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NOV - Q2 2013 National Oilwell Varco Earnings Conference Call

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OVERVIEW:

NOV reported 2Q13 revenue of $5.6b and earnings of $531m or $1.24 per fully diluted share.

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PRESENTATION

Operator

Welcome to the second-quarter financial results earnings call. My name is Larissa, and I will be your operator for today's call. At this time all of our participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note this conference is being recorded.

I would now like to turn the call over to Loren Singletary, Vice President of Investor and Industry relations. Mr. Singletary, you may begin.

Loren Singletary - *National Oilwell Varco Inc - VP of IR & Industry Relations*

Thank you, Larissa, and welcome everyone to the National Oilwell Varco second-quarter 2013 earnings conference call.

With me today is Pete Miller, Chairman and Chief Executive Officer; Clay Williams, President and Chief Operating Officer; and Jeremy Thigpen, Senior Vice President and Chief Financial Officer.

Before we begin this discussion of National Oilwell Varco's financial results for its second quarter ended June 30, 2013, please note that some of the statements we make during this call may contain forecasts, projections, and estimates including, but not limited to, comments about our outlook for the Company's business. These are forward-looking statements within the meaning of the Federal Securities laws, based on limited information as of today, which is subject to change. They are subject to risk and uncertainties, and actual results may differ materially.

No one should assume that these forward-looking statements remain valid later in the quarter or later in the year. I refer you to the latest forms 10-K and 10-Q National Oilwell Varco has on file with the Securities and Exchange Commission for a more detailed discussion of the major risk factors affecting our business. Further information regarding these, as well as supplemental financial and operating information, may be found within our press release on our website at www.nov.com, or in our filings with the SEC.

Later on this call, we will answer your questions, which we ask you to limit to two, in order to permit more participation.

Now, let me turn the call over to Pete.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Thank you, Loren, and good morning, everyone.

Earlier today, National Oilwell Varco announced second-quarter 2013 earnings of a $1.24 per share, or $531 million. Excluding one-time charges of $57 million, our earnings were $568 million, or $1.33 per fully diluted share on revenues of $5.6 billion. Jeremy and Clay will provide more color on these results in just a moment.

We also announced today an intake of new capital equipment orders of $3.15 billion, representing a book-to-bill ratio of 1.5. This brings our total backlog to a record of $13.95 billion and continues to demonstrate the preference for NOV products and services worldwide. I believe these results are the product of the continued outstanding performance of all of our employees around the world.

At this time I'd like to turn the call over to Clay for more perspective on our operations. Clay?

Clay Williams - *National Oilwell Varco Inc - President, COO*

Thank you, Pete.

We saw four positive developments at NOV for the second quarter of 2013. First, very strong order flow continued for new offshore rigs, both floaters and jack-ups. FPSO production equipment orders also surged. In fact, the largest turret mooring system order ever for APL contributed to its record for the quarter.

Overall, rig technology orders of $3.1 billion, our second highest quarter ever, drove the segments backlog to a new record level of $13.9 billion, and we expect orders for FPSOs and rigs again to both be very strong in the third quarter.

Second, we made excellent progress on our Robbins & Myers integration, which is being consolidated into six different product lines within NOV, and also good progress on Fiberspar, Wilson and CE Franklin consolidations as well.

These are all complex, but our folks excel at integrating, having done dozens of acquisitions over the years. Each of these acquisitions strengthened NOV's market leadership position in a particular product or market. Market leadership provides scale economies and first-mover advantages to our enterprise providing a foundation for future growth. Jeremy will talk more about this in just a moment.

Third, we made good progress on several organic expansion initiatives underway, including, and get ready because this is a really long list, a Houston facility to consolidate several locations in our distribution services group; construction of a new tubular inspection and coating facility to service the growing deepwater Gulf of Mexico market; expansion of our BOP manufacturing plant, which will double production this year; construction of several facilities in Brazil, including a new flagship flexible pipe manufacturing operation set to start production this quarter; expansion of our quality tubing coil-tubing manufacturing operation; expansion of several aftermarket support centers for rig technology; construction of a new manufacturing plant in Russia; expansion of our Mission Products facility in the Middle East; completion of our new XL Systems conductor plant in Nigeria; expansion of a new drill pipe well line in Navasota, Texas; completion of a new tube plant in Tulsa; expansion of a composite piping plant in Malaysia to support FPSO/Rig and other marine construction; and numerous other investments and improvements.

Fourth, we have made continued sustained investments in new products and technologies to make oil and gas extraction safer and more efficient. We are developing automated pipe handling products like the STV for land rigs that can replace the derrickman, and a new tier-1 rig design for pad drilling.

We are developing new sub CBOPs with ROV retrievable components to conduct maintenance and repair without tripping. We are testing new fit for purpose hydraulic Top Drives for smaller rigs. We are launching new managed-pressure drilling products, new down hole drilling tools and bits, and continue to test new methods of optimizing rig performance, utilizing high-speed data telemetry from down-hole measurements through wired drill pipe.

We are testing new drill cuttings waste and water management technologies, building a new 20,000 PSI BOP, and pursuing dozens of other new technologies.

In a broader context, our deployment of capital into these opportunities are tailored to a world that is dramatically shifting where and how it produces oil and gas. NOV's mission is to make that extraction process safer, more efficient and less environmentally impactful.

The offshore drilling industry is systematically building a fleet to satisfy growing E&P demand for rig assets to probe the two-thirds of the planet covered by deepwater. To this end, we sold another eight floating rig packages in the second quarter, after selling eight in the first quarter, and we believe we can sell a comparable number again this quarter.

We expect success for deepwater drilling programs. That will drive demand for FPSO systems to produce the volumes discovered. The second quarter saw strong order intake for sub-sea production products lifting our backlog for these to over $800 million. We expect similarly strong FPSO order levels in the third quarter following numerous feed studies that we have underway.

In shallow waters, we have seen a sustained global effort to upgrade jack-up rig fleets that resulted in 17 jack-up packages in the first quarter and another 12 in the second quarter, and we expect double-digit number of jack-ups again this quarter, in the third quarter.

In particularly, 2013 will mark the eighth year out of the past nine where NOV will sell 12 or more offshore rig packages between jack-ups and floaters.

