as well as a better mix of higher margin products sales.

**Completions segment** — The operating margin percentage for this segment improved to 2.7% for the three months ended September 30, 2017, from (16.5)% for the three months ended September 30, 2016. The increase in operating margin percentage is due to increased operating leverage on higher revenue and higher volumes, primarily for our stimulation and intervention products. Operating income was positively impacted by better earnings from our

investment in Global Tubing, LLC.

29

---

Production & Infrastructure segment — The operating margin percentage for this segment has improved to 5.0% for the three months ended September 30, 2017, compared to (1.3)% for the three months ended September 30, 2016.

Operating margins improved with the increased volume of revenue in activity-based equipment. Our valves products also had higher gross margins on increased sales activity.

Corporate — Selling, general and administrative expenses for Corporate increased by \$2.9 million, or 44.7% to \$9.3 million, for the three months ended September 30, 2017 compared to the three months ended September 30, 2016, due to higher personnel costs and higher professional fees. Corporate costs include, among other items, payroll related costs for general management and management of finance and administration, legal, human resources; professional fees for legal, accounting and related services; and marketing costs.

Other items not included in segment operating loss

Several items are not included in segment operating loss, but are included in total operating loss. These items include transaction expenses, gains and losses from the sale of assets, and goodwill and intangible assets impairment.

Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses and are not considered to be part of segment operating loss. These costs were \$0.9 million for the three months ended September 30, 2017 and \$0.3 million for the three months ended September 30, 2016.

The Company recorded a goodwill impairment charge of \$68.0 million during the quarter ended June 30, 2017. The Company recorded an impairment charge of \$0.6 million in the quarter ended September 30, 2017 for intangible assets related to a specific product line as the decision was made in the third quarter 2017 to abandon this specific product line. This product line, where the impairment charge was incurred, is within the Subsea reporting unit. No impairment losses on goodwill or indefinite-lived intangible assets were recorded for the three months ended September 30, 2017.

Other income and expense

Other income and expense includes interest expense and foreign exchange gains and losses. We incurred \$6.4 million of interest expense during the three months ended September 30, 2017, a decrease of \$0.4 million from the three months ended September 30, 2016, primarily due to lower commitment fees on the reduced size of our undrawn revolving credit line. The foreign exchange gains or losses are primarily the result of movements in the British pound and the Euro relative to the U.S. dollar. These exchange rate movements create foreign exchange gains or losses when applied to assets or liabilities denominated in currencies other than the location's functional currency. The primary drivers impacting our consolidated statements of comprehensive income (loss) were gains on 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

Tax benefit includes current income taxes expected to be due based on taxable income to be reported during the periods in the various jurisdictions in which we conduct business and deferred income taxes based on changes in the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax purposes at the beginning and end of the respective periods. The effective tax rate, calculated by dividing total tax expense by income before income taxes, was 34.5% for the three months ended September 30, 2017 and 39.6% for the three months ended September 30, 2016. Impacting the tax rate for the three months ended September 30, 2017 was the change in the proportion of losses being generated in the United States, which are benefited at a higher statutory tax rate, as compared to earnings being generated outside the United States in jurisdictions subject to lower tax rates. The effective tax rate can vary from period to period depending on the Company's relative mix of U.S. and non-U.S. earnings.

Nine months ended September 30, 2017 compared with Nine months ended September 30, 2016

We made two acquisitions in the first nine months of 2017 and one in the first nine months of 2016. For additional information about these acquisitions, see Note 4 to the condensed consolidated financial statements in Item 1 of Part I of this quarterly report. Due to these acquisitions, our results of operations for the 2017 period presented may not be comparable to historical results of operations for the 2016 periods.

