

NATIONAL OILWELL VARCO INC
Form 10-Q
August 05, 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 JUNE 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
(State or other jurisdiction of
incorporation or organization)

76-0475815
(I.R.S. Employer
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 August 3, 2015 the registrant had 383,808,711 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)**

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,544	\$ 3,536
Receivables, net	3,476	4,416
Inventories, net	5,394	5,281
Costs in excess of billings	1,810	1,878
Deferred income taxes	381	447
Prepaid and other current assets	562	604
Total current assets	14,167	16,162
Property, plant and equipment, net	3,250	3,362
Deferred income taxes	535	503
Goodwill	8,507	8,539
Intangibles, net	4,257	4,444
Investment in unconsolidated affiliates	327	362
Other assets	182	190
Total assets	\$ 31,225	\$ 33,562
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 847	\$ 1,189
Accrued liabilities	3,028	3,518
Billings in excess of costs	1,269	1,775
Current portion of long-term debt and short-term borrowings	151	152
Accrued income taxes	24	431
Deferred income taxes	353	309
Total current liabilities	5,672	7,374
Long-term debt	4,154	3,014
Deferred income taxes	1,976	1,972
Other liabilities	418	430

Total liabilities	12,220	12,790
Commitments and contingencies		
Stockholders' equity:		
Common stock - par value \$.01; 1 billion shares authorized; 386,542,334 and 418,977,608 shares issued and outstanding at June 30, 2015 and December 31, 2014	4	4
Additional paid-in capital	6,625	8,341
Accumulated other comprehensive loss	(1,119)	(834)
Retained earnings	13,417	13,181
Total Company stockholders' equity	18,927	20,692
Noncontrolling interests	78	80
Total stockholders' equity	19,005	20,772
Total liabilities and stockholders' equity	\$ 31,225	\$ 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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue	\$ 3,909	\$ 5,255	\$ 8,729	\$ 10,144
Cost of revenue	3,054	3,800	6,697	7,404
Gross profit	855	1,455	2,032	2,740
Selling, general and administrative	417	542	1,024	1,028
Operating profit	438	913	1,008	1,712
Interest and financial costs	(26)	(27)	(52)	(53)
Interest income	2	5	7	9
Equity income in unconsolidated affiliates	7	23	16	33
Other income (expense), net	(30)	(21)	(86)	(21)
Income from continuing operations before income taxes	391	893	893	1,680
Provision for income taxes	105	284	294	523
Income from continuing operations	286	609	599	1,157
Income from discontinued operations		11		52
Net income	286	620	599	1,209
Net income (loss) attributable to noncontrolling interests	(3)	1		1
Net income attributable to Company	\$ 289	\$ 619	\$ 599	\$ 1,208
Per share data:				
Basic:				
Income from continuing operations	\$ 0.75	\$ 1.42	\$ 1.51	\$ 2.70
Income from discontinued operations	\$	\$ 0.03	\$	\$ 0.12
Net income attributable to Company	\$ 0.75	\$ 1.45	\$ 1.51	\$ 2.82
Diluted:				
Income from continuing operations	\$ 0.74	\$ 1.42	\$ 1.51	\$ 2.69
Income from discontinued operations	\$	\$ 0.02	\$	\$ 0.12
Net income attributable to Company	\$ 0.74	\$ 1.44	\$ 1.51	\$ 2.81

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Cash dividends per share	\$ 0.46	\$ 0.46	\$ 0.92	\$ 0.72
Weighted average shares outstanding:				
Basic	387	428	397	428
Diluted	388	430	398	430

See notes to unaudited consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$ 286	\$ 620	\$ 599	\$ 1,209
Currency translation adjustments	107	114	(311)	63
Changes in derivative financial instruments, net of tax	92	(25)	26	(11)
Comprehensive income	485	709	314	1,261
Comprehensive income (loss) attributable to noncontrolling interest	(3)	1		1
Comprehensive income attributable to Company	\$ 488	\$ 708	\$ 314	\$ 1,260

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Income from continuing operations	\$ 599	\$ 1,157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	380	381
Deferred income taxes	26	(57)
Equity income in unconsolidated affiliates	(16)	(33)
Dividend from unconsolidated affiliate	34	73
Other, net	162	127
Change in operating assets and liabilities, net of acquisitions:		
Receivables	907	(123)
Inventories	(192)	(516)
Costs in excess of billings	68	(28)
Prepaid and other current assets	41	(48)
Accounts payable	(343)	101
Billings in excess of costs	(507)	405
Income taxes payable	(406)	(295)
Other assets/liabilities, net	(445)	126
Net cash provided by continuing operating activities	308	1,270
Discontinued operations		89
Net cash provided by operating activities	308	1,359
Cash flows from investing activities:		
Purchases of property, plant and equipment	(234)	(300)
Business acquisitions, net of cash acquired	(44)	(102)
Cash distributed in spin-off		(253)
Other	6	13
Net cash used in continuing investing activities	(272)	(642)
Discontinued operations		(12)
Net cash used in investing activities	(272)	(654)
Cash flows from financing activities:		
Borrowings against lines of credit and other debt	4,751	151
Repayments on debt	(3,612)	(151)

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Cash dividends paid	(363)	(309)
Share repurchases	(1,777)	
Proceeds from stock options exercised	5	34
Other	(1)	12
Net cash used in continuing financing activities	(997)	(263)
Discontinued operations		
Net cash used in financing activities	(997)	(263)
Effect of exchange rates on cash	(31)	7
Increase (decrease) in cash and cash equivalents	(992)	449
Cash and cash equivalents, beginning of period	3,536	3,436
Cash and cash equivalents, end of period	\$ 2,544	\$ 3,885
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	\$ 50	\$ 53
Income taxes	\$ 660	\$ 886

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 six months ended June 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):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Revenue from discontinued operations	\$ 624	\$ 1,701

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