NATIONAL OILWELL VARCO INC
Form 10-Q
May 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013

OR

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

Commission File Number 1-12317

NATIONAL OILWELL VARCO, INC.

(Exact name of registrant as specified in its charter)

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

7909 Parkwood Circle Drive

Houston, Texas

77036-6565

(Address of principal executive offices)

(713) 346-7500

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	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 x

As of May 1, 2013 the registrant had 427,281,236 shares of common stock, par value $.01 per share, outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,441	$ 3,319
Receivables, net	4,279	4,320
Inventories, net	6,135	5,891
Costs in excess of billings	1,333	1,225
Deferred income taxes	332	349
Prepaid and other current assets	474	574
Total current assets	14,994	15,678
Property, plant and equipment, net	3,215	2,945
Deferred income taxes	395	413
Goodwill	9,005	7,172
Intangibles, net	5,399	4,743
Investment in unconsolidated affiliates	410	393
Other assets	138	140
Total assets	$ 33,556	$ 31,484
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,283	$ 1,200
Accrued liabilities	2,468	2,571
Billings in excess of costs	1,093	1,189
Current portion of long-term debt and short-term borrowings		1
Accrued income taxes	406	355
Deferred income taxes	296	333
Total current liabilities	5,546	5,649
Long-term debt	4,349	3,148
Deferred income taxes	2,543	1,997
Other liabilities	439	334
Total liabilities	12,877	11,128
Commitments and contingencies		
Stockholders equity:		
Common stock - par value $.01; 1 billion shares authorized; 427,216,689 and 426,928,322 shares issued and outstanding at March 31, 2013 and December 31, 2012	4	4
Additional paid-in capital	8,772	8,743
Accumulated other comprehensive income (loss)	(58)	107
Retained earnings	11,831	11,385

Total Company stockholders equity	20,549	20,239
Noncontrolling interests	130	117
Total stockholders equity	20,679	20,356
Total liabilities and stockholders equity	$ 33,556	$ 31,484

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share data)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenue	$ 5,307	$ 4,303
Cost of revenue	4,043	3,036
Gross profit	1,264	1,267
Selling, general and administrative	513	390
Operating profit	751	877
Interest and financial costs	(28)	(8)
Interest income	3	3
Equity income in unconsolidated affiliates	19	17
Other income (expense), net	(21)	(16)
Income before income taxes	724	873
Provision for income taxes	224	269
Net income	500	604
Net loss attributable to noncontrolling interests	(2)	(2)
Net income attributable to Company	$ 502	$ 606
Net income attributable to Company per share:		
Basic	$ 1.18	$ 1.43
Diluted	$ 1.17	$ 1.42
Cash dividends per share	$ 0.13	$ 0.12
Weighted average shares outstanding:		
Basic	426	423
Diluted	428	426

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In millions)

	Three Months Ended March 31,	
	2013	**2012**
Net income	$ 500	$ 604
Currency translation adjustments	(117)	65
Changes in derivative financial instruments, net of tax	(48)	63
Comprehensive income	335	732
Comprehensive loss attributable to noncontrolling interest	(2)	(2)
Comprehensive income attributable to Company	$ 337	$ 734

See notes to unaudited consolidated financial statements.

NATIONAL OILWELL VARCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Cash flows from operating activities:		
Net income	$ 500	$ 604
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	174	148
Deferred income taxes	(33)	119
Equity income in unconsolidated affiliates	(19)	(17)
Other, net	18	
Change in operating assets and liabilities, net of acquisitions:		
Receivables	208	(40)
Inventories	(13)	(492)
Costs in excess of billings	(108)	(217)
Prepaid and other current assets	130	(99)
Accounts payable	(8)	102
Billings in excess of costs	(97)	100
Other assets/liabilities, net	(246)	(272)
Net cash provided by (used in) operating activities	506	(64)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(168)	(113)
Business acquisitions, net of cash acquired	(2,375)	(58)
Other	8	11
Net cash used in investing activities	(2,535)	(160)
Cash flows from financing activities:		
Borrowings against lines of credit and other debt	1,386	
Repayments on debt	(186)	(1)
Cash dividends paid	(56)	(51)
Proceeds from stock options exercised	5	88
Other	13	22
Net cash provided by financing activities	1,162	58
Effect of exchange rates on cash	(11)	21
Decrease in cash and cash equivalents	(878)	(145)
Cash and cash equivalents, beginning of period	3,319	3,535
Cash and cash equivalents, end of period	$ 2,441	$ 3,390
Supplemental disclosures of cash flow information:		
Cash payments during the period for:		
Interest	$ 7	$ 6
Income taxes	$ 171	$ 224

See notes to unaudited consolidated financial statements.

5

NATIONAL OILWELL VARCO, INC.

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

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

The accompanying unaudited consolidated financial statements of National Oilwell Varco, Inc. (the Company) present information in accordance with GAAP in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. They do not include all information or footnotes required by GAAP in the United States for complete consolidated financial statements and should be read in conjunction with our 2012 Annual Report on Form 10-K.

In our opinion, the consolidated financial statements include all adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. The results of operations for the three monthsended March 31, 2013 are not necessarily indicative of the results to be expected for the full year.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and payables approximated fair value because of the relatively short maturity of these instruments. Cash equivalents include only those investments having a maturity date of three months or less at the time of purchase. See Note 7 for the fair value of long-term debt and Note 10 for the fair value of derivative financial instruments.