|   | Nine months ended<br>September 30 |             | Favorable /<br>(Unfavorable) |         |
|---|-----------------------------------|-------------|------------------------------|---------|
|   | 2017                              | 2016        | \$                           | %       |
| (in thousands of dollars, except per share information) |                                   |             |                              |         |
| Revenue:  |                                   |             |                              |         |
| Drilling & Subsea                                       | \$180,607                         | \$170,120   | \$10,487                     | 6.2 %   |
| Completions   | 156,938                           | 95,920      | 61,018                       | 63.6 %  |
| Production & Infrastructure                             | 235,676                           | 176,364     | 59,312                       | 33.6 %  |
| Eliminations  | (2,301 )                          | (1,972 )    | (329 )                       | *       |
| Total revenue   | \$570,920                         | \$440,432   | \$130,488                    | 29.6 %  |
| Operating income (loss):                                |                                   |             |                              |         |
| Drilling & Subsea                                       | \$(23,580 )                       | \$(41,545 ) | \$17,965                     | 43.2 %  |
| Operating income margin %                               | (13.1 )%                          | (24.4 )%    |                              |         |
| Completions   | (1,223 )                          | (39,838 )   | 38,615                       | 96.9 %  |
| Operating income margin %                               | (0.8 )%                           | (41.5 )%    |                              |         |
| Production & Infrastructure                             | 7,124                             | 494         | 6,630                        | *       |
| Operating income margin %                               | 3.0 %                             | 0.3 %       |                              |         |
| Corporate   | (24,897 )                         | (20,420 )   | (4,477 )                     | (21.9)% |
| Total segment operating loss                            | \$(42,576 )                       | \$(101,309) | \$58,733                     | 58.0 %  |
| Operating income margin %                               | (7.5 )%                           | (23.0 )%    |                              |         |
| Transaction expenses                                    | 1,755                             | 571         | (1,184 )                     | *       |
| Goodwill and intangible asset impairment                | 68,642                            | —           | (68,642 )                    | *       |
| Loss on sale of assets and other                        | 1,517                             | 2,233       | 716                          | *       |
| Operating loss  | (114,490 )                        | (104,113 )  | (10,377 )                    | (10.0)% |
| Interest expense, net                                   | 19,331                            | 20,664      | 1,333                        | 6.5 %   |
| Deferred loan costs written off                         | —                                 | 2,588       | 2,588                        | *       |
| Foreign exchange losses (gains) and other, net          | 6,508                             | (14,546 )   | (21,054 )                    | *       |
| Other expense, net                                      | 25,839                            | 8,706       | (17,133 )                    | *       |
| Loss before income taxes                                | (140,329 )                        | (112,819 )  | (27,510 )                    | (24.4)% |
| Income tax benefit                                      | (31,860 )                         | (43,374 )   | (11,514 )                    | (26.5)% |
| Net loss  | (108,469 )                        | (69,445 )   | (39,024 )                    | (56.2)% |
| Less: Income attributable to non-controlling interest   | —                                 | 24          | (24 )                        | *       |
| Loss attributable to common stockholders                | \$(108,469)                       | \$(69,469 ) | \$(39,000 )                  | (56.1)% |
| Weighted average shares outstanding                     |                                   |             |                              |         |
| Basic   | 96,103                            | 90,682      |                              |         |
| Diluted   | 96,103                            | 90,682      |                              |         |
| Loss per share  |                                   |             |                              |         |
| Basic   | \$(1.13 )                         | \$(0.77 )   |                              |         |
| Diluted   | \$(1.13 )                         | \$(0.77 )   |                              |         |

\* not meaningful

## Revenue

Our revenue for the nine months ended September 30, 2017 increased \$130.5 million, or 29.6%, to \$570.9 million compared to the nine months ended September 30, 2016. In general, the increase in revenue is due to the higher market activity resulting from higher commodity prices. In the third quarter of 2017, we were adversely affected by Hurricane Harvey, which temporarily idled facilities and operations, resulting in foregone revenue. For the nine months ended September 30, 2017, our Drilling & Subsea, Completions, and Production & Infrastructure segments comprised 31.2%, 27.5%, and 41.3% of our total revenue, respectively, which compared to 38.2%, 21.8%, and 40.0% of total revenue, respectively, for the nine months ended September 30, 2016. The changes in revenue by operating segment consisted of the following:

**Drilling & Subsea segment** — Revenue increased \$10.5 million, or 6.2%, to \$180.6 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. Approximately \$32 million of the increase relates to increased sales volumes of our drilling products caused by the 79% increase in the average U.S. rig count compared to the prior year period. In our drilling products, the increase was primarily volume driven as we had particularly strong increases in drilling consumable products sold to drilling contractors both for rig mud pump upgrades and to serve the higher rig count. The increase in the drilling products was partially offset by lower volume of sales and lower demand for our remotely operated subsea vehicles, and associated systems and other offshore products, which was largely attributable to reduced investment in global offshore projects.

