FORUM ENERGY TECHNOLOGIES, INC.
Form 10-Q
August 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2012

OR

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

For the transition period from __________ to __________

Commission File Number 001-35504

FORUM ENERGY TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

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

920 Memorial City Way, Suite 1000
Houston, Texas 77024
(Address of principal executive offices)
(281) 949-2500
(Registrant's telephone number, including area code)

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

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

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

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

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

As of July 27, 2012, there were 85,741,088 common shares outstanding.

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
Forum Energy Technologies, Inc. and subsidiaries
Condensed consolidated statements of comprehensive income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share information)	2012	2011	2012	2011
Net sales	$373,512	$257,454	$737,001	$460,506
Cost of sales	250,710	180,262	487,756	324,517
Gross profit	122,802	77,192	249,245	135,989
Operating expenses				
Selling, general and administrative expenses	56,205	42,687	111,059	78,880
Contingent consideration expense (benefit)	(4,900)	5,800	(3,900)	5,800
Impairment of intangible assets	1,161	—	1,161	—
Transaction expenses	442	2,341	797	2,616
(Gain) loss on sale of assets	56	(117)	77	(420)
Total operating expenses	52,964	50,711	109,194	86,876
Operating income	69,838	26,481	140,051	49,113
Other expense (income)				
Interest expense	3,623	4,449	9,409	7,689
Other, net	335	687	366	751
Total other expense	3,958	5,136	9,775	8,440
Income before income taxes	65,880	21,345	130,276	40,673
Provision for income tax expense	21,742	7,453	43,627	14,383
Net income	44,138	13,892	86,649	26,290
Less: Income attributable to noncontrolling interest	17	158	46	187
Net income attributable to common stockholders	44,121	13,734	86,603	26,103
Weighted average shares outstanding				
Basic	82,495	59,471	75,248	58,889
Diluted	89,794	62,660	81,990	61,333
Earnings per share				
Basic	$0.53	$0.23	$1.15	$0.44
Diluted	$0.49	$0.22	$1.06	$0.43
Other comprehensive income, net of tax:				
Net income	44,138	13,892	86,649	26,290
Change in foreign currency translation, net of tax of $0	(6,740)	1,454	3,767	7,773
Gain on derivative instruments, net of tax of $0, $264, $0 and $439	—	491	—	817
Comprehensive income	37,398	15,837	90,416	34,880
Less: comprehensive (income) loss attributable to noncontrolling interests	28	(126)	(36)	(146)
Comprehensive income attributable to common stockholders	$37,426	$15,711	$90,380	$34,734

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

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

(in thousands, except share information)	June 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	$14,802	$20,548
Accounts receivable—trade, net	252,538	228,686
Inventories	402,625	324,638
Prepaid expenses and other current assets	17,933	14,372
Costs and estimated profits in excess of billings	14,535	11,706
Deferred income taxes, net	18,702	18,636
Total current assets	721,135	618,586
Property and equipment, net of accumulated depreciation	134,785	124,840
Deferred financing costs, net	9,089	10,131
Intangibles	230,759	241,314
Goodwill	602,795	600,827
Other long-term assets	7,932	11,617
Total assets	$1,706,495	$1,607,315
Liabilities and equity		
Current liabilities		
Current portion of long-term debt and capital lease obligations	$16,621	$5,176
Accounts payable—trade	114,493	97,642
Accrued liabilities	89,742	92,251
Contingent consideration liability	16,332	41,800
Deferred revenue	17,479	12,692
Billings in excess of costs and profits recognized	1,242	4,906
Derivative instruments	—	185
Total current liabilities	255,909	254,652
Long-term debt, net of current portion	349,948	660,379
Deferred income taxes, net	36,400	35,103
Derivative instruments	1,245	1,588
Other long-term liabilities	—	461
Total liabilities	643,502	952,183
Commitments and contingencies		
Equity		
Common stock, $0.01 par value, 296,000,000 shares authorized, 85,728,053 and 67,944,025 shares issued and outstanding	857	679
Additional paid-in capital	741,783	424,466
Treasury stock	(25,877)	(25,877)
Warrants	27,057	27,097
Retained earnings	330,748	244,145
Accumulated other comprehensive loss	(12,250)	(16,017)
Total stockholders' equity	1,062,318	654,493
Noncontrolling interest in subsidiary	675	639
Total equity	1,062,993	655,132
Total liabilities and equity	$1,706,495	$1,607,315