Sales of land rigs and pressure pumping equipment were very slow during the second quarter particularly across North America. Oversupply of frac spreads and slow bleed-down of domestic rig counts and a particularly cruel Canadian breakup season have put the brakes on most land drillers and pressure pumpers spending plans. Internationally, we see higher demand, particularly for the Middle East and Latin America. But these projects move slowly.

Nevertheless, underlying a short-term weakness is a clear shift to quick-move, AC-powered land rigs with safer, more automated pipe-handling systems.

North America leads this trend with about one-third of the fleet converted through the past decade, but we see this trend also taking hold elsewhere. The E&P community has been pleased with productivity gains offered by new rigs. The latest example of which is the move towards more pad drilling and skidable, or walking rigs, which we offer.

The shale revolution accelerating the fleet upgrade also depends heavily on accurate bit directional and horizontal drilling, which in turn relies on down-hole drilling motors. Our Robbins & Myers acquisition strengthened NOV's leading position in the supply of this key technology. Likewise, NOV is a key provider of hydraulic fracture stimulation equipment, another enabler of profitable shale production.

In short, four big macro trends in the industry, deepwater rigs, FPSOs, jack-up retooling, and shale technologies onshore, paint a bright future for the key provider of equipment into each in the long run. Our investments across all four areas speak to our confidence in the long-term outlook for each.

However, in the short run, we faced challenges in several areas, and we were not satisfied with our operating results during the second quarter.

Our Rig Technology segment posted good sequential revenue growth of 8%, but our leverage and margins for the group disappointed. The primary contributor was continuing congestion issues arising from accelerated delivery schedules required on many of our projects.

Last quarter we cited extraordinary manufacturing costs we believe transitory. This quarter, we had other additional costs associated with installation work arising again from high volumes and tighter delivery schedules.

Five years ago, we were contracting to deliver drillships in 36 or more months. Projects underway now target 26 to 30 months, considerably faster. From early 2008, our ramp-up of ongoing installation and commissioning jobs doubled over a period of about 10 quarters.

Since early 2012, our installation and commissioning jobs doubled in three quarters. Our shipyard partners face similar schedule challenges and are pressing us to commission rigs in four months or less, compared to an original plan of six to seven months to catch up from construction delays at the beginning of the projects. The rapid ramp-up of 24/7 operations and extraordinary efforts to hit delivery targets are driving higher freight and personnel costs.

We have more personnel engaged in rig commissioning in Asia than ever before. This is in addition to overtime freight and outsourcing costs on the heavy volumes of products moving through our plants, along with new technical class requirements and rig designs in the post-Macondo world. Overall, these factors are driving higher project costs than planned.

Second quarter Rig Technology margins were also impacted by very weak demand for land rigs and well intervention equipment across North America. Within Rig Technology, we have plants for land-to-pressure pumping products onshore with low volumes and under absorption, and plants for offshore products that are overflowing with work. Nothing seems to be at the optimal volume at the moment.

So here is what we are doing about it. First, we are being more assertive on commercial terms for offshore equipment. Discipline around realistic delivery schedules, more conservative project costing, and better terms have renewed focus. We are beginning to reload backlog with higher margin work over the coming quarters.

Second, we are continuing to ramp resources on existing projects to get them out on time or with minimal delays. We know our customers are counting on us.

Third, we are resetting our supply chain, both internal and external, and have trimmed costs wherever possible at under-absorbed plants. Expansion efforts are proceeding rapidly.

Fourth, we continue to train personnel, both internal as well as our customer's teams. We opened our fifth training facility near the shipyards in Korea, and actually we will be opening that in a few weeks.

Number five, we continue to expand our aftermarket infrastructure and have seen steady growth in this business, including 16% sequential growth this quarter, which is positive for the mix.

To complete the second-quarter picture, we also face some carcass material supply issues on flexible pipe in April, and startup costs in Brazil, which will continue through the remainder of the year.

Given the challenges, we are hesitant to forecast Rig Technology margin improvement for the remainder of the year until we get through expansion initiatives, stabilize our supply chain, and get a few more rigs out of the shipyard.

Let me stress, though, that we are very confident in our manufacturing team who, despite recent margin declines, continue to post the best-in-class EBIT margins unequaled by our competitors. Our team is doing all the right things to turn margins around, and they will succeed. They are the best in the business.

Our Petroleum Services and Supplies segment posted a modest sequential revenue gain, as a full quarter of Robbins & Myers contribution and strong growth in international markets more than offset declines in North America.

The group posted a sharp sequential decline in Canada due to the harsh seasonal breakup and lower domestic sales against a generally weak North American market backdrop, which applied more downward pressure on margins. Most of our service company customers across North America, drilling contractors, pressure pumpers and directional drillers, are curtailing expenditures and living off their inventories of products that we sell.

International markets offer a much brighter picture with demand high in the Middle East, North Sea and other areas. Drill pipe and composite pipe sales were down overall, but both groups began to see modest improvements in orders late in the quarter and continuing in July.

Our Downhole Tools group posted lower revenues on the sharp Canadian decline but manufactured the first bit made in Brazil during the second quarter which made a record run.

Other groups saw stronger second-quarter sales including Mission Products, quality coiled tubing, XL Systems, conductor pipe connections, and well-site services, all benefiting from stronger international demand and higher activity in the Gulf of Mexico.

Overall, most product lines are forecasting stronger third-quarter results as we pull out of Canadian breakup and as international and deepwater Gulf of Mexico growth continues.

Our Distribution and Transmission segment posted solid sequential growth and improved operating margins on the addition of a full quarter of Robbins & Myers, offset by lower seasonal results for Canada which fell at high decrementals.

Integration of R&M, Wilson and CE Franklin acquisitions has proceeded well across the group, in particular, the conversion of the distribution group to a single, common ERP system, which is expected to be completed next year. Continued consolidation of purchasing processes and DFCs is expected to result in steadily improving results for the segment over coming quarters.

Overall, NOV's entire organization remains focused on positioning our businesses to better execute against the extraordinary opportunities provided by the big shifts underway in the energy landscape across the globe.

The world needs our customers to provide safe, clean, efficient sources of oil and gas for the 21st century, and I'm grateful to the many, many NOV employees who provide great services, products and technologies to make this happen. Thank you all for the great job that you do.

Jeremy?

Jeremy Thigpen - *National Oilwell Varco Inc - SVP & CFO*

Thanks, Clay.

