OVERVIEW:
NOV reported 1Q15 revenues of $4.8b, consolidated operating profit, excluding other items, of $692m, and fully diluted EPS of $0.76.
Ladies and gentleman, apologies. We had some technical issues here on our end. We do plan to go a full hour. So we are going to start over again from the beginning. I understand that some of you couldn't hear our opening comments. And so, Loren, I am going to hand it back to you to start all over.

Yes, and thank you very much Clay. And what we want to do is before we begin this discussion of National Oilwell Varco, Inc.'s financial results from the first quarter ended March 31, 2015, 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 it over to Clay.

Thank you Loren, and welcome everyone to version 2.0 of National Oilwell Varco first-quarter 2015 earnings conference call. This morning we announced that the Company earned $0.76 per fully diluted share in its first quarter ended March 31, 2015. Excluding charges related to a voluntary retirement program, the write-down of Venezuela assets, and a discrete non-recurring foreign tax exposure, fully diluted earnings per share were $1.14, down 33% sequentially, down 12% year over year, excluding other items from all quarters.

Revenues were $4.8 billion in the first quarter of 2015, down 16% sequentially and down 1% year over year. Consolidated operating profit, excluding other items, was $692 million, or 14.4% of sales in the first quarter. Decremental operating leverage was 37% sequentially.

First quarter EBITDA, excluding charges, was $837 million, or 17.4% of sales. This compares to $1.2 billion in the prior quarter and $1 billion in the first quarter of last year, excluding other items from all periods.
Business in the first quarter of 2015 declined significantly in response to lower oil prices. We entered 2015 with oil prices 0.5 of what they were just a few short months ago. Now, all commodity prices signal producers to add or diminish supply, and oil is no exception. So, in the first quarter, with global supply's outpacing global demand by 1.5 million barrels per day, the oil price signal rolled through our industry like thunder, and thunderstruck participants responded vigorously.

Spending is falling in almost all regions, driving the worldwide rig count down by one-third since September. The rate of decline of active rigs, most acute across North America, is breathtaking and unequalled in prior downturns.

NOV saw activities and orders slow in just about all areas of our business, and all of our units are experiencing pricing pressure. Most of us in the oil and gas industry have been through downturns many times before, and have honed our skills at rapidly adjusting spending through the cycles.

So following record results for National Oilwell Varco in the fourth quarter of 2014, our revenue declined 16% in Q1 and is expected to decline further for at least the next few quarters. There has been much debate as to the shape and timing of the eventual oil price recovery. We don't know if we are in for a V-shaped or a U-shaped or a W-shaped recovery, but we will all know soon because the industry is conducting its first grand global empirical test of price elasticity of the supply of oil.

What we do know is that North American oil shales are emerging as the new swing source of oil. Since 2011 in a $100 per barrel price environment, North American oil shales grew about 4.5 million barrels per day while the rest of the world posted a 0.5 million barrel per day production decline. We know individual shale wells decline exceedingly quickly, 8 to 10 times the rate of conventional resources.

We know that the sharp and rapid decline and the addition of fresh and new producing wells of all kinds will result in diminished global oil production over time. We also know that the excess productive capacity around the world, the oversupply is, thankfully, just a few percent, far less than my first downturn of the 1980s.

We also know that global economic activity, which drives oil demand, is not strong and that lower oil prices will act as an economic stimulus to many economies. The facts as we know them point to a pretty good foundation for an eventual recovery.

All wells, all fields, and all basins left wanting for investment inevitably decline. And economies need more energy to grow. So demand for oil will grow, driven by the engine of people desiring a better standard of living. Eventually supply and demand curves will cross and we will see oil prices signaling producers to get back to production growth.

We just don’t know when. And frankly we can’t wait for the eventual recovery. Therefore, 2015 will be a year for restructuring at NOV. Given our short-term lack of visibility into the timing of the recovery, our approach will be to focus on costs, without sacrificing our long-term opportunities.

We are managing our infrastructure to the market. Reducing costs as utilization levels permit. This began in earnest in the first quarter, when we reduced SG&A 8% coming off exceedingly high levels of utilization last year.

We started with a voluntary early retirement program for our long-serving employees, and this is being followed by reductions in facilities and workforce as utilization dictates. We are working to in-source more of our production needs, as utilization declines across manufacturing plants with a goal of preserving as much work as possible for our plants and our teams.