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

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

	Six Months Ended June 30,	
(in thousands, except share information)	2012	2011
Cash flows from operating activities		
Net income	$86,649	$26,290
Adjustments to reconcile net income to net cash provided by operating activities		
Payment of contingent consideration included in operating expense	(7,127)	—
Change in contingent consideration	(3,900)	5,800
Share-based compensation expense	3,161	2,664
Depreciation expense	15,030	11,564
Amortization of intangible assets	10,075	4,791
Impairment of intangible assets	1,161	—
Other	2,752	(808)
Changes in operating assets and liabilities		
Accounts receivable—trade	(24,121)	(27,161)
Inventories	(77,531)	(30,782)
Prepaid expenses and other current assets	5,798	2,643
Accounts payable, deferred revenue and other accrued liabilities	19,581	19,353
Billings in excess of costs and estimated profits earned, net	(6,476)	(12,448)
Net cash provided by operating activities	$25,052	$1,906
Cash flows from investing activities		
Capital expenditures for property and equipment	(25,137)	(20,540)
Proceeds from sale of property and equipment and other	2,678	964
Acquisition of businesses, net of cash acquired	(2,839)	(65,249)
Net cash (used in) investing activities	$(25,298)	$(84,825)
Cash flows from financing activities		
Deferred financing costs	(15)	(2,252)
Borrowings due to acquisitions	2,839	65,249
Borrowings on long-term debt	75,625	11,256
Repayment of long-term debt	(383,797)	—
Proceeds of IPO, net of offering costs	256,880	—
Proceeds from concurrent private placement	50,000	—
Payment of contingent consideration accrued at acquisition	(11,100)	—
Excess tax benefits from stock based compensation	89	—
Proceeds from stock issuance	3,991	51,804
Net cash provided by (used in) financing activities	$(5,488)	$126,057
Effect of exchange rate changes on cash	(12)	2,651
Net increase (decrease) in cash and cash equivalents	(5,746)	45,789
Cash and cash equivalents		
Beginning of period	20,548	20,348
End of period	$14,802	$66,137
Noncash investing and financing activities		
Insurance policy financed through notes payable	$6,348	$—
Payment of contingent consideration via stock	3,341	—
Acquisition via contingent consideration and stock	—	49,600

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

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

1. Organization and basis of presentation

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

Prior to April 17, 2012, the Company's common stock was owned by three private equity funds with the same sponsor, certain current and former employees and directors of the Company, and former owners of acquired companies. On April 17, 2012, the Company closed its initial public offering (the "IPO"), pursuant to which the Company sold 13,889,470 shares of common stock and the selling stockholders sold 7,900,000 shares of common stock, including 2,842,104 shares of common stock pursuant to the underwriters' option to purchase additional shares, each at an offering price of $20.00 per share, all issued at par value. After deducting estimated expenses and underwriting discounts, the Company and the selling stockholders received net proceeds of approximately $256.9 million and $147.2 million, respectively. The Company did not receive any proceeds from the sale of common stock by the selling stockholders. Concurrently with the closing of the IPO, the Company sold 2,666,666 shares of common stock in a private placement to a private equity fund (not affiliated with the sponsor) for net proceeds of $50 million. The Company used all of the net proceeds from the IPO and concurrent private placement to repay a portion of the outstanding borrowings under the revolving portion of the Company's senior secured credit facility (the "Credit Facility"). The Company's common shares are listed on the New York Stock Exchange under the symbol "FET".