**Completions segment** — Revenue increased \$61.0 million, or 63.6%, to \$156.9 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase in drilling and completions budgets of exploration and production companies have led to an increase in market demand for our completions products, particularly for our well stimulation products due to the increased in North America activity. Substantially all of the increase in segment revenue was attributable to higher volumes.

**Production & Infrastructure segment** — Revenue increased \$59.3 million, or 33.6%, to \$235.7 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase in drilling and completions budgets of exploration and production companies and resulting infrastructure spending have led to increased sales of our surface production equipment and valve products. Approximately half of the increase is attributable to higher sales volumes in our activity-based production equipment. The remaining segment revenue increase was due to higher sales of valves, including revenue from our acquisition of Cooper in the first quarter of 2017.

## Segment operating loss and segment operating margin percentage

Segment operating loss for the nine months ended September 30, 2017, improved \$58.7 million from \$(101.3) million for the nine months ended September 30, 2016 to \$(42.6) million for the nine months ended September 30, 2017. For the nine months ended September 30, 2017, the segment operating margin percentage of (7.5)% represents an improvement from the (23.0)% operating margin percentage for nine months ended September 30, 2016. In the third quarter of 2017, we were adversely affected by Hurricane Harvey, which temporarily idled facilities and operations, resulting in foregone revenue and under-absorption of manufacturing costs. The segment operating margin percentage is calculated by dividing segment operating loss by revenue for the period. The change in operating margin percentage for each segment is explained as follows:

**Drilling & Subsea segment** — The operating margin percentage for this segment improved to (13.1)% for the nine months ended September 30, 2017, from (24.4)% for the nine months ended September 30, 2016. Operating margins improved in our drilling product line due to higher activity levels, which caused an improvement in manufacturing scale efficiencies, as well as a better mix of higher margin products sales. The nine months ended September 30, 2017 included \$2.6 million of severance and facility closure costs. The nine months ended September 30, 2016 included \$10.3 million of inventory write-downs due to lower activity levels and reduced pricing and severance and facility closure costs. For the segment, the margin improvement for drilling products were partially offset with lower margins for our subsea products due to lower revenue levels resulting in a loss of operating leverage compared to the prior year period.

**Completions segment** — The operating margin percentage for this segment improved to (0.8)% for the nine months ended September 30, 2017, from (41.5)% for the nine months ended September 30, 2016. The nine months ended 2016 included \$20.4 million of inventory write-downs attributable to lower activity levels and reduced pricing and

facility closure costs. The increase in operating margin percentage is due to increased operating leverage on higher revenue and higher volumes. Lastly, operating income (loss) was positively impacted by better earnings from our investment in Global Tubing, LLC.



Production & Infrastructure segment — The operating margin percentage for this segment improved to 3.0% for the nine months ended September 30, 2017, from 0.3% for the nine months ended September 30, 2016. The nine months ended 2017 and 2016 included \$0.6 million and \$3.8 million, respectively, of costs related to facility consolidation and severance. When taking into consideration the facility consolidation costs in the prior year period, operating margin increased slightly, attributable to the higher activity levels leading to increased operating leverage in our activity-based production equipment products.

Corporate — Selling, general and administrative expenses for Corporate increased by \$4.5 million, or 21.9% to \$24.9 million, for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, due to higher personnel costs and higher professional fees. Corporate costs include, among other items, payroll related costs for general management and management of finance and administration, legal, human resources; professional fees for legal, accounting and related services; and marketing costs.

Other items not included in segment operating loss

Several items are not included in segment operating loss, but are included in total operating loss. These items include transaction expenses, gains and losses from the sale of assets, and goodwill impairment. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses and are not considered to be part of segment operating loss. These costs were \$1.8 million for the nine months ended September 30, 2017 and \$0.6 million for the nine months ended September 30, 2016.