2. Inventories, net

Inventories consist of (in millions):

	March 31, 2013	December 31, 2012
Raw materials and supplies	$ 1,246	$ 1,268
Work in process	1,064	905
Finished goods and purchased products	3,825	3,718
Total	$ 6,135	$ 5,891

3. Accrued Liabilities

Accrued liabilities consist of (in millions):

	March 31, 2013	December 31, 2012
Customer prepayments and billings	$ 687	$ 699
Accrued vendor costs	493	444
Compensation	321	511
Warranty	188	194
Insurance	108	108
Taxes (non income)	105	150
Fair value of derivatives	47	18
Interest	35	14
Other	484	433
Total	$ 2,468	$ 2,571

Service and Product Warranties

The Company provides service and warranty policies on certain of its products. The Company accrues liabilities under service and warranty policies based upon specific claims and a review of historical warranty and service claim experience in accordance with Accounting Standards Codification (ASC) Topic 450 Contingencies (ASC Topic 450). Adjustments are made to accruals as claim data and historical experience change. In addition, the Company incurs discretionary costs to service its products in connection with product performance issues and accrues for them when they are encountered.

The changes in the carrying amount of service and product warranties are as follows (in millions):

Balance at December 31, 2012	$ 194
Net provisions for warranties issued during the year	18
Amounts incurred	(23)
Currency translation adjustments and other	(1)
Balance at March 31, 2013	$ 188

4. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consist of (in millions):

	March 31, 2013	December 31, 2012
Costs incurred on uncompleted contracts	$ 6,168	$ 5,731
Estimated earnings	3,208	3,160
	9,376	8,891
Less: Billings to date	9,136	8,855
	$ 240	$ 36

Costs and estimated earnings in excess of billings on uncompleted contracts	$ 1,333	$ 1,225
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,093)	(1,189)
	$ 240	$ 36

5. Accumulated other comprehensive Income (loss)

The components of accumulated other comprehensive income (loss) are as follows (in millions):

	Currency Translation Adjustments	Derivative Financial Instruments, Net of Tax	Defined Benefit Plans, Net of Tax	Total
Balance at December 31, 2011	$ 68	$ (57)	$ (34)	$ (23)
Accumulated other comprehensive income (loss) before reclassifications	65	56		121
Amounts reclassified from accumulated other comprehensive income (loss)		7		7
Balance at March 31, 2012	$ 133	$ 6	$ (34)	$ 105
Balance at December 31, 2012	$ 132	$ 42	$ (67)	$ 107
Accumulated other comprehensive income (loss) before reclassifications	(117)	(44)		(161)
Amounts reclassified from accumulated other comprehensive income (loss)		(4)		(4)
Balance at March 31, 2013	$ 15	$ (6)	$ (67)	$ (58)

The components of amounts reclassified from accumulated other comprehensive income (loss) are as follows (in millions):

	Three Months Ended March 31,							
	2013				2012			
	Currency Translation Adjustments	Derivative Financial Instruments	Defined Benefit Plans	Total	Currency Translation Adjustments	Derivative Financial Instruments	Defined Benefit Plans	Total
Revenue	$	$ (2)	$	$ (2)	$	$ 4	$	$ 4
Cost of revenue		(3)		(3)		6		6
Tax effect		1		1		(3)		(3)
	$	$ (4)	$	$ (4)	$	$ 7	$	$ 7

The Company s reporting currency is the U.S. dollar. A majority of the Company s international entities in which there is a substantial investment have the local currency as their functional currency. As a result, currency translation adjustments resulting from the process of translating the entities financial statements into the reporting currency are reported in Other Comprehensive Income or Loss in accordance with ASC Topic 830 Foreign Currency Matters (ASC Topic 830). For the three months ended March 31, 2013 a majority of these local currencies weakened against the U.S. dollar resulting in net Other Comprehensive Loss of $117 million upon the translation from local currencies to the U.S. dollar. For the three months ended March 31, 2012, a majority of these local currencies strengthened against the U.S. dollar resulting in net Other Comprehensive Income of $65 million.

The effect of changes in the fair values of derivatives designated as cash flow hedges are accumulated in Other Comprehensive Income or Loss, net of tax, until the underlying transactions to which they are designed to hedge are realized. The movement in Other Comprehensive Income or Loss from period to period will be the result of the combination of changes in fair value for open derivatives and the outflow of Other Comprehensive Income or Loss related to cumulative changes in the fair value of derivatives that have settled in the current or prior periods. The accumulated effect was Other Comprehensive Loss of $48 million (net of tax of $19 million) for the three months ended March 31, 2013 and $63 million Other Comprehensive Income (net of tax of $25 million) for the three months ended March 31, 2012.

6. Business Segments

Operating results by segment are as follows (in millions):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenue:		
Rig Technology	$ 2,628	$ 2,259
Petroleum Services & Supplies	1,701	1,704
Distribution & Transmission	1,227	564
Eliminations	(249)	(224)
Total Revenue	$ 5,307	$ 4,303
Operating Profit:		
Rig Technology	$ 550	$ 547
Petroleum Services & Supplies	255	388
Distribution & Transmission	63	43
Unallocated expenses and eliminations	(117)	(101)
Total Operating Profit	$ 751	$ 877
Operating Profit %:		
Rig Technology	20.9%	24.2%
Petroleum Services & Supplies	15.0%	22.8%
Distribution & Transmission	5.1%	7.6%
Total Operating Profit %	14.2%	20.4%

Included in operating profit are other costs related to acquisitions, such as the amortization of backlog and inventory that was stepped up to fair value during purchase accounting. Other costs by segment are as follows (in millions):

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Other costs:		
Rig Technology	$ 7	$ 4
Petroleum Services & Supplies	56	
Distribution & Transmission	2	
Total other costs	$ 65	$ 4

The Company had revenues of 9% and 11% of total revenue from one of its customers for the three months ended March 31, 2013 and 2012, respectively. This customer, Samsung Heavy Industries, is a shipyard acting as a general contractor for its customers, who are drillship owners and drilling contractors. This shipyard s customers have specified that the Company s drilling equipment be installed on their drillships and have required the shipyard to issue contracts to the Company.

