

Frank's International N.V.  
Form 10-Q  
November 07, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2014

OR

Transition Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

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

Commission file number: 001-36053

Frank's International N.V.

(Exact name of registrant as specified in its charter)

The Netherlands

(State or other jurisdiction of  
incorporation or organization)

98-1107145

(IRS Employer  
Identification number)

Prins Bernhardplein 200

1097 JB Amsterdam, The Netherlands

(Address of principal executive offices)

Not Applicable

(Zip Code)

Registrant's telephone number, including area code: +31 (0)20 693 8597

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of November 5, 2014, there were 154,274,329 shares of common stock, €0.01 par value per share, outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

FRANK'S INTERNATIONAL N.V.  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$468,388	\$404,947
Accounts receivables, net	368,428	364,817
Inventories	210,536	185,589
Other current assets	15,727	15,843
Total current assets	1,063,079	971,196
Property, plant and equipment, net	567,306	511,199
Goodwill and intangible assets, net	14,278	14,814
Other assets	61,277	63,986
Total assets	\$1,705,940	\$1,561,195
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	\$322	\$376
Accounts payable	16,449	22,254
Deferred revenue	77,224	62,610
Accrued and other current liabilities	105,168	90,484
Total current liabilities	199,163	175,724
Deferred tax liabilities	14,485	13,114
Other non-current liabilities	41,180	38,325
Total liabilities	254,828	227,163
Commitments and contingencies (Note 16)		
Series A preferred stock, €0.01 par value, 52,976,000 shares authorized, issued and outstanding	705	705
Stockholders' equity:		
Common stock, €0.01 par value, 745,120,000 shares authorized; 154,477,597 issued and 154,272,613 outstanding at 2014 and 153,524,000 shares issued and outstanding at 2013	2,032	2,019
Additional paid-in capital	671,601	642,164
Retained earnings	533,886	455,632
Accumulated other comprehensive loss	(7,911	) (2,383
Treasury stock (at cost), 204,984 shares at 2014	(4,154	) —
Total stockholders' equity	1,195,454	1,097,432
Noncontrolling interest	254,953	235,895
Total equity	1,450,407	1,333,327

Total liabilities and equity	\$1,705,940	\$1,561,195
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Revenues:					
Equipment rentals and services	\$254,047	\$228,069	\$706,698	\$668,582	
Products	42,136	42,033	126,914	127,068	
Total revenue	296,183	270,102	833,612	795,650	
Operating expenses:					
Cost of revenues, exclusive of depreciation and amortization					
Equipment rentals and services	97,919	79,213	271,939	228,851	
Products	23,237	31,581	75,527	91,734	
General and administrative expenses	65,220	64,104	196,431	160,016	
Depreciation and amortization	23,254	19,887	66,342	56,593	
Loss on sale of assets	280	124	193	68	
Operating income	86,273	75,193	223,180	258,388	
Other income (expense):					
Other income	1,483	1,128	6,772	8,535	
Interest income (expense), net	(13	) 170	23	(493	)
Foreign currency gain (loss)	(526	) 3,161	(526	) (2,114	)
Total other income	944	4,459	6,269	5,928	
Income from continuing operations before income tax expense	87,217	79,652	229,449	264,316	
Income tax expense	19,777	20,185	51,598	32,569	
Income from continuing operations	67,440	59,467	177,851	231,747	
Income from discontinued operations, net of tax	—	—	—	42,635	
Net income	67,440	59,467	177,851	274,382	
Net income attributable to noncontrolling interest	20,094	18,653	53,426	74,005	
Net income attributable to Frank's International N.V.	\$47,346	\$40,814	\$124,425	\$200,377	
Basic earnings per common share:					
Continuing operations	\$0.31	\$0.30	\$0.81	\$1.35	
Discontinued operations	—	—	—	0.25	
Total	\$0.31	\$0.30	\$0.81	\$1.60	
Diluted earnings per common share:					
Continuing operations	\$0.31	\$0.29	\$0.80	\$1.27	
Discontinued operations	—	—	—	0.24	
Total	\$0.31	\$0.29	\$0.80	\$1.51	
Weighted average common shares outstanding:					
Basic	153,923	137,024	153,659	125,090	

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Diluted	207,934	190,435	207,751	178,211
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The accompanying notes are an integral part of these consolidated financial statements.

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FRANK'S INTERNATIONAL N.V.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$67,440	\$59,467	\$177,851	\$274,382
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(6,260	) (911	) (5,369	) (8,243
Unrealized gain (loss) on marketable securities, net of tax	(1,900	) 1,462	(2,057	) 1,142
Total other comprehensive income (loss)	(8,160	) 551	(7,426	) (7,101
Comprehensive income	59,280	60,018	170,425	267,281
Less: Comprehensive income attributable to noncontrolling interest	18,007	18,794	51,528	72,184
Comprehensive income attributable to Frank's International N.V.	\$41,273	\$41,224	\$118,897	\$195,097

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

FRANK'S INTERNATIONAL N.V.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands)  
(Unaudited)

	Nine Months Ended September 30, 2013							
	Common Stock		Additional	Retained	Accumulated	Treasury	Non-	Total
	Shares	Value	Paid-In Capital	Earnings	Other Comprehensive Income (Loss)	Stock	controlling Interest	Stockholders' Equity
Balances at December 31, 2012	119,024	\$1,561	\$651	\$327,436	\$ 3,254	\$—	\$114,086	\$ 446,988
Net income	—	—	—	200,377	—	—	74,005	274,382
Distribution of net assets to Mosing Holdings	—	—	—	(40,507 )	—	—	(13,974 )	(54,481 )
Capital contribution by NCI equity holders to subsidiary	—	—	—	—	—	—	3,002	3,002
Issuance of common stock upon IPO, net of offering costs	34,500	458	634,239	—	—	—	76,814	711,511
Foreign currency translation adjustments	—	—	—	—	(6,129 )	—	(2,114 )	(8,243 )
Unrealized gain on marketable securities	—	—	—	—	849	—	293	1,142
Stock-based compensation expense	—	—	2,520	—	—	—	—	2,520
Distributions to stockholders	—	—	—	(78,340 )	—	—	(27,027 )	(105,367 )
Other	—	—	54	—	—	—	—	54
Balances at September 30, 2013	153,524	\$2,019	\$637,464	\$408,966	\$ (2,026 )	\$—	\$225,085	\$ 1,271,508
	Nine Months Ended September 30, 2014							
	Common Stock		Additional	Retained	Accumulated	Treasury	Non-	Total
	Shares	Value	Paid-In Capital	Earnings	Other Comprehensive Income (Loss)	Stock	controlling Interest	Stockholders' Equity
Balances at December 31, 2013	153,524	\$2,019	\$642,164	\$455,632	\$ (2,383 )	\$—	\$235,895	\$ 1,333,327
Net income	—	—	—	124,425	—	—	53,426	177,851
Foreign currency	—	—	—	—	(3,996 )	—	(1,373 )	(5,369 )

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translation adjustments									
Unrealized loss on marketable securities	—	—	—	—	(1,532 )	—	(525 )	(2,057 )	
Stock-based compensation expense	—	—	29,450	—	—	—	—	29,450	
Distribution to noncontrolling interest	—	—	—	—	—	—	(32,470 )	(32,470 )	
Common stock dividends (\$0.30 per share)	—	—	—	(46,170 )	—	—	—	(46,170 )	
Preferred stock dividends	—	—	—	(1 )	—	—	—	(1 )	
Common shares issued upon vesting of restricted stock units	954	13	(13 )	—	—	—	—	—	
Treasury shares withheld	(205 )	—	—	—	—	(4,154 )	—	(4,154 )	
Balances at September 30, 2014	154,273	\$2,032	\$671,601	\$533,886	\$ (7,911 )	\$ (4,154 )	\$254,953	\$ 1,450,407	

