FORUM ENERGY TECHNOLOGIES, INC.
Form 10-K
February 28, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the Fiscal Year Ended December 31, 2013

OR

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

For the transition period from __________ to __________
Commission File Number 001-35504
FORUM ENERGY TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	61-1488595
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

920 Memorial City Way, Suite 1000
Houston, Texas 77024
(Address of principal executive offices)
Registrant’s telephone number, including area code: (281) 949-2500
Securities registered pursuant to Section 12(b) of the Act:

Common stock, $0.01 par value	New York Stock Exchange
(Title of Each Class)	(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

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

The aggregate market value of Common Stock held by non-affiliates on June 30, 2013, determined using the per share closing price on the New York Stock Exchange Composite tape of $30.43 on June 28, 2013, was approximately $1.3 billion. For this purpose, our executive officers and directors and SCF Partners L.P. and its affiliates are considered affiliates.

As of February 26, 2014, there were 92,902,767 common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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PART I

Item 1. Business

On April 17, 2012, Forum Energy Technologies, Inc. ("Forum," the "Company," "we," or "us"), a Delaware corporation incorporated in 2005, closed its initial public offering (the "IPO"). Our common shares are listed on the New York Stock Exchange ("NYSE") under the symbol "FET." Our principal executive offices are located at 920 Memorial City Way, Suite 1000, Houston, Texas 77024, our telephone number is (281) 949-2500, and our website is www.f-e-t.com. Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments thereto, are available free of charge on our Internet website as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). These reports are also available at the SEC's Internet website at www.sec.gov. Information contained on or accessible from our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report or any other filing that we make with the SEC.

Overview

We are a global oilfield products company, serving the subsea, drilling, completion, production and infrastructure sectors of the oil and natural gas industry.

We design, manufacture and distribute products and engage in aftermarket services, parts supply and related services that complement our product offering. Our product offering includes a mix of highly engineered capital products and frequently replaced items that are used in the exploration, development, production and transportation of oil and natural gas. Our capital products are targeted at: drilling rig equipment for new rigs, upgrades and refurbishment projects; subsea construction and development projects; the placement of production equipment on new producing wells; and downstream capital projects. Our engineered systems are critical components used on drilling rigs or in the course of subsea operations, while our consumable products are used to maintain efficient and safe operations at well sites in the well construction process, within the supporting infrastructure and at processing centers and refineries. Historically, a little more than half of our revenue is derived from activity-based consumable products, while the balance is derived from capital products and a small amount from rental and other services.

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

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

	Percentage of revenue Year ended December 31,		
	2013	2012	2011
Drilling & Subsea	62 %	58 %	58 %
Production & Infrastructure	38 %	42 %	42 %
Total	100 %	100 %	100 %
United States	60 %	63 %	63 %
Canada	6 %	8 %	9 %
Other International	34 %	29 %	28 %
Total	100 %	100 %	100 %

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

Condition and Results of Operations – Acquisitions" in Item 7 and in Note 3 of our Notes to consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

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Drilling & Subsea segment

In our Drilling & Subsea segment, we design and manufacture products and provide related services to the subsea construction, drilling, well construction, completion and intervention markets. Through this segment, we offer subsea technologies, including robotic vehicles and other capital equipment, specialty components and tooling, a broad suite of complementary subsea technical services and rental items, and applied products for subsea pipelines; drilling technologies, including capital equipment and a broad line of products consumed in the drilling and well intervention process; and downhole technologies, including cementing and casing tools, completion products, and a range of downhole protection solutions.

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

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

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

We design and manufacture large work-class ROVs through our Perry brand. These vehicles are principally used in deepwater construction applications with the largest vehicles providing up to 200 horsepower, exceeding 1,200 pounds of payload capacity and having the capability of working in depths up to 4,000 meters. Our Sub-Atlantic branded observation-class vehicles are electrically powered and are principally used for inspection, survey, and light manipulation and serve a wide range of industries. In addition to observation and work-class ROVs, we design and manufacture specialty vehicles that are primarily used in subsea trenching operations. Larger than a work-class or observation-class ROV, these vehicles travel along the sea floor conducting digging, installation and burial operations. Providing up to 1,500 horsepower, the largest of these subsea trenchers are able to cut over three meters deep into the seafloor to lay pipelines, power cables or communications cables.

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

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

In addition to vehicle-related subsea products, we provide products used in subsea infrastructure. Through our acquisition of Moffat 2000 Ltd., we manufacture subsea pipeline inspection gauge launching and receiving systems, and subsea connectors. Our primary customers in this product line are offshore pipeline construction companies.

Subsea technical services and rental. We maintain a fleet of subsea rental items, primarily subsea positioning equipment, and provide our customers with complementary subsea technical services. Among the technical services we offer is the provisioning of ROV pilots and other offshore personnel on a contract basis for those customers who need to supplement their own employees. Our customers for rental items and personnel are primarily subsea construction and offshore service companies. In addition, we offer a system that offers a complete solution for digital video capture, playback, processing and reporting of subsea inspection survey data. We also maintain a geophysical and geotechnical engineering group that provides consulting services to the oil and gas, and marine industries, typically to interpret and analyze third party subsea data provided by clients.

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

Tubular handling. Our core focus in Drilling Technologies is in powered and manual tubular handling equipment used on onshore and offshore drilling rigs. We expanded our offering of products, geographic coverage and customer base in this area through our recent acquisition of Blohm + Voss Oil Tools GmbH ("B+V"). Our B+V and Wrangler™ branded systems reduce direct human involvement in the handling of pipe during drilling operations, improving the safety, speed and efficiency of operations. In addition, we manufacture make-up and break-out tools, called B+V Floorhand™ and Wrangler Roughneck™, which automate a potentially dangerous rig floor task and improve rig drilling speed and safety.

We design and manufacture specialized torque equipment and related control systems for tubular connections, including high torque stroking, or bucking, units, fully rotational torque units, portable torque units for field deployment, and provide aftermarket service. In addition, we design and manufacture a range of rig-based offline activity cranes, multi-purpose cranes and personnel transfer solutions. Many of these cranes are fit-for-purpose multi-axis cranes that provide access to hard-to-reach places and eliminate the need for manual interface.

Flow control and intervention. We manufacture flow control and pressure control equipment for the drilling, well servicing, pressure pumping and hydraulic fracturing markets.

Many of our flow control products are consumable items used on drilling rigs, well servicing rigs, pressure pumping units, and hydraulic fracturing systems. Examples of these products include valves, centrifugal pumps, mud pump parts, rig sensors, and inserts and dies, as well as an extensive handling tool line.

Our pressure control products are used for well intervention operations and are sold directly to oilfield service companies and equipment rental companies. These products include both coiled tubing and wireline blowout preventers and their accessories. We also conduct aftermarket refurbishment and recertification services for pressure control equipment.

We also manufacture data acquisition products that include integrated drill floor instrumentation and monitoring systems. These systems provide real-time monitoring and logging of drilling data to drilling contractors and oil and gas producers on the rig and at remote locations. They measure, collect, store and display drilling data on a real-time basis, as required on all drilling rigs in today's drilling environment.

We are also a large supplier of oilfield bearings to original equipment manufacturers and repair businesses for use on drilling and well stimulation equipment. In addition to designing and manufacturing capital products and providing consumable products, we repair and service drilling equipment for both land and offshore rigs. Many of our service employees work in the field to address problems at the rig site.

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

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

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

Downhole protection systems. We offer a full range of downhole protection solutions through our Cannon Services™ brand. The clamp and protection system is used to shield downhole control lines, cables and gauges during installation and to provide protection during production enhancement operations. We design and manufacture a full range of downhole protection solutions for electrical submersible pump ("ESP") cabling, encapsulated control lines, sub-surface safety valves ("SSSV") and permanent downhole gauges, including gauges used in intelligent wells and the steam-assisted gravity drainage ("SAGD") wells of the Canadian heavy oil developments. We provide both standard and customized protection systems, and we supply a range of materials for various downhole environments. Our primary customers in this product line are producers and service companies providing completion, ESP and other intervention services to oil and gas producers.

Production & Infrastructure segment

In our Production & Infrastructure segment, we design and manufacture products and provide related equipment and services to the well stimulation, completion, production and infrastructure markets. Through this segment, we supply flow equipment, including well stimulation consumable products and related recertification and refurbishment services; production equipment, including well site production equipment and process equipment; and valve solutions, which includes a broad range of industrial and process valves.