7. Debt

Debt consists of (in millions):

	March 31, 2013	December 31, 2012
Senior Notes, interest at 6.125% payable semiannually, principal due on August 15, 2015	$ 151	$ 151
Senior Notes, interest at 1.35% payable semiannually, principal due on December 1, 2017	500	500
Senior Notes, interest at 2.6% payable semiannually, principal due on December 1, 2022	1,395	1,395
Senior Notes, interest at 3.95% payable semiannually, principal due on December 1, 2042	1,096	1,096
Revolving Credit Facility, expires September 28, 2017	1,200	
Other	7	7
Total debt	4,349	3,149
Less current portion		1
Long-term debt	$ 4,349	$ 3,148

Revolving Credit Facility

The Company has a $3.5 billion, five-year unsecured revolving credit facility which expires September 28, 2017. At March 31, 2013 there were $1,200 million in outstanding borrowings against the credit facility, and there were $777 million in outstanding letters of credit issued under the credit facility, resulting in $1,523 million of funds available under this revolving credit facility. Interest under this multicurrency facility is based upon LIBOR, NIBOR or EURIBOR plus 0.875% subject to a ratings-based grid, or the prime rate. The credit facility contains a financial covenant regarding maximum debt to capitalization and the Company was in compliance at March 31, 2013.

The Company also had $2,325 million of additional outstanding letters of credit at March 31, 2013, primarily in Norway, that are under various bilateral committed letter of credit facilities. Other letters of credit are issued as bid bonds and performance bonds.

The fair value of the Company s debt is estimated using Level 2 inputs in the fair value hierarchy and is based on quoted prices for those or similar instruments. At March 31, 2013 and December 31, 2012, the fair value of the Company s unsecured Senior Notes approximated $3,102 million and $3,190 million, respectively. At March 31, 2013 and December 31, 2012, the carrying value of the Company s unsecured Senior Notes approximated $3,142 million.

8. Tax

The effective tax rate for the three months ended March 31, 2013 was 30.9 %, compared to 30.8 % for the same period in 2012. Compared to the U.S. statutory rate, the effective tax rate was positively impacted in the period by the effect of lower tax rates on income earned in foreign jurisdictions, and the deduction in the U.S. for manufacturing activities. The effective tax rate for 2013 was negatively impacted by the foreign exchange gains for tax reporting in Norway, while 2012 was positively impacted by foreign exchange losses for tax reporting in Norway.

The difference between the effective tax rate reflected in the provision for income taxes and the U.S. federal statutory rate of 35% was as follows (in millions):

	Three Months Ended March 31,	
	2013	2012
Federal income tax at U.S. federal statutory rate	$ 253	$ 306
Foreign income tax rate differential	(57)	(23)
State income tax, net of federal benefit	8	8
Nondeductible expenses	8	13
Tax benefit of manufacturing deduction	(8)	(9)
Foreign dividends, net of foreign tax credits	4	6
Tax impact of foreign exchange	18	(30)
Other	(2)	(2)
Provision for income taxes	$ 224	$ 269

The balance of unrecognized tax benefits at March 31, 2013 was $128 million, $55 million of which if ultimately realized, would be recorded as income tax benefit. The Company recognized no material changes in the balance of unrecognized tax benefits for the three months ended March 31, 2013.

The Company does not anticipate that its total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statutes of limitation within 12 months of this reporting date.

The Company is subject to taxation in the U.S., various states and foreign jurisdictions. The Company has significant operations in the United States, Canada, the United Kingdom, the Netherlands and Norway. Tax years that remain subject to examination by major tax jurisdiction vary by legal entity, but are generally open in the U.S. for tax years after 2007 and outside the U.S. for tax years after 2005.

To the extent penalties and interest would be assessed on any underpayment of income tax, such accrued amounts have been classified as a component of income tax expense in the financial statements.

9. Stock-Based Compensation

The Company has a stock-based compensation plan known as the National Oilwell Varco, Inc. Long-Term Incentive Plan (the Plan). The Plan provides for the granting of stock options, performance-based share awards, restricted stock, phantom shares, stock payments and stock appreciation rights. The number of shares authorized under the Plan is 25.5 million. At March 31, 2013, 54,382 shares remain available for future grants under the Plan, all of which are available for grants of stock options, performance-based share awards, restricted stock awards, phantom shares, stock payments and stock appreciation rights. During the three months ended March 31, 2013, the Company concluded that the performance conditions relating to the performance-based restricted stock awards granted on February 16, 2010 were not met. As a result, the Company reversed $8 million in previously recognized stock-based compensation expense related to performance-based restricted stock awards that did not vest. Total stock-based compensation for all stock-based compensation arrangements under the Plan was $17 million and $12 million for the three months ended March 31, 2013 and 2012, respectively. The total income tax benefit recognized in the Consolidated Statements of Income for all stock-based compensation arrangements under the Plan was $5 million and $3 million for the three months ended March 31, 2013 and 2012, respectively.

During the three months ended March 31, 2013, the Company granted 2,819,806 stock options with a fair value of $24.10 per share and 540,194 shares of restricted stock and restricted stock units with a fair value of $69.33 per share. In addition, the Company granted performance share awards to senior management employees with potential payouts varying from zero to 398,160 shares. The stock options were granted February 15, 2013 with an exercise price of $69.33. These options generally vest over a three-year period from the grant date. The restricted stock and restricted stock units were granted February 15, 2013 and vest on the third anniversary of the date of grant, except for a special grant of 16,352 restricted stock units which vest on the second anniversary of the date of grant (subject to the satisfaction of a performance condition). The performance share awards were granted on March 22, 2013 and can be earned based on performance against established goals over a three-year performance period. The performance share awards are divided into two equal, independent parts that are subject to two separate performance metrics: 50% with a TSR (total shareholder return) goal (the TSR Award) and 50% with an internal ROC (return on capital) goal (the ROC Award).

