

NATIONAL OILWELL VARCO INC

Form 10-Q

November 06, 2009

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009  
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  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 2, 2009 the registrant had 418,336,718 shares of common stock, par value \$.01 per share, outstanding.



**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

Item 1. Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

**PART II OTHER INFORMATION**

Item 6. Exhibits

SIGNATURE

INDEX TO EXHIBITS

EX-31.1

EX-31.2

EX-32.1

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

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

|   | <b>September<br/>30,<br/>2009<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2008</b> |
|---|---|----------------------------------|
| <b>ASSETS</b>   |   |                                  |
| Current assets:   |   |                                  |
| Cash and cash equivalents                                   | \$ 3,192  | \$ 1,543                         |
| Receivables, net  | 2,204   | 3,136                            |
| Inventories, net  | 3,767   | 3,806                            |
| Costs in excess of billings                                 | 612   | 618                              |
| Deferred income taxes                                       | 227   | 271                              |
| Prepaid and other current assets                            | 405   | 283                              |
| Total current assets  | 10,407  | 9,657                            |
| Property, plant and equipment, net                          | 1,753   | 1,677                            |
| Deferred income taxes                                       | 189   | 126                              |
| Goodwill  | 5,405   | 5,225                            |
| Intangibles, net  | 4,103   | 4,300                            |
| Investment in unconsolidated affiliate                      | 389   | 421                              |
| Other assets  | 116   | 73                               |
| Total assets  | \$ 22,362   | \$ 21,479                        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                  |   |                                  |
| Current liabilities:  |   |                                  |
| Accounts payable  | \$ 510  | \$ 852                           |
| Accrued liabilities   | 2,454   | 2,376                            |
| Billings in excess of costs                                 | 1,615   | 2,161                            |
| Current portion of long-term debt and short-term borrowings | 9   | 4                                |
| Accrued income taxes  | 401   | 230                              |
| Total current liabilities                                   | 4,989   | 5,623                            |
| Long-term debt  | 875   | 870                              |
| Deferred income taxes                                       | 2,098   | 2,134                            |
| Other liabilities   | 121   | 128                              |
| Total liabilities   | 8,083   | 8,755                            |
| Commitments and contingencies                               |   |                                  |

Stockholders' equity:

|   |           |           |
|---|-----------|-----------|
| Common stock - par value \$.01; 418,281,455 and 417,350,924 shares issued and outstanding at September 30, 2009 and December 31, 2008 | 4         | 4         |
| Additional paid-in capital  | 8,203     | 7,989     |
| Accumulated other comprehensive income (loss)   | 92        | (161)     |
| Retained earnings   | 5,871     | 4,796     |
| Total Company stockholders' equity  | 14,170    | 12,628    |
| Noncontrolling interests  | 109       | 96        |
| Total stockholders' equity  | 14,279    | 12,724    |
| Total liabilities and stockholders' equity  | \$ 22,362 | \$ 21,479 |

See notes to unaudited consolidated financial statements.

**Table of Contents**

**NATIONAL OILWELL VARCO, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**  
(In millions, except per share data)

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| Revenue   | \$ 3,087                  | \$ 3,611    | \$ 9,578                 | \$ 9,621    |
| Cost of revenue                                     | 2,196                     | 2,511       | 6,773                    | 6,743       |
| Gross profit  | 891                       | 1,100       | 2,805                    | 2,878       |
| Selling, general and administrative                 | 279                       | 310         | 932                      | 812         |
| Intangible asset impairment                         |                           |             | 147                      |             |
| Transaction and restructuring costs                 | 11                        |             | 19                       | 16          |
| Operating profit                                    | 601                       | 790         | 1,707                    | 2,050       |
| Interest and financial costs                        | (14)                      | (19)        | (40)                     | (53)        |
| Interest income                                     | 4                         | 11          | 8                        | 37          |
| Equity income in unconsolidated affiliate           | 1                         | 20          | 45                       | 37          |
| Other income (expense), net                         | (13)                      | 15          | (87)                     | 14          |
| Income before income taxes                          | 579                       | 817         | 1,633                    | 2,085       |
| Provision for income taxes                          | 192                       | 264         | 551                      | 707         |
| Net income  | 387                       | 553         | 1,082                    | 1,378       |
| Net income attributable to noncontrolling interests | 2                         | 5           | 7                        | 11          |
| Net income attributable to Company                  | \$ 385                    | \$ 548      | \$ 1,075                 | \$ 1,367    |
| Net income attributable to Company per share:       |                           |             |                          |             |
| Basic   | \$ 0.93                   | \$ 1.32     | \$ 2.58                  | \$ 3.49     |
| Diluted   | \$ 0.92                   | \$ 1.31     | \$ 2.58                  | \$ 3.48     |
| Weighted average shares outstanding:                |                           |             |                          |             |
| Basic   | 416                       | 416         | 416                      | 391         |
| Diluted   | 418                       | 418         | 417                      | 393         |