The Company recorded a goodwill impairment charge of \$68.0 million for the nine months ended September 30, 2017. The Company also recorded an impairment charge of \$0.6 million for the nine months ended September 30, 2017 related to intangible assets in the Subsea reporting unit.

Other income and expense

Other income and expense includes interest expense and foreign exchange gains and losses. We incurred \$19.3 million of interest expense during the nine months ended September 30, 2017, a decrease of \$1.3 million from nine months ended September 30, 2016 primarily due to lower commitment fees on the reduced size of undrawn revolving credit line. The foreign exchange gains or losses are primarily the result of movements in the British pound and the Euro relative to the U.S. dollar. These movements in the exchange rates create foreign exchange gains or losses when applied to assets or liabilities denominated in currencies other than the location's functional currency. The primary drivers impacting our consolidated statements of comprehensive income (loss) were gains on U.S. dollar denominated cash, trade account receivables and net intercompany receivable balances for our entities using a functional currency other than U.S. dollar. We wrote off \$2.6 million of deferred financing costs as a result of the amendment of our Credit Facility in the first half of 2016 reducing the size of the undrawn revolving credit line.

Taxes

Tax benefit includes current income taxes expected to be due based on taxable income to be reported during the periods in the various jurisdictions in which we conduct business and deferred income taxes based on changes in the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax purposes at the beginning and end of the respective periods. The effective tax rate, calculated by dividing total tax expense by income before income taxes, was 22.7% for the nine months ended September 30, 2017 and 38.4% for the nine months ended September 30, 2016. One item impacting the tax rate for the nine months ended September 30, 2017 was the impairment loss related to non-tax deductible goodwill. Also impacting the tax rate was the implementation of new accounting guidance related to employee share-based compensation accounting. The new guidance now requires that all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement. The Company had a tax related benefit of \$2.3 million from share-based compensation awards in the nine months ended September 30, 2017, resulting in an increase in the tax benefit rate for the period on the pre-tax loss. Another item impacting the tax rate is the change in the proportion of losses being generated in the United States, which are benefited at a higher statutory tax rate, as compared to earnings being generated outside the United States in jurisdictions subject to lower tax rates; and the impairment loss related to non-tax deductible goodwill. 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.



## Liquidity and capital resources

## Sources and uses of liquidity

At September 30, 2017, we had cash and cash equivalents of \$156.4 million and total debt of \$399.3 million. We believe that cash on hand and cash generated from operations will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations for the foreseeable future.

We elected to carry back our 2016 U.S. net operating loss to recover taxes paid in earlier periods, and we received a tax refund of approximately \$30.9 million in the second quarter of 2017.

Our total 2017 capital expenditure budget is approximately \$30.0 million, which consists of, among other items, investments in maintaining certain manufacturing facilities, replacing end of life machinery and equipment, maintaining our rental fleet of subsea equipment, continuing the implementation of our enterprise resource planning solution globally, and general capital expenditures. The budgeted general capital expenditures include our investment in a new production facility in Saudi Arabia. This budget does not include expenditures for potential business acquisitions.

Although we do not budget for acquisitions, pursuing growth through acquisitions is a significant part of our business strategy. We expanded and diversified our product portfolio with the acquisition of one business in the first quarter of 2017. We made one acquisition in the third quarter for total cash consideration of approximately \$39 million. We acquired the remaining interest of our equity method investment from our joint venture partner, which closed subsequent to September 30, 2017. For additional information, see Note 4, Acquisition, and Note 15, Subsequent event. We continue to actively review acquisition opportunities on an ongoing basis. 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 nine months ended September 30, 2017 and 2016 are presented below (in millions):

|  | Nine Months<br>Ended<br>September 30, |         |
|--|---------------------------------------|---------|
|  | 2017                                  | 2016    |
| Net cash provided by (used in) operating activities  | \$(17.1)                              | \$44.2  |
| Net cash used in investing activities                | (66.7 )                               | (12.4 ) |
| Net cash provided by (used in) financing activities  | (2.9 )                                | 0.7     |
| Net increase (decrease) in cash and cash equivalents | \$(78.0)                              | \$23.3  |