Performance against the TSR goal is determined by comparing the performance of the Company s TSR with the TSR performance of the members of the OSX index for the three year performance period. Performance against the ROC goal is determined by comparing the performance of the Company s actual ROC performance average for each of the three years of the performance period against the ROC goal set by the Company s Compensation Committee.

10. Derivative Financial Instruments

ASC Topic 815, Derivatives and Hedging (ASC Topic 815) requires a company to recognize all of its derivative instruments as either assets or liabilities in the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is foreign currency exchange rate risk. Forward contracts against various foreign currencies are entered into to manage the foreign currency exchange rate risk on forecasted revenues and expenses denominated in currencies other than the functional currency of the operating unit (cash flow hedge). In addition, the Company will enter into non-designated forward contracts against various foreign currencies to manage the foreign currency exchange rate risk on recognized nonfunctional currency monetary accounts (non-designated hedge).

The Company records all derivative financial instruments at their fair value in its Consolidated Balance Sheet. Except for certain non-designated hedges discussed below, all derivative financial instruments that the Company holds are designated as cash flow hedges and are highly effective in offsetting movements in the underlying risks. Such arrangements typically have terms between 2 and 24 months, but may have longer terms depending on the underlying cash flows being hedged, typically related to the projects in our backlog. The Company may also use interest rate contracts to mitigate its exposure to changes in interest rates on anticipated long-term debt issuances.

At March 31, 2013, the Company has determined that the fair value of its derivative financial instruments representing assets of $45 million and liabilities of $52 million (primarily currency related derivatives) are determined using level 2 inputs (inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability) in the fair value hierarchy as the fair value is based on publicly available foreign exchange and interest rates at each financial reporting date. At March 31, 2013, the net fair value of the Company s foreign currency forward contracts totaled a net liability of $7 million.

At March 31, 2013, the Company did not have any interest rate swaps and its financial instruments do not contain any credit-risk-related or other contingent features that could cause accelerated payments when the Company s financial instruments are in net liability positions. We do not use derivative financial instruments for trading or speculative purposes.

Cash Flow Hedging Strategy

To protect against the volatility of forecasted foreign currency cash flows resulting from forecasted revenues and expenses, the Company has instituted a cash flow hedging program. The Company hedges portions of its forecasted revenues and expenses denominated in nonfunctional currencies with forward contracts. When the U.S. dollar strengthens against the foreign currencies, the decrease in present value of future foreign currency revenues and expenses is offset by gains in the fair value of the forward contracts designated as hedges. Conversely, when the U.S. dollar weakens, the increase in the present value of future foreign currency cash flows is offset by losses in the fair value of the forward contracts.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is subject to a particular currency risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of Other Comprehensive Income and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings (e.g., in revenues when the hedged transactions are cash flows associated with forecasted revenues). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any (i.e., the ineffective portion), or hedge components excluded from the assessment of effectiveness, is recognized in the Consolidated Statements of Income during the current period.

The Company had the following outstanding foreign currency forward contracts that were entered into to hedge nonfunctional currency cash flows from forecasted revenues and expenses (in millions):

	Currency Denomination			
Foreign Currency	**March 31, 2013**		**December 31, 2012**	
Norwegian Krone	NOK	7,913	NOK	6,281
Euro		471		389
U.S. Dollar	$	290	$	331
Danish Krone	DKK	201	DKK	134
British Pound Sterling	£	44	£	6
Singapore Dollar	SGD	12	SGD	14

Non-designated Hedging Strategy

The Company enters into forward exchange contracts to hedge certain nonfunctional currency monetary accounts. The purpose of the Company s foreign currency hedging activities is to protect the Company from risk that the eventual U.S. dollar equivalent cash flows from the nonfunctional currency monetary accounts will be adversely affected by changes in the exchange rates.

For derivative instruments that are non-designated, the gain or loss on the derivative instrument subject to the hedged risk (i.e., nonfunctional currency monetary accounts) is recognized in other income (expense), net in current earnings.

The Company had the following outstanding foreign currency forward contracts that hedge the fair value of nonfunctional currency monetary accounts (in millions):

	Currency Denomination			
Foreign Currency	**March 31, 2013**		**December 31, 2012**	
Norwegian Krone	NOK	2,873	NOK	1,684
Russian Ruble	RUB	1,224	RUB	1,467
U.S. Dollar	$	1,032	$	967
Danish Krone	DKK	275	DKK	177
Euro		241		225
Mexican Peso	MXN	224	MXN	
Brazilian Real	BRL	104	BRL	135
Singapore Dollar	SGD	37	SGD	24
British Pound Sterling	£	16	£	9
Swedish Krone	SEK	10	SEK	5

The Company has the following gross fair values of its derivative instruments and their balance sheet classifications:

NATIONAL OILWELL VARCO, INC.