See notes to unaudited consolidated financial statements.

**Table of Contents**

**NATIONAL OILWELL VARCO, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(In millions)

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2009</b>                                | <b>2008</b> |
| Cash flows from operating activities:   |  |             |
| Net income  | \$ 1,082                                   | \$ 1,378    |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |             |
| Depreciation and amortization   | 364  | 284         |
| Excess tax benefit from exercise of stock options                                 |  | (37)        |
| Equity income in unconsolidated affiliate   | (45)                                       | (37)        |
| Dividend from unconsolidated affiliate  | 86   |             |
| Intangible asset impairment   | 147  |             |
| Other   | (53)                                       | 36          |
| Change in operating assets and liabilities, net of acquisitions:                  |  |             |
| Receivables   | 979  | (596)       |
| Inventories   | 103  | (450)       |
| Costs in excess of billings   | 7  | (10)        |
| Prepaid and other current assets  | (122)                                      | 69          |
| Accounts payable  | (384)                                      | 201         |
| Billings in excess of costs   | (545)                                      | 749         |
| Other assets/liabilities, net   | 350  | 119         |
| Net cash provided by operating activities   | 1,969                                      | 1,706       |
| Cash flows from investing activities:   |  |             |
| Purchases of property, plant and equipment  | (186)                                      | (264)       |
| Business acquisitions, net of cash acquired                                       | (392)                                      | (2,988)     |
| Business divestitures, net of cash disposed                                       | 251  | 801         |
| Dividend from unconsolidated affiliate  | 8  | 113         |
| Other, net  |  | (1)         |
| Net cash used in investing activities   | (319)                                      | (2,339)     |
| Cash flows from financing activities:   |  |             |
| Borrowings against lines of credit and other debt                                 | 7  | 2,728       |
| Payments against lines of credit and other debt                                   | (35)                                       | (2,281)     |
| Proceeds from exercise of stock options   | 3  | 84          |
| Excess tax benefit from exercise of stock options                                 |  | 37          |
| Net cash provided by (used in) financing activities                               | (25)                                       | 568         |
| Effect of exchange rates on cash  | 24   | (12)        |
| Increase (decrease) in cash equivalents   | 1,649                                      | (77)        |
| Cash and cash equivalents, beginning of period                                    | 1,543                                      | 1,842       |



|  |          |          |
|--|----------|----------|
| Cash and cash equivalents, end of period | \$ 3,192 | \$ 1,765 |
|--|----------|----------|

Supplemental disclosures of cash flow information:

Cash payments during the period for:

|              |        |        |
|--------------|--------|--------|
| Interest     | \$ 37  | \$ 52  |
| Income taxes | \$ 603 | \$ 921 |

See notes to unaudited consolidated financial statements.

4

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**Table of Contents**

**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 2008 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 and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events for potential recognition or disclosure in the consolidated financial statements included through November 5, 2009.

*Fair Value of Financial Instruments*

The carrying amounts of financial instruments including 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. The carrying values of other financial instruments approximate their respective fair values.

