

Statements of cash flows for entities with international operations that are local currency functional exclude the effects of the changes in foreign currency exchange rates that occur during any given year, as these are non-cash 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.

The primary liquidity needs of the Company are (i) to fund capital expenditures to improve and expand facilities and manufacture additional running tools and (ii) to fund working capital. The Company's principal source of funds is cash flows from operations.

Net cash provided by operating activities decreased \$12.9 million in 2014 compared to 2013, primarily due to decreases in operating assets and liabilities of \$54.4 million, offset by higher net income of \$38.9 million and non-cash income adjustments of \$2.6 million. Net cash provided by operating activities increased \$170.4 million in 2013 compared to 2012, primarily due to higher net income of \$50.6 million and non-cash income adjustments of \$4.6 million and changes in operating assets and liabilities of \$115.2 million in 2013.

Net income increased by \$38.9 million to \$208.7 million in 2014 from \$169.8 million in 2013. Net income increased by \$50.6 million to \$169.8 million in 2013 from \$119.2 million in 2012. The reasons for the changes in net income are set forth in the "Results of Operations" section above.

The change in operating assets and liabilities of \$99.1 million during 2014 primarily reflected an increase in trade receivables of \$102.7 million and an increase in inventory of \$36.8 million. Trade receivables increased due to the growth of revenues in 2014 and an increase in unbilled revenues of \$15.1 million related to long-term projects. Inventory increased due to higher balances in raw materials and finished goods to accommodate the backlog requirements related to long-term projects. Prepaids and other assets increased by \$13.2 million mostly due from advances to suppliers related to long-term projects. Accounts payable and accrued expenses were higher by approximately \$54.2 million which included an increase of \$26.2 million in customer prepayments.

The change in operating assets and liabilities of \$44.7 million during 2013 primarily reflected an increase in trade receivables of \$17.3 million and an increase in inventory of \$10.6 million. Trade receivables increased due to the growth of revenues in 2013, partially offset by a decrease in unbilled receivables. Inventory increased due to higher balances in work in progress to accommodate the backlog requirements related to long-term projects. Prepaids and other assets decreased by \$6.2 million. Accounts payable and accrued expenses decreased by approximately \$20.2 million.

Capital expenditures by the Company were \$42.5 million, \$42.6 million and \$50.8 million in 2014, 2013 and 2012, respectively. Capital expenditures in 2014, 2013 and 2012 included expanding worldwide manufacturing facilities as well as increased expenditures on machinery and equipment and running tools. The capital expenditures for 2014 were primarily \$3.0 million for facilities, \$27.0 million for machinery and equipment, \$8.3 million for running tools and other expenditures of \$4.2 million. Capital expenditures in 2013 were comprised of \$7.2 million for facilities, \$23.6 million for machinery and equipment, \$7.7 million for running tools and other expenditures of \$4.1 million. In 2012, capital expenditures were primarily \$9.3 million for facilities, \$26.9 million for machinery and equipment, \$10.5 million for running tools and other expenditures of \$4.1 million.

The exercise of stock options generated cash to the Company of \$2.8 million, \$10.5 million and \$10.8 million in 2014, 2013, and 2012 respectively. Under a share repurchase plan approved by its Board of Directors in 2012, the Company repurchased and cancelled 869,699 shares, at a total cost of \$90.0 million during 2014. On June 12, 2014 the Company announced that its Board of Directors had authorized another stock repurchase plan under which the Company was authorized to repurchase up to \$100 million of its common stock. The Company repurchased 1,151,603 shares under this plan in 2014 for a total of \$100.0 million. All repurchased shares were subsequently cancelled during the period.