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its subsidiaries.

All significant intercompany transactions have been eliminated in consolidation. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the Company's financial position, results of operations and cash flows have been included. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012 or any other interim period.

These interim financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("GAAP") for complete consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 included in the Company's prospectus dated April 11, 2012 and filed with the SEC on April 13, 2012 (the "Prospectus") pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the "Securities Act").

Stock split

On March 28, 2012, the Company effected a 37-for-1 stock split of its outstanding shares of common stock. All applicable share and per share amounts in the condensed consolidated financial statements and related disclosures have been retroactively adjusted to reflect this stock split.

Subsequent events

The Company evaluated events subsequent to the balance sheet date and prior to the filing of this Quarterly Report on Form 10-Q for the six months ended June 30, 2012 and determined that any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

2. Recent accounting pronouncements

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

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material impact on the Company's consolidated financial statements upon adoption.

In May 2011, the FASB expanded the fair value measurements and disclosures guidance related to items marked to fair value that are categorized within Level 3 of the fair value hierarchy to include qualitative explanations of the valuation methodology used and sensitivity analysis of the valuation inputs. The amendment also requires entities to disclose the level in the fair value hierarchy for items that are not measured at fair value, but for which the fair value is disclosed. This guidance was adopted by the Company for the fiscal year beginning on January 1, 2012 and did not have a material impact on the Company's financial statements.

In June 2011, the FASB issued an update to ASC 220, Presentation of Comprehensive Income. This Accounting Standards Update ("ASU") provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either (1) a single statement that presents the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; or (2) a two-statement approach, which presents the components of net income and total net income in a first statement, immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option in current GAAP that permits the presentation of other comprehensive income in the statement of changes in equity was eliminated. For the fiscal year beginning January 1, 2012, the Company adopted the guidance and began presenting comprehensive income in a single statement. The guidance was applied retrospectively and did not have a material impact on the Company's financial statements.

In December 2010, the FASB issued FASB ASU 2010-28, "Intangibles - Goodwill and Other," which affects entities evaluating goodwill for impairment under FASB ASC 350-20. ASU 2010-28, among other things, requires entities with a zero or negative carrying value to assess, considering qualitative factors, whether it is more likely than not that goodwill impairment exists. If an entity concludes that it is more likely than not that goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. This guidance was adopted by the Company for the fiscal year beginning on January 1, 2012 and did not have a material impact on the Company's financial statements.

3. Acquisitions

The Company completed eight acquisitions during fiscal year 2011. The following summarizes the six largest acquisitions.

Wood Flowline Products, LLC

In February 2011, the Company purchased Wood Flowline Products, LLC ("WFP"). WFP manufactures pressure control and flow equipment products that are principally used in the fracturing and well stimulation process. WFP also provides on-site recertification and refurbishment services of the associated flow equipment products. This acquisition provides the Company with new exposure to the growing well completion sector, specifically focused on the development of North American unconventional shale and tight sands resources. The results of WFP's operations have been included in the Company's consolidated financial statements beginning February 1, 2011 and are included in the Company's Production & Infrastructure segment. The purchase consideration included two separate contingent consideration payments, which may be payable in cash and/or shares of the Company's common stock based upon WFP's 2011 and 2012 calendar year earnings as defined in the purchase and sale agreement. The fair value of the contingent consideration was estimated at the time of the acquisition to be $13.4 million based on an internal valuation of the earnings level that the acquired company is expected to achieve. The fair value of the contingent consideration payment was re-measured as of December 31, 2011 at $22.1 million and was included in "Contingent consideration liability" in the consolidated balance sheet. Upon resolution of the results of operations for WFP for the year ended December 31, 2011, the portion of the contingent consideration to be paid in shares of the Company's common stock related to the 2011 earnings was finalized and $3.3 million of the liability was reclassified to equity. The cash portion of the contingent consideration payment based on the 2011 calendar year earnings in the amount of $6.1 million was paid during the quarter ended June 30, 2012. The fair value of the remaining contingent consideration liability relating to the 2012 calendar year was re-measured as of June 30, 2012 at $8.6 million and is included in "Contingent consideration liability” in the condensed consolidated balance sheets. The change in fair values during the three and six months ended June 30, 2012 resulted in increases to operating income of $4.9 million and $4.0 million, respectively, and is included in “Contingent consideration expense (benefit)” in the condensed consolidated statements of comprehensive income.

