

CAMERON INTERNATIONAL CORP

Form 10-Q

November 03, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

R QUARTERLY REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the Quarterly Period Ended September 30, 2010

£ OR
TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission File Number 1-13884
Cameron International Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

76-0451843
(I.R.S. Employer
Identification No.)

1333 West Loop South, Suite 1700, Houston,
Texas
(Address of Principal Executive Offices)

77027
(Zip Code)

713/513-3300
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 R 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

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(§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.

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

Number of shares outstanding of issuer’s common stock as of October 29, 2010 was 242,567,793.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

CAMERON INTERNATIONAL CORPORATION
 CONSOLIDATED CONDENSED RESULTS OF OPERATIONS
 (dollars and shares in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)			
REVENUES	\$1,527.1	\$1,231.8	\$4,326.5	\$3,758.8
COSTS AND EXPENSES				
Cost of sales (exclusive of depreciation and amortization shown separately below)	1,048.7	828.0	2,947.5	2,512.4
Selling and administrative expenses	210.2	169.7	611.9	517.2
Depreciation and amortization	52.7	38.4	153.7	112.3
Interest income	(1.4)	(1.4)	(3.0)	(5.4)
Interest expense	21.4	22.6	59.4	73.8
Other costs (see Note 3)	10.4	5.9	39.1	39.0
Total costs and expenses	1,342.0	1,063.2	3,808.6	3,249.3
Income before income taxes	185.1	168.6	517.9	509.5
Income tax provision	(36.4)	(43.7)	(119.7)	(131.3)
Net income	\$148.7	\$124.9	\$398.2	\$378.2
Earnings per common share:				
Basic	\$0.61	\$0.57	\$1.64	\$1.74
Diluted	\$0.61	\$0.56	\$1.61	\$1.71
Shares used in computing earnings per common share:				
Basic	242.2	219.5	243.2	217.8
Diluted	245.5	221.9	247.0	221.2

The accompanying notes are an integral part of these statements.

CAMERON INTERNATIONAL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(dollars in millions, except shares and per share data)

	September 30, 2010	December 31, 2009
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$1,511.8	\$1,861.0
Receivables, net	1,042.4	959.0
Inventories, net	1,881.3	1,664.2
Other	332.7	230.0
Total current assets	4,768.2	4,714.2
Plant and equipment, net	1,205.9	1,192.4
Goodwill	1,457.8	1,441.6
Other assets	368.3	377.2
TOTAL ASSETS	\$7,800.2	\$7,725.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$514.8	\$22.2
Accounts payable and accrued liabilities	1,933.8	2,208.2
Accrued income taxes	56.6	65.9
Total current liabilities	2,505.2	2,296.3
Long-term debt	773.9	1,232.3
Deferred income taxes	134.7	123.0
Other long-term liabilities	177.3	154.1
Total liabilities	3,591.1	3,805.7
Stockholders' Equity:		
Common stock, par value \$.01 per share, 400,000,000 shares authorized, 263,111,472 shares issued at September 30, 2010 and December 31, 2009	2.6	2.6
Capital in excess of par value	2,250.4	2,244.0
Retained earnings	2,683.6	2,285.4
Accumulated other elements of comprehensive income	1.1	9.5
Less: Treasury stock, 20,710,680 shares at September 30, 2010 (18,453,758 shares at December 31, 2009)	(728.6)	(621.8)
Total stockholders' equity	4,209.1	3,919.7
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$7,800.2	\$7,725.4

The accompanying notes are an integral part of these statements.

CAMERON INTERNATIONAL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)			
Cash flows from operating activities:				
Net income	\$148.7	\$124.9	\$398.2	\$378.2
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Depreciation	36.4	28.3	107.8	82.3
Amortization	16.3	10.1	45.9	30.0
Non-cash stock compensation expense	6.7	6.1	25.2	22.0
Tax benefit of employee stock compensation plan transactions and deferred income taxes	(13.0)	30.3	(5.5)	22.9
Changes in assets and liabilities, net of translation, acquisitions and non-cash items:				
Receivables	(67.0)	28.0	(46.9)	111.0
Inventories	(25.1)	(12.4)	(91.0)	(305.5)
Accounts payable and accrued liabilities	(31.2)	27.3	(398.8)	(40.7)
Other assets and liabilities, net	23.1	(67.8)	(95.6)	(116.1)
Net cash provided by (used for) operating activities	94.9	174.8	(60.7)	184.1
Cash flows from investing activities:				
Capital expenditures, net of proceeds from sale of plant and equipment	(45.6)	(55.2)	(106.1)	(160.2)
Acquisitions, net of cash acquired	-	-	(40.9)	(23.2)
Net cash used for investing activities	(45.6)	(55.2)	(147.0)	(183.4)
Cash flows from financing activities:				
Short-term loan borrowings (repayments), net	12.1	(12.0)	(6.6)	23.0
Redemption of convertible debt securities	-	(131.1)	-	(131.1)
Purchase of treasury stock	-	-	(123.9)	(7.1)
Proceeds from stock option exercises, net of tax payments from stock compensation plan transactions	2.5	1.6	(9.6)	5.1
Excess tax benefits from employee stock compensation plan transactions	0.9	1.2	6.3	3.5
Principal payments on capital leases	(1.6)	(1.6)	(4.9)	(5.2)
Net cash provided by (used for) financing activities	13.9	(141.9)	(138.7)	(111.8)
Effect of translation on cash	20.1	12.1	(2.8)	17.6
Increase (decrease) in cash and cash equivalents	83.3	(10.2)	(349.2)	(93.5)
Cash and cash equivalents, beginning of period	1,428.5	1,537.7	1,861.0	1,621.0
Cash and cash equivalents, end of period	\$1,511.8	\$1,527.5	\$1,511.8	\$1,527.5

The accompanying notes are an integral part of these statements.

CAMERON INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
Unaudited

Note 1: Basis of Presentation

The accompanying Unaudited Consolidated Condensed Financial Statements of Cameron International Corporation (the Company) have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Those adjustments, consisting of normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the financial information for the interim periods, have been made. The results of operations for such interim periods are not necessarily indicative of the results of operations for a full year. The Unaudited Consolidated Condensed Financial Statements should be read in conjunction with the Audited Consolidated Financial Statements and Notes thereto filed by the Company on Form 10-K for the year ended December 31, 2009.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, estimates of total contract profit or loss on certain long-term production contracts, estimated losses on accounts receivable, estimated realizable value on excess and obsolete inventory, contingencies, including tax contingencies, estimated liabilities for litigation exposures and liquidated damages, estimated warranty costs, estimates related to pension accounting, estimates related to the fair value of reporting units for purposes of assessing goodwill for impairment, estimated proceeds from assets held for sale and estimates related to deferred tax assets and liabilities, including valuation allowances on deferred tax assets. Actual results could differ materially from these estimates.

During the third quarter of 2010, the Company restructured its internal business segments, moving its Process Systems division from the Drilling & Production Systems (DPS) segment to a newly formed business segment, Process & Compression Systems (PCS), in order to enhance the Company's processing solutions that are available to customers involved in the exploration, production storage and transmission of crude oil and natural gas. PCS also includes the businesses that were previously part of the Compression Systems segment. All financial data included in this Quarterly Report on Form 10-Q relating to DPS and PCS have been retrospectively revised based on the new segment structure of the Company.

Certain other prior year amounts have also been reclassified to conform to the current year presentation.

Note 2: Acquisitions

During the nine months ended September 30, 2010, the Company acquired the assets or shares in the capital stock of two businesses for a total purchase price of \$40.9 million. These businesses were acquired to enhance the Company's product offerings in the DPS and V&M segments. The two acquisitions were included in the Company's consolidated condensed financial statements for the periods subsequent to the acquisitions. As of September 30, 2010, preliminary goodwill recorded as a result of these acquisitions totaled approximately \$7.7 million. Under the terms of the acquisition recorded in the V&M segment, the Company has the right and obligation under various conditions to purchase the remaining 49% capital stock interest. The Company has reflected a liability in its consolidated balance sheet for the fair value of the remaining 49% interest the Company is required to purchase. The Company is still awaiting significant information relating to the fair value of the assets and liabilities of both acquisitions in order to finalize its purchase price allocations.

As discussed in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the Company acquired 100% of the outstanding stock of NATCO Group Inc. (NATCO) on November 18, 2009. The Company made a preliminary allocation of the purchase price at the time of acquisition based on preliminary valuations of the assets and liabilities acquired. The Company has updated its preliminary estimates and assumptions related to the fair value of inventory, property, plant and equipment, identifiable intangible assets, goodwill, certain pre-acquisition contingencies and related adjustments to deferred taxes as of September 30, 2010. The Company is still assessing the fair value of certain current asset accounts and expects to finalize its purchase price allocation during the fourth quarter of 2010.

The following table displays the adjusted preliminary purchase price allocated to NATCO's net tangible and identifiable intangible assets based on their estimated fair values as of the acquisition date as of September 30, 2010 in comparison to the preliminary purchase price allocation as of December 31, 2009 (in millions):

	Adjusted Allocation as of September 30, 2010	Preliminary Allocation as of December 31, 2009
Cash	\$34.4	\$34.4
Accounts receivable	150.0	157.0
Inventory	133.7	57.9
Other current assets	20.3	13.1
Property, plant and equipment	105.4	103.7
Goodwill	738.0	731.4
Intangibles	153.1	147.9
Other non-current assets	2.2	25.7
Accounts payable and accrued liabilities	(286.2)	(203.0)
Deferred taxes	(55.0)	(56.2)
Other non-current liabilities	(24.3)	(23.4)
Total estimated purchase price	\$971.6	\$988.5

Note 3: Other Costs

Other costs for the three and nine months ended September 30, 2010 and 2009 consisted of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Employee severance	\$-	\$2.9	\$9.5	\$35.1
NATCO acquisition integration costs	5.7	-	18.5	-
Deepwater Horizon legal costs	4.1	-	6.8	-
Other acquisition and restructuring costs	0.6	3.0	4.3	3.9
	\$10.4	\$5.9	\$39.1	\$39.0

NATCO acquisition integration costs consist of costs incurred for the integration of NATCO's operations with the existing operations of the Company, primarily reflecting the costs associated with converting NATCO's legacy operations to the Company's SAP information systems. Other acquisition and restructuring costs consist primarily of costs related to the various acquisitions and other facility-related costs associated with restructuring of the Company's operations in response to changes in market conditions.

Note 4: Receivables

Receivables consisted of the following (in millions):

	September 30, 2010	December 31, 2009
Trade receivables	\$969.2	\$907.1
Other receivables	82.0	67.7
Allowance for doubtful accounts	(8.8)	(15.8)
Total receivables	\$1,042.4	\$959.0

Note 5: Inventories

Inventories consisted of the following (in millions):

	September 30, 2010	December 31, 2009
Raw materials	\$ 176.4	\$ 168.6
Work-in-process	617.9	484.0
Finished goods, including parts and subassemblies	1,239.6	1,167.8
Other	12.0	11.5
	2,045.9	1,831.9
Excess of current standard costs over LIFO costs	(93.9)	(108.8)
Allowances	(70.7)	(58.9)
Total inventories	\$ 1,881.3	\$ 1,664.2

Note 6: Plant and Equipment and Goodwill

Plant and equipment consisted of the following (in millions):

	September 30, 2010	December 31, 2009
Plant and equipment, at cost	\$2,218.1	\$2,107.4
Accumulated depreciation	(1,012.2)	(915.0)
Total plant and equipment	\$1,205.9	\$1,192.4

Changes in goodwill during the nine months ended September 30, 2010 were as follows (in millions):

Balance at December 31, 2009	\$1,441.6
Current year acquisitions	7.7
Adjustments to the purchase price allocation for prior year acquisitions	8.6
Translation and other	(0.1)
Balance at September 30, 2010	\$1,457.8

Note 7: Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following (in millions):

	September 30, 2010	December 31, 2009
Trade accounts payable and accruals	\$466.0	\$549.7
Salaries, wages and related fringe benefits	184.4	228.3
Advances from customers	856.4	1,052.0
Deferred revenue	52.9	48.5
Sales-related costs and provisions	87.7	70.5
Payroll and other taxes	62.8	58.5
Product warranty	43.8	45.6
Fair market value of derivatives	5.1	6.1
Other	174.7	149.0
Total accounts payable and accrued liabilities	\$1,933.8	\$2,208.2

Activity during the nine months ended September 30, 2010 associated with the Company's product warranty accruals was as follows (in millions):