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

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

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

Production Equipment. Our surface Production Equipment product line provides engineered process systems and field services for capital equipment used at the wellsite, for production processing, and at the refinery. We serve the upstream, midstream and downstream segments in oil and gas production equipment and services. Once a well has been drilled, completed and brought on stream, we provide the well operator-producer with the process equipment necessary to make the oil or gas ready for transmission. We also provide desalination and dehydration equipment. We engineer, fabricate and install tanks, separators, packaged production systems and American Society of Mechanical Engineers ("ASME") and American Petroleum Institute ("API") coded and non-coded pressure vessels, skidded vessels with gas measurement, modular process plants, header and manifold skids, process and flow control equipment and separators to help clean and process oil or gas as it travels from the wellhead and along the transmission line to the refinery. Our customers are principally oil and gas operators/producers, and our manufacturing and staging locations are positioned across North America to best serve the key emerging shale and unconventional resource plays.

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

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

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

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

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

Business history

Forum was formed through a series of acquisitions. Between May 2005 and August 2007, SCF Partners ("SCF"), a private equity firm specializing in investments in the oilfield services sector since it was founded in 1989, acquired various entities to form each of the following: Forum Oilfield Technologies, Inc. ("FOT"), a capital equipment provider focused on the drilling sector; Global Flow Technologies, Inc. ("Global Flow"), a manufacturer of industrial valves; Triton Group Holdings, LLC ("Triton"), a provider of products and services to the international offshore oil and gas industry; Allied Production Services, Inc. ("Allied"), a provider of production equipment associated with unconventional gas and liquids developments in North America; and Subsea Services International, Inc. ("Subsea"), a provider of subsea pipeline infield joint coatings and other applied products. In August 2010, FOT, Global Flow, Triton, Allied and Subsea were combined in a transaction we refer to as the "Combination." FOT became the parent company and was renamed Forum Energy Technologies, Inc.

On April 17, 2012, we completed our IPO.

Backlog

As we provide a mix of capital goods, consumable products, repair parts, and rental services, a majority of our business does not require lengthy lead times. We therefore believe that the size of our backlog is mostly representative of the activity level of our capital equipment related businesses. A majority of the orders and commitments included in our backlog as of December 31, 2013 were scheduled to be delivered within six months. Our backlog was approximately $395 million at December 31, 2013 compared to approximately $399 million at December 31, 2012.

We can give no assurance that our level of backlog will remain at current levels. Sales of our products are affected by prices for oil and natural gas, which may fluctuate significantly. Additional future declines in oil and natural gas prices and production or additional regulatory provisions could reduce new customer orders, possibly causing a decline in

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our future backlog levels. Substantially all of our projects currently included in our backlog are subject to change and/or termination at the option of the customer. In the case of a change or termination, the customer is required to pay us for work performed and other costs necessarily incurred as a result of the change or termination. In the past, terminations and cancellations have not been material to our overall operating results.

Our consumable and repair products are predominantly off-the-shelf items requiring short lead-times, generally less than six months, and our related refurbishment or other services are also not contracted with significant lead time. The composition of our backlog is reflective of our mix of capital equipment, consumable products, aftermarket and other related items. Given this product mix in our backlog, we believe that an appropriate measure of our business' ongoing activity is the level of bookings, which consist of written orders or commitments for our products or related services. Our bookings levels during the years ended December 31, 2013 and 2012 were approximately $1.5 billion and $1.4 billion, respectively.

Customers

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

Seasonality

A substantial portion of our business is not significantly impacted by seasonality. Generally, the fourth quarter experiences lower sales and profitability due to a decrease in working days caused by the U.S. Thanksgiving and calendar year-end holidays. A small portion of the revenue we generate from selected Canadian operations often benefits from higher first quarter activity levels, as operators take advantage of the winter freeze to gain access to remote drilling and production areas. We also experience some exposure to seasonality through the portion of our subsea rental business that serves the North Sea. It is customary for North Sea activity to slow down between the months of November and February. Revenue exposed to this type of seasonality, however, comprised less than 5% of our overall revenue in 2013.

Competition

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

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

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

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

Patents, trademarks and other intellectual property

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

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Raw materials

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

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

Working capital

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

Inventory

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

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

Environmental, health and safety regulation

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

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

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

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Hazardous substances and waste

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

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

Water discharges

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

Air emissions

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

Climate change

In December 2009, the EPA determined that emissions of carbon dioxide, methane and other "greenhouse gases" present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. Based on these findings, the EPA has begun adopting and implementing regulations to restrict emissions of greenhouse gases under existing provisions of the Clean Air Act. The EPA adopted two sets of rules regulating greenhouse gas emissions under the Clean Air Act, one of which requires a reduction in emissions of greenhouse gases from motor vehicles and the other of which regulates emissions of greenhouse gases from certain large stationary sources, effective January 2, 2011. The EPA's rules relating to emissions of greenhouse gases from large stationary sources of emissions are currently subject to a number of legal challenges, but the federal courts have thus far declined to issue any injunctions to prevent the EPA from implementing, or requiring state environmental agencies to implement, the rules. The EPA has also adopted rules requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the U.S. In addition, the U.S. Congress has from time to time considered adopting legislation to reduce emissions of greenhouse gases and almost one-half of the states have already taken legal measures to reduce emissions of greenhouse gases primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Most of these cap and trade programs work by requiring major sources of emissions, such as electric power plants, or major producers of fuels, such as refineries and gas processing plants, to acquire and

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surrender emission allowances. The number of allowances available for purchase is reduced each year in an effort to achieve the overall greenhouse gas emission reduction goal.

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

Hydraulic fracturing

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

Employee health and safety

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

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

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Offshore regulation

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

Operating risk and insurance

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

Employees

As of December 31, 2013, we had approximately 3,500 employees. Of our total employees, approximately 2,600 were in the United States, 550 were in the United Kingdom, 150 were in Canada and 200 were in other locations. We are not a party to any collective bargaining agreements, other than in our Hamburg, Germany and Monterrey, Mexico facilities, and we consider our relations with our employees to be satisfactory.

Item 1A. Risk Factors

Risks related to our business

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

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

- the supply of and demand for oil and natural gas;
- the level of prices, and expectations about future prices, of oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- the level of drilling activity and drilling day rates;
- the expected decline rates of current and future production;
- the discovery rates of new oil and natural gas reserves;
- the ability of our customers to access new markets or areas of production or to continue to access current markets;
- weather conditions, including hurricanes, that can affect oil and natural gas operations over a wide area;
- more stringent restrictions in environmental regulation on activities that may impact the environment;
- moratoriums on drilling activity resulting in a cessation or disruption of operations;
- domestic and worldwide economic conditions;
- political instability in oil and natural gas producing countries;

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- conservation measures and technological advances affecting energy consumption;
- the price and availability of alternative fuels; and
- merger and divestiture activity among oil and natural gas producers and drilling contractors.

A prolonged reduction in the overall level of exploration and development activities, or a reduction in activity in certain areas such as we experienced when land based drilling activity in the U.S. decreased due to low natural gas prices, whether resulting from changes in oil and natural gas prices or otherwise, could adversely impact our business in many ways by negatively affecting:

- revenues, cash flows, and profitability;
- the ability to maintain or increase borrowing capacity;
- the ability to obtain additional capital to finance our business and the cost of that capital; and
- the ability to attract and retain skilled personnel needed in the event of an upturn in the demand for services.

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

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

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

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

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

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

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

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

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

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Growing our business organically through the expansion of our existing product lines and facilities subjects us to risks of construction delays and cost overruns.

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

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

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

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

A portion of our business is driven by spending on capital equipment such as drilling rigs. Over the last several years, there have been high levels of spending on capital equipment. These high levels of investment may not be sustainable over time, and, in some cases such as with land rigs, the pace of investment has slowed.

In various segments of the energy industry there have been high levels of demand for construction of capital intensive equipment, some of which has a long life once introduced into the industry. High levels of investment can produce excess supply of equipment for many years, reducing dayrates and undermining the economics for new capital equipment orders. When these levels of activity fall, an increased competitive environment for capital equipment can result, which could lead to lower prices and utilization for our customers and a decreased demand for capital equipment products. For example, starting in the second half of 2012 we saw spending levels on land drilling rigs decrease relative to the pace of investment in the previous two years due to lower drilling activity. This resulted in lower revenues for us from both capital equipment orders and consumables in 2012 and 2013. Our strategy is to serve a variety of segments and spend cycles, but to the extent our financial results are impacted by capital equipment construction, our results may decline should an excess supply of capital equipment materialize. In addition, our competitors may increase their manufacturing capacity, which would lead to even greater competition in times of reduced demand.

