

Frank's International N.V.
 Form 10-K
 February 29, 2016

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 FORM 10-K
 (Mark One)

Annual Report Pursuant to Section 13 or 15(d) of
 the Securities Exchange Act of 1934
 For the fiscal year ended December 31, 2015

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	98-1107145
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification number)

Prins Bernhardplein 200	
1097 JB Amsterdam, The Netherlands	Not Applicable
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, €0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Edgar Filing: Frank's International N.V. - Form 10-K

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of June 30, 2015, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$651.2 million.

As of February 25, 2016, there were 155,332,241 shares of common stock, €0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement in connection with the 2016 Annual Meeting of Stockholders, to be filed no later than 120 days after the end of the fiscal year to which this Form 10-K relates, are incorporated by reference into Part III of this Form 10-K.

FRANK'S INTERNATIONAL N.V.
 FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2015
 TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	<u>4</u>
Item 1A. Risk Factors	<u>11</u>
Item 1B. Unresolved Staff Comments	<u>28</u>
Item 2. Properties	<u>28</u>
Item 3. Legal Proceedings	<u>29</u>
Item 4. Mine Safety Disclosures	<u>29</u>
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>30</u>
Item 6. Selected Financial Data	<u>32</u>
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>33</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>46</u>
Item 8. Financial Statements and Supplementary Data	<u>49</u>
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	<u>86</u>
Item 9A. Controls and Procedures	<u>86</u>
Item 9B. Other Information	<u>86</u>
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	<u>86</u>
Item 11. Executive Compensation	<u>86</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	87
Item 13. Certain Relationships and Related Transactions, and Director Independence	87
Item 14. Principal Accounting Fees and Services	87
PART IV	
Item 15. Exhibits and Financial Statement Schedules	<u>88</u>
Signatures	<u>94</u>

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Form 10-K") 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-K 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;
- further or sustained declines in oil and gas prices, which have dropped significantly in recent periods;
- 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) Part I, Item 1A "Risk Factors" and in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K, and elsewhere within this Form 10-K, (2) our other reports and filings we make with the SEC from time to time and (3) 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-K 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. All such forward-looking statements in the Form 10-K are expressly qualified in their entirety by the cautionary statements in this section.

PART I

Item 1. Business

General

Frank's International N.V. ("FINV") is a Netherlands limited liability company (Naamloze Vennootschap) and includes the activities of Frank's International C.V. ("FICV") and its wholly owned subsidiaries (either individually or together, as context requires, the "Company," "we," "us" and "our"). We were established in 1938 and are an industry-leading global provider of highly engineered tubular services to the oil and gas industry. 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 believe that we are one of the largest global providers of tubular services to the oil and gas industry.

Our Operations

Tubular services involve the handling and installation of multiple joints of pipe to establish a cased wellbore and the installation of smaller diameter pipe inside a cased wellbore to provide a conduit for produced oil and gas to reach the surface. The casing of a wellbore isolates the wellbore from the surrounding geologic formations and water table, provides well structure and pressure integrity, and allows well operators to target specific zones for production. Given the central role that our services play in the structural integrity, reliability and safety of a well, and the importance of efficient tubular services to managing the overall cost of a well, we believe that our role is vital to the overall process of producing oil and gas.

In addition to our services offerings, we design and manufacture certain products that we sell directly to external customers, including large outside diameter ("OD") pipe connectors. 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. Finally, we distribute large OD pipe manufactured by third parties, and generally maintain an inventory of this pipe in order to support our pipe sales and distribution operations.

We offer our tubular services and tubular sales through our three operating segments: (1) International Services, (2) U.S. Services and (3) Tubular Sales, each of which is described in more detail in "Description of Business Segments."