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Phoinix Global LLC
In April 2011, the Company purchased Phoinix Global LLC (“Phoinix”), a provider of high pressure flow control equipment and products utilized in the well stimulation and flow back processes of oil and gas well completion based in Alice, Texas. This acquisition adds to the Company’s breadth of flow equipment products through a product offering that includes fluid-ends for hydraulic fracturing pressure pumps, plug valves, relief valves, chokes, manifolds, manifold trailers and flow equipment transport trucks. The results of the Phoinix operations have been included in the Company’s consolidated financial statements beginning May 1, 2011 and are included in the Company’s Production & Infrastructure segment. The purchase consideration included two separate contingent consideration payments, which may be payable in cash based upon Phoinix’s 2011 and 2012 calendar year earnings as defined in the purchase and sale agreement. The fair value of the contingent consideration was estimated at the time of the acquisition to be $16.3 million based on an internal valuation of the earnings level that Phoinix is expected to achieve. The portion of the contingent consideration based upon Phoinix's 2011 calendar earnings in the amount of $12.1 million was paid during the quarter ended June 30, 2012. The fair value of the remaining contingent consideration payment was re-measured as of June 30, 2012 and December 31, 2011 at $7.7 million and $19.7 million, respectively, and is included in “Contingent consideration liability” in the consolidated balance sheets. The change in fair value for the six months ended June 30, 2012 of $0.1 million is a decrease to operating income and is included in “Contingent consideration expense (benefit)” in the condensed consolidated statements of comprehensive income. There was no change in the fair value of the remaining contingent consideration during the three months ended June 30, 2012.

Cannon Services, LLC
In July 2011, the Company acquired Cannon Services, LLC (“Cannon”), based in Stafford, Texas. Cannon is a provider of standard and customized clamp and stamped metal protection systems used to shield the downhole control lines and gauges during their installation and provide protection during production enhancement operations. This acquisition, along with the acquisition of Davis-Lynch LLC ("Davis Lynch"), formed the product platform targeting niche downhole products that are consumed during the well construction, completion, intervention and production enhancement processes, as well as those associated with the growth in intelligent well construction. The results of Cannon’s operations have been included in the Company’s consolidated financial statements beginning July 1, 2011 and are included in the Company’s Drilling & Subsea segment.

AMC Global Group, Ltd.
In July 2011, the Company acquired AMC Global Group, Ltd. (“AMC”), based in Aberdeen, Scotland. AMC designs and manufactures specialized torque equipment for tubular connections, including high torque stroking units, fully rotational torque units and portable torque units for field deployment and related control systems, and provides aftermarket service. This acquisition enhanced the product offerings in our drilling products line. The results of AMC’s operations have been included in the Company’s consolidated financial statements beginning July 1, 2011 and are included in the Company’s Drilling & Subsea segment.

P-Quip, Ltd.
In July 2011, the Company acquired P-Quip, Ltd. (“P-Quip”), based in Kilbirnie, Scotland. P-Quip manufactures proprietary mud pump fluid end assemblies, mud pump rod systems, liner retention systems, valve cover retention systems and other drilling flow control products. This acquisition enhanced the product offerings in our drilling products line. The results of P-Quip’s operations have been included in the Company’s consolidated financial statements beginning July 5, 2011 and are included in the Company’s Drilling & Subsea segment.