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

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

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

Some of our customer contracts require us to compensate customers if we do not meet specified delivery obligations. We expect to rely on numerous suppliers to provide required materials and in many instances these materials must meet certain specifications. Managing a geographically diverse supply base inherently poses significant logistical challenges. Furthermore, the ability of third party suppliers to deliver materials to our specifications may be affected by events beyond our control. As a result, there is a risk that we could experience diminished supplier performance resulting in longer than expected lead times and/or product quality issues. For example, we have in the past experienced issues with the quality of certain forgings used to produce materials that are used in our products. As a result, we were required to seek alternative suppliers for those forgings, which resulted in increased costs and a disruption in our supply chain. We have also been required in certain circumstances to provide better economic terms to some of our suppliers in exchange for their agreement to increase their capacity to satisfy our supply needs. The occurrence of any of the foregoing factors could have a negative impact on our ability to deliver products to customers within committed time frames.

We are subject to the risk of supplier concentration.

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

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

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

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

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

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

If we are unable to accurately predict customer demand or if customers cancel their orders on short notice, we may hold excess or obsolete inventory, which would reduce gross margins. Conversely, insufficient inventory would result in lost revenue opportunities and, potentially, in loss of market share and damaged customer relationships.

Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. As a result, we cannot accurately predict what or how many products such customers will need in the future. Anticipating

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demand is difficult because our customers face unpredictable demand for their own products and are increasingly focused on cash preservation and tighter inventory management.

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

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

The markets in which we operate are highly competitive and our products and services are subject to competition from significantly larger businesses. One competitor in particular holds substantial market share in our largest product line's market and has substantially greater resources than we do. We also have several other competitors that are large national and multinational companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Some of our competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements. In addition, several of our competitors provide a much broader array of services, and have a stronger presence in more geographic markets. Our larger competitors may be able to use their size and purchasing power to seek economies of scale and pricing concessions. Furthermore, some of our customers are also our competitors and they may cease buying from us. We also have competitors outside of the United States with lower structural costs due to labor and raw material cost in and around their manufacturing centers.

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

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

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

In addition, the frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators. In particular, our customers may elect not to purchase our services if they view our safety record as unacceptable, which could cause us to lose customers and substantial revenues. In addition, these risks may be greater for us because we may acquire companies that have not allocated significant resources and management focus to safety and have a poor safety record requiring rehabilitative efforts during the integration process and we may incur liabilities for losses before such rehabilitation occurs.

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

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

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

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

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

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

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

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The industry in which we operate is undergoing continuing consolidation that may impact results of operations.
Some of our largest customers have consolidated and are using their size and purchasing power to achieve economies of scale and pricing concessions. This consolidation may result in reduced capital spending by such customers or the acquisition of one or more of our other primary customers, which may lead to decreased demand for our products and services. If we cannot maintain sales levels for customers that have consolidated or replace such revenues with increased business activities from other customers, this consolidation activity could have a significant negative impact on results of operations or financial condition. We are unable to predict what effect consolidations in the industries may have on prices, capital spending by customers, selling strategies, competitive position, ability to retain customers or ability to negotiate favorable agreements with customers.
If we are unable to continue operating successfully overseas or to successfully expand into new international markets, our revenues may decrease.
For the year ended December 31, 2013, we derived approximately 40% of our revenue from sales outside the United States (based on product destination). In addition, one of our key growth strategies is to market products in international markets. We may not succeed in marketing, developing a recognized brand, selling, distributing products and generating revenues in these new international markets.
Our non-U.S. operations will subject us to special risks.
We are subject to various risks inherent in conducting business operations in locations outside of the United States. These risks may include changes in regional, political or economic conditions, local laws and policies, including taxes, trade protection measures, and unexpected changes in regulatory requirements governing the operations of companies that operate outside of the United States. In addition, if a dispute arises from international operations, courts outside of the United States may have exclusive jurisdiction over the dispute, or we may not be able to subject persons outside of the United States to the jurisdiction of U.S. courts.
Our exposure to currency exchange rate fluctuations may result in fluctuations in our cash flows and could have an adverse effect on our results of operations.
From time to time, fluctuations in currency exchange rates could be material to us depending upon, among other things, our manufacturing locations and the sourcing for our raw materials and components. In particular, we are sensitive to fluctuations in currency exchange rates between the United States dollar and each of the Canadian dollar, the British pound sterling, and, to a lesser degree, the Mexican Peso, the Euro, the Chinese Yuan and the Singapore dollar. There may be instances in which costs and revenue will not be matched with respect to currency denomination. As a result, to the extent that we continue our expansion on a global basis, management expects that increasing portions of revenue, costs, assets and liabilities will be subject to fluctuations in foreign currency valuations. We may experience economic loss and a negative impact on earnings or net assets solely as a result of foreign currency exchange rate fluctuations. Further, the markets in which we operate could restrict the removal or conversion of the local or foreign currency, resulting in our inability to hedge against these risks.
Our business operations in countries outside of the United States are subject to a number of U.S. federal laws and regulations, including restrictions imposed by the United States Foreign Corrupt Practices Act as well as trade sanctions administered by the Office of Foreign Assets Control and the Commerce Department.
Local laws and customs in many countries differ significantly from those in the United States. In many countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by the regulations applicable to us. The United States Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws in other jurisdictions, including the UK Bribery Act 2010, prohibit corporations and individuals, including us and our employees, from engaging in certain activities to obtain or retain business or to influence a person working in an official capacity. We are responsible for any violations by our employees, contractors and agents, whether based within or outside of the United States, for violations of the FCPA. We may also be held responsible for any violations by an acquired company that occur prior to an acquisition, or subsequent to the acquisition but before we are able to institute our compliance procedures. In addition, our non-U.S. competitors that are not subject to the FCPA or similar laws may be able to secure business or other preferential treatment in such countries by means that such laws prohibit with respect to us. The UK Bribery Act 2010 is broader in scope than the FCPA and applies to public and private

sector corruption and contains no facilitating payments exception. A violation of any of these laws, even if prohibited by our policies, could have a material adverse effect on our business. Actual or alleged violations could damage our reputation, be expensive to defend, and impair our ability to do business.

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Compliance with U.S. regulations on trade sanctions and embargoes administered by the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") also poses a risk to us. We cannot provide products or services to certain countries subject to U.S. trade sanctions. Furthermore, the laws and regulations concerning import activity, export recordkeeping and reporting, export control and economic sanctions are complex and constantly changing. Any failure to comply with applicable legal and regulatory trading obligations could result in criminal and civil penalties and sanctions, such as fines, imprisonment, debarment from governmental contracts, seizure of shipments and loss of import and export privileges.

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

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

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

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

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

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

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

One of our subsidiaries has been and continues to be named as a defendant in asbestos related product liability actions. The actual amounts expended on asbestos-related claims in any year may be impacted by the number of claims filed, the nature of the allegations asserted in the claims, the jurisdictions in which claims are filed, and the number of settlements. As of December 31, 2013, our subsidiary had a recorded liability of $250,000 for the estimated indemnity cost associated with the resolution of its current open claims and future claims anticipated to be filed during the next five years.

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

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

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

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

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

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

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

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

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

Adverse weather conditions adversely affect demand for services and operations.

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

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

Some of our operations involve risks of, among other things, property damage, which could curtail our operations. For example, disruptions in operations or damage to a manufacturing plant could reduce our ability to produce products and satisfy customer demand. In particular, we have offices and manufacturing facilities in Houston, Texas, and in various places throughout the U.S. Gulf Coast region. These offices and facilities are particularly susceptible to severe tropical storms and hurricanes, which may disrupt our operations. If one or more manufacturing facilities we own are

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damaged by severe weather or any other disaster, accident, catastrophe or event, our operations could be significantly interrupted. Similar interruptions could result from damage to production or other facilities that provide supplies or other raw materials to our plants or other stoppages arising from factors beyond our control. These interruptions might involve significant damage to, among other things, property and repairs might take from a week or less for a minor incident to many months or more for a major interruption.