The table below shows our consolidated revenue and each segment's external revenue and percentage of consolidated revenue for the periods indicated (revenue in thousands):

	Year Ended December 31,		2014		2013			
	2015		Revenue	Percent	Revenue	Percent		
International Services	\$442,107	45.4%	\$537,259	46.6	%	\$475,297	44.1	%
U.S. Services	326,437	33.5%	439,638	38.1	%	434,940	40.4	%
Tubular Sales (1)	206,056	21.1%	175,735	15.3	%	167,485	15.5	%
Total	\$974,600	100.0%	\$1,152,632	100.0	%	\$1,077,722	100.0	%

In June 2013, we sold a component of our Tubular Sales segment and, as a result, the operations from that (1) component have been reported as discontinued operations in the accompanying financial statements for the year ended December 31, 2013.

Our Organizational Structure

We completed our initial public offering ("IPO") on August 14, 2013. Immediately prior to the completion of our IPO, Mosing Holdings, Inc. ("MHI") contributed all of the outstanding membership interests in each of Frank's International, LLC, Frank's Casing Crew & Rental Tools, LLC and Frank's Tong Service, LLC, which constitute our U.S. operating subsidiaries, to FICV in exchange for 52,976,000 shares of our Series A preferred stock (the "Preferred Stock") and a 25.7% limited partnership interest in FICV. FICV is a partnership that was formed to act as a holding company of various U.S. and foreign operating companies engaged in our business. Excluded from the contribution were certain assets that generated a de minimis amount of revenue, including aircraft, real estate and life insurance policies, which were retained by MHI.

FINV contributed all of its international operating subsidiaries and a portion of the proceeds from the IPO to FICV. Following the completion of the IPO, FINV's sole material asset consisted of its ownership of 74.2% of the limited partnership interest and the 0.1% general partnership interest in FICV. MHI held the remaining 25.7% limited partnership interest in FICV.

MHI 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 such conversion will decrease the noncontrolling interest in our financial statements that is attributable to MHI's interest in FICV.

Description of Business Segments

International Services

The International Services segment provides tubular services in international offshore markets and in several onshore international regions 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

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.

Tubular Sales

The Tubular Sales segment designs, manufactures and distributes large OD pipe, connectors and casing attachments and sells large OD pipe originally manufactured by various pipe mills. We also provide specialized fabrication and welding services in support of offshore projects, 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. This segment also designs and manufactures proprietary equipment for use in our International Services and U.S. Services segments.

Financial Information About Segment and Geographic Areas

Segment financial and geographic information is provided in Part II, Item 8, Financial Statements and Supplementary Data, Note 23 of the Notes to the Consolidated Financial Statements.

Suppliers and Raw Materials

We acquire component parts, products and raw materials from suppliers, including foundries, forge shops, and original equipment manufacturers. The prices we pay for our raw materials may be affected by, among other things, energy, steel and other commodity prices, tariffs and duties on imported materials and foreign currency exchange rates. Certain of our component parts, products or specific raw materials are only available from a limited number of suppliers.

Our ability to source low cost raw materials and components, such as steel castings and forgings, is critical to our ability to manufacture our drilling products competitively and, in turn, our ability to provide onshore and offshore drilling services. In order to purchase raw materials and components in a cost effective manner we have developed a broad international sourcing capability and we maintain quality assurance and testing programs to analyze and test these raw materials and components.

Patents

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

Seasonality

A substantial portion of our business is not significantly impacted by changing seasons. We can be impacted by hurricanes, ocean currents, winter storms and other disruptions.

Customers

Our customers consist primarily of oil and gas exploration and production companies, both U.S. and international, including major and independent companies, national oil companies and, on occasion, other service companies that have contractual obligations to provide casing and handling services. Demand for our services depends primarily upon the capital spending of oil and gas companies and the level of drilling activity in the U.S. and internationally. We do not believe the loss of any of our individual customers would have a material adverse effect on our business. No single customer accounted for more than 10% of our revenue for the years ended December 31, 2015, 2014 and 2013.

Our International Services segment had no single customer that contributed more than 10% of its revenue in 2015. Our U.S. Services and Tubular Sales segments each had three customers which accounted for more than 10% of their revenue in 2015.