Fair Values of Derivative Instruments

(In millions)

	Asset Derivatives			Liability Derivatives		
		Fair Value			Fair Value	
	Balance Sheet Location	**March 31, 2013**	**December 31, 2012**	**Balance Sheet Location**	**March 31, 2013**	**December 31, 2012**
Derivatives designated as hedging instruments under ASC Topic 815						
Foreign exchange contracts	Prepaid and other current assets	$ 22	$ 57	Accrued liabilities	$ 24	$ 5
Foreign exchange contracts	Other Assets	8	24	Other Liabilities	5	1
Total derivatives designated as hedging instruments under ASC Topic 815		$ 30	$ 81		$ 29	$ 6
Derivatives not designated as hedging instruments under ASC Topic 815						
Foreign exchange contracts	Prepaid and other current assets	$ 15	$ 24	Accrued liabilities	$ 23	$ 13
Total derivatives not designated as hedging instruments under ASC Topic 815		$ 15	$ 24		$ 23	$ 13

Total derivatives	$ 45	$ 105	$ 52	$ 19

The Effect of Derivative Instruments on the Consolidated Statements of Income

($ in millions)

Derivatives in ASC Topic 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) (a) Three Months Ended March 31, 2013	2012	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended March 31, 2013	2012	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) (b) Three Months Ended March 31, 2013	2012
			Revenue	2	(4)			
Foreign exchange contracts	(61)	78	Cost of revenue	3	(6)	Other income (expense), net	3	(1)
Total	(61)	78		5	(10)		3	(1)

Derivatives Not Designated as Hedging Instruments under ASC Topic 815	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative Three Months Ended March 31, 2013	2012
Foreign exchange contracts	Other income (expense), net		16
Total			16

(a) The Company expects that $10 million of the Accumulated Other Comprehensive Income (Loss) will be reclassified into earnings within the next twelve months with an offset by gains from the underlying transactions resulting in no impact to earnings or cash flow.

(b) The amount of gain (loss) recognized in income represents nil and $(1) million related to the ineffective portion of the hedging relationships for the three months ended March 31, 2013 and 2012, respectively, and nil and $(1) million related to the amount excluded from the assessment of the hedge effectiveness for the three months ended March 31, 2013 and 2012, respectively.

11. Net Income Attributable to Company Per Share

The following table sets forth the computation of weighted average basic and diluted shares outstanding (in millions, except per share data):

	Three Months Ended March 31, 2013	2012
Numerator:		
Net income attributable to Company	$ 502	$ 606

Denominator:		
Basic weighted average common shares outstanding	426	423
Dilutive effect of employee stock options and other unvested stock awards	2	3
Diluted outstanding shares	428	426
Net income attributable to Company per share:		
Basic	$ 1.18	$ 1.43
Diluted	$ 1.17	$ 1.42
Cash dividends per share	$ 0.13	$ 0.12

ASC Topic 260, Earnings Per Share (ASC Topic 260) requires companies with unvested participating securities to utilize a two-class method for the computation of Net income attributable to Company per share. The two-class method requires a portion of Net income attributable to Company to be allocated to participating securities, which are unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, if declared. Net income attributable to Company allocated to these participating securities was immaterial for three months ended March 31, 2013 and 2012 and therefore not excluded from Net income attributable to Company per share calculation.

In addition, the Company had stock options outstanding that were anti-dilutive totaling 7 million and 6 million shares for the three months ended March 31, 2013 and 2012, respectively.

12. Cash Dividends

On February 20, 2013, the Company s Board of Directors approved a cash dividend of $0.13 per share. The cash dividend was paid on March 29, 2013, to each stockholder of record on March 15, 2013. Cash dividends aggregated $56million and $51 million for the three months ended March 31, 2013 and 2012, respectively. The declaration and payment of future dividends is at the discretion of the Company s Board of Directors and will be dependent upon the Company s results of operations, financial condition, capital requirements and other factors deemed relevant by the Company s Board of Directors.

13. Commitments and Contingencies

We have received federal grand jury subpoenas and subsequent inquiries from governmental agencies requesting records related to our compliance with export trade laws and regulations. We have cooperated fully with agents from the Department of Justice, the Bureau of Industry and Security, the Office of Foreign Assets Control, and U.S. Immigration and Customs Enforcement in responding to the inquiries. We have also cooperated with an informal inquiry from the Securities and Exchange Commission in connection with the inquiries previously made by the aforementioned federal agencies. We have conducted our own internal review of this matter. At the conclusion of our internal review in the fourth quarter of 2009, we identified possible areas of concern and discussed these areas of concern with the relevant agencies. We are currently negotiating a potential resolution with the agencies involved related to these matters.

In 2011, the Company acquired Ameron International Corporation (Ameron). On or about November 21, 2008, the United States Department of Treasury, Office of Foreign Assets Control (OFAC) sent a Requirement to Furnish Information to Ameron. Ameron retained counsel and conducted an internal investigation. In 2009, Ameron, through its counsel, responded to OFAC. On or about January 21, 2011, OFAC issued an administrative subpoena to Ameron. OFAC and Ameron have entered into Tolling Agreements. All of the conduct under review occurred before acquisition of Ameron by the Company. We currently anticipate that any administrative fine or penalty agreed to as part of a resolution would be within established accruals, and would not have a material effect on our financial position or results of operations. To the extent a resolution is not negotiated, we cannot predict the timing or effect that any resulting government actions may have on our financial position or results of operations.

On February 20, 2013, the Company acquired Robbins & Myers, Inc. (R&M). R&M was subject to an ongoing investigation by the U.S. Department of Justice (DOJ) and the Department of Commerce Bureau of Industry and Security (BIS) regarding potential export controls violations arising from certain shipments by R&M s Belgian subsidiary to one customer in Iran, Sudan and Syria in 2005 and 2006. R&M has cooperated with the investigation and is currently negotiating a joint settlement with the DOJ and BIS. We currently anticipate that any administrative fine or penalty agreed to as part of a resolution would be within established accruals, and would not have a material effect on our financial position or results of operations. To the extent a resolution is not negotiated, we cannot predict the timing or effect that any resulting government actions may have on our financial position or results of operations.