Balance December 31, 2009	Net warranty provisions	Charges against accrual	Translation and other	Balance September 30, 2010
\$45.6	\$26.2	\$(28.6) \$0.6	\$43.8

Note 8: Debt

The Company's debt obligations were as follows (in millions):

	September 30, 2010	December 31, 2009
Senior notes, net of \$1.8 of unamortized original issue discount at September 30, 2010 (\$1.9 at December 31, 2009)	\$748.2	\$748.1
Convertible debentures, net of discount of \$10.9 at September 30, 2010 and \$22.8 at December 31, 2009	489.1	477.2
Other debt	39.2	16.8
Obligations under capital leases	12.2	12.4
	1,288.7	1,254.5
Current maturities	(514.8) (22.2
Long-term portion	\$773.9	\$1,232.3

As described more fully in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the Company's 2.5% Convertible Debentures are accounted for under accounting rules for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). The Company had outstanding in certain prior periods 1.5% Convertible Debentures, which were also subject to these accounting rules. Under the accounting rules, the bifurcation of the debt and equity components of the Convertible Debentures resulted in approximately \$65.8 million being included in capital in excess of par value on the Company's Consolidated Balance Sheets at September 30, 2010 and December 31, 2009, related to the initial conversion value of the Company's 2.5% and 1.5% Convertible Debentures. The discount on the 2.5% Convertible Debentures remaining at September 30, 2010 from the initial bifurcation of the conversion value was \$10.9 million, which will be fully amortized to interest expense by June 15, 2011. The \$489.1 million net carrying value of the 2.5% Convertible Debentures has been classified in the current portion of long-term debt in the Consolidated Condensed Balance Sheet as of September 30, 2010, as these debentures contain provisions that allow the holders to require the Company to redeem them on June 15, 2011. The accounting rules for convertible debt instruments result in an additional amount of expense being recognized in excess of the stated interest rate as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Interest expense associated with amortization of discount on Convertible Debentures	\$4.0	\$3.8	\$11.9	\$12.0

Had the 2.5% Convertible Debentures been convertible at September 30, 2010 (which they were not under the terms of the debenture agreement), the Company could have been required to issue approximately 2,494,066 shares of its common stock in satisfaction of the conversion value of the debentures in excess of their principal amount, based on the closing price of the Company's common stock of \$42.96.

At September 30, 2010, the Company had issued letters of credit totaling \$171.4 million under its Revolving Credit Facility with the remaining amount of \$413.6 million available for use. Other debt, totaling \$39.2 million at September 30, 2010, consisted primarily of the debt of Newmans and short-term borrowings at certain other international locations.

At September 30, 2010, the fair value of the Company's fixed-rate debt (based on level 1 quoted market rates) was approximately \$1.5 billion as compared to the nearly \$1.25 billion principal amount of the debt.

On October 15, 2010, the Company entered into a three-year \$250.0 million committed multi-currency revolving letter of credit facility with a third party bank. Under this facility, standby letters of credit, generally with terms of up to two years, may be issued by the bank in U.S. dollars, euros, Sterling or other mutually agreed-upon currencies. The facility provides for payment by the Company of issuance fees on the outstanding aggregate exposure from each letter of credit and payment of a commitment fee based on the unused portion of the facility based on rates set in the facility agreement. The fees are variable depending upon the current Moody's or S&P ratings of the Company's senior unsecured debt obligations. The facility is governed by the same financial covenants as the Revolving Credit Facility entered into in April 2008. The Company has the right at any time to terminate the facility.

Note 9: Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2010 and 2009, was 23.1% and 25.8%, respectively. The reduction in the annual effective rate was due mainly to the impact of changes in the Company's international structure, which the Company began implementing in 2009.

Note 10: Business Segments

The Company's operations are organized into three separate business segments – DPS, V&M and PCS. Revised summary financial data based on the segment changes described in Note 1 were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
DPS	\$944.0	\$723.6	\$2,600.1	\$2,257.9
V&M	312.7	294.7	937.0	882.6
PCS	270.4	213.5	789.4	618.3
	\$1,527.1	\$1,231.8	\$4,326.5	\$3,758.8
Income (loss) before income taxes:				
DPS	\$161.8	\$131.7	\$463.8	\$441.0
V&M	43.0	56.5	137.3	160.1
PCS	41.4	38.5	96.4	104.4
Corporate & other	(61.1)	(58.1)	(179.6)	(196.0)
	\$185.1	\$168.6	\$517.9	\$509.5

Corporate & other includes expenses associated with the Company's Corporate office, all of the Company's interest income and interest expense, certain litigation expense managed by the Company's General Counsel, foreign currency gains and losses from certain intercompany lending activities managed by the Company's centralized Treasury function, all of the Company's restructuring expense and acquisition-related costs and all stock compensation expense.

At March 31, 2010 and June 30, 2010, revised summary financial data based on the segment changes described in Note 1 related to the DPS and PCS business segments were as follows (in millions):

	Three Months Ended June 30,		Three Months Ended March 31,	
	2010	2009	2010	2009
Revenues:				
DPS	\$836.4	\$793.9	\$819.8	\$740.5
PCS	291.0	204.4	227.9	200.4
Depreciation and amortization:				
DPS	\$22.7	\$19.5	\$22.4	\$19.3
PCS	16.6	5.1	12.8	5.0
Income (loss) before income taxes:				
DPS	\$145.4	\$155.9	\$156.6	\$153.4
PCS	39.5	38.7	15.5	27.2

At September 30, 2010, total segment assets for DPS, V&M, PCS and Corporate and other were \$3,627.3 million, \$1,251.1 million, \$1,838.1 million, and \$1,083.7 million, respectively.

Note 11: Earnings Per Share

The calculation of basic and diluted earnings per share for each period presented was as follows (dollars and shares in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	\$148.7	\$124.9	\$398.2	\$378.2
Average shares outstanding (basic)	242.2	219.5	243.2	217.8
Common stock equivalents	2.3	2.4	2.4	1.9
Incremental shares from assumed conversion of convertible debentures	1.0	–	1.4	1.5
Diluted shares	245.5	221.9	247.0	221.2
Basic earnings per share	\$0.61	\$0.57	\$1.64	\$1.74
Diluted earnings per share	\$0.61	\$0.56	\$1.61	\$1.71

The Company's 1.5% Convertible Debentures were included in the calculation of diluted earnings per share for the nine months ended September 30, 2009 since the average market price of the Company's common stock exceeded the conversion value of the debentures during that period. The Company's 2.5% Convertible Debentures have been included in the calculation of diluted earnings per share for the three- and nine-month periods ended September 30, 2010 for the same reason.

During the nine months ended September 30, 2010, the Company acquired 3,176,705 treasury shares at an average cost of \$39.05. No treasury shares were acquired during the three months ended September 30, 2010. A total of 218,667 and 919,783 treasury shares were issued during the three- and nine-month periods ended September 30, 2010, respectively, in satisfaction of stock option exercises and vesting of restricted stock units.

Note 12: Comprehensive Income

The amounts of comprehensive income for the three and nine months ended September 30, 2010 and 2009 were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Net income per Consolidated Condensed Results of Operations	\$148.7	\$124.9	\$398.2	\$378.2
Foreign currency translation gain (loss)	133.2	46.5	(15.2)	103.6
Amortization of net prior service credits related to the Company's pension and postretirement benefit plans, net of tax	(0.1)	(0.1)	(0.4)	(0.4)
Amortization of net actuarial losses related to the Company's pension and postretirement benefit plans, net of tax	1.0	0.6	2.7	1.6
Change in fair value of derivatives accounted for as cash flow hedges, net of tax	7.9	3.9	4.5	23.4
Comprehensive income	\$290.7	\$175.8	\$389.8	\$506.4

The components of accumulated other elements of comprehensive income (loss) at September 30, 2010 and December 31, 2009 were as follows (in millions):

	September 30, 2010	December 31, 2009
Accumulated foreign currency translation gain	\$66.4	\$81.6
Prior service credits, net, related to the Company's pension and postretirement benefit plans, net of tax	2.7	3.1
Actuarial losses, net, related to the Company's pension and postretirement benefit plans, net of tax	(59.9)	(62.6)
Change in fair value of derivatives accounted for as cash flow hedges, net of tax(1)	(8.1)	(12.6)
Accumulated other elements of comprehensive income	\$1.1	\$9.5

(1) Approximately \$6.4 million (after tax) of accumulated other elements of comprehensive loss is expected to be recognized as a reduction in earnings during the twelve-month period ending September 30, 2011.

Note 13: Contingencies

The Company is subject to a number of contingencies, including litigation, tax contingencies and environmental matters.

Deepwater Horizon Matter

A blowout preventer (“BOP”) originally manufactured by the Company and delivered in 2001, and for which the Company was one of the suppliers of spare parts and repair services, was deployed by the drilling rig Deepwater Horizon when it experienced a tragic explosion and fire on April 20, 2010, resulting in bodily injuries and loss of life, loss of the rig, and an unprecedented discharge of hydrocarbons into the Gulf of Mexico.

While the Company did not operate the BOP, nor did it have anyone on the rig at the time of the incident, claims for personal injury, wrongful death and property damage arising from the Deepwater Horizon incident have been and will continue to be asserted against the Company and others. Additionally, claims for pollution and other economic damages, including business interruption and loss of revenue, have been, and we anticipate will continue to be, asserted against all parties allegedly associated with this incident, including the Company, BP plc and certain of its subsidiaries, the operator of Mississippi Canyon Block 252 upon which the Macondo well was being drilled, Transocean Ltd. and certain of its affiliates, the rig owner and operator, as well as other equipment and service companies including Halliburton. The Company has been named as one of multiple defendants in over 330 suits filed and presently pending in a variety of Federal and State courts, a number of which have been filed as class actions or multi-plaintiff actions. Most of the suits pending in Federal courts have been consolidated into a single proceeding before a single Federal judge under the Federal rules governing multi-district litigation. The consolidated case is styled *In Re: Oil Spill by the Oil Rig "Deepwater Horizon" in the Gulf of Mexico on April 20, 2010*, MDL Docket No. 2179. There are also a small number of cases pending in state courts. The State of Alabama has brought a claim for destruction of and/or harm to natural resources against those associated with this incident, including Cameron, in *State of Alabama, ex. rel. Troy King, Attorney General vs. Transocean Ltd., et. al.*, Cause No. 2:10cv00691, U.S. Dist. Ct., M.D. Ala., as have 5 other governmental entities, 2 municipalities and 3 Mexican states. It is possible other such claims may be asserted by the United States Government and by the Gulf and/or East Coast States, whose Attorneys General have notified the Company to preserve documents in the event of a claim, and possibly by other parties. A shareholder derivative suit has been filed against the Company's directors in connection with this incident and its aftermath alleging the Company's directors failed to exercise their fiduciary duties regarding the safety and efficacy of its products. *Paris vs. Erikson, et al.*, Cause No. 2010-71817 in the 190th District Court of Harris County, Texas. This incident and its causes are also being investigated by a joint investigation team of the U.S. Coast Guard and the Bureau of Ocean Energy Management (the "JIT"), which has named Cameron as a party-in-interest, the Departments of Interior and Justice, the U.S. Chemical Safety and Hazard Investigation Board, the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, and by numerous other governmental entities, including Congressional Committees.

Based on the facts known to date, the Company is of the opinion that there was no defect in or failure of the BOP that caused or contributed to the explosion. The reasons as to why the efforts to shut-in the well after the explosion were unsuccessful are not yet known and are the subject of multiple investigations. The results of a forensic examination of the BOP commissioned by the JIT as part of its investigation are expected to be made known in early 2011. Additionally, the extent of the environmental impact, and the ultimate costs and damages that will ultimately be determined attributable to this incident and its aftermath are not yet known and therefore cannot be reasonably estimated. As a result, we are unable to make any reasonable determination of what liability, if any, the Company could be found to have with respect to any of these claims or whether the Company will be found to have any liability, directly or by way of contribution, under any environmental laws or regulations or otherwise. BP has been designated as the Responsible Party for the pollution emanating from the Macondo well under the Oil Pollution Act of 1990 (OPA), and has accepted such designation. Cameron has not been named a Responsible Party.

The applicable contracts between Cameron and Transocean entities provide for customary industry "knock-for-knock" indemnification by which each party agreed to bear the risk of, and hold the other harmless with respect to, all claims for personal injury, to include wrongful death, and property loss or damage of its own, its employees and those of its contractors. In addition, the contracts provide that in the event Transocean is entitled to indemnity under any contract with its customers or suppliers for pollution or other damages associated with blowout or loss of well control, Transocean will provide Cameron with the benefit of such indemnity to the fullest extent possible. Transocean has publicly stated that it has a full pollution indemnity from BP, although BP has so far declined to acknowledge any

obligation under the indemnity.