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

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FRANK'S INTERNATIONAL N.V.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$ 177,851	\$ 274,382
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	66,342	56,738
Stock-based compensation expense	29,450	2,520
Amortization of deferred financing costs	235	43
Venezuelan currency devaluation charge	—	1,755
Deferred tax provision	1,966	(2,806 )
Provision for (recovery of) bad debts	(113 )	11,786 )
(Gain) loss on sale of assets	193	(39,561 )
Changes in fair value of marketable securities	(723 )	(2,381 )
Increase in value of life insurance policies	—	(815 )
Changes in operating assets and liabilities		
Accounts receivable	(5,779 )	(57,904 )
Inventories	(37,890 )	(63,901 )
Other current assets	(71 )	1,738 )
Other assets	2,215	(1,747 )
Accounts payable	2,907	(997 )
Deferred revenue	14,615	41,880
Accrued expenses and other current liabilities	18,671	13,668
Other noncurrent liabilities	4,058	5,759
Net cash provided by operating activities	273,927	240,157
Cash flows from investing activities		
Purchases of property, plant and equipment	(124,187 )	(126,763 )
Proceeds from sale of assets and equipment	653	50,471
Purchase of marketable securities	(1,539 )	(1,187 )
Premiums on life insurance policies	—	(2,142 )
Net cash used in investing activities	(125,073 )	(79,621 )
Cash flows from financing activities		
Proceeds from initial public offering, net of offering costs	—	711,511
Repayments of borrowings	(54 )	(471,864 )
Proceeds from borrowings	—	170
Deferred financing costs	—	(972 )
Dividends paid on common stock	(46,170 )	—
Dividends paid on preferred stock	(1 )	—
Distribution to noncontrolling interest	(32,470 )	—
Treasury shares withheld	(4,154 )	—
Distributions to stockholders	—	(105,367 )
Net cash provided by (used in) financing activities	(82,849 )	133,478
Effect of exchange rate changes on cash due to Venezuelan devaluation	—	575

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Effect of exchange rate changes on cash	(2,564	) 1,988
Net increase in cash	63,441	296,577
Cash and cash equivalents at beginning of period	404,947	152,945
Cash and cash equivalents at end of period	\$468,388	\$449,522

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

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

Note 1—Basis of Presentation

Nature of Business

Frank's International N.V. ("FINV"), a limited liability company organized under the laws of The Netherlands, is a global provider of highly engineered tubular services to the oil and gas industry. FINV provides services to leading exploration and production companies in both offshore and onshore environments with a focus on complex and technically demanding wells.

Basis of Presentation

The consolidated financial statements of FINV for the three and nine months ended September 30, 2014 and 2013 include the activities of Frank's International C.V. ("FICV") and its wholly owned subsidiaries (collectively, the "Company," "we," "us" or "our"). All intercompany accounts and transactions have been eliminated for purposes of preparing these consolidated financial statements.

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

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

Reclassifications

In reporting periods prior to the fourth quarter of 2013, certain costs of equipment rentals and services and product sales were misclassified between the two line items. There was no impact to previously reported operating income, income from continuing operations, net income, earnings per share or cash flow. Corrections have been made to the relevant period presented in the financial statements included herein. These corrections resulted in reductions of cost of equipment rentals and services with corresponding increases to cost of products of \$7.7 million and \$19.3 million for the three and nine months ended September 30, 2013.

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

Out-Of-Period Adjustment

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

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

Recent Accounting Pronouncements

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

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

In August 2014, the FASB issued guidance which addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted. We do not expect to early adopt this guidance and do not believe that the adoption of this guidance will have a material impact on our consolidated financial statements.

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

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

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

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



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

Note 2—Noncontrolling Interest

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$67,440	\$59,467	\$177,851	\$274,382
Add: Provision for U.S. income taxes of FINV (1)	11,733	13,838	31,093	13,838
Less: (Income) loss of FINV (2)	(735)	(583)	(555)	297
Net income subject to noncontrolling interest	78,438	72,722	208,389	288,517
Noncontrolling interest percentage (3)	25.6%	25.7%	25.6%	25.7%
Net income attributable to noncontrolling interest	\$20,094	\$18,653	\$53,426	\$74,005

(1) Represents income tax expense attributable to our proportionate share of the U.S. operations of our partnership interests in FICV.

(2) Represents results of operations for entities outside of FICV.

(3) Represents the economic interest in FICV held by Mosing Holdings. This percentage will change as additional shares of FINV common stock are issued.

Note 3—Discontinued Operations

On June 14, 2013, we sold a component of our Tubular Sales segment, which manufactured centralizers for sales to third parties, and recognized a gain on the sale of \$39.6 million, which is included in income from discontinued operations on the consolidated statements of income. As a result, for the nine months ended September 30, 2013, the operations from that component have been reported as discontinued operations on the consolidated statement of income. There were no discontinued operations for the three months ended September 30, 2013 or subsequent to that period.

For the nine months ended September 30, 2013, revenue from the discontinued component was \$7.6 million and net income was \$42.6 million, which included the gain on the sale of the component. Net assets of \$10.4 million as of June 14, 2013 were included in the disposition.

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

Note 4—Accounts Receivable, net

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

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	September 30, 2014	December 31, 2013
Trade accounts receivable, net of allowance of \$13,091 and \$13,614, respectively	\$279,599	\$232,409
Unbilled receivables	65,764	105,824
Taxes receivable	17,262	20,075
Affiliated (1)	3,333	3,921
Other receivables	2,470	2,588
Total accounts receivable	\$368,428	\$364,817

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

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

Note 5—Inventories

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

	September 30, 2014	December 31, 2013
Pipe and connectors	\$190,240	\$168,639
Finished goods	4,518	4,114
Work in progress	6,108	2,284
Raw materials, components and supplies	9,670	10,552
Total inventories	\$210,536	\$185,589

Note 6—Property, Plant and Equipment

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

	Estimated Useful Lives in Years	September 30, 2014	December 31, 2013
Land and land improvements (1)	8-15	\$22,532	\$22,460
Buildings and improvements	39	63,745	63,412
Rental machinery and equipment	7	735,091	669,729
Machinery and equipment - other	7	68,275	55,306
Furniture, fixtures and computers	5	18,875	18,265
Automobiles and other vehicles	5	37,534	35,649
Aircraft	7	14,868	14,868
Leasehold improvements	7, or lease term if shorter	6,593	5,729
Construction in progress - machinery and equipment and buildings	—	114,066	88,801
		1,081,579	974,219
Less: Accumulated depreciation		(514,273	) (463,020
Total property, plant and equipment, net		\$567,306	\$511,199

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

Note 7—Other Assets

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

	September 30, 2014	December 31, 2013
Marketable securities held in Rabbi Trust (1)	\$44,446	\$42,184
Deferred tax asset	6,960	7,391
Deposits	2,837	3,132
Other	7,034	11,279
Total other assets	\$61,277	\$63,986

(1) See Note 10 – Fair Value Measurements

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

Note 8—Accrued and Other Current Liabilities

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

	September 30, 2014	December 31, 2013
Accrued compensation	\$27,571	\$26,252
Accrued property and other taxes	36,181	23,018
Income taxes	3,127	2,870
Accrued inventory	3,784	5,419
Accrued capital expenditures	2,645	4,188
Accrued medical claims	2,749	2,779
Accrued purchase orders	7,275	5,632
Other	21,836	20,326
Total accrued and other current liabilities	\$105,168	\$90,484

Note 9—Debt

We have a \$100.0 million revolving credit facility with certain financial institutions, including up to \$20.0 million for letters of credit and up to \$10.0 million in swingline loans, which matures in August 2018 (the "Credit Facility"). Subject to the terms of the credit agreement, we have the ability to increase the commitments under the Credit Facility by \$150.0 million. At September 30, 2014 and December 31, 2013, we did not have any outstanding indebtedness under the Credit Facility. In addition, we had \$10.7 million in letters of credit outstanding as of September 30, 2014. Our \$100.0 million 364-day revolving credit facility matured in August 2014 and was not renewed or replaced.