In addition, we are involved in various other claims, regulatory agency audits and pending or threatened legal actions involving a variety of matters. As of March 31, 2013, the Company recorded an immaterial amount for contingent liabilities representing all contingencies believed to be probable. The Company has also assessed the potential for additional losses above the amounts accrued as well as potential losses for matters that are not probable but are reasonably possible. The total potential loss on these matters cannot be determined; however, in our opinion, any ultimate liability, to the extent not otherwise provided for and except for the specific cases referred to above, will not materially affect our financial position, cash flow or results of operations. As it relates to the specific cases referred to above we currently anticipate that any administrative fine or penalty agreed to as part of a resolution would be within established accruals, and would not have a material effect on our financial position or results of operations. To the extent a resolution is not negotiated as anticipated, we cannot predict the timing or effect that any resulting government actions may have on our financial position, cash flow or results of operations. These estimated liabilities are based on the Company s assessment of the nature of these matters, their progress toward resolution, the advice of legal counsel and outside experts as well as management s intention and experience.

Our business is affected both directly and indirectly by governmental laws and regulations relating to the oilfield service industry in general, as well as by environmental and safety regulations that specifically apply to our business. Although we have not incurred material costs in connection with our compliance with such laws, there can be no assurance that other developments, such as new environmental laws, regulations and enforcement policies hereunder may not result in additional, presently unquantifiable, costs or liabilities to us.

14. Acquisition

On February 20, 2013, the Company completed its previously announced acquisition of all of the shares of Robbins & Myers, Inc. (R&M), a U.S.-based designer and manufacturer of products and systems for the offshore oil and gas industry. Under the merger agreement for this transaction, R&M shareholders received $60.00 in cash for each common share for an aggregate purchase price of $2,375 million, net of cash acquired.

The Company has included the financial results of R&M in its consolidated financial statements as of the date of acquisition with components of the R&M operations included in the Company s Rig Technology, Petroleum Services & Supplies and Distribution & Transmission segments. The Company believes the acquisition of R&M will advance its strategic goal of providing a broader selection of products and services to its customers.

The following table displays the total preliminary purchase price allocation for the R&M acquisition. The R&M purchase price allocation remains preliminary until valuations are complete. The table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. (in millions):

Current assets, net of cash acquired	$ 446
Property, plant and equipment	198
Intangible assets	967
Goodwill	1,528
Other assets	37
Total assets acquired	3,176
Current liabilities	190
Deferred taxes	491
Other liabilities	120
Total liabilities	801
Cash consideration, net of cash acquired	$ 2,375

The Company has preliminarily allocated $967 million to intangible assets (19 year weighted-average life). The intangible assets are expected to be amortizable and are comprised of: $815 million of customer relationships (20 year weighted-average life), $58 million of trademarks (15 year weighted-average life), and $94 million of other intangible assets (15 year weighted-average life). The amount allocated to goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill resulting from the R&M acquisition is not expected to be deductible for tax purposes. Proforma information is not included because the acquired operations would not have materially impacted the Company s consolidated operating results.

15. Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standard Update No. 2013-02 Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income (ASU No. 2013-02), which is an update for Accounting Standards Codification Topic No.220 Comprehensive Income . The update improves the reporting of reclassifications out of accumulated other comprehensive income. The guidance is effective for the Company s interim and annual reporting periods beginning January 1, 2013, and applied prospectively. There was no significant impact to the Company s Consolidated Financial Statements from the adopted provisions of ASU No. 2013-02.

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

National Oilwell Varco, Inc. (the Company) is a worldwide leader in the design, manufacture and sale of equipment and components used in oil and gas drilling and production, the provision of oilfield services, and supply chain integration services to the upstream oil and gas industry.

Unless indicated otherwise, results of operations data are presented in accordance with accounting principles generally accepted in the United States (GAAP). In an effort to provide investors with additional information regarding our results of operations, certain non-GAAP financial measures, including operating profit excluding other costs, operating profit percentage excluding other costs and diluted earnings per share excluding other costs, are provided. See Non-GAAP Financial Measures and Reconciliations in Results of Operations for an explanation of our use of non-GAAP financial measures and reconciliations to their corresponding measures calculated in accordance with GAAP.

Rig Technology

Our Rig Technology segment designs, manufactures, sells and services complete systems for the drilling, completion, and servicing of oil and gas wells. The segment offers a comprehensive line of highly-engineered equipment that automates complex well construction and management operations, such as offshore and onshore drilling rigs; derricks; pipe lifting, racking, rotating and assembly systems; rig instrumentation systems; blowout preventers; coiled tubing equipment and pressure pumping units; well workover rigs; wireline winches; wireline trucks; cranes; flexible pipe for offshore production applications; and turret mooring systems and other products for floating production, storage and offloading vessels (FPSOs) and other offshore vessels and terminals. Demand for Rig Technology products is primarily dependent on capital spending plans by drilling contractors, oilfield service companies, and oil and gas companies; and secondarily on the overall level of oilfield drilling activity, which drives demand for spare parts for the segment s large installed base of equipment. We have made strategic acquisitions and other investments during the past several years in an effort to expand our product offering and our global manufacturing capabilities, including adding additional operations in the United States, Canada, Norway, Denmark, the United Kingdom, Brazil, China, Belarus, India, Russia, the Netherlands, Singapore, South Korea, South Africa, and Angola.