The Company has commercial general liability insurance, including completed products and sudden and accidental pollution coverage, with limits of \$500 million and a self retention of \$3 million. Defense costs are not covered by the policy. The Company has notified its insurers of the claims being asserted against it. Coverage includes claims for personal injury and wrongful death, as well as liability for pollution and loss of revenue/business interruption.

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While the Company's BOPs have a history of reliable performance when properly maintained and operated in accordance with product specifications, until the litigation referred to above progresses and until the investigations referred to above are completed, we are unable to determine the extent of the Company's future involvement in the litigation and any liability resulting from this incident. If it is ultimately determined that the Company bears some responsibility, and therefore liability, for the costs and damages caused by this event, we will rely on our contractual indemnity rights and then, if and to the extent necessary and available, on our insurance coverage. We have received a "reservation of rights" letter from our insurers. If our contractual indemnities are determined to be inapplicable, or the indemnitors fail or are unable to fulfill their contractual indemnity obligations, and if the damages and costs ultimately determined to be the Company's responsibility exceed our available insurance coverage, we could be liable for amounts which could have a material adverse impact on our financial condition, results of operations and cash flows.

Through September 30, 2010, the Company incurred and expensed legal fees of \$6.8 million. The Company has not accrued any amounts relating to this matter because we do not believe at the present time a loss is probable.

Other Litigation

In 2001, the Company discovered that contaminated underground water from a former manufacturing site in Houston (see discussion below under Environmental Matters) had migrated under an adjacent residential area. Pursuant to applicable state regulations, the Company notified the affected homeowners. Concerns over the impact on property values of the underground water contamination and its public disclosure led to a number of claims by homeowners. The Company has settled these claims, primarily as a result of the settlement of a class action lawsuit, and is obligated to reimburse 197 homeowners for any diminution in value of their property due to contamination concerns at the time of any sale.

Based upon 2009 testing results of monitoring wells on the southeastern border of the plume, the Company notified at that time 33 homeowners whose property is adjacent to the class area that their property may be affected. The Company is taking remedial measures to prevent these properties from being affected.

The Company believes, based on its review of the facts and law, that any potential exposure from existing agreements as well as any possible new claims that may be filed with respect to this underground water contamination will not have a material adverse effect on its financial position or results of operations. The Company's consolidated balance sheet included a liability of approximately \$11.9 million for these matters as of September 30, 2010.

The Company has been named as a defendant in a number of multi-defendant, multi-plaintiff tort lawsuits since 1995. At September 30, 2010, the Company's consolidated balance sheet included a liability of approximately \$4.2 million for such cases. The Company believes, based on its review of the facts and law, that the potential exposure from these suits will not have a material adverse effect on its consolidated results of operations, financial condition or liquidity.

Regulatory Contingencies

In January 2007, the Company underwent a Pre-Assessment Survey as part of a Focused Assessment Audit initiated by the Regulatory Audit Division of the U.S. Customs and Border Protection, Department of Homeland Security. The Pre-Assessment Survey of the period September 2001 through September 2007 resulted in a finding that the Company had deficiencies in its U.S. customs compliance process and had underpaid customs duties. The Company has since paid these duties and has taken corrective action with respect to these deficiencies. The sufficiency of these corrective actions is currently undergoing a Follow-Up Compliance Improvement Plan Review and Customs has found such corrective actions to be generally adequate in a number of areas; however, the audit has not yet been completed in the

areas of classification and valuation as applied to imported goods. Audit conclusion and issuance of an audit report by Customs is anticipated by December 31, 2010.

In July 2007, the Company was one of a number of companies to receive a letter from the Criminal Division of the U.S. Department of Justice (DOJ) requesting information on activities undertaken on their behalf by a customs clearance broker. The DOJ is inquiring into whether certain of the services provided to the Company by the customs clearance broker may have involved violations of the U.S. Foreign Corrupt Practices Act (FCPA). In response, the Company engaged special counsel reporting to the Audit Committee of the Board of Directors to conduct an investigation into its dealings with the customs clearance broker in Nigeria to determine if any payment made by the customs clearance broker in connection with the importation of Company property constituted a violation of the FCPA. Special counsel also reviewed the extent, if any, of the Company's knowledge and involvement in the performance of these services and activities and whether the Company fulfilled its obligations under the FCPA. The U.S. Securities and Exchange Commission (SEC) is also conducting an informal inquiry into the same matters. The investigation by special counsel has been completed and the Company is waiting for the agencies to commence discussions regarding the ultimate disposition of this matter. At this stage, the Company cannot predict what the disposition of this matter will entail.

Tax Contingencies

The Company has legal entities in over 35 countries. As a result, the Company is subject to various tax filing requirements in these countries. The Company prepares its tax filings in a manner which it believes is consistent with such filing requirements. However, some of the tax laws and regulations which the Company is subject to are subject to interpretation and/or judgment. Although the Company believes that the tax liabilities for periods ending on or before the balance sheet date have been adequately provided for in the financial statements, to the extent that a taxing authority believes that the Company has not prepared its tax filings in accordance with the authority's interpretation of the tax laws and regulations, the Company could be exposed to additional taxes.

Environmental Matters

The Company is currently identified as a potentially responsible party (PRP) with respect to two sites designated for cleanup under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) or similar state laws. One of these sites is Osborne, Pennsylvania (a landfill into which a predecessor of the PCS operation in Grove City, Pennsylvania deposited waste), where remediation is complete and remaining costs relate to ongoing ground water treatment and monitoring. The other is believed to be a de minimis exposure. The Company is also engaged in site cleanup under the Voluntary Cleanup Plan of the Texas Commission on Environmental Quality at former manufacturing locations in Houston and Missouri City, Texas. Additionally, the Company has discontinued operations at a number of other sites which had been active for many years. The Company does not believe, based upon information currently available, that there are any material environmental liabilities existing at these locations. At September 30, 2010, the Company's consolidated balance sheet included a noncurrent liability of approximately \$7.4 million for environmental matters.

Note 14: Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables, derivative instruments and debt instruments. The book values of cash and cash equivalents, trade receivables, trade payables, derivative instruments and floating-rate debt instruments are considered to be representative of their respective fair values.

Cash and cash equivalents include highly liquid investments with a maturity of ninety days or less at the time of purchase. Cash equivalents consist primarily of money market securities, U.S. treasury bills, other U.S. agency notes, short-term commercial paper and corporate debt securities, all of which are considered Level 1 under the ASC's fair value hierarchy. Total cash equivalents were approximately \$1.1 billion and \$1.4 billion at September 30, 2010 and December 31, 2009, respectively.

In order to mitigate the effect of exchange rate changes, the Company will often attempt to structure sales contracts to provide for collections from customers in the currency in which the Company incurs its manufacturing costs. In certain instances, the Company will enter into forward foreign currency exchange contracts to hedge specific large anticipated receipts or disbursements in currencies for which the Company does not traditionally have fully offsetting local currency expenditures or receipts. The Company was party to a number of long-term foreign currency forward contracts at September 30, 2010, some of which extend through 2011. The purpose of the majority of these contracts was to hedge large anticipated non-functional currency cash flows on major subsea, drilling, valve or other equipment contracts involving the Company's United States operations and its wholly-owned subsidiaries in Brazil, Italy, Romania, Singapore and the United Kingdom. The Company determines the fair value of its outstanding foreign currency forward contracts based on quoted exchange rates for the respective currencies applicable to similar instruments. These quoted exchange rates are considered to be Level 2 observable market inputs. Information

relating to the contracts, most of which have been accounted for as cash flow hedges as of September 30, 2010, follows:

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Total gross volume bought (sold) by notional currency on open derivative contracts at September 30, 2010 was as follows (in millions):

	Notional Amount	
	Buy	Sell
FX Forward Contracts:		
EUR	7.9	28.3
GBP	2.0	7.0
MYR	35.5	–
NOK	23.3	–
SGD	6.0	–
USD	13.7	51.8
FX Options:		
USD	–	2.5

In October 2009, the Company entered into two interest rate swaps which effectively converted \$400 million of 6.375% fixed rate borrowings into variable rate debt based on a spread of approximately 4.79% over the current 3-month London Interbank Offered Rate (LIBOR). On July 23, 2010, the Company entered into a third interest rate swap which effectively locked in a significant portion of the gain from those earlier swaps to reduce the Company's rate on \$400 million of its 6.375% fixed rate borrowings to an effective fixed interest rate of approximately 5.49% through January 15, 2012, the maturity date of all three swaps. Each of the swaps provide for semiannual interest payments and receipts each January 15 and July 15 and provide for resets of the 3-month LIBOR rate to the then existing rate each January 15, April 15, July 15 and October 15. The fair value of the interest rate swaps is affected by changes in quoted three-month LIBOR rates, which is considered to be a Level 2 observable market input. At September 30, 2010, these three swaps had a fair value of approximately \$4.8 million to the benefit of the Company.

The fair values of derivative financial instruments recorded in the Company's Consolidated Condensed Balance Sheets at September 30, 2010 and December 31, 2009 were as follows (in millions):

	Asset Derivatives			Liability Derivatives		
	Fair Market Value			Fair Market Value		
	Balance sheet location	September 30, 2010	December 31, 2009	Balance sheet location	September 30, 2010	December 31, 2009
Derivatives designated as hedging instruments						
Foreign Exchange Contracts						
	Current assets	\$1.1	\$1.2	Current liabilities	\$(3.2)	\$(6.0)
	Non-current assets	–	–	Non-current liabilities	–	(0.4)
		1.1	1.2		(3.2)	(6.4)
Derivatives not designated as hedging instruments						
Foreign Exchange Contracts						
	Current assets	0.1	1.7	Current liabilities	(1.9)	(0.1)
	Non-current assets	–	–	Non-current liabilities	–	–
		0.1	1.7		(1.9)	(0.1)
Interest Rate Swaps						
	Current assets	–	–	Current liabilities	–	–
	Non-current assets	4.8	1.3	Non-current liabilities	–	–
		4.8	1.3		–	–
TOTAL DERIVATIVES						
		\$ 6.0	\$4.2		\$ (5.1)	\$ (6.5)

The effects of derivative financial instruments on the Company's consolidated condensed financial statements for the three months ended September 30, 2010 and September 30, 2009 were as follows (in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Pre-Tax Gain (Loss) Recognized in OCI	Effective Portion		Ineffective Portion and Other	
		Location of Gain (Loss) Reclassified from	Amount of Gain (Loss) Reclassified from Accumulated OCI into	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income on

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	on Derivatives at September 30, 2010	2009	Accumulated OCI into Income	Income at September 30, 2010	2009	on Derivatives	Derivatives at September 30, 2010	2009
Foreign Exchange Contracts								
	\$ 4.4	\$ 2.5	Revenues	\$ (2.4)	\$ (0.7)	Cost of goods sold- ineffective portion	\$ 0.5	\$ 0.5
			Cost of goods sold	(3.6)	(2.9)			
			Depreciation expense	–	–			
Total	\$ 4.4	\$ 2.5		\$ (6.0)	\$ (3.6)		\$ 0.5	\$ 0.5

During the three-month period ended September 30, 2010, approximately \$2.3 million and \$1.1 million was recognized as an addition to cost of goods sold and a reduction in interest expense, respectively, relating to foreign currency forward contracts and interest rate swap agreements that were not designated as hedging instruments.

