

NATIONAL OILWELL VARCO INC
Form 10-Q
October 30, 2015

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, 2015

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
Commission File Number 1-12317

NATIONAL OILWELL VARCO, INC.
(Exact name of registrant as specified in its charter)

Delaware **76-0475815**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
7909 Parkwood Circle Drive

Houston, Texas

77036-6565

(Address of principal executive offices)

(713) 346-7500

(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 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. (Check one):

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 Exchange Act). Yes No

As of October 28, 2015 the registrant had 375,747,606 shares of common stock, par value \$.01 per share, outstanding.

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****NATIONAL OILWELL VARCO, INC.****CONSOLIDATED BALANCE SHEETS****(In millions, except share data)**

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,846	\$ 3,536
Receivables, net	3,325	4,416
Inventories, net	5,172	5,281
Costs in excess of billings	1,669	1,878
Deferred income taxes	391	447
Prepaid and other current assets	530	604
Total current assets	12,933	16,162
Property, plant and equipment, net	3,122	3,362
Deferred income taxes	520	503
Goodwill	8,465	8,539
Intangibles, net	4,087	4,444
Investment in unconsolidated affiliates	331	362
Other assets	170	190
Total assets	\$ 29,628	\$ 33,562
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 731	\$ 1,189
Accrued liabilities	2,810	3,518
Billings in excess of costs	1,180	1,775
Current portion of long-term debt and short-term borrowings	2	152
Accrued income taxes	112	431
Deferred income taxes	358	309
Total current liabilities	5,193	7,374
Long-term debt	3,981	3,014
Deferred income taxes	1,826	1,972
Other liabilities	422	430
Total liabilities	11,422	12,790

Commitments and contingencies

Stockholders' equity:

Common stock - par value \$.01; 1 billion shares authorized; 375,735,085 and 418,977,608 shares issued and outstanding at September 30, 2015 and

December 31, 2014	4	4
Additional paid-in capital	6,201	8,341
Accumulated other comprehensive loss	(1,477)	(834)
Retained earnings	13,398	13,181
Total Company stockholders' equity	18,126	20,692
Noncontrolling interests	80	80
Total stockholders' equity	18,206	20,772
Total liabilities and stockholders' equity	\$ 29,628	\$ 33,562

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenue	\$ 3,306	\$ 5,587	\$ 12,035	\$ 15,731
Cost of revenue	2,634	4,059	9,360	11,463
Gross profit	672	1,528	2,675	4,268
Selling, general and administrative	383	540	1,378	1,568
Intangible asset impairment	55		55	
Operating profit	234	988	1,242	2,700
Interest and financial costs	(24)	(26)	(76)	(79)
Interest income	2	4	9	13
Equity income in unconsolidated affiliates		9	16	42
Other income (expense), net	(20)	9	(106)	(12)
Income from continuing operations before income taxes	192	984	1,085	2,664
Provision for income taxes	36	283	330	806
Income from continuing operations	156	701	755	1,858
Income from discontinued operations				52
Net income	156	701	755	1,910
Net income attributable to noncontrolling interests	1	2	1	3
Net income attributable to Company	\$ 155	\$ 699	\$ 754	\$ 1,907
Per share data:				
Basic:				
Income from continuing operations	\$ 0.41	\$ 1.63	\$ 1.92	\$ 4.34
Income from discontinued operations	\$	\$	\$	\$ 0.12
Net income attributable to Company	\$ 0.41	\$ 1.63	\$ 1.92	\$ 4.46
Diluted:				
Income from continuing operations	\$ 0.41	\$ 1.62	\$ 1.92	\$ 4.31
Income from discontinued operations	\$	\$	\$	\$ 0.12

Edgar Filing: NATIONAL OILWELL VARCO INC - Form 10-Q

Net income attributable to Company	\$ 0.41	\$ 1.62	\$ 1.92	\$ 4.43
Cash dividends per share	\$ 0.46	\$ 0.46	\$ 1.38	\$ 1.18
Weighted average shares outstanding:				
Basic	380	429	392	428
Diluted	381	431	393	430

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**(In millions)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$ 156	\$ 701	\$ 755	\$ 1,910
Currency translation adjustments	(339)	(310)	(650)	(248)
Changes in derivative financial instruments, net of tax	(19)	(99)	7	(110)
Comprehensive income (loss)	(202)	292	112	1,552
Comprehensive income attributable to noncontrolling interest	1	2	1	3
Comprehensive income (loss) attributable to Company	\$ (203)	\$ 290	\$ 111	\$ 1,549