We expect to pull in about 650,000 machining hours from our vendors this year, and another 600,000 machining hours next year in our rig systems segment, for example, and comparable efforts are under way in Wellbore Technologies in the other segments as well. While reductions in contact labor, overtime, and shifts help mitigate decriptors, we will face underabsorbtion overall. We are also under pricing pressure and requests to cancel work, which we are vigorously opposing.

We are seeking to structure discounts around volume-related rebates tied to payments and expanded product purchases, in effect picking our points to try and win greater share, defend volumes and improve absorption in our plants. We don’t want our customers to get out of the habit of buying from us, to maximize our market position when the inevitable recovery comes.
This downturn is an opportunity to become better. We have long focused on operational excellence, continually evolving to utilize modern techniques to be the best manufacturer. This downturn will drive us to improve efficiency in a supply chain straining through the last decade to accommodate extraordinarily high demands from our customers.

Through the last decade, NOV responded with an exceptional level of effectiveness to a macro cycle upgrade to the fleet of equipment the industry relies on. The next challenge for us is to retrench and transform, to pivot to new opportunities that are emerging, and to continue to lead the industry.

To that end, we will continue to invest in numerous, long-term growth opportunities to execute our long-term strategic plan. Technology and equipment have transformed out industry to enable accessing new frontiers like deepwater and to access new sources of hydrocarbons from poor-quality reservoir rocks, like shales.

NOV’s DNA is to continue to apply purposeful innovation to continually expand the opportunity set of attractive investments for our customers. This is a tough market with tough challenges, but they are not new to us.

Given the difficult oil price backdrop, our first quarter orders were weak for our Rig Systems segment. We booked orders of $236 million, 0.5 of what we booked in the fourth quarter of 2014. We also booked a $99 million adjustment to our backlog related to FX related to contracts denominated in foreign currencies. Since the costs associated with these are also denominated in those same foreign currencies, there is no margin impact -- percentage impact, only a revenue impact.

Shipments out of backlog totaled $2.25 billion, yielding an ending backlog of $10.4 billion, down 17% sequentially. The quarter included two jack-up packages and a handful of land rigs, mostly targeting Middle East and Latin American markets.

Our outlook for orders for the second quarter is marginally better, but will remain slow as customers who need equipment are taking their time ordering. Areas of comparative strength are seen in platform rigs, fleet spares, components and software upgrades to improve tripping efficiency offshore, think iron roughnecks and handling tools, and BOP’s, land rigs and well service rigs for Latin America and the Middle East.

We continue to see growth in SPS projects despite some being postponed, some rigs being stacked or retired which had planned SPS’s, and others seeing their scope reduced. We believe contractors are seeking to differentiate the efficiency of their offshore rigs in a crowded marketplace, and this will shape our near-term offshore rig orders. And that a desire for Tier 1 AC land rigs in international markets will characterize the next few quarters for land demand.

We also expect many more offshore rig retirements in addition to the 30-plus already announced, which will speed the inevitable fleet high-grading process and bring offshore rig supply/demand into better balance. Many of our North American land customers indicate they want to pursue upgrading their fleets to Tier 1 in advance of a potential 2016 recovery.

In the short run, though, we expect continued soft orders as contractors struggle with lower dayrates, cannibalize components off of stacked rigs in lieu of placing new orders with NOV. Installation and commissioning activity around our existing offshore new-build backlog remains very high. However, in several instances we and the shipyards are working with the drilling contractors to delay rig deliveries.

This helps the drilling contractors postpone stacking costs on uncontracted new-build deliveries, and it will help us manage supply chain, freight and installation and commissioning costs more effectively, and level load across our operations. We are also curtailing activity related to our Brazilian rigs, which I’ll speak to more in just a moment.

As a consequence, we are in effect shifting offshore revenue out of backlog into subsequent quarters. This will impact our near-term Rig System segment revenue forecast. Near-term total revenues for the Rig Systems segment will decline significantly in the second quarter due to this effect, as well as the expectation of lower revenues associated with land rig shipments in the second quarter. We expect second quarter revenues for this segment to be in the range of about $1.8 billion, down about 30% sequentially.
Within our backlog at March 31 are orders for 22 drilling equipment packages for floating rigs for Brazil, totaling $3.3 billion. At the time of our last call the ultimate customer for these rigs, a financing vehicle 10% owned by Petrobras called Sete, was within a day or two of securing long-term financing to get current on payments to the Brazilian shipyards building these rigs, which are NOV’s contractual customers.