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

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

The Credit Facility also contains financial covenants, which, among other things, require us, on a consolidated basis, to maintain: (i) a ratio of total consolidated funded debt to adjusted EBITDA (as defined in the credit agreements) of not more than 2.50 to 1.0; and (ii) a ratio of EBITDA to interest expense of not less than 3.0 to 1.0. As of

September 30, 2014, we were in compliance with all financial covenants under the Credit Facility.

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

Note 10—Fair Value Measurements

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

Level 1: Unadjusted, quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Significant, unobservable inputs for use when little or no market data exists, requiring a significant degree of judgment.

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

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Financial Assets and Liabilities

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

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2014				
Assets:				
Investments available-for-sale:				
Marketable securities - deferred compensation plan	\$—	\$44,446	\$—	\$44,446
Marketable securities - other	4,980	—	—	4,980
Liabilities:				
Marketable securities - deferred compensation plan	—	41,180	—	41,180
December 31, 2013				
Assets:				
Investments available-for-sale:				
Marketable securities - deferred compensation plan	\$—	\$42,184	\$—	\$42,184
Marketable securities - other	7,038	—	—	7,038
Liabilities:				
Marketable securities - deferred compensation plan	—	37,980	—	37,980

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

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

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

Other Fair Value Considerations

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

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Note 11—Preferred Stock

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

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

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

Note 12—Treasury Stock

At September 30, 2014, common shares held in treasury totaled 204,984 with a cost of \$4.2 million. These shares were withheld from employees to settle personal tax withholding obligations that arose as a result of restricted stock units that vested during the the third quarter of 2014.

Note 13—Related Party Transactions

We have engaged in certain transactions with other companies related to us by common ownership. We have entered into various operating leases to lease office space from an affiliated partnership. Rent expense related to these leases was \$2.1 million and \$1.6 million for the three months ended September 30, 2014 and 2013, respectively, and \$5.6 million and \$3.6 million for the nine months ended September 30, 2014 and 2013, respectively.

We are a party to certain agreements relating to the rental of aircraft to Western Airways ("WA"), an entity owned by the Mosing family. Prior to our initial public offering (the "IPO"), we had entered into agreements, whereby we leased the aircraft as needed for a rental fee per hour and reimbursed WA for a management fee and hangar rental. The rental fees exceeded the reimbursement costs and we recorded net charter income. Subsequent to the IPO, we entered into new agreements with WA for the aircraft that was retained by us whereby we are paid a flat monthly fee for dry lease rental and are charged block hours monthly. We recorded net charter expense of \$0.4 million and net charter revenue of \$0.3 million for the three months ended September 30, 2014 and 2013, respectively, and net charter expense of \$1.1 million and net charter revenue of \$0.7 million for the nine months ended September 30, 2014 and 2013, respectively.

Tax Receivable Agreement

Mosing Holdings and its permitted transferees may exchange the required proportion of the holder's interest in FICV for cash accompanied by the conversion of such shares into shares of our common stock on a one-for-one basis,

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

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In connection with the IPO, we entered into a tax receivable agreement (the "TRA") with Mosing Holdings. This agreement generally provides for the payment by FINV of 85% of actual reductions, if any, in payments of U.S. federal, state and local income tax or franchise tax (which reductions we refer to as "cash savings") in periods after our IPO as a result of (i) the basis increases resulting from the Exchanges and (ii) imputed interest deemed to be paid by FINV as a result of, and additional tax basis arising from, payments under the TRA. In addition, the TRA provides for payment by FINV of interest earned from the due date (without extensions) of the corresponding tax return to the date of payment specified by the TRA.

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

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

The TRA provides that FINV may terminate it early. If FINV elects to terminate the TRA early, it would be required to make an immediate payment equal to the present value of the anticipated future tax benefits subject to the TRA (based upon certain assumptions and deemed events set forth in the TRA, including the assumption that it has sufficient taxable income to fully utilize such benefits and that any FICV interests that Mosing Holdings or its transferees own on the termination date are deemed to be exchanged on the termination date). Any early termination payment may be made significantly in advance of the actual realization, if any, of such future benefits. In addition, payments due under the TRA will be similarly accelerated following certain mergers or other changes of control. In these situations, FINV's obligations under the TRA could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combinations or other changes of control. For example, if the TRA were terminated on September 30, 2014, the estimated termination payment would be approximately \$76.0 million (calculated using a discount rate of 3.3%). The foregoing number is merely an estimate and the actual payment could differ materially.

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

Note 14—Earnings Per Common Share

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator - Basic				
Income from continuing operations	\$67,440	\$59,467	\$177,851	\$231,747
Less: Net income attributable to noncontrolling interest	(20,094 )	(18,653 )	(53,426 )	(74,005 )
Discontinued operations attributable to noncontrolling interest	—	—	—	10,935
Less: Preferred stock dividends	—	—	(1 )	—
Income from continuing operations attributable to common shareholders	47,346	40,814	124,424	168,677
Income from discontinued operations attributable to FINV	—	—	—	31,700
Net income available to common shareholders	\$47,346	\$40,814	\$124,424	\$200,377
Numerator - Diluted				
Income from continuing operations attributable to common shareholders	\$47,346	\$40,814	\$124,424	\$168,677
Add: Exchange of noncontrolling interest for common stock (1)	16,335	13,893	42,671	58,310
Add: Preferred stock dividends	—	—	1	—
Diluted income from continuing operations attributable to common shareholders	63,681	54,707	167,096	226,987
Income from discontinued operations, net of tax	—	—	—	42,635
Dilutive net income available to common shareholders	\$63,681	\$54,707	\$167,096	\$269,622
Denominator				
Basic weighted average common shares	153,923	137,024	153,659	125,090
Exchange of noncontrolling interest for common stock (Note 11)	52,976	52,976	52,976	52,976
Restricted stock units	1,035	435	1,116	145
Diluted weighted average common shares	207,934	190,435	207,751	178,211
Basic earnings per common share:				
Continuing operations	\$0.31	\$0.30	\$0.81	\$1.35
Discontinued operations	—	—	—	0.25

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Total	\$0.31	\$0.30	\$0.81	\$1.60
Diluted earnings per common share:				
Continuing operations	\$0.31	\$0.29	\$0.80	\$1.27
Discontinued operations	—	—	—	0.24
Total	\$0.31	\$0.29	\$0.80	\$1.51
(1) Adjusted for the additional tax expense upon the assumed conversion of the Preferred Stock	\$3,759	\$4,760	\$10,755	\$4,760

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 15—Income Taxes

For interim financial reporting, we estimate the annual tax rate based on projected pre-tax income for the full year and record a quarterly income tax provision (benefit) in accordance with Accounting Standards Codification Topic 740-270, Income taxes—Interim Reporting. As the year progresses, we refine the estimate of the year's pre-tax income as new information becomes available. The continual estimation process often results in a change to the expected effective tax rate for the year. When this occurs, we adjust the income tax provision (benefit) during the quarter in which the change in estimate occurs so that the year to date provision reflects the expected annual tax rate.