As Pete mentioned, National Oil Varco generated earnings of $1.24 per fully diluted share in the second quarter 2013 on $5.6 billion in revenues. Excluding $57 million in pre-tax transaction charges, second-quarter 2013 earnings were $1.33 per fully diluted share. That's up $0.04 per share, or 3%, from the first quarter of 2013, and down $0.13 per share, or 9% from the second quarter 2012.

Sales of $5.6 billion improved 6% sequentially and grew 18% year-over-year, despite some real challenges in the market that included a North American rig count that declined by almost 17% sequentially and 11% year-over-year coupled with oversupply of North American land market that has further curtailed customer spending for both our capital equipment and our PS&S.

Excluding transaction charges from all periods, operating profit for the quarter was $826 million, which was up 1% sequentially and down 9% from the second quarter of last year. Operating margins on this basis were 14.7% for the second quarter of 2013, compared to 15.4% for the first quarter of 2013, and 19.2% for the second quarter of last year.

Now let's turn to our segment operating results. The Rig Technology segment generated revenues of $2.8 billion in the second quarter, up 8% sequentially, and up 18% compared to the second quarter of 2012. Operating profit for the segment was $587 million, and operating margins were 20.7%, down 50 basis points from the prior quarter and 300 basis points from the second quarter of 2012.

On the Q1 conference call, we expected Rig Tech revenues to increase in the low single-digit percentage range, as continued declines in our pressure pumping and coiled tubing equipment businesses would be more than offset by a full quarter of contribution from Robbins & Myers and continued growth in our offshore and aftermarket businesses.

Well, as expected, revenues for pressure pumping equipment continued to decline an additional 10% from Q1, which you may recall were down 46% from Q4 '12. But this was more than offset by other areas.

Sales of coil tubing equipment actually improved sequentially, as we were able to sell and ship some units into international markets. Revenues out of backlog also increased 7% to just over $2.1 billion, as we recognize gains in both our percentage of completion and our completed contracts. And perhaps most importantly, our aftermarket business grew almost 16% sequentially, posting a new quarterly record of $611 million.

Turning to Rig Tech margins, Clay already communicated the three challenges that we're currently facing, including the congestion in our supply chain resulting from compressed project timelines, product mix, and the incremental expense associated with the numerous strategic growth initiatives and capacity expansions that Clay referenced.

Since Clay already described the impact of the compressed project timelines on our supply chain and our margins and clearly outlined our plan to address each, I'll just briefly touch on the other two challenges which we continue to view as transient issues.

From a product-mix standpoint, we know that demand for complete frac spread and coiled tubing units will eventually return in the US.

As evidenced by the Q2 reports from each of the service companies, the existing fleet of pressure pumping equipment is being utilized and will therefore need to be repaired and/or replaced in the not-too-distant future.

And on the land rig front, we are confident that the demand for tier-one land rigs will ultimately resume in the US, as day rates, utilization rates, and the continued migration toward pad drilling all point to the need for more sophisticated and efficient rigs.

Additionally, we are encouraged by the fact that we are beginning to see strong demand for new land rigs outside of the US, including Mexico, Argentina, Kuwait, the UAE and especially Saudi Arabia, where we sold a couple of rigs in Q2.

In short, while we may not experience a meaningful shift this year, we are confident that the product-mix issue will improve.

Likewise, we are confident that our investments in capacity expansion will soon enable us to improve efficiencies and expand margins.

As mentioned on the last call, the near doubling of our capacity at our BOP manufacturing facility is substantially complete, and now we're working diligently to optimize our processes, to drive down our internal cost of manufacturing, reduce the amount of work that we are sourcing from third parties and mitigate any expediting fees.

Additionally, we are very close to completing the new flexible pipe manufacturing facility in Brazil, which is scheduled to begin production this quarter and will ship product and recognize revenue in Q1 of next year.

Now let's transition to the Q2 capital equipment orders and our resulting backlog. As predicted, industry demand for floaters and jack-ups remains very strong. As evidenced by our $3.1 billion in new orders, our customers continue to recognize NOV for our industry-leading technology, our proven track record of delivering projects on time, and our unmatched ability to support our equipment globally.

For the quarter we booked 7 drillships, including 6 in Brazil, 1 semi, and 12 jack-ups. Of the 8 floaters that we booked in Q2, we secured the sub-sea BOP stats on all 8 plus 1 spare stack, and of the 12 total jack-ups that we booked in Q2, we secured 9 of the stacks.

On the FPSO front, Clay mentioned our strong order performance in Q2. Needless to say, we are very encouraged to finally gain some traction in this space.

All of these new orders were partly offset by revenues out of backlog of almost $2.1 billion, resulting in another record quarter ending backlog of $13.95 billion, up 8% sequentially, and up 24% year-over-year. Of the total backlog, approximately 93% is offshore, and 95% is destined for international markets. We expect roughly $4 billion to flow out of backlog for the second half of the year.

Looking into the third quarter of 2013, we expect orders for new drilling equipment packages and floating production equipment to remain strong, and we hope to see pent-up demand for new land rigs in Latin America and the Middle East to finally materialize into orders.

As of now, we're planning for Rig Tech revenues to decrease in the low single-digit percentage range as continued declines in the sale of intervention and stimulation equipment, and somewhat lower project revenues, will more than offset continued growth in our aftermarket business.

And because of the continued congestion in our supply chain, the shift in product mix, and the fact that some of our larger capacity additions will not yet be fully online, we're more cautious on margins for the group, forecasting 20% to 21% for the balance of the year.

The Petroleum Services and Supplies segment posted revenues of $1.7 billion, which was up 3% sequentially, but down 2%, year-over-year. Operating profit declined 2% sequentially to $304 million, and operating margins were 17.4%, down 90 basis points from the first quarter of 2013, and down 470 basis points from the second quarter of 2012.

On the Q1 call, we guided for relatively flat revenues in this segment, as we expected the negative impact of spring break-up in Canada to be offset by a full quarter's contribution from Robbins & Myers and continued growth in our international markets.

We also forecasted margins for the segment to tick down a bit more, as mounting pricing pressures on several products, under-absorption in a number of our facilities, and the incremental expenses associated with both right-sizing our existing businesses and integrating recently acquired businesses, would all put pressure on our margins.