The effects of derivative financial instruments on the Company's consolidated condensed financial statements for the nine months ended September 30, 2010 and September 30, 2009 were as follows (in millions):

	Effective Portion			Ineffective Portion and Other				
	Amount of Pre-Tax Gain (Loss) Recognized in OCI on Derivatives at September 30,		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income at September 30,		Amount of Gain (Loss) Recognized in Income on Derivatives at September 30,		
Derivatives in Cash Flow Hedging Relationships	2010	2009	Revenues	2010	2009	Location of Gain (Loss) Recognized in Income on Derivatives	2010	2009
Foreign Exchange contracts	\$ (8.5)	\$ 17.0	Revenues	\$ (5.0)	\$ (15.7)	Cost of goods sold-ineffective portion	\$ (1.5)	\$ 2.2
			Cost of goods sold	(9.7)	(5.6)			
			Depreciation expense	(0.1)	(0.1)			
Total	\$ (8.5)	\$ 17.0		\$ (14.8)	\$ (21.4)		\$ (1.5)	\$ 2.2

During the nine-month period ended September 30, 2010, approximately \$0.5 million and \$7.2 million was recognized as a reduction in cost of goods sold and a reduction in interest expense, respectively, relating to foreign currency forward contracts and interest rate swap agreements that were not designated as hedging instruments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to the historical data contained herein, this document includes "forward-looking statements" regarding future market strength, order levels, revenues and earnings of the Company, as well as expectations regarding cash flows, legal fees and costs associated with a number of lawsuits filed against the Company in connection with the Deepwater Horizon matter, and future capital spending made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results may differ materially from those described in forward-looking statements. These statements are based on current expectations of the Company's performance and are subject to a variety of factors, some of which are not under the control of the Company, which can affect the Company's results of operations, liquidity or financial condition. Such factors may include overall demand for, and pricing of, the Company's products; the size and timing of orders; the Company's ability to successfully execute large subsea and drilling systems projects it has been awarded; the possibility of cancellations of orders in backlog; the Company's ability to convert backlog into revenues on a timely and profitable basis; the impact of acquisitions the Company has made or may make; changes in the price of (and demand for) oil and gas in both domestic and

international markets; raw material costs and availability; political and social issues affecting the countries in which the Company does business, including the ongoing effects of a temporary moratorium imposed by the United States government on drilling activities in deepwater areas of the Gulf of Mexico which has recently been lifted; fluctuations in currency markets worldwide; and variations in global economic activity. In particular, current and projected oil and gas prices historically have generally directly affected customers' spending levels and their related purchases of the Company's products and services. As a result, changes in oil and gas price expectations may impact the demand for the Company's products and services and the Company's financial results due to changes in cost structure, staffing and spending levels the Company makes in response thereto. See additional factors discussed in "Factors That May Affect Financial Condition and Future Results" contained herein.

Because the information herein is based solely on data currently available, it is subject to change as a result of changes in conditions over which the Company has no control or influence, and should not therefore be viewed as assurance regarding the Company's future performance. Additionally, the Company is not obligated to make public indication of such changes unless required under applicable disclosure rules and regulations.

THIRD QUARTER 2010 COMPARED TO THIRD QUARTER 2009

Market Conditions

Information related to a measure of drilling activity and certain commodity spot and futures prices during each quarter and the number of available deepwater floaters at the end of each period follows:

	Quarter Ended		Increase (Decrease)		
	2010	2009	Amount	%	
Drilling activity (average number of working rigs during period)(1):					
United States	1,622	973	649	66.7	%
Canada	361	187	174	93.0	%
Rest of world	1,111	969	142	14.7	%
Global average rig count	3,094	2,129	965	45.3	%
Commodity prices (average of daily U.S. dollar prices per unit during period)(2):					
West Texas Intermediate Cushing, OK crude spot price per barrel in U.S. dollars	\$76.09	\$68.14	\$7.95	11.7	%
Henry Hub natural gas spot price per MMBtu in U.S. dollars	\$4.28	\$3.17	\$1.11	35.0	%
Twelve-month futures strip price (U.S. dollar amount at period end)(2):					
West Texas Intermediate Cushing, OK crude oil contract (per barrel)	\$83.42	\$73.00	\$10.42	14.3	%
Henry Hub Natural Gas contract (per MMBtu)	\$4.29	\$5.93	\$(1.64)	(27.7)	%
Number of deepwater floaters and semis under contract in competitive major markets at period end: (3)					
U.S. Gulf of Mexico	31	33	(2)	(6.1)	%
Northwestern Europe	35	37	(2)	(5.4)	%
West Africa	26	29	(3)	(10.3)	%
Southeast Asia and Australia	26	23	3	13.0	%

(1) Based on average monthly rig count data from Baker Hughes

(2) Source: Bloomberg

(3) Source: ODS – Petrodata Ltd.

The average number of worldwide operating rigs increased during the third quarters of 2010 and 2009 from the average levels during the second quarters of both years due largely to seasonal factors in Canada and increased

activity levels in the United States. The higher North American activity levels were also largely responsible for the 45% increase from the third quarter of 2009. Rig count levels worldwide have generally been on an upward trend since the second quarter of 2009 when levels bottomed out below 2,000 operating rigs following a steep decline that started during the fourth quarter of 2008.

Crude oil prices (West Texas Intermediate, Cushing, OK) were more volatile during the third quarter of 2010 as compared to the third quarter of 2009 and trended downward from an average of \$77.88 per barrel during the second quarter of 2010 to an average of \$76.09 per barrel during the third quarter of 2010. Although prices declined on average during the third quarter of 2010, they were still nearly 12% higher than the same period in 2009.

Natural gas (Henry Hub) prices trended downward during the third quarters of 2010 and 2009 as compared to price levels at the beginning of both periods. The average price per MMBtu in the third quarter of 2010 was \$4.28, a 1% decline from the average price per MMBtu in the second quarter of 2010 of \$4.33 and a 35% increase from the same period in the prior year. The average price of \$3.17 per MMBtu for the third quarter of 2009 declined by nearly 15% compared to the average price of \$3.71 per MMBtu during the second quarter of 2009. Should the 12-month futures strip price for natural gas stay depressed for a longer period of time, the portion of the North American rig count directed to gas drilling could decline, which could impact the Company's order flow.

Historically, the level of capital expenditures by the Company's customers, which impacts demand for much of the Company's products and services, has been affected by the level of drilling, exploration and production activity as well as the price of oil and natural gas. The recent changes in crude oil and natural gas prices and expectations of future prices may affect the future capital spending plans of certain of the Company's customers.

The Company has experienced pricing pressures from its customers in various parts of its business. Despite recent higher activity levels, the impact of orders taken in this environment could negatively impact future margins recognized by the Company.

Consolidated Results

Net income for the third quarter of 2010 totaled \$148.7 million, or \$0.61 per diluted share, compared to net income for the third quarter of 2009 of \$124.9 million, or \$0.56 per diluted share. Total revenues for the Company increased by \$295.3 million, or 24.0%, during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. Nearly 48% of the increase was attributable to the incremental impact of revenues from newly acquired businesses in the past year. Absent the effect of newly acquired businesses, consolidated revenues increased 12.5% as higher sales in all Drilling and Production Systems (DPS) segment product lines more than offset declines in Valves & Measurement (V&M) and Process & Compression Systems (PCS) segment sales.

As a percent of revenues, cost of sales (exclusive of depreciation and amortization) increased from 67.2% during the third quarter of 2009 to 68.7% for the third quarter of 2010. The increase was due largely to (i) an increased mix of lower-margin subsea revenues in the DPS segment in relation to other product lines that carry higher margins, as well as a decline in margins on major subsea projects during the third quarter of 2010 as compared to the third quarter of 2009 and (ii) margin declines in engineered and process valves, which more than offset better margins and volumes in the distributed product line. These increases were partially offset by:

- a gain recognized in the third quarter of 2010 from the sale of aftermarket inventory and certain intangible assets associated with a compressor line that is no longer produced by the PCS segment and for which no new units have been sold since the 1990s (approximately a 0.6 percentage-point decrease),
- reclassification of a provision in the third quarter of 2009 previously recorded in selling and administrative expense to cost of sales which resulted in a 0.4 percentage-point decrease, and

higher inventory write-offs in the third quarter of 2009 in the PCS segment (a 0.3 percentage-point decrease).

Selling and administrative expenses increased \$40.5 million, or 23.8%, during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009, due mainly to (i) approximately \$17.2 million of incremental costs added from newly acquired businesses and (ii) approximately \$23.7 million of higher employee and facility-related costs.

Depreciation and amortization increased \$14.3 million, or 37.4%, during the three months ended September 30, 2010 as compared to the three months ended September 30, 2009. Nearly 88% of the increase was due to the incremental amounts associated with newly acquired businesses.

During the third quarter of 2010, the Company incurred \$10.4 million of costs in connection with:

- the integration of the operations of NATCO, acquired in November 2009, into the operations of the Company, primarily reflecting the costs associated with converting NATCO's legacy operations to the Company's SAP information systems, as well as certain other acquisition and facility-related costs totaling approximately \$6.3 million, and
- \$4.1 million of legal costs incurred during the quarter in connection with the Deepwater Horizon Matter.

Included in operating results for the third quarter of 2009 were employee severance, related benefit and certain other costs totaling \$5.9 million, associated primarily with workforce reductions during this period.

The Company's effective tax rate for the third quarter of 2010 was 19.7% compared to 25.9% during the third quarter of 2009. The tax provision for the third quarter of 2010 is lower than the comparable period in 2009, primarily due to the impact of adjustments during both periods resulting from changes in the Company's international structure, for which the implementation was begun in 2009.

Segment Results

DPS Segment –

(\$ in millions)	Quarter Ended September 30,		Increase (Decrease)		
	2010	2009(1)	\$	%	
Revenues	\$944.0	\$723.6	\$220.4	30.5	%
Income before income taxes	\$161.8	\$131.7	\$30.1	22.9	%
Income before income taxes as a percent of revenues	17.1	% 18.2	N/A	(1.1))%
Orders	\$718.0	\$844.2	\$(126.2)	(14.9))%
Backlog (at period-end)	\$3,401.9	\$3,994.3	\$(592.4)	(14.8))%

(1) Revised based on change in segments described in Note 1 of the Notes to Consolidated Condensed Financial Statements.

Revenues

Approximately 8% of the increase in revenues in the third quarter of 2010 compared to the third quarter of 2009 was due to incremental revenues from newly acquired businesses. Absent the effect of newly acquired businesses, revenues increased 28%. This increase was mainly due to:

- a 47% increase in sales of subsea equipment during the third quarter of 2010 as compared to the third quarter of 2009, primarily related to projects offshore West Africa and Egypt,
- a 10% increase in drilling equipment sales due mainly to higher aftermarket spare parts and repair services, and
- a 16% increase in sales of surface equipment due largely to higher North American activity levels.

Income before income taxes as a percent of revenues

The decrease in the ratio of income before income taxes as a percent of revenues was due primarily to an increase of 3.4 percentage points in the ratio of cost of sales to revenues due mainly to an increased mix of lower-margin subsea revenues in relation to higher margin drilling and surface revenues, as well as lower margins on major subsea projects in the third quarter of 2010 as compared to the third quarter of 2009.

This increase was partially offset by a decrease of 2.0 percentage points in the ratio of selling and administrative expenses to revenues and a decrease of 0.4 percentage points in the ratio of depreciation and amortization to revenues due mainly to the impact on the ratio of revenues which increased at a greater pace than the related costs.

Orders

Excluding the impact of newly acquired businesses, order levels for the segment decreased \$145.1 million, or 17%, in the third quarter of 2010 as compared to the third quarter of 2009. The primary driver for the decrease was a 53% decline in subsea equipment orders mainly related to a new frame agreement for future delivery of subsea trees for projects offshore Brazil valued at \$300 million entered into during the third quarter of 2009 that did not repeat during the third quarter of 2010. This decrease was partially offset by:

- a 67% increase in drilling equipment orders based on improved demand for land and surface blowout preventers, spares and repair services, and
- a 5% increase in surface equipment orders due to increased North American activity levels resulting from higher commodity prices and the impact of new shale gas opportunities.

Backlog (at period-end)

DPS segment backlog declined by 5% from the second quarter of 2010, due primarily to a lower backlog level for subsea products. Backlog at September 30, 2010 was down almost 15% from the comparable level at September 30, 2009, due mainly to declines in backlog levels for subsea and drilling projects as new orders did not keep pace with shipment and project activity levels.

V&M Segment –

(\$ in millions)	Quarter Ended September 30,		Increase (Decrease)		
	2010	2009	\$	%	
Revenues	\$312.7	\$294.7	\$18.0	6.1	%
Income before income taxes	\$43.0	\$56.5	\$(13.5)	(24.0))%
Income before income taxes as a percent of revenues	13.7	% 19.2	% N/A	(5.5))%
Orders	\$396.8	\$253.4	\$143.4	56.6	%
Backlog (at period-end)	\$740.0	\$537.8	\$202.2	37.6	%

Revenues

Newly acquired businesses accounted for approximately \$25.6 million of the increase in revenues in the V&M segment during the third quarter of 2010 as compared to the third quarter of 2009. Absent the effect of these newly acquired businesses, revenues declined nearly 3%, comprised of a 58% increase in distributed valve sales resulting from higher North American order rates and a higher beginning of period backlog level in 2010, which was more than offset by a 29% decrease in sales of engineered valves as international backlog levels at the beginning of the third quarter of 2010 were down from levels at the beginning of the third quarter of 2009.