## Cash flows provided by (used in) operating activities

Net cash used in and provided by operating activities was \$17.1 million and \$44.2 million for the nine months ended September 30, 2017 and 2016, respectively. Cash provided by (used in) operations decreased as a result of sequential increases in investments in working capital in the first nine months of 2017 compared to reductions in working capital in the same period in 2016. The change in working capital in the first nine months of 2017 is primarily due to increased accounts receivable due to higher revenue; investment in inventory in anticipation of the recovery; offset by changes in accrued liability and prepaid assets, including \$30.9 million tax refund received in second quarter of 2017.

## Cash flows used in investing activities

Net cash used in investing activities was \$66.7 million and \$12.4 million for the nine months ended September 30, 2017 and 2016, respectively. The increase was primarily due to \$47.9 million in consideration paid for acquisitions in the first nine months of 2017 compared to \$2.7 million consideration paid for an acquisition in the first nine months of 2016. Capital expenditures for the nine months ended September 30, 2017 were \$19.7 million as compared to \$13.4 million for the comparable prior period. Investment in unconsolidated subsidiary for the nine months ended September 30, 2017 was \$1.0 million as compared to no investment for the comparable prior period. Proceeds from sales of assets for the nine months ended September 30, 2017 was \$1.8 million as compared to \$3.7 million in the comparable prior period.

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

Net cash used in financing activities was \$2.9 million for the nine months ended September 30, 2017, compared to net cash provided by financing activities of \$0.7 million for the nine months ended September 30, 2016. The increase primarily resulted from cash paid for shares withheld for taxes on stock based compensation of \$4.7 million in the nine months ended September 30, 2017, compared to \$1.3 million in the nine months ended September 30, 2016.

#### Senior Notes Due 2021

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

#### Credit Facility

On February 25, 2016, we amended our credit facility with Wells Fargo Bank, National Association, as administrative agent, and several financial institutions as lenders (the "Credit Facility") to reduce lender commitments to \$200.0 million. On December 12, 2016, we further amended the Credit Facility (such further amendment, the "Amended Credit Facility"), to, among other things, reduce revolving credit line commitments from \$200.0 million to \$140.0 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 Credit Facility was 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.

As of September 30, 2017 and December 31, 2016, we had no borrowings outstanding under the Credit Facility. As of September 30, 2017, we had \$7.3 million of outstanding letters of credit. At September 30, 2017, we had the capacity to borrow an additional \$113.3 million subject to certain limitations in the Credit Facility. Weighted average interest rates under the Credit Facility for the nine months ended September 30, 2017 and year ended December 31, 2016 were approximately 3.00%. As of September 30, 2017, there had been no changes to the financial covenants described in Item 8 of the Annual Report and we were in compliance with all financial covenants.

On October 30, 2017, we further amended and restated the Credit Facility (such amended and restated credit agreement, the "2017 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 2017 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 2017 Credit Facility could be reduced or eliminated, depending on future receivables and fluctuations in our inventory. The 2017 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 2017 Credit Facility will automatically extend to October 2022.

If excess availability under the 2017 Credit Facility falls below the greater of 10.0% of the line cap 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 availability under the 2017 Credit Facility exceeds such thresholds for at least 60 consecutive days.

#### Off-balance sheet arrangements

As of September 30, 2017, we had no off-balance sheet instruments or financial arrangements, other than operating leases and letters of credit entered into in the ordinary course of business.

#### Contractual obligations

Except for net repayments under the Amended Credit Facility, as of September 30, 2017, there have been no material changes in our contractual obligations and commitments disclosed in the Annual Report.

#### Critical accounting policies and estimates

There have been no material changes in our critical accounting policies and procedures during the nine months ended September 30, 2017. For a detailed discussion of our critical accounting policies and estimates, refer to our 2016

Annual Report on Form 10-K.

35

---

For recent accounting pronouncements, refer to Note 2 Recent accounting pronouncements in Part I, Item 1, Financial Statements.