Well, as evidenced by the 3% sequential increase in revenue, and the 90 basis point decline in margins, the quarter played out about as expected with one notable exception. Owing to our recent investments to move product, service and people closer to our customers, our international revenues, excluding Canada, improved more than anticipated, posting a 13% sequential gain.

As we enter the third quarter of 2013, we believe Petroleum Services and Supplies segment sales will improve in the low-to-mid single digit percentage range, as Canada comes out of breakup, activity in the Gulf of Mexico creates more demand for a number of our products and services, and our international businesses continue to gain momentum.

At this point in time, we're planning for a relatively flat US land market; however, we know that our customers will eventually work through their existing inventories and require more of our products and services.

When that happens, our recently right-sized businesses will enable us to recognize strong flow through on that incremental revenue. Until that time, we expect PS&S Q3 margins to remain fairly consistent with Q2 with the possibility for modest improvements as we progress through the year.

The Distribution and Transmission segment posted revenues of $1.3 billion, up almost 6% sequentially, and up 66% as compared to Q2 of last year, due largely to the acquisitions of Wilson, CE Franklin and Robbins & Myers.

Operating profit dollars improved 9% sequentially to $71 million, and improved 31% as compared to Q2 of 2012, and operating margins improved 20 basis points from Q1 to 5.5%.

Like PS&S, we forecasted revenues within the D&T segment to be relatively flat, as the negative impact of spring breakup in Canada would be offset by a full quarter's contribution from Robbins & Myers. This occurred as expected; however, we were able to generate more growth out of the US operations, which improved 6% sequentially, and our international operations, which improved 9% sequentially.

We also suggested that segment margins could tick down slightly; however, the incremental volume helped margins to expand in Q2.

Looking into the third quarter of 2013, we expect Distribution and Transmission group revenues to grow in the mid-single digit percentage range primarily because of increasing activity in Canada following breakup. But despite the increment activity, we would expect for margins to remain relatively flat in Q3, as we are absorbing some incremental cost tied to our extensive integration activities.

On the topic of integration, this group is doing a lot of heavy lifting. To put it in perspective, between NOV's legacy distribution group, Wilson and CE Franklin, we have identified 80 facilities for potential consolidation. That's 80 out of a total of 257 North American distribution facilities.

Of the 80, we've already fully integrated 22 facilities, which means that we are in the same building with common inventory, common systems and common support staff. We'll complete another 3 facilities this quarter, and we have partially integrated another 29, which means that we're sharing roof lines; however, we are still operating on separate systems.

At the same time, we are preparing for the global rollout of a common ERP platform across the legacy, Wilson and CE Franklin businesses, which we expect to be fully implemented in Q2 of next year. Once these facility consolidations are complete, and the system is fully implemented, we will experience further margin expansion in this business.

While on the topic of acquisitions and the heavy lifting associated with integration, let's take a moment to provide a quick overview of our recent activity.

Since the beginning of 2012, we have invested $5.3 billion in 20 acquisitions. Of the $5.3 billion, roughly 60% was tied to three fairly sizable and well-recognized manufacturers of oilfield equipment; Robins & Myers, Fiberspar and Enerflow. 20% was invested in two oilfield distribution companies, Wilson and CE Franklin. 12% was invested to more actively participate in the future growth of floating production and KT, and the remaining 8% was invested in 14 smaller companies that brought us either a new technology that complements our existing portfolio and can be quickly and easily plugged into our global infrastructure, or an existing operation in a targeted country that we can immediately leverage to grow our presence in that geographic market.

So let's just focus on those five North American based companies that comprised over 80% of our $5.3 billion investment. While we're certainly disappointed that the continued softness in the North American land market has prevented us from realizing the full benefit of these investments, we remain supremely confident that we will ultimately generate the terms that we and our shareholders have come to expect.

This confidence comes from the fact that all five of these acquisitions were of businesses that we have known for a long time, and that are perfectly complimentary to our legacy businesses.

Robbins & Myers is a great fit. It expanded our offering of land BOP's in our Rig Tech group, and provided us with additional service infrastructure to further enhance our service and repair capabilities in the field. It also significantly improved our already market-leading position in downhole motors and downhole progressive cavity pumps, and it added to our already broad suite of flow-control products.

Fiberspar's another great fit. We were already industry leaders in providing fiberglass pipe to both the oil and gas and the marine offshore markets. Now, we're also the market leader in providing spooled composite pipe to the oil and gas industry.

Enerflow is a great fit. It added to our existing offering of equipment utilized in the hydraulic fracturing of wells and provided us with a market-leading position in Canada that we can utilize to promote our other products.

And Wilson and CE Franklin are each a great fit, as they helped to solidify our position as the market leader in providing maintenance repair and operating expandables to the upstream oil and gas industry.

In addition to being unquestionable complements to our legacy businesses, the integration of these companies is resulting in a lower overall cost base as well as new opportunities to grow revenue.

For all five of these acquisitions, we've already recognized meaningful cost reductions due to consolidation of facilities and the reduction of headcount.

For Fiberspar, Wilson and CE Franklin specifically, we're recognizing cost savings by leveraging our combined spend to secure additional discounts from key suppliers.

For Robbins & Myers and Enerflow, we are recognizing cost savings by insourcing products that were previously outsourced, such as chrome plating of rotors and well service pumps for our pressure pumping units.

And for Robbins & Myers, we are rationalizing product lines across businesses to improve supply-chain efficiencies, better manage inventories, and mitigate any potential for customer confusion.

In addition to these cost-saving opportunities, we are also identifying opportunities to grow revenue. For example, we discovered that matching Robbins & Myers stator tube and bonding agent with NOV's legacy elastomer is delivering far better power section performance than either product previously delivered.

For Fiberspar, we're leveraging NOV's global sales force and distributor network to grow Fiberspar's market beyond North America. And for our new distribution business, we are now providing supply chain services to a growing number of NOV manufacturing plants and service facilities, which is resulting in revenue growth for NOV Wilson while simultaneously reducing cost for our manufacturing businesses.

I could go on and on, but in summary, the relative lack of demand in the North American land market is currently preventing us from reaping the full benefit of these acquisitions today. However, for the reasons that I just outlined, we remain excited about each of our recent acquisitions. Once demand returns, we will be poised to enjoy strong incremental flow-through on our now lower cost base.