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

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

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

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"), the SEC has promulgated disclosure requirements regarding the use of certain minerals, which are mined from the Democratic Republic of Congo and adjoining countries, known as conflict minerals. The disclosure rules will take effect for us in May 2014. We may have to publicly disclose whether the products we sell contain conflict minerals and could incur significant costs related to implementing a process that will meet the mandates of Dodd-Frank. Additionally, customers may rely on us to provide critical data regarding the parts they purchase and will likely request conflict mineral information. We have many suppliers and each will provide conflict mineral information in a different manner, if at all. Accordingly, because the supply chain is complex, we may face reputational challenges if we are unable to sufficiently verify the origins of conflict minerals used in our products. Additionally, customers may demand that the products they purchase be free of conflict minerals. The implementation of this requirement could affect the sourcing and availability of products we purchase from our suppliers. This may reduce the number of suppliers that may be able to provide conflict free products, and may affect our ability to obtain products in sufficient quantities to meet customer demand or at competitive prices. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of any relevant minerals used in our products, as well as costs arising from any changes as a consequence of such verification activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For goodwill and intangible assets with indefinite lives, an assessment for impairment is performed annually or whenever an event indicating impairment may have occurred. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets, including allocated goodwill, to the estimated fair value of the reporting unit. We have six reporting units. We determine the fair value of our reporting units using a discounted cash flow approach. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. If the reporting unit's carrying value is greater than its fair value, a second step is performed whereby the implied fair value of goodwill is estimated by allocating the fair value of the reporting unit in a hypothetical purchase price allocation analysis. We recognize a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds its reassessed fair value. During the year ended December 31, 2012, we recorded an impairment loss of $1.2 million on certain indefinite-lived intangible assets resulting from a lack of orders related to a specific service line. No other impairment losses were recorded on goodwill or indefinite-lived intangible assets for the years ended December 31, 2013, 2012 and 2011.

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

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

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

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

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

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

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

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

We currently have a substantial amount of indebtedness. As of December 31, 2013, we had approximately $108.0 million of borrowings under our Credit Facility, $16.6 million of outstanding letters of credit and capacity to borrow an additional $475.4 million under the revolving portion of the Credit Facility. The Credit Facility has an accordion feature that allows us to increase the available borrowings under the facility by $300 million, subject to obtaining additional commitments from existing lenders or new commitments from new lenders. We also have $400 million of 6.25% senior notes due 2021 outstanding. Our level of indebtedness may adversely affect our operations and limit our growth, and we may have difficulty making debt service payments on our indebtedness as such payments become due. Our level of indebtedness may affect our operations in several ways, including the following:

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

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

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

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

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

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

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

As of February 26, 2014, SCF held approximately 35.8 million shares of our common stock, equal to approximately 38% of the outstanding common stock at that date. LESA is the ultimate general partner of SCF and will exert significant control over us, including over the outcome of most matters requiring a stockholder vote, such as the election of directors, adoption of amendments to our charter and bylaws and approval of transactions involving a change of control. LESA's interests may differ from our other stockholders, and SCF may vote its common stock in a manner that may adversely affect those stockholders.

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

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

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

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

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

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

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

The market price of common stock of companies engaged in the oil and gas equipment manufacturing and services industry has been volatile. Likewise, the market price of our common stock has varied in the past (2013 low of $24.50 per share; 2013 high of $31.80 per share), and we expect it to continue to remain volatile given the cyclical nature of our industry.

Item 1B. Unresolved Staff Comments

Not applicable.

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Item 2. Properties

The following tables describe the material facilities owned or leased by us as of December 31, 2013:

Country	Location	Leased or Owned	Country	Location	Leased or Owned
Drilling & Subsea Segment Locations			Production & Infrastructure Segment Locations		
Canada	Leduc	Leased	Canada	Edmonton	Leased
Germany	Hamburg	Leased	South Africa	Vereeniging	Leased
Indonesia	Batam	Leased	United States	Madison, KS	Leased
Mexico	Monterrey	Leased		Broussard, LA	Leased
Singapore	Singapore	Leased		Chickasha, OK	Owned
UAE	Dubai	Leased		Davis, OK	Owned
United Kingdom	Aberdeen	Leased		Elmore City, OK	Owned
	Caithness	Leased		Guthrie, OK	Leased
	Kilbirnie	Leased		Clearfield, PA	Owned
	Kirkbymoorside	Leased		Smithton, PA	Leased
	Newcastle	Leased		Alice, TX	Leased
	Suffolk	Leased		Conroe, TX	Leased
United States	West Palm Beach, Fl	Leased		Gainesville, TX	Leased
	Broussard, LA	Owned		Houston, TX	Leased
	Broussard, LA	Leased		Longview, TX	Leased
	Bryan, TX	Owned		Odessa, TX	Leased
	Houston, TX	Leased		Stafford, TX	Leased
	Pearland, TX	Owned		Dayton, TX	Owned
	Pearland, TX	Leased	Combined Locations for both Segments		
	Plantersville, TX	Owned	Brazil	Macae	Leased
	San Antonio, TX	Owned		Rio de Janeiro	Leased
	Sanger, TX	Leased	United States	Williston, ND	Leased
	Stafford, TX	Owned		Houston, TX	Leased
	Tyler, TX	Leased			
	Willis, TX	Leased			
	Lorton, VA	Leased			

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

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

Item 3. Legal Proceedings

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

Asbestos litigation

One of our subsidiaries has been named as one of many defendants in a number of product liability claims for alleged exposure to asbestos. These lawsuits are typically filed on behalf of plaintiffs who allege exposure to some asbestos,

against numerous defendants, often 40 or more, who may have manufactured or distributed products containing asbestos. The injuries alleged by plaintiffs in these cases range from mesothelioma to other cancers to asbestosis. The earliest claims against our subsidiary were filed in New Jersey in 1998, and our subsidiary currently has active cases in Missouri, New Jersey, New York, and Illinois. These complaints do not typically include requests for a specific amount of damages. The trademark for the product line with asbestos exposure was acquired in 1985. Our subsidiary has been successful in obtaining dismissals in many lawsuits where the exposure is alleged to have occurred prior to our acquisition of the trademark. The law in some states does not find purchasers of product lines to have tort liability for incidents occurring prior to the acquisition date unless they assumed the responsibility or in certain other circumstances. The law in certain other states on so called “successor liability” may be different or ambiguous in this regard. Most claimants alleging illnesses due to asbestos sue on the basis of exposure prior to 1985, as by that date the hazards of asbestos exposure were well known and asbestos had begun to fall into disuse in industrial settings. To date, asbestos claims have not had a material adverse effect on our business, financial condition, results of operations, or cash flow, as our annual out-of-pocket costs over the last five years has been less than $200,000. There are typically fewer than 100 cases filed against our subsidiary each year, and a similar number of cases are dismissed, settled or otherwise disposed of each year. We currently have fewer than 200 lawsuits pending against this subsidiary. Our subsidiary has over $17 million in face amount of per occurrence and over $23 million of aggregate primary insurance coverage; a portion of the coverage has been eroded by payments made by insurers. In addition, our subsidiary has over $950 million in face amount of excess coverage applicable to the claims. There can be no guarantee that all of this can be collected due to policy terms and conditions and insurer insolvencies in the past or in the future. In January 2011, we entered into an agreement with seven of our primary insurers under which they have agreed to pay 80% of the costs of handling and settling each asbestos claim against the affected subsidiary. After an initial period, and under certain circumstances, our subsidiary and the subscribing insurers may withdraw from this agreement.

Portland Harbor Superfund litigation

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

Item 4. Mine Safety Disclosures

Not applicable.

Executive officers of the registrant

The following table indicates the names, ages and positions of the executive officers of Forum as of February 26, 2014:

Name	Age	Position
C. Christopher Gaut	57	President, Chief Executive Officer, Chairman of the Board
Prady Iyyanki	44	Executive Vice President and Chief Operating Officer
Wendell R. Brooks	64	Executive Vice President; President-Production & Infrastructure
James W. Harris	55	Senior Vice President and Chief Financial Officer
James L. McCulloch	61	Senior Vice President, General Counsel and Secretary
Michael D. Danford	51	Vice President-Human Resources
Pablo G. Mercado	37	Vice President-Corporate Strategy & Treasurer

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

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

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

Wendell R. Brooks. Mr. Brooks has served as Executive Vice President; President -Production & Infrastructure since August 2010. He served as Chief Executive Officer and President of Allied Production Services, Inc. from October 2007 until August 2010. Prior to that, from 1996 to October 2007, he was the Group Director for the well support business of John Wood Group Plc, a public Scottish company traded on the London Stock Exchange. Mr. Brooks also served on the board of directors of Wood Group during that time. Mr. Brooks has also been President of Del Norte Inc., and was involved in business and served as President of two divisions while employed by Geosource, Inc. from 1975 to 1984. Mr. Brooks has a B.B.A. from the University of Texas at Arlington and an M.B.A. from the Harvard Business School.