**2. Grant Prideco Merger and Other Acquisitions**

The Grant Prideco merger was accounted for as a purchase business combination. Assets acquired and liabilities assumed were recorded at their fair values as of April 21, 2008. The total purchase price is \$7,199 million, including Grant Prideco stock options assumed and acquisition related transaction costs and is comprised of (in millions):

|   |              |
|---|--------------|
| Consideration given to acquire the outstanding common stock of Grant Prideco: |              |
| Shares issued totaled approximately 56.9 million shares at \$72.74 per share  | \$ 4,135     |
| Cash paid at \$23.20 per share  | 2,932        |
| Grant Prideco stock options assumed   | 55           |
| Merger related transaction costs  | 77           |
| <br>Total purchase price  | <br>\$ 7,199 |

**Table of Contents***Purchase Price Allocation*

The following table, set forth below, displays the total purchase price allocated to Grant Prideco's net tangible and identifiable intangible assets based on their fair values as of April 21, 2008 (in millions):

|  |              |
|--|--------------|
| Cash and cash equivalents                | \$ 171       |
| Receivables                              | 420          |
| Assets held for sale, net                | 784          |
| Inventories                              | 611          |
| Prepaid and other current assets         | 210          |
| Property, plant and equipment            | 392          |
| Goodwill                                 | 2,772        |
| Intangibles                              | 3,696        |
| Investment in unconsolidated affiliate   | 512          |
| Other assets                             | 98           |
| Accounts payable and accrued liabilities | (316)        |
| Accrued income taxes                     | (624)        |
| Long-term debt                           | (176)        |
| Deferred income taxes                    | (1,305)      |
| Minority interest                        | (25)         |
| Other liabilities                        | (21)         |
| <br>Total purchase price                 | <br>\$ 7,199 |

*Unaudited Pro Forma Financial Information*

The unaudited financial information in the table below summarizes the combined results of operations of National Oilwell Varco and Grant Prideco, on a pro forma basis, as though the companies had been combined as of the beginning of 2008. The pro forma financial information is presented for informational purposes only and may not be indicative of the results of operations that would have been achieved if the merger had taken place at the beginning of 2008. The pro forma financial information for the three and nine months ended September 30, 2008 includes the business combination accounting effect on historical Grant Prideco revenues, adjustments to depreciation on acquired property, amortization charges from acquired intangible assets, financing costs on new debt in connection with the merger and related tax effects. (in millions, except per share data):

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| Total revenues                                       | \$ 3,087                  | \$ 3,611    | \$ 9,578                 | \$ 10,225   |
| Net income attributable to Company                   | \$ 385                    | \$ 568      | \$ 1,075                 | \$ 1,495    |
| Basic net income attributable to Company per share   | \$ 0.93                   | \$ 1.37     | \$ 2.58                  | \$ 3.61     |
| Diluted net income attributable to Company per share | \$ 0.92                   | \$ 1.36     | \$ 2.58                  | \$ 3.59     |

## **Table of Contents**

### *Other Acquisitions*

In the nine months ended September 30, 2009, the Company completed five acquisitions for an aggregate purchase price of \$392 million, net of cash acquired. These acquisitions included:

The shares of ASEP Group Holding B.V., a Netherlands-based manufacturer of well service equipment.

The shares of ANS (1001) Ltd. ( Anson ), a U.K.-based manufacturer of pumps and fluid expendibles.

The business and assets of Spirit Drilling Fluids Ltd., a U.S.-based company that provides drilling fluids and related well-site services to exploration and production companies.

The business and assets of Spirit Minerals L.P., a U.S.-based company that mines, processes and distributes barite to the oil and gas drilling fluid industry.

From the dates of acquisition, the results of operations from ASEP are included in the Rig Technology segment and the results of operations from Anson, Spirit Drilling Fluids, and Spirit Minerals are included in the Petroleum Services & Supplies segment. The impact of these acquisitions was not material to the consolidated financial statements.

### **3. IntelliServ Joint Venture**

In September 2009, the Company sold 45 percent of certain of its IntelliServ operations and created the IntelliServ Joint Venture ( IntelliServ ). IntelliServ provides drilling technology that enables downhole drilling conditions to be measured, evaluated and monitored.

### **4. Asset Impairment**

Generally accepted accounting principles require the Company to test goodwill and other indefinite-lived intangible assets for impairment at least annually or more frequently whenever events or circumstances occur indicating that such assets might be impaired.

