

NATIONAL OILWELL VARCO INC
Form 10-Q
July 28, 2017

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, 2017

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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 21, 2017 the registrant had 380,038,518 shares of common stock, par value \$0.01 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, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,530	\$ 1,408
Receivables, net	2,086	2,083
Inventories, net	3,207	3,325
Costs in excess of billings	599	665
Prepaid and other current assets	319	395
Total current assets	7,741	7,876
Property, plant and equipment, net	3,052	3,150
Deferred income taxes	70	86
Goodwill	6,129	6,067
Intangibles, net	3,438	3,530
Investment in unconsolidated affiliates	306	307
Other assets	151	124
Total assets	\$ 20,887	\$ 21,140
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 448	\$ 414
Accrued liabilities	1,489	1,568
Billings in excess of costs	337	440
Current portion of long-term debt and short-term borrowings	506	506
Accrued income taxes	71	119
Total current liabilities	2,851	3,047
Long-term debt	2,708	2,708
Deferred income taxes	999	1,064
Other liabilities	307	318
Total liabilities	6,865	7,137
Commitments and contingencies		
Stockholders equity:		

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Common stock par value \$.01; 1 billion shares authorized; 380,052,282 and 378,637,403 shares issued and outstanding at June 30, 2017 and December 31, 2016	4	4
Additional paid-in capital	8,163	8,103
Accumulated other comprehensive loss	(1,258)	(1,452)
Retained earnings	7,044	7,285
Total Company stockholders equity	13,953	13,940
Noncontrolling interests	69	63
Total stockholders equity	14,022	14,003
Total liabilities and stockholders equity	\$ 20,887	\$ 21,140

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF LOSS (UNAUDITED)

(In millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 1,759	\$ 1,724	\$ 3,500	\$ 3,913
Cost of revenue	1,528	1,689	3,060	3,634
Gross profit	231	35	440	279
Selling, general and administrative	293	305	599	738
Operating loss	(62)	(270)	(159)	(459)
Interest and financial costs	(26)	(30)	(51)	(55)
Interest income	4	3	8	8
Equity loss in unconsolidated affiliates	(2)	(7)	(2)	(13)
Other income (expense), net	(2)	(34)	(13)	(55)
Loss before income taxes	(88)	(338)	(217)	(574)
Provision for income taxes	(14)	(121)	(23)	(239)
Net loss	(74)	(217)	(194)	(335)
Net income attributable to noncontrolling interests	1		3	1
Net loss attributable to Company	\$ (75)	\$ (217)	\$ (197)	\$ (336)
Net loss attributable to Company per share:				
Basic	\$ (0.20)	\$ (0.58)	\$ (0.52)	\$ (0.90)
Diluted	\$ (0.20)	\$ (0.58)	\$ (0.52)	\$ (0.90)
Cash dividends per share	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.51
Weighted average shares outstanding:				
Basic	377	375	377	375
Diluted	377	375	377	375

See notes to unaudited consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net loss	\$ (74)	\$ (217)	\$ (194)	\$ (335)
Currency translation adjustments	76	(46)	166	97
Changes in derivative financial instruments, net of tax	23	29	28	131
Comprehensive income (loss)	25	(234)		(107)
Comprehensive income attributable to noncontrolling interest	1		3	1
Comprehensive income (loss) attributable to Company	\$ 24	\$ (234)	\$ (3)	\$ (108)

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (194)	\$ (335)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	349	353
Deferred income taxes	19	(288)
Equity loss in unconsolidated affiliates	2	13
Other, net	90	201
Change in operating assets and liabilities, net of acquisitions:		
Receivables	(9)	858
Inventories	122	320
Costs in excess of billings	65	460
Prepaid and other current assets	82	70
Accounts payable	37	(190)
Accrued liabilities	(96)	(514)
Billings in excess of costs	(103)	(132)
Income taxes payable	(54)	(190)
Other assets/liabilities, net	(31)	123
Net cash provided by operating activities	279	749
Cash flows from investing activities:		
Purchases of property, plant and equipment	(85)	(161)
Business acquisitions, net of cash acquired	(82)	(36)
Other	19	3
Net cash used in investing activities	(148)	(194)
Cash flows from financing activities:		
Borrowings against lines of credit and other debt		2,963
Payments against lines of credit and other debt	(3)	(3,748)
Cash dividends paid	(38)	(192)
Activity under stock incentive plans	10	1
Other		(14)
Net cash used in financing activities	(31)	(990)
Effect of exchange rates on cash	22	16
Increase (decrease) in cash and cash equivalents	122	(419)

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Cash and cash equivalents, beginning of period	1,408	2,080
Cash and cash equivalents, end of period	\$ 1,530	\$ 1,661
Supplemental disclosures of cash flow information:		
Cash payments (receipts) during the period for:		
Interest	\$ 48	\$ 53
Income taxes	\$ 97	\$ 120

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 2016 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, 2017 are not necessarily indicative of the results to be expected for the full year.

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 7 for the fair value of long-term debt and Note 10 for the fair value of derivative financial instruments.

2. Inventories, net

Inventories consist of (in millions):

	June 30, 2017	December 31, 2016
Raw materials and supplies	\$ 786	\$ 961
Work in process	517	561
Finished goods and purchased products	1,904	1,803
Total	\$ 3,207	\$ 3,325

3. Accrued Liabilities

Accrued liabilities consist of (in millions):

	June 30, 2017	December 31, 2016
Compensation	\$ 237	\$ 181
Customer prepayments and billings	236	222
Vendor costs	221	235
Warranty	161	172
Taxes (non-income)	142	176
Insurance	92	103
Commissions		