Our effective tax rate on income from continuing operations before income taxes was 22.7% and 25.3% for the three months ended September 30, 2014 and 2013, respectively, and 22.5% and 12.3% for the nine months ended September 30, 2014 and 2013, respectively. The tax rate for all periods is lower than the U.S. statutory income tax rate of 35% due to lower statutory tax rates in certain foreign jurisdictions where we operate; however, our effective tax rate for the nine months ended September 30, 2014 is higher than the comparable period due to our U.S. operations becoming taxable subsequent to our restructuring concurrent with the IPO.

As of September 30, 2014, there were no significant changes to our unrecognized tax benefits as reported in our audited financial statements for the year ended December 31, 2013.

Note 16—Commitments and Contingencies

We are the subject of lawsuits and claims arising in the ordinary course of business from time to time. A liability is accrued when a loss is both probable and can be reasonably estimated. We had no material accruals for loss contingencies, individually or in the aggregate, as of September 30, 2014. We believe the probability is remote that the ultimate outcome of these matters would have a material adverse effect on our financial position, results of operations or cash flows.

Note 17—Segment Information

Reporting Segments

Operating segments are defined as components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker (“CODM”) in deciding how to allocate resources and assess performance. We are comprised of three reportable segments: International Services, U.S. Services and Tubular Sales.

The International Services segment provides tubular services in international offshore markets and in several onshore international regions. Our customers in these international markets are primarily large exploration and production companies, including integrated oil and gas companies and national oil and gas companies.

The U.S. Services segment provides tubular services in almost all of the active onshore oil and gas drilling regions in the U.S., including the Permian Basin, Bakken Shale, Barnett Shale, Eagle Ford Shale, Haynesville Shale, Marcellus Shale and Utica Shale, as well as in the U.S. Gulf of Mexico.

The Tubular Sales segment designs and manufactures certain products that we sell directly to external customers, including large outside diameter ("OD") pipe connectors and casing attachments. We also provide specialized fabrication and welding services in support of deep water projects in the U.S. Gulf of Mexico, including drilling and production risers, flowlines and pipeline end terminations, as well as long length tubulars (up to 300 feet in length) for use as caissons or pilings. In addition, we distribute large OD pipe manufactured by third parties that we have equipped with weld-on end connections. This segment also designs and manufactures proprietary equipment for use in our International and U.S. Services segments.

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The operating results of the Tubular Sales component that was sold in June 2013 have been accounted for as discontinued operations and have been excluded from the segment results below.

Adjusted EBITDA

We define Adjusted EBITDA as income from continuing operations before net interest income or expense, depreciation and amortization, income tax benefit or expense, asset impairments, gain or loss on sale of assets, foreign currency gain or loss, stock-based compensation, other non-cash adjustments and unusual or non-recurring charges. We review Adjusted EBITDA on both a consolidated basis and on a segment basis. We use Adjusted EBITDA to assess our financial performance because it allows us to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team (such as income tax rates). Adjusted EBITDA has limitations as an analytical tool and should not be considered as an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with generally accepted accounting principles in the U.S. ("GAAP").

Our CODM uses Adjusted EBITDA as the primary measure of segment reporting performance.

The following table presents a reconciliation of Segment Adjusted EBITDA to income from continuing operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Segment Adjusted EBITDA:				
International Services	\$65,359	\$48,752	\$165,260	\$153,134
U.S. Services	45,796	47,215	132,643	149,494
Tubular Sales	9,343	5,338	28,028	25,893
Corporate and other	6	(33	) 6	3
Adjusted EBITDA Total	120,504	101,272	325,937	328,524
Interest income (expense), net	(13	) 170	23	(493
Income tax expense	(19,777	) (20,185	) (51,598	) (32,569
Depreciation and amortization	(23,254	) (19,887	) (66,342	) (56,593
Loss on sale of assets	(280	) (124	) (193	) (68
Foreign currency gain (loss)	(526	) 3,161	(526	) (2,114
Stock-based compensation expense	(9,214	) (2,520	) (29,450	) (2,520
IPO transaction-related costs	—	(2,420	) —	(2,420
Income from continuing operations	\$67,440	\$59,467	\$177,851	\$231,747

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The following tables set forth certain financial information with respect to our reportable segments. Included in "Corporate and Other" are intersegment eliminations and costs associated with activities of a general nature (in thousands):

	International Services	U.S. Services	Tubular Sales	Corporate and Other	Total
Three Months Ended September 30, 2014					
Revenue from external customers	\$ 143,330	\$ 112,149	\$40,704	\$—	\$296,183
Inter-segment revenues	501	6,209	15,097	(21,807)	) —
Adjusted EBITDA	65,359	45,796	9,343	6	120,504
Three Months Ended September 30, 2013					
Revenue from external customers	\$ 121,680	\$ 108,126	\$40,296	\$—	\$270,102
Inter-segment revenues	1,253	5,122	17,775	(24,150)	) —
Adjusted EBITDA	48,752	47,215	5,338	(33)	) 101,272
Nine Months Ended September 30, 2014					
Revenue from external customers	\$391,371	\$321,468	\$120,773	\$—	\$833,612
Inter-segment revenues	873	16,933	50,767	(68,573)	) —
Adjusted EBITDA	165,260	132,643	28,028	6	325,937
Nine Months Ended September 30, 2013					
Revenue from external customers	\$353,041	\$321,295	\$121,314	\$—	\$795,650
Inter-segment revenues	2,700	15,452	53,455	(71,607)	) —
Adjusted EBITDA	153,134	149,494	25,893	3	328,524

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Form 10-Q”) includes certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include those that express a belief, expectation or intention, as well as those that are not statements of historical fact. Forward-looking statements include information regarding our future plans and goals and our current expectations with respect to, among other things:

- our business strategy and prospects for growth;
- our cash flows and liquidity;
- our financial strategy, budget, projections and operating results;
- the amount, nature and timing of capital expenditures;
- the availability and terms of capital;
- competition and government regulations; and
- general economic conditions.

Our forward-looking statements are generally accompanied by words such as “estimate,” “project,” “predict,” “believe,” “expect,” “anticipate,” “potential,” “plan,” “goal” or other terms that convey the uncertainty of future events or outcomes, although not all forward-looking statements contain such identifying words. The forward-looking statements in this Form 10-Q speak only as of the date of this report; we disclaim any obligation to update these statements unless required by law, and we caution you not to rely on them unduly. Forward-looking statements are not assurances of future performance and involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties include, but are not limited to, the following:

- the level of activity in the oil and gas industry;
- the volatility of oil and gas prices;
- unique risks associated with our offshore operations;
- political, economic and regulatory uncertainties in our international operations;
- our ability to develop new technologies and products;
- our ability to protect our intellectual property rights;
- our ability to employ and retain skilled and qualified workers;
- the level of competition in our industry;
- operational safety laws and regulations; and
- weather conditions and natural disasters.

These and other important factors that could affect our operating results and performance are described in (1) “Risk Factors” in Part II, Item IA of this Form 10-Q, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2 of this Form 10-Q, and elsewhere within this Form 10-Q, (2) our Annual Report on Form 10-K for the year ended December 31, 2013 (“Annual Report”), (3) our other reports and filings we make with the SEC from time to time and (4) other announcements we make from time to time. Should one or more of the risks or uncertainties described in the documents above or in this Form 10-Q occur, or should underlying assumptions prove incorrect, our actual results, performance, achievements or plans could differ materially from those expressed or implied in any forward-looking statements.



## Item 2. 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 the unaudited consolidated financial statements and the related notes thereto included elsewhere in this Form 10-Q and the audited consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report.