As a direct result of these integration efforts, the more favorable commercial terms that we are pushing through in our offshore rig equipment business, and the ongoing supply-chain improvements that we're implement within our rig equipment business, we certainly expect to see margins expand over time.

While it may take another quarter or two to begin to recognize the impact of today's actions, we are completely confident that we are on the right path.

Now let's turn to National Oilwell Varco's consolidated second-quarter 2013 income statement. Gross margin declined 70 basis points sequentially to 23.6% due to all the reasons already discussed. SG&A increased $23 million sequentially due to the full quarter effect of Robbins & Myers. Overall, SG&A as a percentage of sales declined slightly from 8.9% in Q1, to 8.8% in Q2.

Transaction costs, primarily related to the Robbins & Myers acquisition, totaled $57 million. Interest expense rose $2 million to $30 million, reflecting a full quarter of interest expense on the $1.4 billion in borrowings against our revolver to fund the balance of the Robbins & Myers acquisition in Q1.

Equity income in our Voest-Alpine JV was $15 million, down $4 million sequentially, as demand for drill pipe, and therefore green tube, in the US land market is somewhat limited. We expect for income from the JV to decline even further in Q3.

Other income for the quarter was $13 million as the combination of FX, bank charges and the gains on the sale of some assets delivered a net favorable result for the quarter.

The effective tax rate for the second quarter was 31%, which is fairly consistent with Q1. Unallocated expenses and eliminations on our supplemental segment schedule was $136 million in the second quarter, up $19 million sequentially, driven primarily by the increased volume of inner segment business.

Depreciation and amortization was $190 million, up $16 million from the first quarter, and EBITDA, excluding transaction charges, was $1 billion, or 18.7% of sales, marking the seventh consecutive quarter that the Company generated over $1 billion in EBITDA.

Turning to the balance sheet, National Oilwell Varco's June 30, 2013 balance sheet employed working capital, excluding cash and debt, of $7.3 billion which was up $268 million from the first quarter, as a $52 million sequential reduction in inventory was more than offset by $145 million increase in AR, which was roughly half of the sequential increase in revenue. $105 million reduction in customer financing, as costs incurred on major projects continued to outpace milestone invoicing, and a $158 million reduction in accrued taxes.

Current and long-term debt net of cash was $1.8 billion at the end the quarter, with $4.1 billion in debt offset by $2.3 billion in cash. Of that $2.3 billion in cash, only 10% of the balance resided in the US at the end of the quarter.

Cash flow from operations was $364 million for the second quarter, and during the quarter we spent $152 million in CapEx. We also paid down debt by $230 million, made cash tax payments of $497 million, and cash interest payments of $49 million.

And, as a direct result of our continuing commitment to return more cash to our shareholders, we made dividend payments totaling $111 million, which represented a doubling of the dividend paid in Q1.

We are pleased that the combination of our strong financial condition, of favorable market outlook, our leading market position, and a track record of solid execution give us the confidence that we will generate sufficient cash flow to continue to pay a healthy dividend without compromising our ability to fund any strategic growth initiatives that could further strengthen our existing business.

And, barring any cyclical downturns in the global economy and/or our industry, we fully intend to continue to return cash to our shareholders through continued increases in our regular dividend.

Now, let me turn it back to Pete.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Thanks, Jeremy.

I think Clay and Jeremy have really done a good job of kind of outlining what's happening in this quarter and what we expect to happen as we move forward.

I would just like to touch real quickly on, I think, some continuing macro themes that are going to be very important and really it's going to be a repeat of some of the things Clay's talked about earlier, but I think these expansions that we are doing are really going to be beneficial for us as we move into 2014 especially.

It really gives us a lot more efficient operations, does a lot of cool things for us on products and services, and I think they'll be very, very beneficial for us.

The shale development world-wide continues. We're poised to be able to take advantage of that. We think we are in the right places. We are going to be there at the right time, and I think it's going to be very beneficial.

The continuing deepwater and premium jack-up story is going to continue. You see the number of jack-ups we've had in the past two quarters. We are looking to the future and think it's going to be very, very positive, and especially in the deepwater arena, and again, people like our products and services.

A lot of the things that we do we are doing to make sure that we take care of our customers, that we are delivering on time, and while that might add little bit to the expense base, we think it bodes well for our future business with these people and our future relationships.

And then finally is the developing FPSO and flexible story. I think we are starting to get the traction there that we felt we would get for a long time. That's going to be the next leg of the stool for us. We are very confident that as we move into 2014 and 2015, that's going to be a much better story for us. So I just wanted to kind of touch real quickly on those macro themes.

What I'd like to do right now then, Larissa, is turn it over to our callers for any questions that they might have.

QUESTIONS AND ANSWERS

Operator

Thank you, we'll now begin the question-and-answer session.

(Operator Instructions)

The first question is from Jim Crandell from Cowen.

James Crandell - *Cowen Securities LLC - Analyst*

Good morning.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Good morning, Jim.

James Crandell - *Cowen Securities LLC - Analyst*

Guys, one of the things I think that we've talked about in the past that would lead to improving margins at Rig Tech was that you were undertaking some pricing initiatives, both, I think, as part of new rig packages and then in the aftermarket.

I don't believe you mentioned pricing, but is this piece central to your being able to improve margins there over the, let's say, the next 6 to 12 months?

Clay Williams - *National Oilwell Varco Inc - President, COO*

Yes, Jim, absolutely. In fact, really the beginning of the second quarter is when we begin to be more assertive on pricing and particularly in offshore packages and in spare parts, and so, something in the mid-single digit range is kind of what we are looking at here, but that reflects -- we've, for the last couple quarters, faced cost increases in the equipment that we make.

And so that is leading us to push pricing with the most success offshore. I think land's going to be a little more challenging. The market, as we discussed, is a little softer, but we are doing what we can.

James Crandell - *Cowen Securities LLC - Analyst*

Okay. My second question, Pete, is that another company, [Dresser], on their call talked about the pushing out of FPSO projects, and they were seeing delays in a lot of the projects they were monitoring.

I know you keep up with this, especially closely. Can you speak to that and can you also speak to maybe progress that you're seeing in terms of talking about the standardization of up to a high percentage of FPSOs, which I guess would be necessary to see you develop that business similar to the way your drill ship business has developed?