Unfortunately, the corruption scandal in Brazil was linked to Sete just prior to signing, which resulted in the banks backing away from the proposed financing package then on the table. Since then our Brazilian shipyard customers have come under significant financial stress, due to a lack of payments from Sete.

Currently we understand that the banks and the shareholders have granted Sete a 90-day window to seek a solution to its financing struggle, and we know that there is an intense level of activity around securing permanent financing solution involving several banks. The origin of the rig-building program in Brazil arises from public policy goals set forth by the government to foster a local oilfield services and shipyard industry to employ more Brazilians, and thus far Petrobras remains contractually committed to employing these locally-built rigs once they are completed.

There are specific requirements within the lease concessions for pre-salt blocks granted to Petrobras by the Brazilian government which require local content ranging from 37% to 55%. According to the Brazilian press, these local content requirements have created over 120,000 jobs in the country.

We therefore continue to believe that there is considerable political pressure in Brazil to ultimately get these rigs built. We believe these rigs will eventually get built. We are engaged with our shipyard customers in Brazil, however, to adjust manufacturing schedules for the now delayed programs, and are slowing activity pending payment.

Our contracts are still in place, and the down payments and progress billings we have achieved thus far exceed our investment, as per our contracts. One of the four shipyards we are working for has continued to pay us, due to their Asian partner stepping in to finance operations there.

During the first quarter we recognized $172 million in revenues associated with the program, about 7% of total segment revenues, but this will slow substantially for at least the next couple of quarters, contributing to our lower guidance for Rig Systems’ Q2 revenues. And apart from the derricks on these rigs, the components we have built in WIP are marketable in the event of ultimate default, which we still consider unlikely. Overall, we remain confident in the eventual monetization of our existing contractual Rig Systems backlog, both in Brazil and elsewhere, and are working with customers to modify schedules to accommodate the challenges they are facing and to ease the stress on our supply chain.

Turning to our other segments, revenues from Rig Aftermarket fell 15% sequentially, more than we expected, as drilling contractors curtailed expenditures sharply, much more than we anticipated. We typically see the first several weeks of the year slow seasonally as contractors set budgets, and then see spare parts orders and repair services pick up in March as contractors begin work under their new annual budgets.

However this year, the March pick-up never came and April has remained soft. We expect flattish sequential revenues in the second quarter, with rising SPS work and relatively strong demand in the Middle East offset by mounting price pressure on repair services and drilling expendables, which will drive margins lower by a couple of hundred basis points. Our strategy within Rig Aftermarket is unchanged, to capitalize on our leading and growing install base of NOV equipment, to provide OEM support close to our customers’ rigs.

The Wellbore Technologies segment declined 23% sequentially, with all major business units posting declines and significant price pressure tied to drilling activity. Drill pipe sales declined the most, coming off an exceptional fourth quarter which was near our record. And orders for drill pipe slowed to a trickle in the first quarter, as most operators are cannibalizing pipe from idled rigs in lieu of buying new pipe.

Looking into the second quarter, we expect Wellbore Technologies to decline in the double-digit percentage range at a high decremental margins, as discounting continues to outpace the speed of our cost reductions. One bright spot within Wellbore Technologies is our IntelliServ wired drill pipe unit, and new closed loop drilling automation services through our Dynamic Drilling Solutions business unit that continued to attract operator interest through demonstrated reductions in drilling times. We are very excited about the potential of this technology to transform drilling efficiency and materially improve E&P drilling economics in shales, in the deepwater, and in other basins around the globe.
Completion and Production Solutions segment revenues declined 28% sequentially at 28% decremental margins, as most products within this group saw sliding demand. Our backlog for Completion and Production Solutions segment declined 18% during the first quarter, as net new orders of $327 million were offset by revenues out of backlog of $563 million and an FX adjustment of $81 million.

Demand for composite pipe and process and flow products saw book-to-bill levels close to 1 in the first quarter, but we saw sharp declines in pressure pumping equipment demand. Orders for flexibles and FPSO products also fell short of revenues out of backlog. Ending backlog for the first quarter was $1.46 billion.

We are pleased that our FPSO turret business achieved record revenue levels in the first quarter, with great progress on existing projects. Interest by IOCs and NOCs in our FPSO strategy has risen considerably through the past few quarters, as operators are actively seeking to pioneer new ways of constructing these complex vessels to achieve on-time, on-budget deliveries and, ultimately, improved development economics. The industry appears to be latching onto our standardization and modular construction thesis, recognizing that we must do things differently to develop the billions of barrels that have been discovered in the deepwater.