Petroleum Services & Supplies

Our Petroleum Services & Supplies segment provides a variety of consumable goods and services used to drill, complete, remediate and workover oil and gas wells and service drill pipe, tubing, casing, flowlines and other oilfield tubular goods. The segment manufactures, rents and sells a variety of products and equipment used to perform drilling operations, including drill pipe, wired drill pipe, transfer pumps, solids control systems, drilling motors, drilling fluids, drill bits, reamers and other downhole tools, and mud pump consumables. Demand for these services and supplies is determined principally by the level of oilfield drilling and workover activity by drilling contractors, oilfield service companies, major and independent oil and gas companies, and national oil companies. Oilfield tubular services include the provision of inspection and internal coating services and equipment for drill pipe, line pipe, tubing, casing and pipelines; and the design, manufacture and sale of coiled tubing pipe and advanced fiberglass composite pipe for application in highly corrosive environments. The segment sells its tubular goods and services to oil and gas companies; drilling contractors; pipe distributors, processors and manufacturers; and pipeline operators. This segment has benefited from several strategic acquisitions and other investments completed during the past few years, including additional operations in the United States, Canada, the United Kingdom, Brazil, China, Kazakhstan, Mexico, Russia, Argentina, India, Bolivia, the Netherlands, Singapore, Malaysia, Vietnam, Oman, and the United Arab Emirates.

Distribution & Transmission

Our Distribution & Transmission segment provides pipe, maintenance, repair and operating supplies (MRO) and spare parts to drill sites and production locations, pipeline operations, and processing plants worldwide. In addition to its comprehensive field location network, which supports land drilling operations throughout North America, the segment supports major land and offshore operations for all the major oil and gas producing regions throughout the world. The segment employs advanced information technologies to provide complete procurement, materials management and logistics services to its customers around the globe. The segment also has a global reach in oil and gas, waste water treatment, chemical, food and beverage, paper and pulp, mining, agriculture, and a variety of municipal markets and is a leading producer of water transmission pipe, fabricated steel products and specialized materials and products used in infrastructure projects. Demand for the segment s services is determined primarily by the level of drilling, servicing, and oil and gas production activities. It is also influenced by the domestic economy in general, housing starts and government policies. This segment has benefited from several strategic acquisitions and other investments completed around the world during the past few years, including the acquisition of the Wilson distribution business segment from Schlumberger Limited and CE Franklin Ltd. in Canada, both of which were completed in 2012, as well as additional operations in the United States, Canada, the United Kingdom, Kazakhstan, Singapore, Russia, and Malaysia.

Critical Accounting Policies and Estimates

In our annual report on Form 10-K for the year ended December 31, 2012, we identified our most critical accounting policies. In preparing the financial statements, we make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments that are most critical in nature which are related to revenue recognition under long-term construction contracts; allowance for doubtful accounts; inventory reserves; impairment of long-lived assets (excluding goodwill and other indefinite-lived intangible assets); goodwill and other indefinite-lived intangible assets; purchase price allocation of acquisitions; service and product warranties; and income taxes. Our estimates are based on historical experience and on our future expectations that we believe are reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results are likely to differ from our current estimates and those differences may be material.

EXECUTIVE SUMMARY

For its first quarter ended March 31, 2013, the Company generated $502 million in net income attributable to Company, or $1.17 per fully diluted share, on $5.3 billion in revenue. Compared to the fourth quarter of 2012, revenue decreased $378 million or 7% and net income attributable to Company decreased $166 million. Compared to the first quarter of 2012, revenue increased $1.0 billion or 23%, and net income attributable to Company decreased $104 million or 17%.

The first quarter of 2013 included pre-tax other costs of $73 million, the fourth quarter of 2012 included pre-tax other costs of $51 million, and the first quarter of 2012 included pre-tax other costs of $7 million. Excluding the other costs from all periods, first quarter 2013 earnings were $1.29 per fully diluted share, compared to $1.49 per fully diluted share in the fourth quarter of 2012 and $1.44 per fully diluted share in the first quarter of 2012.

Pre-tax other costs of $73 million, $51 million, and $7 million for the first quarter of 2013, the first quarter of 2012 and the fourth quarter of 2012, respectively, included items such as administration costs and the amortization of backlog and inventory that was stepped up to fair value during purchase accounting.

Operating profit excluding other costs was $816 million or 15.4% of sales in the first quarter of 2013, compared to $954 million or 16.8% of sales in the fourth quarter of 2012, and $881 million or 20.5% of sales in the first quarter of 2012. First quarter 2013 results include a partial quarter s results for Robbins & Myers, which was acquired February 20, 2013.

Also of note, in the first quarter of 2013, National Oilwell Varco s debt increased to $4.3 billion, as the Company borrowed $1.4 billion under its bank revolving credit facility to fund a portion of the Robbins & Myers acquisition.

Oil & Gas Equipment and Services Market

Worldwide, developed economies turned down in late 2008 as looming housing-related asset write-downs at major financial institutions paralyzed credit markets and sparked a serious global banking crisis. Major central banks responded vigorously through 2009, but a credit-driven worldwide economic recession developed nonetheless. Developed economies struggled to recover throughout 2010 and 2011, facing additional economic weakness related to potential sovereign debt defaults in Europe. As a result, commodity prices, including oil and gas prices, have been volatile. After rising steadily for six years to peak at around $140 per barrel (West Texas Intermediate Crude Prices) earlier in 2008, oil prices collapsed back to average $43 per barrel during the first quarter of 2009, but slowly recovered into the $100 per barrel range by mid-2011 where they held relatively steady since (although the fourth quarter of 2012 dipped to average $88 per barrel). After trading in the range of $6 to $9 an mmbtu from 2004 to 2008, North American gas prices declined to average $3.17 per mmbtu in the third quarter of 2009. Gas prices recovered modestly, trading up above $5 six months later, but then slowly settled into the $3 to $4 per mmbtu through 2011 before turning down sharply in early 2012 to the $2 range (fourth quarter 2012 recovered to average $3.40 per mmbtu). The recent gas price collapse appears to be a direct result of rising gas supply out of unconventional shale reservoir development across North America, including gas associated with liquids production from shales.