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Sure, Jim. I think we've talked a little bit in the past about kind of pushing to the right on some of these FPSO projects, and we continue to see some push that way. However, we are starting to get some, and I think that's the critical point here.

We would've expected probably to have a few more at this point in time, but we did get some this past quarter, I think Clay mentioned in his comments or Jeremy did, what the backlog was on our flexibles and FPSO business.

So we're actually pretty confident that while some will be pushing to the right, enough are coming in that it's going to really start playing better into our backlog.

But even the ones that push to the right at some point in time, I would guess in 2014, they're going to come in as well. So we're kind of getting a little bit of both. We're starting to get some now, and we are starting to see some push a little bit to the right.

I think as far as the standardization program, we continue to push it hard. It is something that we think is really going to be key to the FPSO business. We always kind of take a look at the way that the drillship business used to look back in the mid-90s and kind of the cost overruns and disasters that occurred. And when you kind of compare that to what's gone on today in the FPSO business, you've got almost a mirror image.

We've really helped the industry solve the issue with the drillships, and now we would like to be able to do the same thing with the FPSOs and we think we are on track to do that. It's not a quick fix, though. I would be lying to say it is, but it's something that we are pushing on every day. We are working very closely with a few shipyards on it today, and I'm confident that we are going to achieve success in that arena.

Clay Williams - *National Oilwell Varco Inc - President, COO*

Yes, we've put together a pretty comprehensive group of products now comprising an NOV package, and we're starting to get a little traction with that.

We also had the opportunity to review a Douglas Westwood study recently that went in and characterized a number of FPSO projects that found that all of them were late, all of them were over budget, typically about a one-third, and all of them being late pushed back first oil more than a year on average, and so that's a pretty -- that's just not a very efficient way to build FPSOs.

And so kind of our vision here is to bring in not necessarily more standardized FPSO. I prefer the word configurable. All FPSOs are going to have to be somewhat tailored to the fields that they produce, but it is not going to be a one-size-fit-all. So what we're trying to do are develop a series of configurable FPSOs that integrate an NOV package of equipment and fundamentally reshape how the industry builds FPSOs. We think there's a lot of improvements that can be made there through that approach.

James Crandell - *Cowen Securities LLC - Analyst*

Got it. Okay, thank you.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Thanks, Jim.

Operator

Thank you. The next question comes from David Anderson from JPMorgan

David Anderson - *JPMorgan - Analyst*

I was just wondering on your Rig Tech margin guidance, compared to what it was last quarter, before you were looking for 22%, 23%, now you are looking at 20%, 21%. Where was the change -- where did that change come from in your view? Is that a market dynamic, is it greater start-up costs, is it manufacturing congestion? Could you just walk-through your thought process on how you got to where you are now?

Clay Williams - *National Oilwell Varco Inc - President, COO*

David, it's a realization we haven't done a good job forecasting these margins for the last couple of quarters, in all candor. We expected -- we've been guiding for a long time margins to come down on Rig Technology.

You can go back three years ago, and we said very explicitly every quarter that margins in the low 30s, high 20s were not sustainable. And we expected those to march down into the mid-20s range. We got into 2012 around 24%, which is where we think the long-term margins ought to be, and held in the 23% range until the fourth quarter, saw a little softness in the fourth quarter.

And in the first quarter, those moved down to 21.2%, this last quarter, 20.7. Each quarter, each of the past three quarters, we've had costs that we felt were extraordinary. We could ring fence them.

Last quarter we talked about $32 million of manufacturing costs. This quarter we ran into some unforeseen I&C insulation commissioning cost. What we're doing this quarter is saying, look, we know the root cause of these things each quarter are the same. Each quarter the actual cost are a little bit transitory and different, but the root cause is this congestion in this very aggressive delivery schedule that we signed up for.

So what we're doing this quarter is sort of just dialing back to a much more conservative stance, and saying, I'm not sure what all the headwinds are out there. We are doing our best to identify those, but 20% to 21% in Q3 is just more realistic in view of our track record on forecasting the last couple of quarters.

But let me be clear. We have a tremendous amount of talent in the manufacturing organization in Rig Technology. I cannot say enough good things about a team that grew manufacturing and grew through-put seven-fold over the 5 years between 2005 and 2009.

And what we're seeing right now is a even more challenging ramp-up in activities in that group and a much more challenging delivery schedule where we've shaved 10 or 12 months off of the time it takes to build a rig. So what we're running into is it's that time dimension, and it's showing up in different parts of our organization.

So if you look back at our comments over the last couple quarters, we've referred to BOP manufacturing. We've had issues really across all the major components going into these rigs at some form or fashion. But our folks are doing a great job working through those. I think the good news this quarter is that installation and commissioning is kind of the last thing that goes on in one of these rigs. We're going to commission 55 offshore rigs this year. I think we've got about 33 underway right now. So we're right in the teeth of the most challenging aspects of the I&C work, and we are hopeful that the turn comes here quickly but just add an abundance of caution, I think. We are calling for more level margins.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Clay, I might also add that we just delivered, last quarter, a rig in 26 months. I mean, we've got challenges, but the bottom line is we are delivering to our customers. That's what's the absolute, most important thing to us is making sure that we are getting in there and getting those out.

And when you start thinking about the history of drillships, and getting one out in 26 months, that's pretty Herculean. I mean, that's really pretty phenomenal. So our guys are doing a great job on that, and we feel good about the future as we look at it.

David Anderson - *JPMorgan - Analyst*

Now does manufacturing congestion has been obviously an issue that's been lingering here for a little bit. You've taken a lot of steps to address this.

Where do you think you are -- which inning do you think you are in, in terms of addressing these manufacturing congestion issues. Can you get there in a couple of quarters? Is it a little bit longer? How do we think about how far along you are?

Clay Williams - *National Oilwell Varco Inc - President, COO*

I think we're at the seventh-inning stretch. (laughter)

David Anderson - *JPMorgan - Analyst*

Great. Okay, thanks, Clay.

Operator

The next question is from James West from Barclays

James West - *Barclays Capital - Analyst*

Good morning, guys.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Good morning.

James West - *Barclays Capital - Analyst*

I just want to follow-up quickly on Dave's question about Rig Tech margins. Clay, you mentioned normalized, you think mid-20s. Is that -- should we think about as we get past these next several quarters, if we are in the seventh-inning stretch as you implied there, that we can see margins approaching that level next year?