Design one, build two, is a great idea. We are engaged on a dozen or so projects, but project awards are going slowly as most are conducting extended FEED studies to reengineer and recalibrate costs, and waiting for deflation in the supply chains. We continue to believe that NOV's extensive experience in managing complex equipment, vessel integration projects in shipyards positions us well to pioneer a better way in FPSO construction.

As we expected, our pressure pumping product sales fell sharply during the first quarter as customers delayed picking up their orders and pressed hard for pricing concessions. We closed three facilities within the unit during the first quarter, and continue to reduce costs within our supply chain. North America was hit hardest, but the Middle East and other international markets are more stable, a recurring theme through many of our businesses. Looking to the second quarter, we expect revenues to decline to a few percentage points but margins to fall further as the full force of discounting kicks in.

Obviously our second quarter outlook across all our segments is very guarded, and our situation is fluid. While we face a difficult market near term, we will be looking for revenues to stabilize across Rig Aftermarket, Wellbore Technologies, and Completion and Production Solutions in the second half of the year. And we will manage Rig Systems to the backlog and work available in the marketplace.

The significant drilling cost deflation underway will benefit producers. A modest oil price rebound coupled with lower drilling costs may bring about some green shoots of activity in the second half. And we'll be watching closely, but as I said, we plan to manage to whatever size the market is across all our businesses, quarter by quarter.

Prior downturns in our industry have provided great opportunity for those with capital and foresight to look through near-term adversity. NOV is a remarkable franchise. We are also at the forefront of several transformative trends in the oil business.

Closed loop drilling automation and FPSO supply chain management are two I mentioned earlier. Add to the list the key global supplier of pressure pumping and coiled tubing technologies, which have enabled hydraulic fracture stimulation and the shale revolution. Gas-tight conductor connections, thermal desorption technologies to clean up drill cuttings for safe disposal, RFID technologies to track the myriad of assets used by this industry. Flexible pipe systems for subsea developments, water desalination, de-oiling and sand separation technologies. Reeled composite pipe for flowlines, bits, drill pipe, and top drives used to set world records on an extended reach well exceeding 8 miles a few weeks ago, permanent magnet advancements for rotating equipment.

Although the industry is still in the early innings of upgrading to AC electronic-controlled rigs, we are at work designing the next generation of drilling rigs. And we will be there with new and better technology for the inevitable upturn.

We continue to invest in technology and new products to grow organically. And we will continue to pursue interesting acquisitions in this environment, making sure that we are very disciplined about valuations in view of the current market challenges. We closed two transactions so far in 2015, and have several more negotiations underway.
We have also retired 10% of our shares outstanding through the past several months, given our stock price downturn, because we view it as an extraordinary opportunity to reduce our cost of capital in a historically low interest rate environment. Our debt increased $1.1 billion as a result, but with our $3 billion cash balance, net debt is still only $1.2 billion, about 6% of capitalization. I will note, too, that we are currently slowing our share repurchases in view of some potential acquisition candidates coming into sharper focus.

I am proud of the leadership NOV employees provide in this endeavor. While the current market is very tough, we are well positioned with strong financial and operating resources and an industry-leading installed base of complex equipment in need of continuing close OEM aftermarket support. I am grateful to all of the great NOV employees who are remaining focused on taking care of our customers through this difficult time.

We announced last week that our CFO, Jeremy Thigpen, has left us to become CEO at one of our important offshore drilling customers, Transocean Limited. We appreciate Jeremy’s leadership through 18 years of service here in both finance and operations, and we wish him and Transocean the very best.

Our very talented Chief Accounting Officer, Scott Duff, has agreed to serve as Interim CFO as we conduct a search process for our next CFO. And our long-serving Vice President of Investor and Industry Relations, Loren Singletary, here with me today, will pinch-hit on today’s call to step us through the detailed financial results by segment. So with that, let me turn it over to Loren.

Loren Singletary - National Oilwell Varco, Inc. - VP of Investor and Industry Relations

Thank you, Clay. National Oil Varco Rig Systems generated revenues of $2.5 billion, down 1% sequentially but up 12% compared to the first quarter of 2014, as we continued to execute on our backlog, completing 14 offshore drilling equipment packages in the quarter. Operating profit for the segment was $488 million, yielding an operating margins of 19.3%, down 70 basis points both sequentially and year over year. EBITDA was $511 million, or 20.3% of sales.