Competition

The markets in which we operate are competitive. We compete with a number of companies, some of which have financial and other resources greater than ours. The principal competitive factors in our markets are the quality, price and availability of products and services and a company's responsiveness to customer needs and its reputation for safety. In general, we face a larger number of smaller, more regionally-specific customers in the U.S. onshore market as compared to offshore markets, where larger competitors dominate.

We believe several factors give us a strong competitive position. In particular, we believe our products and services in each segment fulfill our customer's requirements for international capability, availability of tools, range of services provided, intellectual property, technological sophistication, rigorous quality systems and availability of equipment, along with reputation and safety record. We seek to differentiate ourselves from our competitors by providing a rapid

response to the needs of our customers, a high level of customer service and innovative product development initiatives. Although we have no single competitor across all of our product lines, we believe that Weatherford International represents our most direct competitor across our segments for providing tubular services on an aggregate, global basis.

Market Environment

As a result of the dramatic downturn in oil and natural gas prices during 2015 and continuing into 2016 to date, many of our customers have reduced their oil and natural gas drilling activities. In addition, we expect oil and gas exploration and production companies to cut capital budgets from 2015 levels globally. A further decrease in project spending from our customers is expected to translate to a similar decrease in our earnings. We believe that we have mitigated in 2015 and going-forward in 2016 will be able to mitigate some of the impact of lower revenues through both previously implemented as well as additional planned cost reductions. We expect continued weakness in the U.S. onshore business segment and lower revenues in International Services as pricing pressure and the scope of our service activity shifts. Additionally, despite the strong margins recorded in the fourth quarter of 2015, we expect the adjusted EBITDA contribution from Tubular Sales to decrease in the first quarter of 2016 as visibility on new orders and expected deliveries is significantly lower than the first quarter of 2015.

Inventories and Working Capital

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

Environmental, Occupational Health and Safety Regulation

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

Numerous governmental authorities, such as the U.S. Environmental Protection Agency (“EPA”), analogous state agencies and, in certain circumstances, citizens’ groups, have the power to enforce compliance with these laws and regulations and the permits issued under them. Certain environmental laws may impose joint and several liability, without regard to fault or the legality of the original conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. The trend in environmental regulation has been to impose increasingly stringent restrictions and limitations on activities that may impact the environment, and thus, any changes in environmental laws and regulations or in enforcement policies that result in more stringent and costly waste handling, storage, transport, disposal, or remediation requirements could have a material adverse effect on our operations and financial position. Moreover, accidental releases or spills of regulated substances may occur in the course of our operations, and we cannot assure you that we will not incur significant costs and liabilities as a result of such releases or spills, including any third-party claims for damage to property, natural resources or persons.

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

Hazardous Substances and Waste

The Resource Conservation and Recovery Act (“RCRA”) and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with

their own, more stringent requirements. We are required to manage the transportation, storage and disposal of hazardous and non-hazardous wastes in compliance with RCRA.

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

Water Discharges

The Federal Water Pollution Control Act (the “Clean Water Act”) and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. A responsible party includes the owner or operator of a facility from which a discharge occurs. The Clean Water Act and analogous state laws provide for administrative, civil and criminal penalties for unauthorized discharges and, together with the Oil Pollution Act of 1990, impose rigorous requirements for spill prevention and response planning, as well as substantial potential liability for the costs of removal, remediation, and damages in connection with any unauthorized discharges. Pursuant to these laws and regulations, we may be required to obtain and maintain approvals or permits for the discharge of wastewater or storm water from our operations and may be required to develop and implement spill prevention, control and countermeasure plans, also referred to as “SPCC plans,” in connection with on-site storage of significant quantities of oil, including refined petroleum products. We maintain all required discharge permits necessary to conduct our operations, and we believe we are in substantial compliance with their terms.

Air Emissions

The federal Clean Air Act and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other emission control requirements. In addition, the EPA has developed, and continues to develop, stringent regulations governing emissions of toxic air pollutants at specified sources. Non-compliance with air permits or other requirements of the federa