During the second quarter of 2009, the worldwide average rig count was 2,009 rigs, down 41% from the fourth quarter 2008 average of 3,395 and down 25% from the first quarter 2009 average of 2,681. The second quarter 2009 average rig count represented the lowest quarterly average in the past six years. In addition, the Company's updated forecast was behind the Company's previous forecast completed at the beginning of 2009. While operating profit for the first quarter of 2009 was in line with the Company's first quarter 2009 operating profit forecast, the Company's consolidated operating profit for the second quarter of 2009 was below its second quarter 2009 forecast. As a result of the substantial decline in the worldwide rig count, and the decline in actual/forecasted results compared to the original 2009 forecast, the Company concluded that events or circumstances had occurred indicating that goodwill and other indefinite-lived intangible assets might be impaired as described under SFAS 142, which was primarily codified into ASC Topic 350, Intangibles—Goodwill and Other ( ASC Topic 350 ).

Therefore, the Company performed its interim impairment test of goodwill for all its reporting units at the end of the second quarter of 2009. The implied fair value of goodwill is determined by deducting the fair value of a reporting unit's identifiable assets and liabilities from the fair value of that reporting unit as a whole. Fair value of the reporting units is determined in accordance with SFAS 157, which was primarily codified into ASC Topic 820, Fair Value Measurements and Disclosures ( ASC Topic 820 ), using significant unobservable inputs, or level 3 in the fair value hierarchy. These inputs are based on internal management estimates, forecasts and judgments, using a combination of three methods: discounted cash flow, comparable companies, and representative transactions. While the Company primarily uses the discounted cash flow method to assess fair value, the Company uses the comparable companies and representative transaction methods to validate the discounted cash flow analysis and further support management's expectations, where possible.

The discounted cash flow is based on management's short-term and long-term forecast of operating performance for each reporting unit. The two main assumptions used in measuring goodwill impairment, which bear the risk of change and could impact the Company's goodwill impairment analysis, include the cash flow from operations from each of the Company's individual business units and the weighted average cost of capital. The starting point for each of the reporting unit's cash flow



**Table of Contents**

from operations is the detailed annual plan or updated forecast. The detailed planning and forecasting process takes into consideration a multitude of factors including worldwide rig activity, inflationary forces, pricing strategies, customer analysis, operational issues, competitor analysis, capital spending requirements, working capital needs, customer needs to replace aging equipment, increased complexity of drilling, new technology, and existing backlog among other items which impact the individual reporting unit projections. Cash flows beyond the specific operating plans were estimated using a terminal value calculation, which incorporated historical and forecasted financial cyclical trends for each reporting unit and considered long-term earnings growth rates. The financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate. During times of volatility, significant judgment must be applied to determine whether credit changes are a short-term or long-term trend.

Projections for the remainder of 2009 also reflected declines compared to the original 2009 annual forecast. The Company updated its 2009 operating forecast, long-term forecast, and discounted cash flows based on this information. The goodwill impairment analysis that we performed during the second quarter of 2009 did not result in goodwill impairment as of June 30, 2009.

Other indefinite-lived intangible assets, representing trade names management intends to use indefinitely, were valued using significant unobservable inputs (level 3) and are tested for impairment using the Relief from Royalty Method, a form of the Income Approach. An impairment is measured and recognized based on the amount the book value of the indefinite-lived intangible assets exceeds its estimated fair value as of the date of the impairment test. Included in the impairment test are assumptions, for each trade name, regarding the related revenue streams attributable to the trade names which are determined consistent with the forecasting process described above, the royalty rate, and the discount rate applied. Based on the Company's indefinite-lived intangible asset impairment analysis performed during the second quarter of 2009, the Company incurred an impairment charge of \$147 million in the Petroleum Services & Supplies segment related to a partial impairment of the Company's Grant Prideco trade name. The impairment charge was primarily the result of the substantial decline in worldwide rig counts through June 2009, declines in current forecasts in rig activity for the remainder of 2009, 2010, and 2011 compared to rig count forecast at the beginning of 2009, and a current decline in the revenue forecast for the drill pipe business unit for the remainder of 2009, 2010, and 2011.