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in any forward-looking statement because of various factors, including those described in the sections titled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" of this Form 10-Q.

### Overview of Business

We have been a global provider of highly engineered tubular services to the oil and gas industry for over 75 years. We provide our services to leading exploration and production companies in both offshore and onshore environments, with a focus on complex and technically demanding wells.

We conduct our business through three operating segments:

**International Services.** We currently provide our services in approximately 60 countries on six continents. Our customers in these international markets are primarily large exploration and production companies, including integrated oil and gas companies and national oil and gas companies.

- **U.S. Services.** We service customers in the deep water areas of the U.S. Gulf of Mexico. In addition, we have a significant presence in almost all of the active onshore oil and gas drilling regions in the U.S., including the Permian Basin, Bakken Shale, Barnett Shale, Eagle Ford Shale, Haynesville Shale, Marcellus Shale and Utica Shale.

**Tubular Sales.** We design and manufacture certain products that we sell directly to external customers, including large outside diameter ("OD") pipe connectors and casing attachments. We also provide specialized fabrication and welding services in support of deep water projects in the U.S. Gulf of Mexico, including drilling and production risers, flowlines and pipeline end terminations, as well as long length tubulars (up to 300 feet in length) for use as caissons or pilings. In addition, we distribute large OD pipe manufactured by third parties that we have equipped with weld-on end connections. This segment also designs and manufactures proprietary equipment for use in our International and U.S. Services segments.

### How We Generate Our Revenue

A significant majority of our services revenues are derived primarily from two sources:

- personnel rates for our specially trained employees who perform tubular services for our customers; and
- rental rates for the suite of products and equipment that our employees use to perform tubular services.

In addition, our customers typically reimburse us for transportation costs that we incur in connection with transporting our products and equipment from our staging areas to the customers' job sites.

In contrast, our Tubular Sales revenues are derived from sales of certain products, including large OD pipe connectors, casing attachments and large OD pipe manufactured by third parties, directly to external customers.

## How We Evaluate Our Operations

We use a number of financial and operational measures to routinely analyze and evaluate the performance of our business, including revenue, Adjusted EBITDA, Adjusted EBITDA margin and safety performance.

### Revenue

We analyze our revenue growth by comparing actual monthly revenue to our internal projections for each month to assess our performance. We also assess incremental changes in our monthly revenue across our operating segments to identify potential areas for improvement.

### Adjusted EBITDA and Adjusted EBITDA Margin

We define Adjusted EBITDA as income from continuing operations before net interest income or expense, depreciation and amortization, income tax benefit or expense, asset impairments, gain or loss on sale of assets, foreign currency gain or loss, stock-based compensation, other non-cash adjustments and unusual or non-recurring charges. Adjusted EBITDA margin reflects our Adjusted EBITDA as a percentage of our revenues. We review Adjusted EBITDA and Adjusted EBITDA margin on both a consolidated basis and on a segment basis. We use Adjusted EBITDA and Adjusted EBITDA margin to assess our financial performance because it allows us to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team (such as income tax rates). Adjusted EBITDA and Adjusted EBITDA margin have limitations as analytical tools and should not be considered as an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with generally accepted accounting principles in the U.S. ("GAAP").

The following table presents a reconciliation of income from continuing operations to Adjusted EBITDA, our most directly comparable GAAP performance measure, for each of the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Income from continuing operations	\$67,440	\$59,467	\$177,851	\$231,747
Interest (income) expense, net	13	(170)	) (23	) 493
Depreciation and amortization	23,254	19,887	66,342	56,593
Income tax expense	19,777	20,185	51,598	32,569
Loss on sale of assets	280	124	193	68
Foreign currency (gain) loss	526	(3,161)	) 526	2,114
Stock-based compensation expense	9,214	2,520	29,450	2,520
IPO transaction-related costs	—	2,420	—	2,420
Adjusted EBITDA	\$120,504	\$101,272	\$325,937	\$328,524

For a reconciliation of our Adjusted EBITDA on a segment basis to the most comparable measure calculated in accordance with GAAP, see "Operating Segment Results."

## Consolidated Results of Operations

The following table presents our consolidated results for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Equipment rentals and services	\$254,047	\$228,069	\$706,698	\$668,582
Products (1)	42,136	42,033	126,914	127,068
Total revenue	296,183	270,102	833,612	795,650
<b>Operating expenses:</b>				
Cost of revenues, exclusive of depreciation and amortization				
Equipment rentals and services	97,919	79,213	271,939	228,851
Products	23,237	31,581	75,527	91,734
General and administrative expenses	65,220	64,104	196,431	160,016
Depreciation and amortization	23,254	19,887	66,342	56,593
Loss on sale of assets	280	124	193	68
Operating income	86,273	75,193	223,180	258,388
<b>Other income (expense):</b>				
Other income	1,483	1,128	6,772	8,535
Interest income (expense), net	(13	) 170	23	(493
Foreign currency gain (loss)	(526	) 3,161	(526	) (2,114
Total other income (expense)	944	4,459	6,269	5,928
Income from continuing operations before income tax expense	87,217	79,652	229,449	264,316
Income tax expense	19,777	20,185	51,598	32,569
Income from continuing operations	67,440	59,467	177,851	231,747
Income from discontinued operations, net of tax	—	—	—	42,635
Net income	67,440	59,467	177,851	274,382
Less: Net income attributable to noncontrolling interest	20,094	18,653	53,426	74,005
Net income attributable to Frank's International N.V.	\$47,346	\$40,814	\$124,425	\$200,377

(1) Consolidated products revenue includes a small amount of revenues attributable to the U.S. Services and International Services segments.

## Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

**Revenues.** Revenues from external customers, excluding intersegment sales, for the three months ended September 30, 2014 increased by \$26.1 million, or 9.7%, to \$296.2 million from \$270.1 million for the three months ended September 30, 2013. Revenues for our International Services segment increased approximately \$21.6 million as a result of an increase in demand and expansion in new and existing locations and revenues for our U.S. Services segment increased approximately \$4.0 million primarily as a result of increased revenues in both our onshore and offshore locations. Revenue for our segments are discussed separately below under the heading "Operating Segment Results".



Cost of revenues, exclusive of depreciation and amortization. Cost of revenues for the three months ended September 30, 2014 increased by \$10.4 million, or 9.4%, to \$121.2 million from \$110.8 million for the three months ended September 30, 2013, primarily due to increases in compensation related costs of \$4.0 million, repairs and maintenance of \$1.9 million, customs charges of \$1.3 million, equipment rentals and tool inspections of \$1.1 million each and payroll taxes of \$0.9 million.

General and administrative expenses. General and administrative expenses ("G&A") for the three months ended September 30, 2014 increased slightly by \$1.1 million, or 1.7%, to \$65.2 million from \$64.1 million for the three months ended September 30, 2013 primarily due to stock based compensation expense of \$6.7 million, compensation related costs of \$1.2 million and payroll taxes of \$0.7 million, partially offset by a decrease in bad debt expense of \$7.9 million.

Depreciation and amortization. Depreciation and amortization for the three months ended September 30, 2014 increased by \$3.4 million, or 16.9%, to \$23.3 million from \$19.9 million for the three months ended September 30, 2013. The increase was primarily attributable to a higher depreciable base resulting from property and equipment additions.

Other income. Other income for the three months ended September 30, 2014 increased by \$0.4 million, or 31.5%, to \$1.5 million from \$1.1 million for the three months ended September 30, 2013 primarily from the sale of scrap metal.

Foreign currency gain (loss). Foreign currency loss was \$0.5 million for the three months ended September 30, 2014 compared to a \$3.2 million gain for the three months ended September 30, 2013 due to unfavorable fluctuations in foreign currency exchange rates.