Clay Williams - *National Oilwell Varco Inc - President, COO*

Yes, we need a few more stars to line up. What would help is a stronger North American market, better demand for frac spreads for well intervention equipment, and for land rigs.

Those businesses have kind of continued to see margin erosion, and they're doing a great job reducing costs. We've actually closed a couple of facilities around that infrastructure. But a little more demand in that area would help.

Continued growth in the aftermarket will certainly help the mix. Continued growth in FPSO, which that's going the right way, but that's going to be a little bit dilutive to the mix.

But overall, the 24% goal is when we step back, and we look at a business that has market-leading positions across a lot of critical equipment and technologies throughout the oil fields. I think that's in achievable goal. That's still several quarters away.

Some other complicating factors, went through a very lengthy list of expansion projects we have underway, and that covers all three segments, but many of those are within Rig Technology. It's just very disruptive when you're expanding a plant pouring concrete while you're also trying to get record volumes out the door.

James West - *Barclays Capital - Analyst*

Sure.

Clay Williams - *National Oilwell Varco Inc - President, COO*

It makes for a tough job for a plant manager, and we've got a lot of plant managers that are really shouldering a heavy load right now trying to do that.

Jeremy Thigpen - *National Oilwell Varco Inc - SVP & CFO*

Another thing that would help us, as we move into next year, is we will be complete with the flexible manufacturing plant in Brazil. Right now, that's hurting us to the tune of about $10 million a quarter in startup cost with no revenue to cover that up, we will start production this quarter and we expect to ship our first product and recognize revenue in Q1 of next year.

James West - *Barclays Capital - Analyst*

Okay, okay, good. And then just a follow-up from your earlier but unrelated question, that I was in Asia fairly recently, met with several of the shipyards, and they were suggesting that kind of the impediment to getting rigs out the door is more on the equipment side rather than shipyard side, which makes sense since they're not building a tankers, et cetera, this cycle. I know you guys have reduced your lead times significantly.

They suggested, and this is, in fact, I'm going to consider the source here, of course, but (laughter) that the BOP -- that the BOP was the critical component here; that everything else you guys were able to deliver on time and your competitors deliver on-time, but the BOP was, I guess, the lagging factor, I guess.

Number one, is that an accurate statement, and then number two, with the doubling of your manufacturing capacity, does that constraint start to really go away for the market now?

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Well let me take the first part of this (laughter). James, I've been doing this for about 17 years, and the shipyards have been beating me up for 17 years (laughter), telling me I'm the critical path. So I would suggest that you consider the source because --.

James West - *Barclays Capital - Analyst*

Understood.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

It's a three-way deal, and the shipyards got to say, it's not me, man, it's the other guy. (laughter) So we like what we are doing, and I would suggest if you look at the record over the last 4 or 5 years, you'll find that almost all of these things are delivered on-time, on-budget --.

James West - *Barclays Capital - Analyst*

Sure.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

And that's because we're out there hitting it hard. Now I'll let Clay answer the specifics on the BOP.

Clay Williams - *National Oilwell Varco Inc - President, COO*

Let me stress that we appreciate our good shipyard customers. (laughter) Just in case they may be listening, but also in fairness, we've had a few challenges, but they have, too. It's as difficult for them to build a ship in 26 months as it is for us.

And so one of the complexities that we face when we do installation and commissioning is that we rely on shipyard labor to perform a lot of electrical construction, a lot of mechanical construction, and one of the issues we run into is, and you can imagine, our crews have to schedule closely and articulate well with the shipyard support crew, and they're stressed throughout the system in all fairness. So we're not perfect. BOP's have been a challenge, but I think both shipyards and all equipment providers are struggling with these much shorter delivery times.

It's also made more challenging by the fact that a lot of the rig layouts and designs are different this time. The rigs that are being ordered in '06, '07 and '08, now we've lost some of the learning curve effect. We're kind of re-learning that because the layouts are somewhat different.

We have new class standards coming from the customers. The new ABS 2012 [E&D] standards and the like are requiring modifications to what we did before, and that's affecting both the shipyards as well as NOV. So there's more complexity this time around.

Look, the good news is, though, we got both the shipyards and NOV have got great teams who have climbed this mountain before and it's a little steeper this time, but we are climbing it. We are moving up successfully. We get better month-by-month, and so I know we are going in the right direction on this.

James West - *Barclays Capital - Analyst*

Got it. Okay great, thanks guys.

Clay Williams - *National Oilwell Varco Inc - President, COO*

Thanks

Operator

Thank you. The next question is from Kurt Hallead from RBC Capital Markets.

Kurt Hallead - *RBC Capital Markets - Analyst*

Thank you. Good morning.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Good morning, Kurt

Kurt Hallead - *RBC Capital Markets - Analyst*

Thanks so much for all the additional information and on the order outlook, and I just wanted to probe a little bit further in terms of the second half of the year in the progression.

I think,Jeremy, when you were up at our conference back in June, you indicated that the FPSO opportunity set for 2013 from an order flow standpoint could approach maybe $1 billion. I was wondering if you can give us a quick update on that, and whether you still think that's achievable?

Jeremy Thigpen - *National Oilwell Varco Inc - SVP & CFO*

Yes, based on the first half order in-take, that appears very achievable. Again, as Pete kind of alluded to, these orders have pushed to the right for the last couple of years, so it's been frustrating for us, but we are finally starting to get some traction.

We've got enough feed studies out there, enough quotations that are out there, that we feel confident that we could match what we did in the first half of the year and deliver $1 billion in new orders.

Kurt Hallead - *RBC Capital Markets - Analyst*

Okay, great. And then just to follow-up on the PSS part of the business, I'd like to re-calibrate every now and then in terms of the -- given the general sense of what the biggest businesses are within PSS at this juncture, and are you looking at the same dynamic that everyone else is in terms of the well count, the horizontal well count, really being the key driver for the PSS revenue growth during the second half of the year instead of looking at rig count?

Clay Williams - *National Oilwell Varco Inc - President, COO*

There's a variety of products in PS&S. I think most are probably a little more well-count driven, but some are more rig-count driven, and so the former group has probably a little brighter outlook as the well count and [putages] continue to rise. And those would include things like drill-pipe bits, downhole motors, which we added to with Robbins & Myers.