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

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

Michael D. Danford. Mr. Danford has served as our Vice President - Human Resources since November 2007. Prior to joining Forum, from August 2007 through November 2007, he worked at Trico Marine Services Inc. as Vice President - Human Resources. From 1997 through July 2007, Mr. Danford served as Director of Human Resources and Vice President - Human Resources for Hydril Company. From 1991 to 1997, Mr. Danford served in various human resources roles for Baker Hughes Incorporated. Prior to joining Baker Hughes Incorporated, from 1990 to 1991, Mr.

Danford served as a recruiter and as an employee relations representative in the human resources department for Compaq Computer. Mr. Danford holds a B.S. degree in Computer Science from the University of Louisiana at Monroe (formerly Northeast Louisiana University).

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

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PART II

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

Since our IPO on April 12, 2012, our common stock has traded on NYSE under the trading symbol "FET." Prior to that time, there was no public trading market for our common stock. The initial public offering price of our common stock was $20.00 per share.

The following table sets forth, for each full quarterly period indicated, the high and low closing sales prices for our common stock as quoted on the NYSE:

Year Ended December 31, 2013	High	Low
First Quarter	$28.98	$24.50
Second Quarter	$31.80	$25.72
Third Quarter	$31.06	$25.82
Fourth Quarter	$31.13	$25.99
Year Ended December 31, 2012	High	Low
Second Quarter (beginning April 12, 2012)	$23.29	$19.14
Third Quarter	$25.69	$19.38
Fourth Quarter	$25.24	$21.54

As of February 26, 2014, there were approximately 200 shareholders of record of our common stock. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

No dividends were declared or issued during 2013 or 2012, and we do not currently have any plans to pay cash dividends in the future. Our future dividend policy is within the discretion of our Board of Directors and will depend upon various factors, including our results of operations, financial condition, capital requirements and investment opportunities. In addition, our Credit Facility prohibits us from paying any cash dividends unless all of the following conditions are met: (i) no default exists under our Credit Facility or would result from the payment of such dividends, (ii) after giving effect to the payment of such dividends, we have a pro forma leverage ratio that is less than or equal to 3.25 to 1.00 and the borrowing availability under our Credit Facility is at least $40 million, (iii) the aggregate amount of cash dividends and other Restricted Payments (as defined in the Credit Facility) paid in any fiscal quarter does not exceed 50% of our consolidated EBITDA (as defined in the Credit Facility) for the four fiscal quarters ended immediately prior to such fiscal quarter and (iv) the aggregate amount of cash dividends and other Restricted Payments paid in any four consecutive fiscal quarters does not exceed 50% of our consolidated EBITDA for the four fiscal quarters ended immediately prior to such four consecutive fiscal quarters. The indenture governing our senior notes also restricts the payment of dividends.

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Shares of common stock purchased and placed in treasury during the three months ended December 31, 2013 were as follows:

Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plan or programs	Maximum number of shares that may yet be purchased under the plan or program (b)
October 1, 2013 - October 31, 2013	6,544	$28.92	—	—
November 1, 2013 - November 30, 2013	142,282	$17.71	—	—
December 1, 2013 - December 31, 2013	28,144	$26.93	—	—
Total	176,970	$19.59	—	—

(a) All of the 176,970 of the shares purchased during the three months ended December 31, 2013 were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from the vesting of restricted stock grants or stock options. None of these shares were part of a publicly announced program to purchase common shares.
(b) Forum does not have any publicly announced equity securities repurchase plans or programs.

Performance Graph

The following graph compares total shareholder return on our common stock with the Standard & Poor's 500 Stock Index and the Philadelphia Oil Service Sector Index ("OSX"), an index of oil and gas related companies that represents an industry composite of our peers. This graph covers the period from April 13, 2012, using the closing price for the first day of trading immediately following the effectiveness of our initial public offering per SEC regulations (rather than the IPO offering price of $20.00 per share), through December 31, 2013. This comparison assumes the investment of $100 on April 13, 2012, and the reinvestment of all dividends. The shareholder return set forth is not necessarily indicative of future performance.

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The performance graph above is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933 (the "Securities Act") unless specifically identified therein as being incorporated therein by reference. The performance graph is not soliciting material subject to Regulation 14A.

Item 6. Selected Financial Data

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

The selected historical financial data as of December 31, 2013 and 2012, and for the years ended December 31, 2013, 2012 and 2011 are derived from our audited consolidated financial statements and related notes thereto included herein. The selected historical data as of December 31, 2011, 2010 and 2009 and for the years ended December 31, 2010 and 2009 have been derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results to be expected in any future period.

	Year ended December 31,				
(in thousands, except per share information)	2013	2012	2011	2010	2009
Income Statement Data:					
Net sales	$1,524,811	$1,414,933	$1,128,131	$747,335	$677,378
Total operating expenses	1,322,569	1,174,053	967,518	674,058	627,171
Earnings from equity investment	7,312	—	—		
Operating income	209,554	240,880	160,613	73,277	50,207
Total other expenses	23,472	18,085	19,910	28,931	18,363
Income from continuing operations before income taxes	186,082	222,795	140,703	44,346	31,844
Provision for income tax expense	56,478	71,265	47,110	20,297	11,011
Income from continuing operations	129,604	151,530	93,593	24,049	20,833
Loss from discontinued operations, net of taxes	—	—	—	—	(1,342)
Net income	129,604	151,530	93,593	24,049	19,491
Less: Income attributable to noncontrolling interest	65	74	251	111	155
Net income attributable to common stockholders	129,539	151,456	93,342	23,938	19,336
Weighted average shares outstanding					
Basic	90,697	80,111	63,270	53,798	48,248
Diluted	94,604	86,937	67,488	54,316	48,914
Earnings per share					
Basic	$1.43	$1.89	$1.48	$0.44	$0.40
Diluted	$1.37	$1.74	$1.38	$0.44	$0.40

	As of December 31,				
(in thousands)	2013	2012	2011	2010	2009
Balance Sheet Data:					
Cash and cash equivalents	$39,582	$41,063	$20,548	$20,348	$26,894
Net property, plant and equipment	180,292	152,983	124,840	90,632	96,747
Total assets	2,168,869	1,892,980	1,607,315	818,332	840,226
Long-term debt	512,077	400,201	660,379	204,715	236,937
Total stockholders’ equity	1,330,355	1,161,472	654,493	462,523	401,927

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	Year ended December 31,				
(in thousands)	2013	2012	2011	2010	2009
Other financial data:					
Net cash provided by operating activities	$211,393	$137,941	$39,275	$65,981	$107,751
Net cash used in investing activities	(289,030)	(184,523)	(550,114)	(19,216)	(10,914)
Net cash provided by / (used in) financing activities	77,054	65,782	510,148	(54,265)	(94,532)

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

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

Overview

We are a global oilfield products company, serving the subsea, drilling, completion, production and infrastructure sectors of the oil and natural gas industry. We design, manufacture and distribute products, and engage in aftermarket services, parts supply and related services that complement our product offering. Our product offering includes a mix of highly engineered capital products and frequently replaced items that are used in the exploration, development, production and transportation of oil and natural gas. Our capital products are directed at: drilling rig equipment for new rigs, upgrades and refurbishment projects; subsea construction and development projects; the placement of production equipment on new producing wells; and downstream capital projects. Our engineered systems are critical components used on drilling rigs or in the course of subsea operations, while our consumable products are used to maintain efficient and safe operations at well sites in the well construction process, within the supporting infrastructure and at processing centers and refineries. Historically, just over half of our revenue is derived from activity-based consumable products, while the balance is derived from capital products and a small amount from rental and other services.

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

We operate two business segments:

- Drilling & Subsea segment. We design and manufacture products and provide related services to the subsea, drilling, well construction, completion and intervention markets. Through this segment, we offer subsea technologies, including robotic vehicles and other capital equipment, specialty components and tooling, a broad suite of complementary subsea technical services and rental items, and applied products for subsea pipelines; drilling technologies, including capital equipment and a broad line of products consumed in the drilling and well intervention process; and downhole technologies, including cementing and casing tools, completion products, and a range of downhole protection solutions.
- Production & Infrastructure segment. We design and manufacture products and provide related equipment and services to the well stimulation, completion, production and infrastructure markets. Through this segment, we supply flow equipment, including well stimulation consumable products and related recertification and refurbishment services; production equipment, including well site production equipment and process equipment; and valve solutions, which includes a broad range of industrial and process valves.