Income tax expense. Income tax expense remained fairly constant for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. We are subject to many U.S. and foreign tax jurisdictions and many tax agreements and treaties among the various taxing authorities. Our operations in these jurisdictions are taxed on various bases such as income before taxes, deemed profits (which is generally determined using a percentage of revenues rather than profits), and withholding taxes based on revenues; consequently, the relationship between our pre-tax income from operations and our income tax provision varies from period to period.

#### Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Revenues. Revenues from external customers for the nine months ended September 30, 2014 increased by \$38.0 million, or 4.8%, to \$833.6 million from \$795.7 million for the nine months ended September 30, 2013. The primary driver was a \$38.3 million increase in revenues for our International Services segment as a result of an increase in demand and expansion in new and existing locations. Revenue for our segments are discussed separately below under the heading "Operating Segment Results".

Cost of revenues, exclusive of depreciation and amortization. Cost of revenues for the nine months ended September 30, 2014 increased by \$26.9 million, or 8.4%, to \$347.5 million from \$320.6 million for the nine months ended September 30, 2013. The increase was primarily attributable to compensation related costs of \$15.9 million, freight expense of \$5.8 million, repairs and maintenance of \$4.3 million, business and travel expenses of \$2.7 million and customs charges of \$2.2 million, partially offset by a decrease in subcontract expense of \$5.3 million.

General and administrative expenses. G&A expenses for the nine months ended September 30, 2014 increased by \$36.4 million, or 22.8%, to \$196.4 million from \$160.0 million for the nine months ended September 30, 2013 primarily due to stock based compensation expense of \$26.9 million. Included in this amount is an out-of-period adjustment of \$4.7 million which corrected the amortization of expense related to retirement-eligible employees (see Note 1 to our consolidated financial statements for additional detail). Compensation related costs of \$8.9 million,

medical claims of \$4.0 million, rent expense of \$2.6 million, insurance costs of \$1.7 million, and professional fees of \$1.6 million also contributed to the increase, in addition to smaller increases in several accounts. The increase in medical claims is a result of a change in estimated claims in 2013 and a higher volume of claims in 2014. These increases were partially offset by a decrease in bad debt expense of \$11.7 million.

Depreciation and amortization. Depreciation and amortization for the nine months ended September 30, 2014 increased by \$9.7 million, or 17.2%, to \$66.3 million from \$56.6 million for the nine months ended September 30, 2013. The increase was primarily attributable to a higher depreciable base resulting from property and equipment additions.

Foreign currency gain (loss). Foreign currency loss for the nine months ended September 30, 2014 decreased by \$1.6 million from the nine months ended September 30, 2013 due to favorable fluctuations in foreign currency exchange rates.

Income tax expense. Income tax expense for the nine months ended September 30, 2014 increased by \$19.0 million, or 58.4%, to \$51.6 million from \$32.6 million for the nine months ended September 30, 2013 primarily due to our U.S. operations becoming taxable as a result of our restructuring concurrent with the IPO, as well as a change in the mix of earnings among countries. We are subject to many U.S. and foreign tax jurisdictions and many tax agreements and treaties among the various taxing authorities. Our operations in these jurisdictions are taxed on various bases such as income before taxes, deemed profits (which is generally determined using a percentage of revenues rather than profits), and withholding taxes based on revenues; consequently, the relationship between our pre-tax income from operations and our income tax provision varies from period to period.

Income from discontinued operations. The discussions above describe only continuing operations for the nine months ended September 30, 2014 and 2013. See Note 3 - Discontinued Operations of Notes to Unaudited Consolidated Financial Statements.

## Operating Segment Results

Revenue pertaining to our segments as stated in the following discussions include intersegment sales. Adjusted EBITDA includes the impact of intersegment operating activity. See Note 17 - Segment Information of Notes to Unaudited Consolidated Financial Statements.

The following table presents revenues and Adjusted EBITDA by segment, and a reconciliation of Adjusted EBITDA to net income from continuing operations, which is the most comparable GAAP financial measure (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Revenue:</b>				
International Services	\$143,831	\$122,933	\$392,244	\$355,741
U.S. Services	118,358	113,248	338,401	336,747
Tubular Sales	55,801	58,071	171,540	174,769
Intersegment sales	(21,807)	) (24,150)	) (68,573)	) (71,607)
Total	\$296,183	\$270,102	\$833,612	\$795,650
<b>Segment Adjusted EBITDA:</b>				
International Services	\$65,359	\$48,752	\$165,260	\$153,134
U.S. Services	45,796	47,215	132,643	149,494
Tubular Sales	9,343	5,338	28,028	25,893
Corporate and other (1)	6	(33)	) 6	3
Adjusted EBITDA Total	120,504	101,272	325,937	328,524
Interest income (expense), net	(13)	) 170	23	(493)
Income tax expense	(19,777)	) (20,185)	) (51,598)	) (32,569)
Depreciation and amortization	(23,254)	) (19,887)	) (66,342)	) (56,593)
Loss on sale of assets	(280)	) (124)	) (193)	) (68)
Foreign currency gain (loss)	(526)	) 3,161	(526)	) (2,114)
Stock-based compensation expense	(9,214)	) (2,520)	) (29,450)	) (2,520)
IPO transaction-related costs	—	(2,420)	) —	(2,420)
Income from continuing operations	\$67,440	\$59,467	\$177,851	\$231,747

(1) Corporate and other represents amounts not directly associated with an operating segment.

## Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

## International Services

Revenue for the International Services segment increased by \$20.9 million for the three months ended September 30, 2014, or 17.0%, compared to the same period in 2013, primarily as a result of extended and renewed contracts in West Africa, expansion of our product placement in Europe and increasing our market share in the Far East.

Adjusted EBITDA for the International Services segment increased by \$16.6 million for the three months ended September 30, 2014, or 34.1%, compared to the same period in 2013, primarily due to the \$20.9 million increase in revenue and a \$7.9 million decrease in bad debt expense, partially offset by higher compensation related costs of \$1.9 million, equipment rentals of \$1.5 million, customs charges of \$1.3 million, business expenses of \$1.1 million as well as other smaller increases in several accounts.



#### U.S. Services

Revenue for the U.S. Services segment increased by \$5.1 million for the three months ended September 30, 2014, or 4.5%, compared to the same period in 2013. Our offshore revenue increased \$2.8 million as a result of increased activity from our customers but was partially offset by a number of deepwater rigs that were shutdown waiting on unusually strong ocean currents in the Gulf of Mexico to subside. Onshore revenue increased \$2.3 million as a result of sales initiatives put in place to pursue organic growth opportunities to capture additional market share.

Adjusted EBITDA for the U.S. Services segment decreased by \$1.4 million for the three months ended September 30, 2014, or 3.0%, compared to the same period in 2013 primarily due to increases in repairs and maintenance of \$2.2 million, compensation related costs of \$2.1 million, freight costs and employee insurance of \$0.6 million each and payroll taxes of \$0.5 million. These increases were partially offset by the \$5.1 million increase in revenue.

#### Tubular Sales

Revenue for the Tubular Sales segment decreased by \$2.3 million for the three months ended September 30, 2014, or 3.9%, compared to the same period in 2013 primarily due to a decrease in manufactured pipe sales to our International Services segment.

Adjusted EBITDA for the Tubular Sales segment increased by \$4.0 million for the three months ended September 30, 2014, or 75.0%, compared to the same period in 2013 due to cost reductions in several areas which were greater than the decrease in revenues. We experienced decreases in fabrication expenses of \$4.4 million, shop supplies of \$0.9 million and freight expenses of \$0.7 million.

#### Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

##### International Services

Revenue for the International Services segment increased by \$36.5 million for the nine months ended September 30, 2014, or 10.3%, compared to the same period in 2013, primarily as a result additional work and the awarding of new contracts globally, primarily in West Africa. We experienced a decrease in Latin America due to the termination of certain contracts in late 2013.

Adjusted EBITDA for the International Services segment increased by \$12.1 million for the nine months ended September 30, 2014, or 7.9%, compared to the same period in 2013, primarily due to the \$36.5 million increase in revenue and an \$11.5 million decrease in bad debt expense, partially offset by higher compensation related costs of \$13.5 million, freight and transportation costs of \$5.0 million, business expenses and equipment rentals of \$2.8 million each, customs charges of \$2.2 million, payroll taxes of \$2.0 million as well as other smaller increases in several accounts.

##### U.S. Services

Revenue for the U.S. Services segment increased by \$1.7 million for the nine months ended September 30, 2014, or 0.5%, compared to the same period in 2013. Our offshore revenue increased \$7.4 million as a result of increased activity from our customers but was partially offset by drilling delays, rig-related issues and ocean currents lasting longer than previous years. Onshore revenue decreased \$5.7 million due to delays in the renewal of contracts in the first half of 2014 and the exit of customers who have switched their concentration to other regions in the U.S.

Adjusted EBITDA for the U.S. Services segment decreased by \$16.9 million for the nine months ended September 30, 2014, or 11.3%, compared to the same period in 2013 as a result of higher compensation related costs of \$7.7 million,

medical claims of \$4.4 million, repairs and maintenance of \$3.1 million, and the receipt of \$3.2 million of additional royalties in 2013. Medical claims increased as a result of a change in estimated claims in 2013 and a higher volume of claims in 2014. These increases were partially offset by the \$1.7 million increase in revenue.

## Tubular Sales

Revenue for the Tubular Sales segment decreased by \$3.2 million for the nine months ended September 30, 2014, or 1.8%, compared to the same period in 2013 due to a decrease in decrease in manufactured pipe sales to our International Services segment.

Adjusted EBITDA for the Tubular Sales segment increased by \$2.1 million for the nine months ended September 30, 2014, or 8.2%, compared to the same period in 2013 due to cost reductions in several areas which were greater than the decrease in revenues. We experienced net decreases in fabrication expenses of \$5.5 million, compensation and labor related costs of \$1.3 million, and tool inspections and testing of \$1.3 million which were partially offset by increases in rent expense of \$1.3 million and repairs and maintenance of \$0.8 million.

## Liquidity and Capital Resources

### Liquidity

Our primary sources of liquidity to date have been cash flows from operations and the net proceeds we received from our IPO in 2013 supplemented by available borrowing capacity under our Credit Facility (defined below). Our primary uses of capital have been for organic growth capital expenditures. We continually monitor potential capital sources, including equity and debt financing, in order to meet our investment and target liquidity requirements.

Our total capital expenditure budget is approximately \$190.0 million, of which approximately \$140.0 million is for the purchase and manufacture of equipment and the balance is for the purchase or construction of new facilities. While we have budgeted \$190.0 million for the year ending December 31, 2014, the actual amount of capital expenditures may fluctuate based on market conditions. During the nine months ended September 30, 2014 and 2013, we invested \$124.2 million and \$126.8 million, respectively, in capital expenditures, which was funded from internally generated funds. We believe the remaining net proceeds from our IPO, together with cash flows from operations and additional borrowings under our Credit Facility, should be sufficient to fund our capital expenditure requirements for the remainder of 2014.

At September 30, 2014, we had a cash balance of \$468.4 million, of which \$357.8 million was held by non-U.S. subsidiaries in order to fund their operations. Accordingly, our foreign unremitted earnings are considered permanently reinvested and unavailable for repatriation.

We paid dividends on our common stock of \$46.2 million, or an aggregate of \$0.30 per common share, during the nine months ended September 30, 2014. On August 6, 2014, our board of directors approved to increase the quarterly dividend from \$0.075 per share to \$0.15 per share. The timing, declaration, amount of, and payment of any dividends is within the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our operating subsidiaries, covenants associated with certain of our debt service obligations, legal requirements, regulatory constraints, industry practice, ability to access capital markets, and other factors deemed relevant by our board of directors. We do not have a legal obligation to pay any dividend and there can be no assurance that we will be able to do so.

### Credit Facility

We have a \$100.0 million revolving credit facility with certain financial institutions, including up to \$20.0 million for letters of credit and up to \$10.0 million in swingline loans, which matures in August 2018 (the "Credit Facility"). Subject to the terms of the credit agreement, we have the ability to increase the commitments under the Credit Facility by \$150.0 million. As of September 30, 2014 and December 31, 2013, we did not have any outstanding indebtedness under the Credit Facility. In addition, we had \$10.7 million in letters of credit outstanding as of September 30, 2014.

Our \$100.0 million 364-day revolving credit facility matured in August 2014 and was not renewed or replaced.

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

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

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

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

#### Tax Receivable Agreement

On August 14, 2013, in connection with the completion of our initial public offering, we entered into a tax receivable agreement (the "TRA") with FICV and Mosing Holdings. The TRA generally provides for the payment by us to Mosing Holdings of 85% of the amount of the actual reductions, if any, in payments of U.S. federal, state and local income tax or franchise tax in periods after the IPO (which reductions we refer to as "cash savings") as a result of (i) the tax basis increases resulting from the transfer of FICV interests to us in connection with a conversion of shares of Preferred Stock into shares of our common stock and (ii) imputed interest deemed to be paid by us as a result of, and additional tax basis arising from, payments under the TRA. In addition, the TRA will provide for interest earned from the due date (without extensions) of the corresponding tax return to the date of payment specified by the TRA. We will retain the remaining 15% of cash savings, if any, in realized income tax savings. The payment obligations under the TRA are our obligations and not obligations of FICV. The term of the TRA continues until all such tax benefits have been utilized or expired, unless we exercise our right to terminate the TRA.

If we elect to terminate the TRA early, we would be required to make an immediate payment equal to the present value of the anticipated future tax benefits subject to the TRA (based upon certain assumptions and deemed events set forth in the TRA, including the assumption that it has sufficient taxable income to fully utilize such benefits and that any FICV interests that Mosing Holdings or its transferees own on the termination date are deemed to be exchanged on the termination date). In addition, payments due under the TRA will be similarly accelerated following certain mergers or other changes of control.

In certain circumstances, we may be required to make payments under the TRA that we have entered into with Mosing Holdings. In most circumstances, these payments will be associated with the actual cash tax savings that we recognize in connection with a conversion of Preferred Stock, which would reduce the actual tax benefit to us. If we

were to choose to terminate the TRA early or enter into certain change of control transactions, we may incur payment obligations prior to the time we actually incur any tax benefit. In those circumstances, we would need to pay the amounts out of cash on hand, finance the payments or refrain from triggering the obligation. Though we do not have any present intention of triggering an advance payment under the TRA, based on our current liquidity and our expected ability to access debt and equity financing, we believe we would be able to make such a payment if necessary. Any such payment

could reduce our cash on hand and our borrowing availability, however, which would also reduce the amount of cash available to operate our business, to fund capital expenditures and to be paid as dividends to our stockholders, among other things. Please see Note 13 to our unaudited consolidated financial statements.