Income before income taxes as a percent of revenues

The decrease in the ratio of income before income taxes as a percent of revenues was due primarily to:

- a 3.4 percentage-point increase in the ratio of selling and administrative costs to revenues due largely to (i) the higher relationship of costs to revenues of newly acquired businesses (approximately a 0.5 percentage-point increase) and (ii) increases in legacy employee and facility-related costs during the period in relation to a decline in legacy revenues,
- an increase of 1.7 percentage points in the ratio of cost of sales to revenues due mainly to (i) increased costs in relation to revenues of newly acquired businesses (approximately a 0.5 percentage-point increase) and (ii) margin declines in the engineered and process valves product lines, as prices did not fully cover cost increases, which more than offset higher volumes and higher margins on distributed valves.
- a 0.3 percentage-point increase in the ratio of depreciation and amortization to revenues due mainly to the impact of \$1.5 million of incremental depreciation and amortization from newly acquired businesses.

Orders

Newly acquired businesses were a significant driver for the increase of \$143.4 million, or 56%, in the third quarter of 2010 as compared to the third quarter of 2009. The other primary drivers for the increase were:

- a 33% increase in orders for engineered valves, primarily related to a major gas pipeline construction project offshore Western Australia,
- a 96% increase in orders for distributed valves and a 65% increase in measurement equipment orders, due mainly to higher North American activity levels, and
- a 25% increase in process valve orders resulting mainly from higher storage and fuel handling projects planned by North American customers.

Backlog (at period-end)

Backlog levels for the V&M segment were up 17% from June 30, 2010 and nearly 38% from September 30, 2009 due to improved demand in all product lines and the impact of backlog added from newly acquired businesses.

PCS Segment –

(\$ in millions)	Quarter Ended		Increase (Decrease)		
	2010	September 30, 2009(1)	\$	%	
Revenues	\$270.4	\$213.5	\$56.9	26.7	%
Income before income taxes	\$41.4	\$38.5	\$2.9	7.6	%
Income before income taxes as a percent of revenues	15.3	% 18.0	% N/A	(2.7))%

Orders	\$365.0	\$245.4	\$119.6	48.7	%
Backlog (at period-end)	\$793.5	\$585.5	\$208.0	35.5	%

(1) Revised based on change in segments described in Note 1 of the Notes to Consolidated Condensed Financial Statements.

Revenues

Newly acquired businesses were the primary drivers for the increase in revenues during the quarter ended September 30, 2010 as compared to the quarter ended September 30, 2009. Absent the effect of these newly acquired businesses, revenues declined over 21%. This decrease was mostly due to:

- a 31% decrease in shipments of centrifugal compression equipment during the third quarter of 2010 as compared to the third quarter of 2009, mainly as a result of strong shipments of air separation equipment to international customers during the third quarter of 2009 that did not repeat during the third quarter of 2010,
- a 9% decline in the sales value of reciprocating compression equipment, due mainly to a mix shift from higher value packaged Superior Compressors in the third quarter of 2009 to lower value smaller compressor units in the third quarter of 2010, and
- a 4% decline in sales of legacy process applications, due mainly to weaker activity levels

Income before income taxes as a percent of revenues

The decrease in the ratio of income before income taxes as a percent of revenues was due primarily to:

- a 5.8 percentage-point increase in the ratio of selling and administrative costs to revenues, due largely to (i) a \$5.6 million reclassification in the third quarter of 2009 of a previously recorded provision to cost of sales (a 2.6 percentage-point increase) and (ii) the impact of cost increases, primarily employee and facility related, in relation to lower revenues, excluding the effect of newly acquired businesses.
- an increase of 3.2 percentage points in the ratio of depreciation and amortization to revenues, due mainly to the impact of \$10.4 million of incremental depreciation and amortization from newly acquired businesses.

This was partially offset by a decline of 6.4 percentage points in the ratio of cost of sales to revenues during the third quarter of 2010, due mainly to (i) a gain recognized in the third quarter of 2010 from the sale of aftermarket inventory and certain intangible assets associated with a compressor line that is no longer produced by the Company and for which no new units have been sold since the 1990's (approximately a 3.2 percentage-point decrease), (ii) a reclassification of a provision in the third quarter of 2009 previously recorded in selling and administrative expense to cost of sales which resulted in a 2.2 percentage-point decrease and (iii) higher inventory write-offs in the third quarter of 2009 (a 1.5 percentage-point decrease).

Orders

Excluding the impact of newly acquired businesses, order levels for the segment increased nearly 14% in the third quarter of 2010 as compared to the third quarter of 2009. The increase was due mainly to:

- a 30% increase in reciprocating compression equipment orders, mainly attributable to stronger demand for aftermarket parts and services from a customer in South America, and an increase in new unit orders for both Superior Compressors and Ajax units,
- a 10% increase in legacy process systems orders, due largely to higher demand for new oil and gas separation applications, and

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an 8% increase in orders for centrifugal compression equipment, mainly related to increased global demand for Plant Air equipment and for increased aftermarket parts sales, which more than offset a decline in orders for Engineered Air equipment, which was impacted by a large international order in the third quarter of 2009 that did not repeat in the third quarter of 2010.

Backlog (at period-end)

Backlog increased 12% from June 30, 2010, due largely to increased order levels during the third quarter of 2010 in all product lines. Process Systems' backlog at September 30, 2010 as compared to September 30, 2009 was up 123% due to backlog added from newly acquired businesses and higher demand for legacy oil and gas separation applications. Backlog in both the reciprocating and centrifugal compression businesses was down from September 30, 2009, primarily in the Ajax Compressors and Engineered Air equipment product lines.

Corporate Segment –

The \$3.0 million increase in the loss before income taxes of the Corporate segment during the third quarter of 2010 as compared to the third quarter of 2009 (see Note 10 of the Notes to Consolidated Condensed Financial Statements) was due primarily to \$4.5 million of additional costs incurred during the third quarter of 2010 as compared to the same period last year mainly associated with the Deepwater Horizon matter and certain acquisition integration and other restructuring costs, partially offset by a \$1.1 million decline in interest expense recognized in the third quarter of 2010 associated mainly with the Company's interest rate swaps (see Note 14 of the Notes to Consolidated Condensed Financial Statements). Higher selling and administrative costs, mostly employee-related, were more than offset by the removal of \$3.6 million uncertainty associated with an historical acquisition.

NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2009

Market Conditions

Information related to a measure of drilling activity and certain commodity spot and futures prices during each year-to-date period and the number of available deepwater floaters at the end of each period follows:

	Nine Months Ended September 30,		Increase (Decrease)		
	2010	2009	Amount	%	
Drilling activity (average number of working rigs during period)(1):					
United States	1,492	1,079	413	38.3	%
Canada	332	202	130	64.4	%
Rest of world	1,087	992	95	9.6	%
Global average rig count	2,911	2,273	638	28.1	%
Commodity prices (average of daily U.S. dollar prices per unit during period)(2):					
West Texas Intermediate Cushing, OK crude spot price per barrel in U.S. dollars	\$77.58	\$57.21	\$20.37	35.6	%
Henry Hub natural gas spot price per MMBtu in U.S. dollars	\$4.56	\$3.80	\$0.76	20.0	%
Twelve-month futures strip price (U.S. dollar amount at period end)(2):					
West Texas Intermediate Cushing, OK crude oil contract (per barrel)	\$83.42	\$73.00	\$10.42	14.3	%
Henry Hub Natural Gas contract (per MMBtu)	\$4.29	\$5.93	\$(1.64)	(27.7)	%
Number of deepwater floaters and semis under contract in competitive major markets at period end: (3)					
U.S. Gulf of Mexico	31	33	(2)	(6.1)	%
Northwestern Europe	35	37	(2)	(5.4)	%
West Africa	26	29	(3)	(10.3)	%

Southeast Asia and Australia	26	23	3	13.0	%
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- (1) Based on average monthly rig count data from Baker Hughes
- (2) Source: Bloomberg
- (3) Source: ODS-Petrodata Ltd.

The average number of worldwide operating rigs trended upward during the first nine months of 2010 due largely to increased activity levels in the United States, as well as modestly higher levels of activity in all other major regions of the world. During the first nine months of 2009, activity levels trended downward as rig counts were in a steep decline throughout much of the first half of 2009 before beginning a gradual recovery during the third quarter of the year. This resulted in average rig counts being 28% higher during the first nine months of 2010 as compared to the same period in 2009.

Crude oil prices (West Texas Intermediate, Cushing, OK) at the end of September 2010 were down modestly from price levels at the beginning of the year, but were up on average almost 36% for the first nine months of 2010 as compared to the first nine months of 2009. During the first nine months of 2009, crude oil prices increased strongly throughout much of the period from the mid-\$40 range at the beginning of the year to over \$70 per barrel at the end of September 2009, resulting in an average price for the nine-month period of approximately \$57.21 per barrel.

Natural gas (Henry Hub) prices declined during both the first nine months of 2010 and 2009 as compared to price levels at the beginning of each period. However, due to a strong increase in prices during the fourth quarter of 2009, which carried over into the first couple of months of 2010, the actual average price per MMBtu of natural gas for the first nine months of 2010 was 20% higher than the average price per MMBtu during the first nine months of 2009. Should the 12-month futures strip price for natural gas stay depressed for a longer period of time, the portion of the North American rig count directed to gas drilling could decline, which could impact the Company's order flow.

The Company has experienced pricing pressures from its customers in various parts of its business. Despite recent higher activity levels, the impact of orders taken in this environment could negatively impact future margins recognized by the Company.

Consolidated Results

Net income for the nine months ended September 30, 2010 totaled \$398.2 million, or \$1.61 per diluted share, compared to net income for the nine months ended September 30, 2009 of \$378.2 million, or \$1.71 per diluted share. The decline in earnings per share was largely due to the issuance of over 23 million shares of common stock in November 2009 related to the acquisition of NATCO.

Total revenues for the Company increased by \$567.7 million, or 15.1%, during the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. Newly acquired businesses, primarily NATCO, accounted for approximately \$444.6 million of incremental revenues in the first nine months of 2010 as compared to the first nine months of 2009. Absent the effect of newly acquired businesses, consolidated revenues increased 3.3% from the first nine months of 2009 as higher DPS segment revenues more than offset declines in the V&M and PCS segments.

As a percent of revenues, cost of sales (exclusive of depreciation and amortization) increased from 66.8% during the first nine months of 2009 to 68.1% for the first nine months of 2010. The increase was due largely to an increased mix of lower-margin subsea revenues in the DPS segment in relation to other product lines that carry higher margins, as well as a decline in margins on major subsea projects during the first nine months of 2010 as compared to the first nine months of 2009.

Selling and administrative expenses increased \$94.7 million, or 18.3%, during the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, nearly two-thirds of which was due to incremental

costs added from newly acquired businesses. Partially mitigating the increase in expenses in 2010 was (i) a year-over-year reduction in bad debt expense of approximately \$19.2 million associated with charges taken in the DPS and PCS segments in the first nine months of 2009 due to uncertainty regarding collection of certain receivables, a portion of which was reversed in the first nine months of 2010 upon ultimate collection of the amounts due, (ii) a \$7.5 million write-down taken in the first nine months of 2009 related to the Company's interest in its Iranian joint venture and (iii) a \$3.6 million gain in the first nine months of 2010 relating to settlement of an amount that had previously been disputed on an historical acquisition.

Depreciation and amortization increased \$41.4 million, or 36.8%, during the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. Approximately 88% of the increase was due to the incremental amounts associated with newly acquired businesses.

Interest income declined \$2.4 million during the nine-month period ended September 30, 2010 as compared to the same period last year due mainly to lower interest rates earned on the Company's invested cash balances.

Interest expense decreased in the first nine months of 2010 as compared to the first nine months of 2009, due mainly to \$7.2 million of benefit recognized in the first nine months of 2010 associated with the Company's interest rate swaps (see Note 14 of the Notes to Consolidated Condensed Financial Statements), the payoff of the remaining portion of the Company's 1.5% convertible debentures during the third quarter of 2009, which lowered interest expense by \$2.2 million, lower interest related to tax contingencies and lower international borrowings.

During the first nine months of 2010, the Company incurred \$39.1 million of costs in connection with:

- the integration of the operations of NATCO, acquired in November 2009, into the operations of the Company,
- primarily reflecting the costs associated with converting NATCO's legacy operations to the Company's SAP information systems, totaling approximately \$18.5 million,
- employee severance and other acquisition and facility-related activities associated with restructuring of the Company's operations in response to changes in market conditions, totaling approximately \$13.8 million, and
- \$6.8 million of legal costs incurred to date in connection with the Deepwater Horizon matter.