Item 3. Quantitative and qualitative disclosures about market risk

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

There have been no significant changes to our market risk since December 31, 2016. 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 2016 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of September 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017 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.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Share repurchases

Our Board of Directors authorized on October 27, 2014, a share repurchase program for the repurchase of outstanding shares of our Common Stock having an aggregate purchase price of up to \$150 million.

30,023 shares were purchased during the three months ended September 30, 2017 from employees in connection with the settlement of income tax and related benefit withholding obligations arising from the vesting of restricted stock grants. The shares of common stock purchased and placed in treasury during the three months ended September 30, 2017 are summarized in the table below.

| Period                                 | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plan or programs | Maximum value of shares that may yet be purchased under the plan or program (in thousands) |
|--|----------------------------------|------------------------------|---|--|
| July 1, 2017 - July 31, 2017           | 30,023                           | \$ 15.54                     | —   | \$ 49,752  |
| August 1, 2017 - August 31, 2017       | —                                | \$ —                         | —   | \$ 49,752  |
| September 1, 2017 - September 30, 2017 | —                                | \$ —                         | —   | \$ 49,752  |
| Total                                  | 30,023                           | \$ 15.54                     | —   |  |

#### Acquisition of Innovative Valve Components

On January 9, 2017, we acquired all of the issued and outstanding partnership interests of Innovative Valve Components. As partial consideration for the acquisition we issued 196,249 shares of our common stock. The issuance of our common stock was exempt from registration under the Securities Act pursuant to Rule 4(a)(2) thereof and the safe harbor provided by Rule 506 of Regulation D promulgated thereunder.

#### Acquisition of Global Tubing, LLC

On October 2, 2017, we acquired the remaining membership interests in Global Tubing from its joint venture partner and members of management. As partial consideration for the acquisition we issued 11,488,208 shares of our common stock. The issuance of our common stock in connection with the acquisitions was exempt from registration under the Securities Act pursuant to Rule 4(a)(2) thereof and the safe harbor provided by Rule 506 of Regulation D promulgated thereunder.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

None.

#### Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit

Number      DESCRIPTION

10.1\*      Amendment No. 2 to the Registration Rights Agreement, dated August 25, 2017, by and among the Company and the stockholders party thereto (incorporated herein by reference to Exhibit 10.2 on the Company's Current Report on Form 8-K, filed on August 28, 2017).

10.2\*      Purchase and Sale Agreement, dated August 25, 2017, by and among Forum Energy Technologies, Inc., Q-GT (V) Investment Partners, LLC and, for the purposes of Sections 6.3, 6.10, 6.11 and 6.12, Global Tubing, LLC (incorporated herein by reference to Exhibit 10.1 on the Company's Current Report on Form 8-K, filed on August 28, 2017).

31.1\*\*      ~~Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.~~

31.2\*\*      ~~Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.~~

32.1\*\*\*      ~~Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.~~

32.2\*\*\*      ~~Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.~~

101.INS\*\*      ~~XBRL Instance Document.~~

101.SCH\*\*      ~~XBRL Taxonomy Extension Schema Document.~~

101.CAL\*\*      ~~XBRL Taxonomy Extension Calculation Linkbase Document.~~

101.LAB\*\*      ~~XBRL Taxonomy Extension Label Linkbase Document.~~

101.PRE\*\*      ~~XBRL Taxonomy Extension Presentation Linkbase Document.~~

101.DEF\*\*      ~~XBRL Taxonomy Extension Definition Linkbase Document.~~

\*Previously filed.

\*\*Filed herewith.

\*\*\*Furnished herewith.



Table of Contents

SIGNATURES

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

FORUM ENERGY  
TECHNOLOGIES, INC.

Date: November 1, 2017 By: /s/ James  
W. Harris  
James W.  
Harris  
Executive  
Vice  
President  
and Chief  
Financial  
Officer  
(As Duly  
Authorized  
Officer and  
Principal  
Financial  
Officer)

By: /s/ Tylar K.  
Schmitt  
Tylar K.  
Schmitt  
Vice  
President  
and Chief  
Accounting  
Officer  
(As Duly  
Authorized  
Officer and  
Principal  
Accounting  
Officer)