Market Conditions

The demand for our products and services is ultimately driven by energy prices and the expectation of exploration and production companies as to future trends in those prices. Management believes that the long-term fundamentals underlying the global demand for energy, such as long-term economic and demographic trends, remain strong. The level of demand for our products and services is directly related to activity levels and the capital and operating budgets of our customers, which in turn are influenced heavily by the outlook for energy prices.

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:

	2013	2012	2011
Average global oil, $/bbl			
West Texas Intermediate	$97.98	$94.10	$95.05
United Kingdom Brent	$108.64	$112.77	$111.77
Average North American Natural Gas, $/Mcf			
Henry Hub	$3.73	$2.75	$4.00

Crude oil prices appear adequate to generally maintain the current level of exploration and production activity, including the development of deepwater prospects, which stimulate demand for our subsea products and services. Current oil prices are also supporting a generally steady level of oil related activity, both offshore and onshore. Despite some improvement in 2013, low levels of North American natural gas prices have negatively impacted certain areas of our business, principally those tied to products and services we provide to the pressure pumping service sector and the land based drilling industry.

Corresponding to the commodity price levels, the average active rig count data below, based on the weekly Baker Hughes Incorporated rig count, reflect a broad measure of industry activity and resultant demand for our drilling and production related products and services.

	2013	2012	2011
Active Rigs by Location			
United States	1,761	1,919	1,879
Canada	353	364	419
International	1,296	1,233	1,167
Global Active Rigs	3,410	3,516	3,465
Land vs. Offshore Rigs			
Land	3,033	3,165	3,127
Offshore	377	351	338
Global Active Rigs	3,410	3,516	3,465
U.S. Commodity Target, Land			
Oil/Gas	1,373	1,359	984
Gas	383	556	887
Unclassified	5	4	8
Total U.S. Land Rigs	1,761	1,919	1,879
U.S. Well Path, Land			
Horizontal	1,102	1,151	1,074
Vertical	435	552	574
Directional	224	216	231
Total U.S. Active Land Rigs	1,761	1,919	1,879

Generally, our sales are negatively impacted by lower rig activity, and the 8% decline in the average U.S. rig count in 2013 resulted in lower sales of some of our drilling products. While the rig count decreased, drilling efficiency has improved as a result of a shift in the composition of the drilling rig fleet to newer, more efficient rigs. As a result, the number of wells drilled per rig has increased. If this trend continues, well completions could grow at a faster pace than the drilling rig count.

Acquisitions

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

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- B+V, a manufacturer of pipe handling equipment used on offshore and onshore drilling rigs with locations in Hamburg, Germany and Willis, Texas. B+V is included in the Drilling & Subsea segment;
- Moffat, a Newcastle, England based manufacturer of subsea pipeline inspection gauge launching and receiving systems, and subsea connectors. Moffat is included in the Drilling & Subsea segment; and
- The joint purchase of Global Tubing with an equal partner, with management retaining a small interest. Global Tubing is a Dayton, Texas based provider of coiled tubing strings and related services. Our equity investment is reported in the Production & Infrastructure segment and is accounted for using the equity method of accounting.

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

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

We completed eight acquisitions in 2011, three of which are included in the Production & Infrastructure segment and five in the Drilling & Subsea segment.

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

For additional information regarding our 2013, 2012 and 2011 acquisitions, please read Note 3 and Note 4 of the Notes to the Consolidated Financial Statements in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Evaluation of operations

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

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

Gross margin percentage. We define gross margin percentage as our gross margin, or net sales minus cost of sales, divided by our net sales. Our management continually evaluates our consolidated gross margin percentage and our gross margin percentage by segment to determine how each segment is performing. This metric aids management in capital resource allocation and pricing decisions.

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

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

Earnings per share. We calculate fully-diluted earnings per share as prescribed under generally accepted accounting principles ("GAAP"), that is net income divided by common shares outstanding, giving effect for the assumed exercise

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of all outstanding options and warrants with a strike price less than the average fair value of the shares over the period covered for the calculation. We believe this measure is important as it reflects the sum total of operating results and all attendant capital decisions, showing in one number the amount earned for the stockholders of our Company.

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

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

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

- On April 17, 2012, we sold 13,889,470 shares of common stock in the IPO and 2,666,666 shares of common stock in a private placement to a private equity fund (not affiliated with the original sponsor) for aggregate net proceeds of approximately $256.4 million and $50 million, respectively. We used all of the net proceeds to repay a portion of the outstanding borrowings under the revolving portion of the Credit Facility.
- Since 2011, we have grown our business both organically and through strategic acquisitions. We have expanded and diversified our product portfolio and business lines with the acquisition of two businesses and our joint venture investment in 2013, four businesses in 2012 and eight businesses in 2011. The historical financial data for periods prior to the acquisitions does not include the results of any of the acquired companies for the periods presented and, as such, does not provide an accurate indication of our future results.
- As we integrate acquired companies and further implement internal controls, processes and infrastructure to operate in compliance with the regulatory requirements applicable to companies with publicly traded shares, it is likely that we will incur incremental selling, general and administrative expenses relative to historical periods.

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

Results of operations
Year ended December 31, 2013 compared with year ended December 31, 2012

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

Diluted	94,604	86,937
Earnings per share		
Basic	$1.43	$1.89
Diluted	$1.37	$1.74

* not meaningful

Revenue

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

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

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

Segment operating income and segment operating margin percentage

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

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

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

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

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

Other items

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

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

Other income and expense

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

Taxes

Tax expense includes current income taxes expected to be due based on taxable income to be reported during the periods in the various jurisdictions in which we conduct business, and deferred income taxes based on changes in the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax purposes at the beginning and end of the respective periods. The effective tax rate, calculated by dividing total tax expense by income before income taxes, was 30.4% and 32.0% for the years ended December 31, 2013 and 2012, respectively. The effective tax rate for the year ended December 31, 2013 is lower than the comparable period in 2012 primarily due to a higher proportion of our earnings being generated outside the United States in jurisdictions subject to lower tax rates and due to a reduction in the tax provision from the finalization of certain prior year tax returns.

Year ended December 31, 2012 compared to year ended December 31, 2011

	Year ended December 31,		Favorable / (Unfavorable)	
	2012	2011	$	%
(in thousands of dollars, except per share information)				
Revenue:				
Drilling & Subsea	$826,500	$659,430	$167,070	25.3 %
Production & Infrastructure	589,204	468,701	120,503	25.7 %
Eliminations	(771)	—	$(771)	*
Total revenue	$1,414,933	$1,128,131	$286,802	25.4 %
Cost of sales:				
Drilling & Subsea	$529,294	$433,836	$(95,458)	(22.0)%
Production & Infrastructure	423,353	331,834	(91,519)	(27.6)%
Eliminations	(771)	—	$771	*
Total cost of sales	$951,876	$765,670	$(186,206)	(24.3)%
Gross profit:				
Drilling & Subsea	$297,206	$225,594	$71,612	31.7 %
Production & Infrastructure	165,851	136,867	28,984	21.2 %
Total gross profit	$463,057	$362,461	$100,596	27.8 %
Selling, general and administrative expenses:				
Drilling & Subsea	$136,046	$107,667	$(28,379)	(26.4)%
Production & Infrastructure	68,594	58,870	(9,724)	(16.5)%
Corporate	20,628	20,237	(391)	(1.9)%
Total selling, general and administrative expenses	$225,268	$186,774	$(38,494)	(20.6)%
Operating income:				
Drilling & Subsea	$161,160	$117,927	$43,233	36.7 %
Operating income margin %	19.5 %	17.9 %		
Production & Infrastructure	97,257	77,997	19,260	24.7 %
Operating income margin %	16.5 %	16.6 %		
Corporate	(20,628)	(20,237)	(391)	(1.9)%
Total segment operating income	$237,789	$175,687	$62,102	35.3 %
Operating income margin %	16.8 %	15.6 %		
Contingent consideration expense (benefit)	(4,568)	12,100	16,668	*
Impairment of intangible assets	1,161	—	(1,161)	*
Transaction expenses	1,751	3,608	1,857	(51.5)%
(Gain)/loss on sale of assets	(1,435)	(634)	801	126.3 %
Income from operations	240,880	160,613	80,267	(50.0)%
Interest expense, net	16,372	19,532	3,160	16.2 %
Other, net	1,713	378	(1,335)	*
Other (income) expense, net	18,085	19,910	1,825	9.2 %
Income before income taxes	222,795	140,703	82,092	58.3 %
Income tax expense	71,265	47,110	(24,155)	(51.3)%
Net income	151,530	93,593	57,937	61.9 %
Less: Income attributable to non-controlling interest	74	251	(177)	*
Income attributable to common stockholders	$151,456	$93,342	$58,114	62.3 %
Weighted average shares outstanding				
Basic	80,111	63,270		
Diluted	86,937	67,488		
Earnings per share				
Basic	$1.89	$1.48		