Included in operating results for the first nine months of 2009 were employee severance, related benefit and certain other costs totaling \$39.0 million associated primarily with workforce reductions during the period.

The Company's effective tax rate for the nine months ended September 30, 2010 was 23.1% compared to 25.8% during the nine months ended September 30, 2009. The reduction in the estimated annual effective rate was due mainly to the impact of changes in the Company's international structure which the Company began implementing in 2009.

Segment Results

DPS Segment –

(\$ in millions)	Nine Months Ended September 30,		Increase (Decrease)		
	2010	2009(1)	\$	%	
Revenues	\$2,600.1	\$2,257.9	\$342.2	15.2	%
Income before income taxes	\$463.8	\$441.0	\$22.8	5.2	%
Income before income taxes as a percent of revenues	17.8	% 19.5	% N/A	(1.7))%
Orders	\$2,034.6	\$2,002.4	\$32.2	1.6	%

(1) Revised based on change in segments described in Note 1 of the Notes to Consolidated Condensed Financial Statements.

Revenues

Approximately 17.9% of the increase in revenues in the first nine months of 2010 as compared to the first nine months of 2009 was due to incremental revenues from newly acquired businesses. Absent the effect of newly acquired businesses, the remaining increase was mainly due to a 35% increase in sales of subsea equipment, primarily related to projects offshore West Africa and Egypt.

Income before income taxes as a percent of revenues

The decrease in the ratio of income before income taxes as a percent of revenues was due primarily to an increase of 2.9 percentage points in the ratio of cost of sales to revenues due mainly to an increased mix of lower-margin subsea revenues in relation to higher margin drilling and surface revenues.

This was partially offset by a reduction in the ratio of selling and administrative costs from 11.1% for the first nine months of 2009 to 9.9% for the first nine months of 2010. The decline in the ratio was due mainly to a reduction in

bad debt expense of approximately \$22.2 million, primarily associated with (i) charges in 2009 to increase the reserve for doubtful accounts relating to certain past due receivables, a portion of which was reversed in 2010 upon collection of the receivables, totaling approximately \$14.7 million and (ii) the absence in 2010 of a \$7.5 million write-down taken in the first nine months of 2009 related to the Company's interest in its Iranian joint venture.

Orders

Excluding the impact of newly acquired businesses, order levels for the segment declined less than 1% in the first nine months of 2010 as compared to the first nine months of 2009. The primary driver for the decrease was a 29% decline in subsea equipment orders due mainly to a new frame agreement for future delivery of subsea trees for projects offshore Brazil valued at \$300 million entered into during the first nine months of 2009 that did not repeat during the first nine months of 2010. This decline was almost entirely offset by:

- a 24% increase in drilling orders as improved demand for land and surface blowout preventers, spares and repair services more than offset a decline in major deepwater rig construction project activity, and
- an 18% increase in demand for new surface equipment and aftermarket parts and services, primarily reflecting increased North American activity levels and the impact of new shale gas opportunities.

V&M Segment –

(\$ in millions)	Nine Months Ended September 30,		Increase (Decrease)		
	2010	2009	\$	%	
Revenues	\$937.0	\$882.6	\$54.4	6.2	%
Income before income taxes	\$137.3	\$160.1	\$(22.8)	(14.2)	%
Income before income taxes as a percent of revenues	14.7	% 18.1	% N/A	(3.4)	%
Orders	\$1,137.0	\$680.7	\$456.3	67.0	%

Revenues

Newly acquired businesses added approximately \$87.9 million in incremental revenues to the V&M segment during the first nine months of 2010 as compared to the first nine months of 2009. Absent the effect of these businesses, revenues declined nearly 3.8%. The decrease was primarily due to:

- a 16% decrease in sales of engineered valves and an 11% decrease in sales of process valves, due to lower backlog levels at the beginning of 2010 as compared to the beginning of 2009. These declines were partially offset by:
 - a 30% increase in sales of distributed valves as a result of higher bookings in the first nine months of 2010 as
- North American distributors restocked their inventory levels during the period.

Income before income taxes as a percent of revenues

The decrease in the ratio of income before income taxes as a percent of revenues was due primarily to:

- a 3.1 percentage-point increase in the ratio of selling and administrative costs to revenues as a result of increased costs, 56% of which was due to the incremental effect of newly acquired businesses, with the remainder largely attributable to higher employee-related expenses, and
- a 0.4 percentage-point increase in the ratio of depreciation and amortization to revenues mainly as a result of increased costs, nearly 80% of which was due to newly acquired businesses.

Orders

Excluding the impact of newly acquired businesses, order levels for the segment increased over 53% in the first nine months of 2010 as compared to the first nine months of 2009. The primary drivers for the increase were:

- a 106% increase in orders for distributed valves, due mainly to inventory restocking by North American distributors and increased activity in shale gas regions,
- a 56% increase in orders for engineered valves, related primarily to higher pipeline construction project awards in the Asia Pacific and Middle East regions, as well as improving market fundamentals in the United States,
- a 36% increase in orders for process valves as a result of increased construction activity for projects located primarily in China, Africa, Australia and the United States, and
- a 27% increase in orders for measurement equipment as a result of improving market fundamentals in North America and increased demand for equipment used in nuclear applications.

PCS Segment –

(\$ in millions)	Nine Months Ended		Increase (Decrease)		
	2010	2009(1)	\$	%	
Revenues	\$789.4	\$618.3	\$171.1	27.7	%
Income before income taxes	\$96.4	\$104.4	\$(8.0)	(7.7))%
Income before income taxes as a percent of revenues	12.2	% 16.9	% N/A	(4.7))%
Orders	\$908.3	\$545.0	\$363.3	66.7	%

(1) Revised based on change in segments described in Note 1 of the Notes to Consolidated Condensed Financial Statements.

Revenues

Newly acquired businesses added \$312.1 million in revenues to the PCS segment during the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. Absent the effect of these newly acquired businesses, revenues declined nearly 23%. This decrease was mostly due to:

- a 21% decrease in sales of legacy process applications, due mainly to weaker orders in prior periods resulting in lower current project activity levels,
- a 25% decrease in shipments of centrifugal compression equipment during 2010, mainly as a result of lower worldwide order rates for air separation and engineered air units during 2009 as compared to the strong order levels of 2008, which positively impacted 2009 deliveries, and
- a 17% decrease in shipments of reciprocating compression equipment, due largely to a decline in North American market activity levels and a product mix shift from larger to smaller-scale units.

Income before income taxes as a percent of revenues

The decrease in the ratio of income before income taxes as a percent of revenues was due primarily to:

an increase of 3.2 percentage points in the ratio of selling and administrative expenses to revenues during the first nine months of 2010, due mainly to the impact of costs in the legacy process, reciprocating and centrifugal compression product lines which did not decline at the same rate as revenues in those businesses, and

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an increase of 3.2 percentage points in the ratio of depreciation and amortization to revenues, due mainly to additional depreciation and amortization associated with newly acquired businesses and the impact of the decline in legacy revenues in relation to the relatively flat depreciation and amortization levels from those same operations.

Partially offsetting these items was a decline of 1.7 percentage points in the ratio of cost of sales to revenues, of which approximately 1.1 percentage points was attributable to a gain recognized in the first nine months of 2010 from the sale of aftermarket inventory and certain intangible assets associated with a compressor line that is no longer produced by the Company and for which no new units have been sold since the 1990s.

Orders

Newly acquired businesses accounted for 64% of the increase in orders during the first nine months of 2010 as compared to the first nine months of 2009. The remaining increase in orders was due mainly to:

- a nearly 50% increase in legacy process systems orders, due largely to higher international demand for oil and gas separation applications, and
- a 25% increase in orders for centrifugal compression equipment, mainly as a result of stronger international demand for new engineered units and plant air equipment, as well as aftermarket parts and services.

Corporate Segment –

The \$16.4 million decrease in the loss before income taxes of the Corporate segment during the first nine months of 2010 as compared to the first nine months of 2009 (see Note 10 of the Notes to Consolidated Condensed Financial Statements) was primarily due to a \$14.4 million decline in interest expense, which is described in additional detail above under the caption “Consolidated Results” and the removal of a \$3.6 million uncertainty associated with an historical acquisition.

Liquidity and Capital Resources

Consolidated Condensed Statements of Cash Flows

During the first nine months of 2010, net cash used for operations totaled \$60.7 million, a decrease of \$244.8 million from the \$184.1 million of cash provided by operations during the first nine months of 2009.

Cash totaling \$632.3 million was used to increase working capital during the first nine months of 2010 compared to \$351.3 million during the first nine months of 2009, an increase of approximately \$281 million.

During the first nine months of 2010, progress payments and cash advances from customers declined \$195.6 million due mainly to the lack of new major project orders and the consumption of previously received advances. In addition, the Company increased its inventory by \$91.0 million due mainly to growth in the subsea product line and increased its deposits with vendors for additional inventory yet to be delivered by \$60.0 million. Cash used for working capital during the first nine months of 2009 primarily resulted from a build in inventory levels in the Company’s project-related drilling and subsea businesses.

The \$36.4 million decrease in cash used for investing activities from \$183.4 million during the first nine months of 2009 to \$147.0 million during the first nine months of 2010 was due mainly to lower capital spending of \$48.7 million during the nine months ended September 30, 2010.

The Company acquired 3,176,705 shares of treasury stock for a total cash cost of \$123.9 million during the first nine months of 2010. However, given the uncertainty created by the litigation associated with the Deepwater Horizon matter (see Note 13 of the Notes to Consolidated Financial Statements), the Company has temporarily suspended its stock repurchases.

Future liquidity requirements

The Company expects to spend an estimated \$200.0 million for capital equipment and facilities during 2010. Cash on hand and future expected operating cash flows will be utilized to fund the remainder of the Company's 2010 capital spending program, as well as costs expected to be incurred in connection with the continuing integration of the operations of NATCO into those of the Company. At September 30, 2010, the Company had cash and cash equivalents on hand that exceeded its third party debt by \$223.1 million.

The Company has outstanding \$500.0 million face value of 2.5% Convertible Debentures due in 2026. Under the terms of the debenture agreements, holders of the Company's 2.5% Convertible Debentures could require the Company to redeem them on June 15, 2011. Accordingly, the Company has classified these debentures in the current portion of long-term debt on its Consolidated Condensed Balance Sheet at September 30, 2010. At September 30, 2010, the 2.5% Convertible Debentures did not meet the requirements to allow for conversion by the holders of the debt.

On a longer-term basis, the Company issued \$450.0 million of 6.375% 10-year Senior Notes and \$300.0 million of 7.0% 30-year Senior Notes in June 2008.

The Company believes, based on its current financial condition, existing backlog levels and current expectations for future market conditions, that it will be able to meet its short- and longer-term liquidity needs, subject to the outcome of the contingency created by the litigation surrounding the Deepwater Horizon matter, with the existing \$1.5 billion of cash on hand, expected cash flow from future operating activities and amounts available under its \$585 million five-year multi-currency Revolving Credit Facility, which expires on April 14, 2013.

As described more fully in Note 8 of the Notes to Consolidated Financial Statements, the Company entered into a three-year \$250.0 million committed multi-currency revolving letter of credit facility with a third party bank on October 15, 2010. This facility provides for issuance by the bank of standby letters of credit, generally with terms of up to two years in U.S. dollars, euros, Sterling or other mutually agreed-upon currencies.

Factors That May Affect Financial Condition and Future Results

The Deepwater Horizon matter may have a material adverse effect on the Company.

See a more complete discussion of the Deepwater Horizon incident in Note 13 of the Notes to Consolidated Financial Statements.

The Deepwater Horizon matter has and will continue to have an impact on the Company for the foreseeable future. Preparation for and participation in the litigation and investigations regarding this matter will continue to divert Company resources and management's attention, as well as that of the Company's Drilling Systems division.

The Company derives a significant portion of its revenues from deepwater activities around the world. In fact, six of the Company's eleven divisions participate in this market. The new regulations imposed by the United States government on drilling activities in deepwater areas of the Gulf of Mexico could affect a portion of the Company's business and may cause customers who are involved in deepwater drilling in the Gulf of Mexico to face additional costs and regulations involving future drilling. While these regulations may decrease activity in the Gulf of Mexico, they also may require customers to purchase additional components and/or services currently available from the Company and could require the Company to develop new technologies. The Company may also be subject to future

regulations regarding the development and testing of our equipment, including our blowout preventers, which may add to the manufacturing cost of such equipment. The Company may be unable to recover such additional costs through higher sales prices, which could negatively impact the Company's future profitability and cash flows. Other regions are currently considering similar regulations.