Davis-Lynch LLC
In July 2011, the Company acquired Davis-Lynch based in Pearland, Texas. Davis-Lynch is a provider of proprietary, downhole cementing and casing products. This acquisition along with the acquisition of Cannon formed the new product platform targeting niche downhole products that are consumed during the well construction, completion, intervention and production enhancement processes, as well as those associated with the growth in intelligent well construction. The results of Davis-Lynch’s operations have been included in the Company’s consolidated financial

statements beginning August 1, 2011 and are included in the Company's Drilling & Subsea segment.

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

The following table provides pro forma information related to all acquisitions in the aggregate (in thousands, except per share data):

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Revenue	$306,254	$568,693
Net income	20,541	43,003
Basic earnings per share	0.35	0.73
Diluted earnings per share	0.33	0.70

The pro forma information for the three and six months ended June 30, 2011 assumes that all 2011 acquisitions occurred as of January 1, 2011.

The combined results of operations of the acquired businesses have been adjusted to reflect additional depreciation of fixed assets and amortization of intangible assets subject to amortization. Pro forma interest expense was calculated on notes payable and draws on the Company's available line of credit at a rate of 4.7%, as if the businesses were acquired on January 1, 2011.

Although the Company believes the accounting policies and procedures used to prepare the pro forma schedules are reasonable, these pro forma results do not purport to be indicative of the actual results which would have been achieved had the acquisition been consummated on January 1, 2011. The amounts shown are not intended to be a projection of future results.

4. Inventories

The Company's significant components of inventory at June 30, 2012 and December 31, 2011 were as follows (in thousands):

	June 30, 2012	December 31, 2011
Raw materials and parts	$138,608	$112,017
Work in process	63,272	52,402
Finished goods	220,679	177,659
Gross inventories	422,559	342,078
Inventory reserve	(19,934)	(17,440)
Inventories	$402,625	$324,638

5. Goodwill and intangible assets

Goodwill

The changes in the carrying amount of goodwill from January 1, 2012 to June 30, 2012, were as follows (in thousands):

	Drilling & Subsea	Production & Infrastructure	Total
Goodwill Balance at January 1, 2012 net	$523,019	$77,808	$600,827
Impact of non-United States local currency translation	1,968	—	1,968
Goodwill Balance at June 30, 2012 net	$524,987	$77,808	$602,795

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

Intangible assets
At June 30, 2012 and December 31, 2011, intangible assets consisted of the following, respectively (in thousands):

	June 30, 2012			
	Gross carrying amount	Accumulated amortization	Net amortizable intangibles	Amortization period (in years)
Customer relationships	$208,642	$(41,247)	$167,395	4-15
Patents and technology	19,629	(3,535)	16,094	5-17
Non-compete agreements	5,548	(4,404)	1,144	3-6
Trade names	35,057	(7,217)	27,840	10-15
Contracts	260	(260)	—	<1
Distributor relationships	22,160	(9,395)	12,765	8-15
Trademark	5,521	—	5,521	Indefinite
Intangible Assets Total	$296,817	$(66,058)	$230,759	

	December 31, 2011			
	Gross carrying amount	Accumulated amortization	Net amortizable intangibles	Amortization period (in years)
Customer relationships	$211,933	$(36,160)	$175,773	4-15
Patents and technology	19,172	(2,676)	16,496	5-17
Non-compete agreements	5,234	(4,108)	1,126	3-6
Trade names	35,076	(6,088)	28,988	10-15
Contracts	260	(260)	—	<1
Distributor relationships	22,160	(8,750)	13,410	8-15
Trademark	5,521	—	5,521	Indefinite
Intangible Assets Total	$299,356	$(58,042)	$241,314	

During the quarter ended June 30, 2012, an impairment loss of $1.2 million was recorded on certain intangible assets resulting from a lack of business and orders related to a specific service line within the Production & Infrastructure segment. The impairment loss was measured using a discounted cash flows approach and was recorded for the amount by which the carrying value exceeded the estimated fair value of the intangible assets. The impaired intangible assets included customer relationships and trade names. No other indicators of intangible asset impairment occurred during the six months ended June 30, 2012.