Q4 to Q1, offshore revenues, which represent 75% of the segment total, declined slightly. And land revenues, which represent 25% of the segment total, remained flat. Segment margins fell slightly as bad debt accruals more than offset cost reduction efforts in the quarter.

Now let’s discuss capital equipment orders and resulting backlog for National Oil Varco’s Rig Systems. In the first quarter we received $236 million in new orders and recognized $2.25 billion of revenue out of backlog, and an FX adjustment of $99 million, resulting in a book-to-bill of 0.11 times and a quarter-ending backlog of $10.4 billion, down 17% sequentially. As Clay mentioned earlier, orders were 0.5 of what they were in Q4. And Q1 was one of the first quarters in recent history where land bookings outweighed offshore bookings. Of the total $10.4 billion in backlog, approximately 91% is offshore and 92% is destined for international markets.

As we move into the second quarter of 2015, Clay noted that the NOV Rig Systems revenues will decline as much as 30%. We expect revenue out of backlog to slow to the range of $1.4 billion to $1.5 billion from Q1’s $2.25 billion as we ship fewer land rigs and see the impact of accommodating certain customers requested delivery modifications for offshore new-builds. We believe margins will decline into the mid-teens percentage from 19.3% in the first quarter.

Our goal in working with our customers on these scheduling modifications to maximize the margins on contracts we have in hand and to maintain our core team capable of exceptional performance. This is the right thing to do for our franchise and for our shareholders.

As we have noted many times before, NOV and our shipyard partners have been extremely busy scaling to large-numbers of offshore floating new-build projects through the past few years, most with build schedules of less than three years, which is a considerably faster pace than the four year-plus delivery schedules that characterized orders from 2005 through 2008. This shift has resulted in higher costs from a supply chain and NOV infrastructure straining to accommodate these more aggressive delivery schedules.

Our record results of 2014 to meet these demanding deliveries drove up overtime and air freight and extended our supply chain past optimal cost. Spreading the work out now to later quarters gives us time to manage our supply chain costs down, to achieve lower pricing from our vendors, to
avoid excess overtime cost, and to tackle these projects with our core team in a more efficient, more measured way. And as Clay noted, it helps our customers cope with their stacking cost on certain uncontracted rigs.

Our revenue recognition out of backlog will likely be in the range of $1.4 billion to $1.5 billion for the next few quarters. And we expect total segment revenues for the second quarter to be in the range of $1.8 billion.

Our outlook for further offshore new builds remains subdued for the foreseeable future. Nevertheless, we do expect to see some orders for offshore capital equipment as our customers seek efficiency-driven upgrades and spare parts to support their existing rig fleets and SPS activities that will occur.

On land, we expect to see continued demand for Tier 1 AC-driven land rigs in international markets, particularly the Middle East and Latin America. Given our outlook, we are aggressively managing costs down on all fronts.

National Oil Varco Aftermarket generated revenues of $719 million in the first quarter of 2015, down 15% sequentially and down 4% compared to the first quarter of 2014. Revenues fell harder than anticipated as precipitous decline in land rig activity and stacking of relatively younger rigs negatively impacted demand across the aftermarket business.

Operating profit for the segment was $199 million, resulting in operating margins of 27.7%, down 110 basis points sequentially but up 220 basis points year over year. Decremental margins were 35% and EBITDA was $206 million, or 28.7% of sales.

While there is some seasonality in the first quarter revenues for aftermarket, the sequential decline was driven primarily by depressed activity levels. Uncertainty in the marketplace led to our customers reduced spending and consuming existing inventories, cannibalize existing idle rigs, and postponed repair and upgrade work while they watched and waited, like us, for signs of market normalization.

Margins contracted on a reduced volume, and the discounts made in selected areas to maintain existing customer relationships. Land represented an increased percentage of total segment revenues, up 20% in the fourth quarter to 25% in the first, driven by higher activity in Asia and the Middle East. Additionally we have recently expanded our service and repair facilities to align more closely with our customers’ operations, including two new facilities in the United States to support activity in the Permian and the Marcellus.

As we move into the second quarter, we believe National Oil Varco Aftermarket revenues are stable and will remain flattish with a slight increase in spare parts and rising SPS work, offset by rising discounting pressures. Revenues from SPS activities, which occur on a five-year basis, have become much harder to time, as some likely candidates for survey work are stacked or retired amidst the challenging offshore market conditions. But nevertheless, our SPS project count is set to grow in the second quarter.