Additionally, this event may make it increasingly difficult for the industry to obtain adequate insurance on economic terms, if at all.

Downturns in the oil and gas industry have had, and will likely in the future have, a negative effect on the Company's sales and profitability.

Demand for most of the Company's products and services, and therefore its revenues, depends to a large extent upon the level of capital expenditures related to oil and gas exploration, production, development, processing and transmission. Declines, as well as anticipated declines, in oil and gas prices could negatively affect the level of these activities, or could result in the cancellation, modification or rescheduling of existing orders. As an example, the substantial decline in oil and gas prices which began during the latter half of 2008 and continued into early 2009, combined with the constricted credit markets during that time, caused a reduction in orders by the Company's customers during 2009 which have, in certain cases, negatively impacted the Company's 2010 revenues and profitability.

Factors that contribute to the volatility of oil and gas prices include, but are not limited to, the following:

- demand for oil and gas, which is impacted by economic and political conditions and weather;
- the ability of the Organization of Petroleum Exploring Countries (OPEC) to set and maintain production levels and pricing;
- the level of production from non-OPEC countries;
- policies regarding exploration and development of oil and gas reserves, including difficulties in obtaining permits for offshore deepwater drilling;
- the political environments of oil and gas producing regions, including the United States and the Middle East.

Cancellations of orders in backlog are possible.

The Company experienced \$58.5 million of order cancellations during the nine-month period ended September 30, 2010. The Company is typically protected against financial losses related to products and services it has provided prior to any cancellation. However, if the Company's customers cancel existing purchase orders, future profitability could be further negatively impacted.

At September 30, 2010, the Company had a backlog of orders for equipment to be used on deepwater drilling rigs of approximately \$379.0 million, including approximately \$117.9 million of equipment ordered for rigs whose construction was not supported by a pre-existing contract with an operator. Although oil and gas prices have been relatively stable, should they begin to decline or if customers are unable to obtain contracts or rig financing, further order cancellations or delays in expected shipment dates may occur.

The inability of the Company to deliver its backlog on time could affect the Company's future sales and profitability and its relationships with its customers.

At September 30, 2010, the Company's backlog was \$4.9 billion. The ability to meet customer delivery schedules for this backlog is dependent on a number of factors including, but not limited to, access to the raw materials required for production, an adequately trained and capable workforce, project engineering expertise for large subsea projects, sufficient manufacturing plant capacity and appropriate planning and scheduling of manufacturing resources. Many of the contracts the Company enters into with its customers require long manufacturing lead times and contain penalty or incentive clauses relating to on-time delivery. A failure by the Company to deliver in accordance with customer expectations could subject the Company to financial penalties or loss of financial incentives and may result in damage to existing customer relationships. Additionally, the Company bases its earnings guidance to the financial markets on expectations regarding the timing of delivery of product currently in backlog. Failure to deliver backlog in accordance with expectations could negatively impact the Company's financial performance and thus cause adverse changes in the

market price of the Company's outstanding common stock and other publicly-traded financial instruments.

Integration of NATCO into the Company's operations may cause disruptions, inefficiencies or the risk of unplanned costs for the Company.

On November 18, 2009, the Company closed on the stock-for-stock acquisition of NATCO for a total purchase price valued at approximately \$971.6 million, based on the closing price of the Company's common stock on that date. This is the largest acquisition in the history of the Company. The Company has spent 2010 and will spend the early part of 2011 integrating the operations of NATCO into the existing Cameron operations in the Process Systems division of the PCS segment, the Flow Control division of the DPS segment and the Measurement Systems division of the V&M segment. The integration of these operations will require a significant amount of time and effort for management and employees of those divisions and may result in disruptions and inefficiencies occurring in the legacy operations of those businesses for a period of time. Additionally, former NATCO customers may elect to buy from competitors of Cameron rather than continue to do business with the former operations of NATCO now that they have become part of the Cameron organization. Costs of integrating the former NATCO operations into Cameron could exceed what is currently expected. Both of these events, if they occurred, could negatively impact the Company's expected future revenues, costs, profitability and operating cash flows.

Following the NATCO acquisition, total Cameron goodwill at September 30, 2010 was in excess of \$1.4 billion, a large portion of which was allocated to the Company's Process Systems division reporting unit, which includes the majority of the newly acquired NATCO operations. As a result, a future deterioration in expected profitability or cash flows of the Company or its Process Systems division reporting unit could negatively impact the estimated fair market values of both, which, if it were to occur, could increase the likelihood of a goodwill impairment charge being required. No goodwill impairment charge was required based on the Company's annual evaluation conducted in the first quarter of 2010.

Execution of subsea systems projects exposes the Company to risks not present in its other businesses.

Cameron is a significant participant in serving the subsea systems projects market. This market is significantly different from the Company's other markets since subsea systems projects are significantly larger in scope and complexity, in terms of both technical and logistical requirements. Subsea projects (i) typically involve long lead times, (ii) typically are larger in financial scope, (iii) typically require substantial engineering resources to meet the technical requirements of the project and (iv) often involve the application of existing technology to new environments and in some cases, new technology. The Company's subsea business unit received orders in the amount of \$619.8 million during the nine-month period ended September 30, 2010. Total backlog for the subsea business unit at September 30, 2010 was approximately \$2.2 billion. To the extent the Company experiences unplanned efficiencies or difficulties in meeting the technical and/or delivery requirements of the projects, the Company's earnings or liquidity could be positively or negatively impacted. The Company accounts for its subsea projects, as well as separation and drilling projects, using accounting rules as contained in the Accounting Standards Codification of the Financial Accounting Standards Board (FASB's ASC) relating to construction-type and production-type contracts. In accordance with this guidance, the Company estimates the expected margin on these projects and recognizes this margin as units are completed. Factors that may affect future project costs and margins include the ability to properly execute the engineering and design phases consistent with our customers' expectations, production efficiencies obtained, and the availability and costs of labor, materials and subcomponents. These factors can significantly impact the accuracy of the Company's estimates and materially impact the Company's future period earnings. If the Company experiences cost underruns or overruns, the expected margin could increase or decline. In accordance with the accounting guidance, the Company would record a cumulative adjustment to increase or reduce the margin previously recorded on the related project. Subsea systems projects accounted for approximately 18% of total revenues for the nine-month period ended September 30, 2010. As of September 30, 2010, the Company had a subsea systems project backlog of approximately \$1.7 billion.

Fluctuations in worldwide currency markets can impact the Company's profitability.

The Company has established multiple "Centers of Excellence" facilities for manufacturing such products as subsea trees, subsea chokes, subsea production controls and BOPs. These production facilities are located in the United Kingdom, Brazil and other European and Asian countries. To the extent the Company sells these products in U.S. dollars, the Company's profitability is eroded when the U.S. dollar weakens against the British pound, the euro, the Brazilian real and certain Asian currencies, including the Singapore dollar. Alternatively, profitability is enhanced when the U.S. dollar strengthens against these same currencies.

The Company's worldwide operations expose it to economic risks and instability due to changes in economic conditions, foreign currency fluctuations, trade and other risks inherent to international business.

The economic risks of doing business on a worldwide basis include the following:

- volatility in general economic, social and political conditions, including Venezuela, where the Company has \$74.4 million of unfilled subsea orders with its national oil company;
- differing tax rates, tariffs, exchange controls or other similar restrictions;
- changes in currency rates;
- reductions in the number or capacity of qualified personnel.

Cameron has manufacturing and service operations that are essential parts of its business in developing countries and volatile areas in Africa, Latin America, Russia and other countries that were part of the Former Soviet Union, the Middle East, and Central and South East Asia. The Company also purchases a large portion of its raw materials and components from a relatively small number of foreign suppliers in developing countries. The ability of these suppliers to meet the Company's demand could be adversely affected by the factors described above.

The Company's worldwide operations expose it to political risks and uncertainties due to trade regulations, restrictions on repatriation of income or capital, anti-bribery laws and local content rules and the ever-increasing regulatory burdens being imposed on the oil and gas industry in general that expose the Company to potential liability.

Doing business on a worldwide basis also necessarily involves exposing the Company and its operations to political risks and the need for compliance with the laws and regulations of many jurisdictions. These laws and regulations impose a range of restrictions and/or duties on importation and exportation, operations, trade practices, trade partners, investment decisions and, as recently occurred in the United States, restrictions on the industry to access oil and gas reserves.

The Company is currently undergoing a Focused Assessment Audit regarding compliance with U.S. customs regulations as discussed in Note 13 of the Notes to Consolidated Condensed Financial Statements. The Company has also received inquiries regarding its compliance with certain such laws and regulations from several U.S. federal agencies.

Compliance with U.S. regulations on trade sanctions and embargoes also poses a risk to Cameron since its business is conducted on a worldwide basis through various entities. Cameron has received a number of inquiries from U.S. governmental agencies regarding compliance with these regulations. The most recent of these inquiries was a March 25, 2009, letter from the Office of Global Security Risk of the U.S. Securities and Exchange Commission inquiring into the status of Cameron's non-U.S. entities' withdrawal from conducting business in or with Iran, Syria and Sudan. In mid-2006, Cameron adopted a policy which prohibited doing business with these and other U.S. embargoed countries and restricted its non-U.S. subsidiaries and persons from taking new orders from those countries, though Cameron did not prohibit them from honoring then-existing contracts if they were, in the opinion of non-U.S. counsel, binding and enforceable in accordance with their terms and would subject a Cameron entity to damages for a failure to perform thereunder, provided such contracts could, in fact, be performed without any U.S. person or entity involvement and otherwise in accordance with existing U.S. regulations. In early 2010, Cameron instructed its non-U.S. subsidiaries to stop all remaining deliveries and to cancel and remove from its backlog any remaining orders that had been included in its 2009 year-end backlog.

The Company does business and has operations in a number of developing countries that have relatively underdeveloped legal and regulatory systems when compared to more developed countries. Several of these countries

are generally perceived as presenting a higher than normal risk of corruption, or as having a culture where requests for improper payments are not discouraged. Maintaining and administering an effective anti-bribery compliance program under the U.S. Foreign Corrupt Practices Act (FCPA) and similar statutes of other nations in these environments presents greater challenges to the Company than is the case in other, more developed countries. As discussed in Note 13 of the Notes to Consolidated Condensed Financial Statements, the Company has an open investigation into possible FCPA violations in connection with importation of equipment and supplies into Nigeria.

Increasingly, some of the Company's customers, particularly the national oil companies, have required a certain percentage of, or an increased percentage of, local content in the products they buy directly or indirectly from the Company. This requires the Company to add to or expand manufacturing capabilities in certain countries that are presently without the necessary infrastructure or human resources in place to conduct business in a manner as typically done by Cameron. This increases the risk of untimely deliveries, cost overruns and defective products.

Economic conditions around the world have resulted in decreased tax revenues for many governments, which could lead to changes in tax laws in countries where the Company does business, including the United States. Changes in tax laws, including changes proposed or currently under consideration in the United States and other countries, could have a negative impact on the Company's future results.

The Company is subject to environmental, health and safety laws and regulations that expose the Company to potential liability.

The Company's operations are subject to a variety of national and state, provisional and local laws and regulations, including laws and regulations relating to the protection of the environment. The Company is required to invest financial and managerial resources to comply with these laws and expects to continue to do so in the future. To date, the cost of complying with governmental regulation has not been material, but the fact that such laws or regulations are frequently changed makes it impossible for the Company to predict the cost or impact of such laws and regulations on the Company's future operations. The modification of existing laws or regulations or the adoption of new laws or regulations imposing more stringent environmental restrictions could adversely affect the Company.

Enacted and proposed climate protection regulations and legislation may impact the Company's operations or those of its customers.

In December 2009, the United States Environmental Protection Agency (EPA) announced a finding under the United States Clean Air Act that greenhouse gas emissions endanger public health and welfare. The EPA also enacted regulations in September 2009, which became effective January 1, 2010, requiring monitoring and reporting by certain facilities and companies of greenhouse gas emissions. Carbon emission reporting and reduction programs have also expanded in recent years at the state, regional and national levels with certain countries having already implemented various types of cap-and-trade programs aimed at reducing carbon emissions from companies that currently emit greenhouse gases such as electric power generators and utilities. In addition, in June 2009, the United States House of Representatives passed The American Clean Energy and Security Act, which would establish an economy wide greenhouse gas cap-and-trade system and sets goals for reduction of such emissions by 2050. This legislation is currently under review by the United States Senate whose related proposed legislation, the Clean Energy Jobs and American Power Act, also contains provisions that would result in limiting and reducing greenhouse gas emissions by 2050.