6. Debt

Notes payable and lines of credit consisted of the following at June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
Senior secured revolving credit facility	$61,000	$363,694
Term loan	300,000	300,000
Other debt	5,569	1,861
Total debt	366,569	665,555
Less: current maturities	(16,621)	(5,176)
Long-term debt	$349,948	$660,379

The Company entered into the Credit Facility with several financial institutions, which provides for a $600.0 million revolving credit facility with up to $75.0 million of letters of credit and up to $25.0 million in swingline loans, and a

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$300.0 million term loan. In addition, subject to the terms of the Credit Facility, the Company has the ability to increase the commitments under the Credit Facility by up to $100.0 million. The Credit Facility matures in October 2016. Weighted average interest rates under the Credit Facility (without the effect of hedging) at June 30, 2012 and December 31, 2011 were 2.74% and 2.78%, respectively.

Availability under the Credit Facility was approximately $528.9 million and $230.0 million at June 30, 2012 and December 31, 2011, respectively. The Company was in compliance with all financial covenants at June 30, 2012 and December 31, 2011.

On April 17, 2012, the Company sold 13,889,470 shares of common stock in the IPO and 2,666,666 shares of common stock in a private placement to a private equity fund (not affiliated with the sponsor) for aggregate net proceeds of approximately $256.9 million and $50.0 million, respectively. The Company used all of the net proceeds to repay a portion of the outstanding borrowings under the revolving portion of the Credit Facility.

Other debt

Other debt consists primarily of upfront annual insurance premiums that have been financed and capital lease obligations.

7. Income taxes

The Company's effective tax rate for the six months ended June 30, 2012 and 2011 was 33.5% and 35.4%, respectively. The tax provision for the second quarter of 2012 is lower than the comparable period in 2011 primarily due to a higher proportion of earnings in non-U.S. jurisdictions, which have lower tax rates.

8. Fair value measurements

During the six months ended June 30, 2011, the Company had interest rate swap agreements to convert variable interest payments related to $34 million of floating rate debt to fixed interest payments. These swaps expired in March and November 2011. During the six months ended June 30, 2011, the Company also had an interest rate collar arrangement to reduce the variability in interest payments related to $20 million in floating rate debt. This interest rate collar instrument expired in November 2011. These instruments were designated as cash flow hedging instruments and changes in their fair values were recognized in accumulated other comprehensive income or loss.

Approximately $75 million of the Company's interest rate swaps were not designated for hedge accounting at inception. These swaps have a fixed rate of 1.83% plus the applicable margin and expire in August 2013. They are also recorded at fair value, which is measured using the market approach valuation technique. These interest rate swap agreements were executed to hedge the interest rate risk exposure. The realized gains and losses are included in Interest expense in the condensed consolidated statements of comprehensive income. At June 30, 2012, the fair value of the swap agreements was recorded as a long-term liability of $1.2 million. At December 31, 2011, the fair value of the swap agreements was recorded as a current and long-term liability of $0.2 million and $1.6 million, respectively.

In connection with the acquisitions of WFP and Phoinix, the total consideration included contingent consideration payments. The fair value of the contingent consideration for these acquisitions was estimated at the time of the respective acquisitions based on internal valuations of the expected earnings levels that the acquired companies are expected to achieve and is re-measured quarterly. Refer to Note 3, Acquisitions, for further discussion.

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

The Company's financial assets and liabilities are measured at fair value on a recurring basis. There were no outstanding financial assets as of June 30, 2012 and December 31, 2011. The following fair value hierarchy table presents information about the Company’s financial liabilities measured at fair value on a recurring basis as of