#### Cash Flows from Operating, Investing and Financing Activities

Cash flows provided by (used in) our operations, investing and financing activities are summarized below (in thousands):

	Nine Months Ended	
	September 30,	
	2014	2013
Operating activities	\$273,927	\$240,157
Investing activities	(125,073	) (79,621
Financing activities	(82,849	) 133,478
	66,005	294,014
Effect of exchange rate changes on cash activities	(2,564	) 2,563
Increase in cash and cash equivalents	\$63,441	\$296,577

Statements of cash flows for entities with international operations that use the local currency as the functional currency exclude the effects of the changes in foreign currency exchange rates that occur during any given year, as these are noncash changes. As a result, changes reflected in certain accounts on the consolidated statements of cash flows may not reflect the changes in corresponding accounts on the consolidated balance sheets.

#### Operating Activities

Cash flow from operating activities was \$273.9 million for the nine months ended September 30, 2014 as compared to \$240.2 million in the comparable period in 2013. The increase in 2014 was primarily due to the change in accounts receivable, inventory and deferred revenue, partially offset by an increase in tax expense resulting from our U.S. operations becoming taxable subsequent to our IPO.

#### Investing Activities

Cash flow used in investing activities was \$125.1 million for the nine months ended September 30, 2014 as compared to \$79.6 million in the comparable period in 2013. The higher amount of net cash used in investing activities was primarily a result of the \$50.0 million of proceeds received from the sale of our manufacturing component in 2013. See Note 3 to our unaudited consolidated financial statements.

#### Financing Activities

Cash flow used in financing activities was \$82.8 million for the nine months ended September 30, 2014 as compared to cash flow provided by financing activities of \$133.5 million in the comparable period in 2013. The decrease in 2014 was primarily due to net proceeds of \$711.5 million from our IPO in 2013 partially offset by \$464.0 million of note repayments to FWW B.V. and distributions to stockholders of \$105.4 million. In 2014, we made dividend payments of \$46.2 million and distributions to the noncontrolling interests of \$32.5 million.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### Critical Accounting Policies

There were no changes to our significant accounting policies from those disclosed in our Annual Report.

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## Impact of Recent Accounting Pronouncements

Refer to Note 1 of Notes to Unaudited Consolidated Financial Statements under Item 1 of this Form 10-Q for a discussion of accounting standards we recently adopted or will be required to adopt.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks that arise from changes in foreign currency exchange rates and interest rates. A discussion of our market risk exposure is presented below.

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The disclosures are not meant to be precise indicators of expected future losses or gains, but rather indicators of reasonably possible losses or gains. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures.

### Foreign Currency Exchange Rates

We operate in virtually every oil and natural gas exploration and production region in the world. In some parts of the world, the currency of our primary economic environment is the U.S. dollar, and we use the U.S. dollar as our functional currency. In other parts of the world, such as Europe, Norway, Venezuela and Brazil, we conduct our business in currencies other than the U.S. dollar, and the functional currency is the applicable local currency. Assets and liabilities of entities for which the functional currency is the local currency are translated into U.S. dollars using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected in accumulated other comprehensive income (loss) in the shareholders' equity section on our consolidated balance sheets. A portion of our net assets are impacted by changes in foreign currencies in relation to the U.S. dollar.

For the nine months ended September 30, 2014, on a U.S. dollar-equivalent basis, approximately 19% of our revenue was represented by currencies other than the U.S. dollar. However, no single foreign currency poses a primary risk to us. A hypothetical 10% decrease in the exchange rates for each of the foreign currencies in which a portion of our revenues is denominated would result in a 1.7% decrease in our overall revenues for the nine months ended September 30, 2014.

In February 2013, the Venezuelan government announced a devaluation of the Bolivar Fuerte ("Bolívar"), resulting in the exchange rate declining from 4.3 to 6.3 Bolívars to the U.S. Dollar. As a result of the devaluation, we recorded a foreign currency loss of \$1.8 million during the first quarter of 2013, related to the re-measurement of the Bolívar-denominated net monetary assets of our Venezuelan operations as of the date of the devaluation.

During 2014, Venezuela enacted certain changes to its foreign exchange system such that, in addition to the official rate of 6.3 Bolívars per U.S. Dollar, there are now two other legal exchange rates (approximately 12 and 50 Bolívars, respectively, to the U. S. Dollar as of September 30, 2014) that may be obtained via different exchange rate mechanisms. During the nine months ended September 30, 2014, we continued to remeasure local currency transactions and balances at the official exchange rate of 6.3 Bolívars per U.S. dollar.

At September 30, 2014, we had approximately \$5.7 million in net monetary assets denominated in Bolívars. In the event of a devaluation of the official exchange rate or if we were to determine that it is more appropriate to utilize one of the other legal exchange rates for financial reporting purposes, it would result in our recording a devaluation charge in our consolidated statement of income.

### Interest Rate Risk

As of September 30, 2014, we did not have an outstanding balance under the Credit Facility. If we borrow under the Credit Facility in the future, we will be exposed to changes in interest rates on our floating rate borrowings under the Credit Facility. Although we do not currently utilize interest rate derivative instruments to reduce interest rate exposure, we may do so in the future.

## Customer Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are trade receivables. We extend credit to customers and other parties in the normal course of business. We have established various procedures to manage our credit exposure, including credit evaluations and maintaining an allowance for doubtful accounts.

We are also exposed to credit risk because our customers are concentrated in the oil and natural gas industry. This concentration of customers may impact overall exposure to credit risk, either positively or negatively, because our customers may be similarly affected by changes in economic and industry conditions, including sensitivity to commodity prices. While current energy prices are important contributors to positive cash flow for our customers, expectations about future prices and price volatility are generally more important for determining future spending levels. However, any prolonged increase or decrease in oil and natural gas prices affects the levels of exploration, development and production activity, as well as the entire health of the oil and natural gas industry, and can therefore negatively impact spending by our customers.

## Item 4. Controls and Procedures

### (a) Evaluation of Disclosure Controls and Procedures.

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2014 at the reasonable assurance level.

### (b) Change in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 1, Note 16 to our unaudited consolidated financial statements entitled "Commitments and Contingencies," which is incorporated in this item by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risks under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 4, 2014, which risks could materially affect our business, financial condition or future results. These risks are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Item 6. Exhibits

The Exhibit Index, which follows the signature page to this report and is incorporated by reference herein, sets forth a list of exhibits to this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANK'S INTERNATIONAL N.V.

Date: November 7, 2014

By: /s/ John W. Sinders  
John W. Sinders  
Executive Vice President, Administration and  
Interim Chief Financial Officer  
(Principal Financial Officer)

EXHIBIT INDEX

- 3.1 Deed of Amendment to Articles of Association of Frank's International N.V., dated May 14, 2014 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-36053), filed on May 16, 2014).
- 10.1 Separation Agreement, dated as of July 14, 2014, by and between Frank's International, LLC and Mark Margavio (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-36053), filed on July 15, 2014).
- 10.2 Employment Agreement dated as of October 30, 2014 by and between Frank's International N.V., Frank's International, LLC, and Donald Keith Mosing (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-36053), filed on November 5, 2014).
- \*10.3 Second Amendment to Frank's International N.V. Employee Stock Purchase Plan effective as of November 5, 2014.
- \*10.4 First Amendment to the Frank's International N.V. 2013 Long-Term Incentive Plan Restricted Stock Unit Agreement (Employee Form).
- \*10.5 Amendment No. 6 to the Limited Partnership Agreement of Frank's International C.V., dated August 14, 2014.
- \*31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 (a) under the Securities Exchange Act of 1934.
- \*31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- \*\*32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- \*\*32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
- \*101.INS XBRL Instance Document.
- \*101.SCH XBRL Taxonomy Extension Schema Document.
- \*101.CAL XBRL Taxonomy Calculation Linkbase Document.
- \*101.DEF XBRL Taxonomy Definition Linkbase Document.
- \*101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- \*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished herewith.