Diluted	$1.74	$1.38

* not meaningful

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Revenue
Our revenue for the year ended December 31, 2012 increased $286.8 million, or 25.4%, to $1,414.9 million compared to the year ended December 31, 2011. For the year ended December 31, 2012, our Drilling & Subsea segment and our Production & Infrastructure segment comprised 58.4% and 41.6% of our total revenue, respectively, which was consistent with the year ended December 31, 2011. All of our product lines had increased revenue in the year ended December 31, 2012 compared to the prior year. The revenue increase by operating segment consisted of the following:
Drilling & Subsea segment — Revenue increased $167.1 million, or 25.3%, to $826.5 million during the year ended December 31, 2012 compared to the year ended December 31, 2011. Of the increase, $55.1 million, or 33%, was attributable to organic initiatives. The organic growth contributions arose primarily from increased sales of hydraulic catwalk units and blowout preventers in the drilling technologies product line, and increased sales of work-class remotely operated vehicles in the Subsea Technologies product line. Of the increase, $112.0 million, or 67%, was primarily attributable to operations acquired in 2011. The operations acquired in 2011 that were not owned for the full year ended December 31, 2011 included drilling products from AMC Global Group, Ltd. ("AMC") and P-Quip, Ltd. ("P-Quip") and downhole products from Davis-Lynch, LLC ("Davis-Lynch") and Cannon Services ("Cannon"). Additionally, four operations were acquired during the fourth quarter of 2012 and these acquisitions relate to all three product lines within Drilling & Subsea.
Production & Infrastructure segment — Revenue increased $120.5 million, or 25.7%, to $589.2 million during the year ended December 31, 2012 compared to the year ended December 31, 2011. Of the increase, $85.6 million, or 71%, was attributable to organic initiatives attributable to higher market demand in both production equipment and valve solutions products and orders from new customers. The higher shipments were made possible for production equipment by the expansion of existing facilities and the addition of new facilities in Pennsylvania, each completed throughout 2011. Of the increase, $34.9 million, or 29%, was attributable to operations acquired in 2011 that were not owned for the full year ended December 31, 2011 including the three acquisitions that make up the flow equipment product line.
Segment operating income and segment operating margin percentage
Segment operating income for the year ended December 31, 2012 increased $62.1 million, or 35.3%, to $237.8 million compared to the year ended December 31, 2011.The segment operating margin percentage is calculated by dividing segment operating income by revenue. For the year ended December 31, 2012, the segment operating margin percentage of 16.8% represents an improvement of 120 basis points over the 15.6% operating margin percentage for the year ended December 31, 2011. The improvement in operating margin percentage achieved in each segment was derived as follows:
Drilling & Subsea segment — The operating margin percentage improved 160 basis points to 19.5% for the year ended December 31, 2012, up from 17.9% for the year ended December 31, 2011. The margin improvement was due to manufacturing efficiencies on the higher revenue in the subsea technologies and drilling technologies product lines as well as improved product mix from the full year contribution of acquisitions made in 2011 and 2012. Offsetting the higher gross margins were slightly higher selling, general and administrative costs as a percentage of revenue attributable to the amortization of intangible assets of the businesses acquired in 2011 and 2012.
Production & Infrastructure segment — Operating margin percentage showed a slight decline of 10 basis points to 16.5% for the year ended December 31, 2012, from 16.6% for the year ended December 31, 2011 primarily due to lower margins in the Flow Equipment product line due to the deterioration in this market which reduced demand for our products significantly starting in the second quarter 2012. The pressure pumping service providers, our customers, experienced excess capacity of new capital equipment and supplies during the year and these companies began to destock inventory they purchased during prior periods. Offsetting the lower margins in the flow equipment product line were modest price increases on certain valve products. Also positively impacting our operating margins were lower selling, general and administrative costs as a percent of revenue, which was attributable to tighter controls.
Corporate — Selling, general and administrative expenses for Corporate increased slightly by $0.4 million, or 1.9%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. Corporate costs included, among other items, payroll related costs for general management and management of finance and administration, legal, and human resources; professional fees for legal, accounting and related services; and marketing costs.

Other items

Several items are not included in segment operating income, but are included in total operating income. These items include: contingent consideration, impairment of intangible assets, transaction expenses and gains/losses from the sale of assets. The contingent consideration we incurred was related to two acquisitions in 2011 in the Flow Equipment product line in which part of the purchase price was payable in cash and/or shares of our common stock based on the earnings of the acquired entities. The change in the amount of the accrual is recorded as part of operating income. Lower projected earnings of the acquired entities resulted in an increase to operating income of $4.6 million for the year ended December 31, 2012 due to lower contingent consideration, whereas higher projected earnings of the acquired entities resulted in a decrease to operating income of $12.1 million for the year ended December 31, 2011. During the second quarter 2012, an impairment loss of $1.2 million was recorded on certain intangible assets as a result of a lack of orders for a specific service line within the Production & Infrastructure segment. Transaction expenses relate to legal and other advisory costs incurred in acquiring businesses and are not considered to be part of segment operating income. These costs were $1.8 million and $3.6 million for the years ended December 31, 2012 and 2011, respectively.

Interest expense

We incurred $16.4 million of interest expense during the year ended December 31, 2012, a decrease of $3.2 million from the year ended December 31, 2011. The decrease in interest expense was attributable to a lower debt level as we repaid a portion of our debt from the net proceeds of the IPO and concurrent private placement during the second quarter 2012, partially offset by an increase in debt levels incurred to finance the four acquisitions in the fourth quarter 2012.

Taxes

Tax expense includes current income taxes expected to be due based on taxable income to be reported during the periods in the various jurisdictions in which we conduct business, and deferred income taxes based on changes in the tax effect of temporary differences between the bases of assets and liabilities for financial reporting and tax purposes at the beginning and end of the respective periods. The effective tax rate, calculated by dividing total tax expense by income before income taxes, was 32.0% and 33.5% for the years ended December 31, 2012 and 2011, respectively. The effective tax rate for the year ended December 31, 2012 is lower than the comparable period in 2011 primarily due to a reduction in the tax provision from the finalization of certain prior year tax returns.

Liquidity and capital resources

Sources and uses of liquidity

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

At December 31, 2013, we had cash and cash equivalents of $39.6 million and total debt of $513.1 million. During the year ended December 31, 2013, we used the net proceeds from the issuance of $400.0 million of 6.25% senior notes to repay a portion of the outstanding borrowings under our Credit Facility. See “—Senior Notes Due 2021.”

We believe that cash on hand, cash generated from operations and amounts available under the Credit Facility will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations for the foreseeable future.

Our total 2014 capital expenditure budget is approximately $60.0 million, which consists of, among other items, investments in constructing or expanding certain manufacturing facilities, purchasing machinery and equipment, expanding our rental fleet of subsea equipment, and general maintenance capital expenditures of approximately $25.0 million. This budget does not include expenditures for potential business acquisitions.

The amount of capital expenditures incurred in 2013 was $60.3 million. These expenditures were funded from borrowings under our Credit Facility, the issuance of our senior notes and internally generated funds. We believe cash flows from operations and additional borrowings under the Credit Facility should be sufficient to fund our capital requirements for 2014.

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 two businesses and our joint venture investment in 2013 for total consideration (net of cash acquired) of approximately $230.0 million, and four businesses in 2012 for total consideration (net of cash acquired) of approximately $139.3 million. We used cash on hand and borrowings under the Credit Facility to finance these acquisitions. We continue to actively review acquisition opportunities on an ongoing basis. Our ability to make significant additional acquisitions for cash may require us to obtain additional equity or debt financing, which we may not be able to obtain on terms acceptable to us or at all.