**5. Inventories, net**

Inventories consist of (in millions):

|                                       | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---------------------------------------|-----------------------------------|----------------------------------|
| Raw materials and supplies            | \$ 762                            | \$ 739                           |
| Work in process                       | 1,646                             | 1,326                            |
| Finished goods and purchased products | 1,359                             | 1,741                            |
| Total                                 | \$ 3,767                          | \$ 3,806                         |

**Table of Contents****6. Accrued Liabilities**

Accrued liabilities consist of (in millions):

|                                   | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|-----------------------------------|-----------------------------------|----------------------------------|
| Compensation                      | \$ 225                            | \$ 258                           |
| Customer prepayments and billings | 455                               | 912                              |
| Warranty                          | 185                               | 114                              |
| Interest                          | 16                                | 11                               |
| Taxes (non income)                | 66                                | 76                               |
| Insurance                         | 59                                | 50                               |
| Accrued purchase orders           | 1,166                             | 688                              |
| Fair value of derivatives         | 81                                | 59                               |
| Other                             | 201                               | 208                              |
| <b>Total</b>                      | <b>\$ 2,454</b>                   | <b>\$ 2,376</b>                  |

*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 SFAS 5, which was primarily codified into 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, December 31, 2008                           | \$ 114 |
| Net provisions for warranties issued during the year | 86     |
| Amounts incurred                                     | (35)   |
| Foreign currency translation and other               | 20     |
| Balance, September 30, 2009                          | \$ 185 |

**Table of Contents****7. Costs and Estimated Earnings on Uncompleted Contracts**

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

|   | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---|-----------------------------------|----------------------------------|
| Costs incurred on uncompleted contracts                                     | \$ 6,372                          | \$ 4,776                         |
| Estimated earnings  | 3,453                             | 2,277                            |
|   | 9,825                             | 7,053                            |
| Less: Billings to date  | 10,828                            | 8,596                            |
|   | \$ (1,003)                        | \$ (1,543)                       |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 612                            | \$ 618                           |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (1,615)                           | (2,161)                          |
|   | \$ (1,003)                        | \$ (1,543)                       |

**8. Comprehensive Income**

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

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Net income   | \$ 387                                      | \$ 553      | \$ 1,082                                   | \$ 1,378    |
| Currency translation adjustments, net of tax                 | 22  | (71)        | 79   | (33)        |
| Changes in derivative financial instruments, net of tax      | 69  | (86)        | 174  | (65)        |
| Changes in defined benefit plans, net of tax                 | 1   |             |  |             |
| Comprehensive income   | 479   | 396         | 1,335                                      | 1,280       |
| Comprehensive income attributable to noncontrolling interest | 2   | 5           | 7  | 11          |
| Comprehensive income attributable to Company                 | \$ 477                                      | \$ 391      | \$ 1,328                                   | \$ 1,269    |

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, translation adjustments resulting from the process of translating the entities' financial statements into the reporting currency are reported in Other Comprehensive Income in accordance with SFAS 52, Foreign Currency Translation, which was primarily codified into ASC Topic 830 Foreign Currency Matters (ASC Topic 830). For the three months ended September 30, 2009, a majority of these local currencies strengthened against the U.S. dollar resulting in a net increase to Other Comprehensive Income of \$22 million (net of tax of \$12 million) upon the translation of their financial statements from their local currency to the U.S. dollar.

The effect of changes in the fair values of derivatives designated as Cash Flow hedges are accumulated in Other Comprehensive Income, net of tax, until the underlying transactions to which they are designed to hedge are realized. The movement in Other Comprehensive Income from period to period will be the result of the combination of changes



in fair value for open derivatives and the outflow of accumulated Other Comprehensive Income related to the fair value of derivatives that have settled in the current or prior periods. The accumulated effects of these scenarios have caused an increase in Other Comprehensive Income of \$69 million (net of tax of \$28 million) for the three months ended September 30, 2009.

**Table of Contents**

**9. Business Segments**

Operating results by segment are as follows (in millions). The 2008 actual results include Grant Prideco operations from the acquisition date of April 21, 2008:

&nbs