On the more rig count-driven businesses, areas like well-side services are seeing a bit of a shift as the industry moves away from more exploratory drilling to hold acreage to more well manufacturing pad drilling sorts of activities.

Part of their game plan is to pressure vendors, rental equipment companies, service providers, like some of our businesses within PS&S, and so we are kind of resetting our business and adjusting to that more factory-like setting and making really good progress there as well.

But overall what's encouraging is, and I think we alluded to this in our comments, a lot of things, particularly consumables that we sell within the PS&S, we're starting to see demand pick up. We had good order rates late in June and July, and so, I'm actually pretty optimistic that customers are running out of consumables are having to come back to us.

Kurt Hallead - *RBC Capital Markets - Analyst*

Okay. And then if I just may on one final. This delivery schedule on the rigs, and you spent quite a bit of time talking this through, I guess I'm still curious as to whether or not -- is this new time frame going to be -- are we basically at maximum efficiency for delivery times, or do you guys really think there's still some time that's going to be shaved off deliveries? How do you look at that longer term?

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

I'll take the first cut on it, Kurt. I think when you take a look at what we've been able to do with that over the years, if you go back to 1996, 1997, it was four years for a drillship. You go back into the 2005, 2006 time frame, it was 36 to 40 months, and then now, we've been able to cut that down to 26 months, the one that I just talked about us delivering.

I think -- obviously we are a believer in the learning curve and the race without a finish line, but at some point in time, you start bumping up against reality, and I think today, getting a drillship out in 26 months is, as I said earlier, is Herculean. You might get a little bit better, but I highly doubt it. That's moving everything about as fast as the logistics change is going to move it.

Kurt Hallead - *RBC Capital Markets - Analyst*

Great, I appreciate all that insight and color. Thank you.

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Thanks, Kurt.

Operator

Thank you. The last question comes from Edward Muztafago from Societe Generale.

Edward Muztafago - *Societe Generale - Analyst*

Hey guys, thanks for getting my question in there. I was just wondering if you could maybe go a little bit deeper into the Canadian cyclicality, and just kind of give us an idea as to how much that's impacted earnings overall in the quarter. I know, obviously, that was more than offset by some other issues, but just trying to think about, sequentially, how that plays out in 3Q.

Clay Williams - *National Oilwell Varco Inc - President, COO*

Yes, overall, our revenue in Canada fell nearly $100 million sequentially. It always falls pretty significantly. That's mostly within our Petroleum Services and Supplies group.

What's particularly painful about that is that the leverage on that decline is always really, really high. So you have, for instance, some rental equipment businesses up there in Canada where the second quarter, traditionally, a lot of rental tools come in and go off rent. We use that quarter to fix them and to get them ready for the pick-up in activity.

And so it's a period of time when you are incurring all of your costs, and in fact, your costs may actually go up a little bit, offset by revenue for lots of businesses that drop dramatically with the rig count.

This year, Canada was particularly painful. Break-up started early in April and has continued throughout the second quarter. Starting to come back now in July, saw a rig count pick-up up there, but just terrible flooding. It also impacted Bakken in the northern US, as well, to some extent, and so took a big toll on our operations.

But PS&S is the segment that most hardest hit by that phenomenon, and then distribution also saw a big decline at high decrementals for its business as well.

Edward Muztafago - *Societe Generale - Analyst*

Thank you. The revenue number there is actually very helpful.

And just wondering perhaps on a little bit of a higher level, can you talk about -- we've seen something like 13 new build floaters awarded through mid-July. As you kind of talk to that shipyards, and you partly alluded to what the outlook is like for the third quarter, but do you think the run rate that we're seeing right now is sustainable through the rest of the year? And maybe if you want to just opine a little bit as you look out into 2014, there has been some chatter about an increased interest in a mid-water retirement cycle -- maybe, how that plays into your longer-term outlook?

Clay Williams - *National Oilwell Varco Inc - President, COO*

Yes, the quarter before last I think we delved into this topic. We're big believers in fundamentals here, so if the drilling contractors are making good day rates, and that's supported by high oil prices and there's lots of good unexplored prospects in the deep-water around the world, we're simple guys. We think that's going to result in a lot more deep water drilling rigs, and so for that reason, yes, we continue to be bullish.

What I think we find, are drilling contractors who tell Wall Street, well, we are not so sure, maybe we are kind of loaded up, there's a lot of capacity coming in, which there is, but heck, there's a lot of oil to be explored for, too.

And I think we all have perfect visibility into the supply of new rigs flowing into the marketplace over the next several years. What market has less visibility into is demand from the E&Ps.

But with both WTI and Brent trading over $100 a barrel, as well as millions of unexplored acres out there left to be prospected, we think that sets up a pretty good set of fundamentals to drive sustained demand over the long haul.

So, yes, I'm going to tell you I think the economics on building rigs today is strong. You know high -- I hear kind of mid-to-high teens, unlevered returns, and levered returns up in the 20s, and to me that's probably pretty attractive, pretty good opportunity for a lot of these drillers to grow organically. And we think that's going to be the engine that's going to continue to fuel the order book at NOV.

Edward Muztafago - *Societe Generale - Analyst*

Okay, thanks, and I guess no commentary perhaps on the back half in terms of just the run rate of sustainability ability of new orders here?

Clay Williams - *National Oilwell Varco Inc - President, COO*

Let me reiterate what we said in the opening comments. We think Q3 will be strong. We sold 8 floaters in each of the first two quarters of the year. There's a possibility we could sell another eight in Q3 as well. And then I think I also specifically said double-digit number of jack-ups, too, so, yes, we are calling for another strong order. I don't know if we'll repeat $3.15 billion, but you know it should be good.

Edward Muztafago - *Societe Generale - Analyst*

Okay, I was just trying to peek into the fourth quarter there, but that's helpful. Thank you

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Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

We'll only give you a quarter at a time. (laughter)

Edward Muztafago - *Societe Generale - Analyst*

I thought I could be more coy and (inaudible) -- (laughter)

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

Didn't work, doesn't work. (laughter)

Edward Muztafago - *Societe Generale - Analyst*

Thank you.

Operator

Thank you. Mr. Miller, do you have any final remarks?

Pete Miller - *National Oilwell Varco Inc - Chairman, CEO*

I'd like to thank everybody for calling in, and we look forward to talking to you in late October with the results of our third quarter. Thank you very, very much.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