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Income from continuing operations	\$ 755	\$ 1,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	564	579
Deferred income taxes	(122)	(36)
Equity income in unconsolidated affiliates	(16)	(42)
Dividend from unconsolidated affiliate	34	73
Intangible asset impairment	55	
Other, net	236	180
Change in operating assets and liabilities, net of acquisitions:		
Receivables	1,045	(201)
Inventories	(6)	(817)
Costs in excess of billings	209	(76)
Prepaid and other current assets	73	(73)
Accounts payable	(460)	186
Billings in excess of costs	(595)	38
Income taxes payable	(318)	(289)
Other assets/liabilities, net	(736)	409
Net cash provided by continuing operating activities	718	1,789
Discontinued operations		89
Net cash provided by operating activities	718	1,878
Cash flows from investing activities:		
Purchases of property, plant and equipment	(332)	(468)
Business acquisitions, net of cash acquired	(70)	(181)
Cash distributed in spin-off		(253)
Other	24	117
Net cash used in continuing investing activities	(378)	(785)
Discontinued operations		(12)
Net cash used in investing activities	(378)	(797)
Cash flows from financing activities:		
Borrowings against lines of credit and other debt	9,184	153
Repayments on debt	(8,369)	(155)

Edgar Filing: NATIONAL OILWELL VARCO INC - Form 10-Q

Cash dividends paid	(537)	(507)
Share repurchases	(2,221)	
Proceeds from stock options exercised	6	107
Other	(2)	9
Net cash used in continuing financing activities	(1,939)	(393)
Discontinued operations		
Net cash used in financing activities	(1,939)	(393)
Effect of exchange rates on cash	(91)	(33)
Increase (decrease) in cash and cash equivalents	(1,690)	655
Cash and cash equivalents, beginning of period	3,536	3,436
Cash and cash equivalents, end of period	\$ 1,846	\$ 4,091

Supplemental disclosures of cash flow information:

Cash payments during the period for:

Interest	\$ 57	\$ 57
Income taxes	\$ 760	\$ 1,097

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States requires management to make estimates and assumptions that affect reported and contingent amounts of assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying unaudited consolidated financial statements of National Oilwell Varco, Inc. (NOV or the Company) present information in accordance with GAAP in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. They do not include all information or footnotes required by GAAP in the United States for complete consolidated financial statements and should be read in conjunction with our 2014 Annual Report on Form 10-K.

In our opinion, the consolidated financial statements include all adjustments, which are of a normal recurring nature, unless otherwise disclosed, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Effective April 1, 2014, the Company reorganized its reporting segments. All prior periods are presented on this basis. Results of operations related to the spin-off of the Company's distribution business (spin-off) have been classified as discontinued operations in all prior periods presented on Form 10-Q. See Note 7 for discussion on the Company's reporting segments and Note 2 for discussion on the spin-off of the Company's distribution business.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and payables approximated fair value because of the relatively short maturity of these instruments. Cash equivalents include only those investments having a maturity date of three months or less at the time of purchase. See Note 8 for the fair value of long-term debt and Note 11 for the fair value of derivative financial instruments.

2. Spin-off of Distribution Business

On May 30, 2014, the Company completed the previously announced spin-off of its distribution business into an independent public company named NOW Inc., which trades on the New York Stock Exchange under the symbol DNOW . After the close of the New York Stock Exchange on May 30, 2014, the stockholders of record as of May 22, 2014 (the Record Date) received one share of NOW Inc. common stock for every four shares of NOV common stock held on the Record Date. No fractional shares of NOW Inc. common stock were distributed. Instead, the transfer agent aggregated any fractional shares into whole shares, sold those whole shares in the open market at prevailing rates and distributed the net cash proceeds, after deducting any taxes required to be withheld and any amount equal to all brokerage charges and commissions, pro rata to each holder who would otherwise have been entitled to receive fractional shares in the distribution.

The following table presents selected financial information regarding the results of operations of our distribution business, which is reported as discontinued operations (in millions):

	Period Ended May 30, 2014
Revenue from discontinued operations	\$ 1,701