Our cash flows for the years ended December 31, 2013, 2012 and 2011 are presented below (in millions):

	Year ended December 31,		
	2013	2012	2011
Net cash provided by operating activities	$211.4	$137.9	$39.3
Net cash used in investing activities	(289.0)	(184.5)	(550.1)
Net cash provided by financing activities	77.1	65.8	510.1
Net increase (decrease) in cash and cash equivalents	(1.5)	20.5	0.2
Free cash flow, before acquisitions	$152.1	$100.4	$(1.0)

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

	Year ended December 31,		
	2013	2012	2011
Cash flow from operating activities	$211.4	$137.9	$39.3
Payment of contingent consideration included in operating activities	—	7.1	—
Capital expenditures for property and equipment	(60.3)	(49.7)	(41.2)
Proceeds from sale of property and equipment and other	1.0	5.1	0.9
Free cash flow, before acquisitions	$152.1	$100.4	$(1.0)

Cash flows provided by operating activities

Net cash provided by operating activities was $211.4 million and $137.9 million for the year ended December 31, 2013 and 2012, respectively. Cash provided by operations increased as a result of reduced investments in working capital as compared to the prior year, primarily inventory, which added $33.1 million as compared to the use of cash of $100.3 million in the prior year. Offsetting the positive impacts of the reduced investments in working capital was a decrease in net income to $129.5 million for the year ended December 31, 2013, from $151.5 million for the year ended December 31, 2012.

Net cash provided by operating activities was $137.9 million for the year ended December 31, 2012 and $39.3 million for the year ended December 31, 2011. Net income increased to $151.5 million for the year ended December 31, 2012, from $93.6 million for the year ended December 31, 2011, which resulted in a positive impact on cash flows from operations. Cash provided by operations also increased as a result of reduced investments in working capital as compared to the prior year. For example, there was a positive impact to cash flows from operations of $75.2 million as compared to the prior year from the changes in accounts receivable due to collection efforts. This increase in operating cash flows due to the change in account receivables is partially offset by the increase in inventories and a decrease in accounts payable and other accrued liabilities.

Our operating cash flows are sensitive to a number of variables, the most significant of which is the level of drilling and production activity for oil and natural gas reserves. These activity levels are in turn impacted by the volatility of oil and natural gas prices, regional and worldwide economic activity and its effect on demand for hydrocarbons, weather,

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infrastructure capacity to reach markets and other variable factors. These factors are beyond our control and are difficult to predict. For additional information on the impact of changing prices on our financial position, see "Quantitative and qualitative disclosures about market risk" below.

Cash flows used in investing activities

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

Net cash used in investing activities was $184.5 million and $550.1 million for the years ended December 31, 2012 and December 31, 2011, respectively, a $365.6 million decrease. Of this decrease, $139.9 million was used to fund the acquisitions during the year ended December 31, 2012 compared with $509.9 million used for acquisitions in the year ended December 31, 2011. This decrease was partially offset by a higher investment in property and equipment of $49.7 million during the year ended December 31, 2012 compared to an investment of $41.2 million during the year ended December 31, 2011.

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

Cash flows provided by (used in) financing activities

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

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

Net cash provided by financing activities was $510.1 million for the year ended December 31, 2011, primarily from net draws on the Credit Facility of $458.4 million and proceeds from stock issuances of $57.0 million.

Senior Notes Due 2021

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

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

Credit Facility

We have a Credit Facility with Wells Fargo Bank, National Association, as administrative agent, and several financial institutions as lenders, which provides for a $600.0 million revolving credit facility, including up to $75.0 million available for letters of credit and up to $25.0 million in swingline loans. Subject to terms of the Credit Facility, we have the ability to increase the revolving Credit Facility by an additional $300.0 million. In November 2013, we amended our Credit Facility, to, among other things, change certain of the ratios under financial covenants previously required to be maintained by us on a consolidated basis and to extend the maturity date to November 2018. Weighted average interest rates under the Credit Facility at December 31, 2013 and 2012 were 2.17% and 2.21%, respectively.

All of the obligations under the Credit Facility are secured by first priority liens (subject to permitted liens) on substantially all of the assets of the Company and its wholly-owned domestic restricted subsidiaries, with exceptions for real property and certain other assets set forth in the Credit Facility. Additionally, all of the obligations under the Credit Facility are guaranteed by the wholly-owned domestic restricted subsidiaries of the Company. As of December 31, 2013, we had $108.0 million of borrowings outstanding under our Credit Facility and $16.6 million of outstanding letters of credit and the capacity to borrow an additional $475.4 million under the revolving portion of our Credit Facility.

Future borrowings under the revolving portion of the Credit Facility will be available for working capital and other general corporate purposes, including permitted acquisitions. It is anticipated that the revolving portion of the Credit Facility will be available to be drawn on and repaid during the term thereof as long as we are in compliance with the terms of the credit agreement, including certain financial covenants.

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

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

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

We were in compliance with all financial covenants at December 31, 2013 and we anticipate that we will continue to be in compliance in 2014.

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

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

Interest is payable quarterly for base rate loans and at the end of each interest period for LIBOR loans, except that if the interest period for a LIBOR loan is longer than three months, interest is paid at the end of each three-month period. The Credit Facility also provides for a commitment fee in the amount of 0.25% to 0.50% per annum (with the applicable rate depending upon our ratio of total funded debt to EBITDA) on the unused portion of revolving commitments.

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

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

Off-balance sheet arrangements

As of December 31, 2013, we had no off-balance sheet instruments or financial arrangements, other than operating leases entered into in the ordinary course of business.

Contractual obligations

Our debt, lease and financial obligations as of December 31, 2013 will mature and become due and payable according to the following table (in thousands):

	2014	2015	2016	2017	2018	After 2018	Total
Senior notes due October 2021 (1)	$25,000	$25,000	$25,000	$25,000	$25,000	$468,750	$593,750
Senior secured credit facility (2)	2,344	2,344	2,344	2,344	109,953	—	119,329
Other debt	998	869	—	—	—	—	1,867
Operating leases	16,148	14,724	13,310	9,972	7,483	27,104	88,741
Letters of credit	11,974	2,697	1,907	—	—	—	16,578
Pension	414	568	423	409	416	5,573	7,803
Total	$56,878	$46,202	$42,984	$37,725	$142,852	$501,427	$828,068

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

(2) Includes interest on the Credit Facility calculated using the weighted average interest rate of 2.17% at December 31, 2013.

Inflation

Global inflation has been relatively low in recent years and did not have a material impact on our results of operations during 2013, 2012 or 2011. Although the impact of inflation has been insignificant in recent years, it is still a factor in the global economy and we tend to experience inflationary pressure on the cost of raw materials and components used in our products.

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Critical accounting policies and estimates

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

Revenue recognition

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

Revenue generated from long-term contracts, typically longer than six months in duration, is recognized on the percentage-of-completion method of accounting. Approximately 11% of our 2013 revenue was accounted for on this basis. There are significant estimates and judgments involved in recognizing revenue over the term of the contract. For that portion of our business accounted for on the percentage-of-completion method, we generally recognize revenue and cost of goods sold each period based upon the advancement of the work-in-progress. The percentage complete is determined based on the ratio of costs incurred to date to total estimated costs for the project. The percentage-of-completion method requires management to calculate reasonably dependable estimates of progress towards completion and total contract costs. Each period these long-term contracts are reevaluated and may result in upward or downward revisions in estimated total costs, which are accounted for in the period of the change to reflect a catch up adjustment for the cumulative impact from inception of the contract to date in the period of the revision. Whenever revisions of estimated contract costs and contract value indicates that the contract costs will exceed estimated revenue, thus creating a loss, a provision for the total estimated loss is recorded in that period.

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

Share-based compensation

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

Inventories

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

Business combinations, goodwill and other intangible assets

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

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

For goodwill and intangible assets with indefinite lives, an assessment for impairment is performed annually or whenever an event indicating impairment may have occurred. We typically complete our annual impairment test for goodwill and other indefinite-lived intangibles using an assessment date of December 31. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit’s net assets, including allocated goodwill, to the estimated fair value of the reporting unit. As of December 31, 2013, we had six reporting units. We determine the fair value of our reporting units using a discounted cash flow approach. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. Such estimates and assumptions include revenue growth rates, future operating margins, the weighted average cost of capital, and future market conditions, among others. We believe that the estimates and assumptions used in our impairment assessments are reasonable. If the reporting unit’s carrying value is greater than its fair value, a second step is performed whereby the implied fair value of goodwill is estimated by allocating the fair value of the reporting unit in a hypothetical purchase price allocation analysis. We recognize a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds its reassessed fair value. At December 31, 2013, we performed our annual impairment test on each of our reporting units and concluded that there had been no impairment because the estimated fair values of each of those reporting units substantially exceeded its carrying value.

Income taxes

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

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

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

Property and equipment

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

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

Recognition of provisions for contingencies

In the ordinary course of business, we are subject to various claims, suits and complaints. We, in consultation with internal and external advisors, will provide for a contingent loss in the consolidated financial statements if it is probable that a liability has been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. If it is determined