The steadily rising oil and gas prices seen between 2003 and 2008 led to high levels of exploration and development drilling in many oil and gas basins around the globe by 2008, but activity slowed sharply in 2009 with lower oil and gas prices and tightening credit availability. Strengthening oil prices since then have led to steadily rising oil-drilling activity over the past two years.

The count of rigs actively drilling in the U.S. as measured by Baker Hughes (a good measure of the level of oilfield activity and spending) peaked at 2,031 rigs in September 2008, but decreased to a low of 876 in June, 2009. U.S. rig count increased steadily to 2,026 by late 2011, but began to decline with lower gas prices to average 1,758 rigs during the first quarter of 2013. Many oil and gas operators reliant on external financing to fund their drilling programs significantly curtailed their drilling activity in 2009, but drilling recovered across North America as gas prices improved. Recently low gas prices have caused operators to trim drilling, driving the average U.S. gas rig count down 52% from the fourth quarter of 2011, to an average of 424 in the first quarter of 2013. However, with high oil prices, many have redirected drilling efforts towards unconventional shale plays targeting oil, rather than gas. For the first quarter of 2013, oil-directed drilling rose to almost 76% of the total domestic drilling effort; however, the average oil-directed drilling rig count has declined by 6% from its peak in the third quarter of 2012, to 1,330 rigs. Still, it remains near its highest levels in the U.S. since the early 1980 s.

Most international activity is driven by oil exploration and production by national oil companies, which has historically been less susceptible to short-term commodity price swings; but, the international rig count exhibited modest declines nonetheless, falling from its September 2008 peak of 1,108 to 947 in August 2009. Recently, due to sustained high oil prices, international drilling has rebounded to average 1,274 rigs in the first quarter of 2013.

During 2009 the Company saw its Petroleum Services & Supplies and its Distribution & Transmission margins affected most acutely by a drilling downturn, through both volume and price declines. Resumption of drilling activity since enabled both of these segments to gain volume, stabilize and lift pricing, and improve margins since the fourth quarter of 2009. The Company s Rig Technology segment was less impacted by the 2009 downturn owing to its high level of contracted backlog, which it executed well. It posted higher revenues in 2009 than 2008 as a result. Its revenues declined in 2010 as its backlog declined, but increased 12% in 2011 as orders for new offshore rigs began to increase.

The recent economic decline beginning in late 2008 followed an extended period of high drilling activity which fueled strong demand for oilfield services between 2003 and 2008. Incremental drilling activity through the upswing shifted toward harsh environments, employing increasingly sophisticated technology to find and produce reserves. Higher utilization of drilling rigs tested the capability of the world s fleet of rigs, much of which is old and of limited capability. Technology has advanced significantly since most of the existing rig fleet was built. The industry invested little during the late 1980 s and 1990 s on new drilling equipment, but drilling technology progressed steadily nonetheless, as the Company and its competitors continued to invest in new and better ways of drilling. As a consequence, the safety, reliability, and efficiency of new, modern rigs surpass the performance of most of the older rigs at work today. Drilling rigs are now being pushed to drill deeper wells, more complex wells, highly deviated wells and horizontal wells, tasks which require larger rigs with more capabilities. The drilling process effectively consumes the mechanical components of a rig, which wear out and need periodic repair or replacement. This process was accelerated by very high rig utilization and wellbore complexity. Drilling consumes rigs; more complex and challenging drilling consumes rigs faster.

The industry responded by launching many new rig construction projects since 2005, to 1.) retool the existing fleet of jackup rigs (according to RigLogix, nearly 65% of the existing 494 jackup rigs are more than 25 years old); 2.) replace older mechanical and DC electric land rigs with improved AC power, electronic controls, automatic pipe handling and rapid rigup and rigdown technology; and 3.) build out additional deepwater floating drilling rigs, including semisubmersibles and drillships, to employ recent advancements in deepwater drilling to exploit unexplored deepwater basins. We believe that the newer rigs offer considerably higher efficiency, safety, and capability, and that many will effectively replace a portion of the existing fleet.

As a result of these trends the Company s Rig Technology segment grew its backlog of capital equipment orders from $0.9 billion at June 30, 2005, to $11.8 billion at September 30, 2008. However, as a result of the credit crisis and slowing drilling activity, orders declined below amounts flowing out of backlog as revenue, causing the backlog to decline to $4.9 billion by June 30, 2010. The backlog increased steadily since, as drillers began ordering more than the Company shipped out of backlog, and finished the first quarter of 2013 at a record $12.9 billion. Approximately $7.7 billion of these orders are scheduled to flow out as revenue during 2013, with the balance flowing out in 2014 and beyond. Of this backlog, 92% of the total is for equipment destined for offshore operations, with 8% destined for land. Equipment destined for international markets totaled 92% of the backlog.

Segment Performance

The Rig Technology segment generated $2.6 billion in revenues and $550 million in operating profit or 20.9% of sales in the first quarter of 2013. Compared to the prior quarter, revenues decreased $268 million or 9%, and operating profit decreased $86 million, representing 32% decremental operating leverage. Compared to the first quarter of 2012, segment revenues grew $369 million or 16%, and operating profit increased $3 million, representing 1% year-over-year operating leverage or flow-through. Margins have moved down steadily since mid-2010 due to an adverse mix shift in the segment, the addition of lower-margin acquisitions, and incremental expenses to support several strategic growth initiatives. The mix shift arises from off