To the extent Cameron is subject to any of these or other similar proposed or newly enacted laws and regulations, the Company expects that its efforts to monitor, report and comply with such laws and regulations, and any related taxes imposed on companies by such programs, will increase the Company's cost of doing business in certain jurisdictions, including the United States, and may require expenditures on a number of its facilities and possibly modification of certain of its compression products which involve use of power generation equipment in order to lower any direct or indirect emissions of greenhouse gases from those facilities and products.

To the extent the Company's customers, particularly those involved in power generation, petrochemical processing or petroleum refining, are subject to any of these or other similar proposed or newly enacted laws and regulations, the Company is exposed to risks that the additional costs by customers to comply with such laws and regulations could impact their ability or desire to continue to operate at similar levels in certain jurisdictions as historically seen or as currently anticipated, which could negatively impact their demand for the Company's products and services.

The Company could also be impacted by new laws and regulations that might favor the increased use of non-fossil fuels, including nuclear, wind, solar and bio-fuels or that are designed to increase energy efficiency.

If the proposed or newly executed laws dampen demand for oil and gas production, they could lower spending by the Company's customers for the Company's products and services.

Environmental Remediation

The Company's worldwide operations are subject to domestic and international regulations with regard to air, soil and water quality as well as other environmental matters. The Company, through its environmental management system and active third-party audit program, believes it is in substantial compliance with these regulations.

The Company is currently identified as a potentially responsible party (PRP) with respect to two sites designated for cleanup under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) or similar state laws. One of these sites is Osborne, Pennsylvania (a landfill into which a predecessor of the PCS operation in Grove City, Pennsylvania deposited waste), where remediation is complete and remaining costs relate to ongoing ground water treatment and monitoring. The other is believed to be a de minimis exposure. The Company is also engaged in site cleanup under the Voluntary Cleanup Plan of the Texas Commission on Environmental Quality at former manufacturing locations in Houston and Missouri City, Texas. Additionally, the Company has discontinued operations at a number of other sites which had been active for many years. The Company does not believe, based upon information currently available, that there are any material environmental liabilities existing at these locations. At September 30, 2010, the Company's consolidated balance sheet included a noncurrent liability of \$7.4 million for environmental matters.

Environmental Sustainability

The Company has pursued environmental sustainability in a number of ways. Processes are monitored in an attempt to produce the least amount of waste. None of the Company's facilities are rated above Small Quantity Generated status. All of the waste disposal firms used by the Company are carefully selected in an attempt to prevent any future Superfund involvements. Actions are taken in an attempt to minimize the generation of hazardous wastes and to minimize air emissions. None of the Company's facilities are classified as sites that generate more than minimal air emissions. Recycling of process water is a common practice. Best management practices are used in an effort to prevent contamination of soil and ground water on the Company's sites.

Under the direction of its corporate Vice President of Quality, Health, Safety, Security and Environment, Cameron has implemented a corporate "HSE Management System" based on the principles of ISO 14001 and OHSAS 18001. The HSE Management System contains a set of corporate standards that are required to be implemented and verified by each business unit. Cameron also has developed a corporate compliance audit program to address facility compliance with environmental, health and safety laws and regulations. The compliance program utilizes independent third party auditors to audit facilities on a regular basis specific to country, region, and local legal requirements. Audit reports are circulated to the senior management of the Company and to the appropriate business unit. The compliance program requires corrective and preventative actions be taken by a facility to remedy all findings of non-compliance. Audit findings and corrective action plans are incorporated into and tracked on the corporate HSE data base.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is currently exposed to market risk from changes in foreign currency rates and changes in interest rates. A discussion of the Company's market risk exposure in financial instruments follows.

Foreign Currency Exchange Rates

A large portion of the Company's operations consist of manufacturing and sales activities in foreign jurisdictions, principally in Europe, Canada, West Africa, the Middle East, Latin America and the Pacific Rim. As a result, the Company's financial performance may be affected by changes in foreign currency exchange rates in these markets. Overall, for those locations where the Company is a net receiver of local non-U.S. dollar currencies, Cameron generally benefits from a weaker U.S. dollar with respect to those currencies. Alternatively, for those locations where the Company is a net payer of local non-U.S. dollar currencies, a weaker U.S. dollar with respect to those currencies will generally have an adverse impact on the Company's financial results. The impact on the Company's financial results of gains or losses arising from foreign currency denominated transactions, if material, have been described under "Results of Operations" in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the periods shown.

In order to mitigate the effect of exchange rate changes, the Company will often attempt to structure sales contracts to provide for collections from customers in the currency in which the Company incurs its manufacturing costs. In certain instances, the Company will enter into foreign currency forward contracts to hedge specific large anticipated receipts or disbursements in currencies for which the Company does not traditionally have fully offsetting local currency expenditures or receipts. The Company was party to a number of long-term foreign currency forward contracts at September 30, 2010. The purpose of the majority of these contracts was to hedge large anticipated non-functional currency cash flows on major subsea, drilling, valve or other equipment contracts involving the Company's United States operations and its wholly-owned subsidiaries in Brazil, Italy, Romania, Singapore and the United Kingdom. At September 30, 2010, the Company was also party to certain foreign currency forward and foreign currency option contracts which have not been accounted for as hedges under the accounting rules for derivatives and hedging activities as reflected in the FASB's ASC, involving underlying foreign currency denominated accounts recorded on the balance sheet of its wholly-owned subsidiary in Canada or anticipated foreign currency cash flows of its wholly-owned subsidiary in Italy.

Capital Markets and Interest Rates

The Company is subject to interest rate risk on its variable-interest rate borrowings and interest rate swaps. Variable-rate debt, where the interest rate fluctuates periodically, exposes the Company's cash flows to variability due to changes with changes in market interest rates. Additionally, the fair value of the Company's fixed-rate debt changes with changes in market interest rates.

The Company manages its debt portfolio to achieve an overall desired position of fixed and floating rates and employs interest rate swaps as a tool to achieve that goal. The major risks from interest rate derivatives include changes in the interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions.

The fair values of the 6.375% 10-year Senior Notes and the 7.0% 30-year Senior Notes are principally dependent on prevailing interest rates. The fair value of the 2.5% Convertible Debentures is principally dependent on prevailing interest rates and the Company's current share price as it relates to the initial conversion price of the instrument.

The Company has various other long-term debt instruments, but believes that the impact of changes in interest rates in the near term will not be material to these instruments.

In October 2009, the Company entered into two interest rate swaps which effectively converted \$400 million of 6.375% fixed rate borrowings into variable rate debt based on a spread of approximately 4.79% over the current 3-month London Interbank Offered Rate (LIBOR). On July 23, 2010, the Company entered into a third interest rate swap which effectively locked in a significant portion of the gain from those earlier swaps to reduce the Company's rate on \$400 million of its 6.375% fixed rate borrowings to an effective fixed interest rate of approximately 5.49% through January 15, 2012, the maturity date of all three swaps. Each of the swaps provide for semiannual interest payments and receipts each January 15 and July 15 and provide for resets of the 3-month LIBOR rate to the then existing rate each January 15, April 15, July 15 and October 15. At September 30, 2010, the fair value of the interest rate swaps in effect at that date was reflected on the Company's consolidated balance sheet as an asset with the change in the fair value of the swaps reflected as an adjustment to the Company's consolidated interest expense.

The Company is subject to refinancing risk on the \$500.0 million principal amount of its 2.5% Convertible Debentures that have been classified in the current portion of long-term debt on its Consolidated Condensed Balance

Sheet at September 30, 2010. If the holders of the 2.5% Convertible Debentures put the debentures back to Company on June 15, 2011 as allowed under the terms of the debentures, and if the Company chooses to refinance the repayment of these debentures in whole or in part in the capital markets, prevailing interest rates at that time could have an impact on the Company's liquidity and future interest costs.

Item 4. Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2010 to ensure that information required to be disclosed by the Company that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There were no material changes in the Company's internal control over financial reporting during the quarter ended September 30, 2010.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Deepwater Horizon Matter

As described further in Note 13 of the Notes to Consolidated Condensed Financial Statements, claims for personal injury, wrongful death and property damage arising from the Deepwater Horizon incident have been and will continue to be asserted against the Company. Additionally, claims for pollution and other economic damages, including business interruption and loss of revenue, have been, and we anticipate will continue to be asserted against all parties associated with this incident, including the Company, BP plc and certain of its subsidiaries, the operator of Mississippi Canyon Block 252 upon which the Macondo well was being drilled, Transocean Ltd. and certain of its affiliates, the rig owner and operator, as well as other equipment and service companies. The Company has been named as one of several defendants in over 330 suits filed and presently pending in a variety of Federal and State courts, a number of which have been filed as class actions or multi-plaintiff actions. All but 2 suits pending and presently pending in Federal courts have been consolidated into a single proceeding before a single Federal judge under the Federal rules governing multi-district litigation. The consolidated case is styled In Re: Oil Spill by the Oil Rig "Deepwater Horizon" in the Gulf of Mexico on April 20, 2010, MDL Docket No. 2179. There are also 5 cases filed and presently pending in state courts. The State of Alabama has brought a claim for destruction of and/or harm to natural resources against those associated with this incident, including Cameron, in State of Alabama, ex. rel. Troy King, Attorney General vs. Transocean Ltd., et. al., Cause No. 2:10cv00691, U.S. Dist. Ct., M.D. Ala., as have 5 other governmental entities, including 2 municipalities and 3 Mexican states. It is possible other such claims may be asserted by the United States Government and by the Gulf and/or East Coast States, whose Attorneys General have notified the Company to preserve documents in the event of a claim, and possibly by other parties.

The Company has retained counsel and is, along with counsel, actively participating in the investigations into this matter. Our counsel are currently evaluating the theories of recovery being relied on by claimants, the damages being asserted and our defenses, both factual and legal. Through September 30, 2010, the Company incurred and expensed legal fees of \$6.8 million, primarily related to the Company's participation in the various investigations into the incident. The Company has not accrued any amounts relating to this matter because we do not believe at the present time a loss is probable.

Item 1A. Risk Factors

The information set forth under the caption “Factors That May Affect Financial Condition and Future Results” on pages 32 – 37 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Under a resolution adopted by the Board of Directors on February 21, 2008, the Company is authorized to purchase up to 30,000,000 shares of its Common Stock. Additionally, on May 22, 2006, the Company’s Board of Directors approved repurchasing shares of the Company’s common stock with the proceeds remaining from the Company’s 2.5% Convertible Debenture offering, after taking into account a planned repayment of \$200,000,000 principal amount of the Company’s outstanding 2.65% senior notes due 2007. This authorization is in addition to the 30,000,000 shares described above.

Purchases pursuant to the 30,000,000-share Board authorization may be made by way of open market purchases, directly or indirectly, for the Company's own account or through commercial banks or financial institutions and by the use of derivatives such as a sale or put on the Company's common stock or by forward or economically equivalent transactions. Shares of common stock purchased and placed in treasury during the three-month period ended September 30, 2010 under the Board's two authorization programs described above are as follows:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of all repurchase programs	Maximum number of shares that may yet be purchased under all repurchase programs
7/1/10 – 7/31/10	-	\$-	29,658,873	2,995,897
8/1/10 – 8/31/10	-	\$-	29,658,873	2,995,897
9/1/10 – 9/30/10	-	\$-	29,658,873	2,995,897
Total	-	\$-	29,658,873	2,995,897

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

N/A

Item 5. Other Information

(a) Information Not Previously Reported in a Report on Form 8-K

None

(b) Material Changes to the Procedures by Which Security Holders May Recommend Board Nominees.

There have been no material changes to the procedures enumerated in the Company's definitive proxy statement filed on Schedule 14A with the Securities and Exchange Commission on March 23, 2010 with respect to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Item 6. Exhibits

Exhibit 31.1 –

Certification

Exhibit 31.2 –

Certification

Exhibit 32.1 –

Certification of the CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Exhibit 101.INS –

XBRL Instance Document

Exhibit 101.SCH –

XBRL Taxonomy Extension Schema Document

Exhibit 101. CAL –

XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF

XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB –

XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE –

XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAMERON INTERNATIONAL CORPORATION

Date: November 2,
2010

(Registrant)

By: /s/ Charles M. Sledge
Charles M. Sledge
Senior Vice President and Chief Financial Officer
and authorized to sign on behalf of the Registrant

EXHIBIT INDEX

Exhibit

Number Description

31.1 Certification

31.2 Certification

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