Operating margins will remain under pressure and may decline slightly from Q1’s 27.7% for several reasons. In the second quarter we will see the full effect of discounts we made for key customers in the first quarter, mostly in repair and services and competitive drilling expendables, and we anticipate our customers to choose lower-margin repair work over refurbishment programs, preferring to do the minimum required for maintenance versus large SPS’s. Our longer-term outlook for this group remains very bright, owing to the significant upgrade in rig technology at work in newer, more modern fleets with higher mix of NOV equipment, and much larger installed base, which carries a pressing need for greater OEM aftermarket support.

For the first quarter of 2015, National Oil Varco Wellbore Technologies generated revenues of $1.2 billion, down 23% sequentially and 8% compared to first quarter of 2014, reflecting drilling activity declines. Operating profit for the segment was $124 million, resulting in operating margins of 10.6%, down 750 basis points sequentially and 690 basis points from the first quarter of 2014.

Sequential decrementals were 42.5%, which were slightly better than anticipated owing to swift cost reduction efforts across the board. EBITDA for the segment was $229 million, or 19.6% of revenue. NOV Wellbore Technologies carries a disproportionately large amount of the Company’s total $190 million D&A load due to intangible assets associated with prior acquisitions, manufacturing and service facility infrastructure and a sizeable rental fleet in two of the segment’s larger business units.
Drilling activity drives NOV Wellbore Technologies. Though drilling activity has not completely abated, average global rig count fell 25% from the fourth quarter average. National Oilwell Varco Wellbore Technologies may be a global business, but it has a significant exposure to North America where rig count declines were the most severe.

In the first quarter, US rig count fell by nearly 800 rigs, declining 66 rigs per week on average. In 2008 and 2009 during the financial crisis, the pace of rig count declines averaged 55 rigs per week at its steepest point. In Canada, unseasonably early break-up meant rig count was down 40% below the previous year.

Our largest businesses were some of the most affected by the depressed activity levels, namely: downhole tools, bits, motors, drill pipe, and solids control and waste management equipment. In the current environment our customers are pressing hard for discounts, and are committed -- and we are committed to preserving our market-leading positions during the downturn.

We are currently experiencing the fastest land rig count -- US land rig count decline in 20 years, and the outlook remains tenuous. Looking into the second quarter of 2015, we believe Wellbore Technologies will be down mid-teens percentage from $1.2 billion on lower activity levels and margins could decline to mid-single digits from 10.6% with mid-40% decrementals, similar to the first quarter sequential leverage.

Fewer rigs drilling fewer wells imply less demand for Wellbore Technologies' tools and services. Where there is demand, competition will be high and pricing pressure will be very fierce. We are actively reducing costs across the segment to reflect reduced activity levels, but cost reductions lag revenue declines as we right-size service and manufacturing infrastructure. Nevertheless, the cost reduction measures we are taking will better position us when the market does turn.

In today’s lower commodity price environment, our customers remain focused on improving economic and drilling efficiencies. At NOV we are developing new technologies that will help them achieve their goals, such as tectonic drill bits, which we are introducing at next week’s OTC, new proprietary threads on drill pipe, and closed-loop drilling automation systems.

We continue to believe that new products are the lifeblood of any technology company, and we’re proud to say that even in today’s down market, our new technologies are gaining traction. And we will continue to innovate on next-generation’s technologies.

National Oil Varco Completion and Production Solutions generated revenues of $948 million for the first quarter of 2015, down 28% sequentially and 5% compared to the first quarter of 2014. Operating profit for the segment was $108 million, resulting in an operating margins of 11.4%, down 480 basis points sequentially and 290 basis points year over year. Sequential decrementals were 28%, and first quarter EBITDA for the segment was $163 million, or 17.2% of sales.

Q4 to Q1, demand declined almost equally for both shorter-cycle activity-driven revenues and revenues from backlog. Declines were primarily driven primarily by nearly 40% reduction in revenues for higher-margin offshore completion equipment, as strong fourth-quarter deliveries did not repeat in the first quarter and North American completion activity slowed. Segment revenues related to production, both on land and offshore, were also negatively impacted by the reduced E&P spending.

Now let’s discuss our capital equipment orders and resulting backlog for National Oil Varco Completion and Production Solutions. In the first quarter we received $327 million in new orders and recognized $563 million of revenue out of backlog, along with a $81 million FX adjustment, resulting in a book-to-bill of 0.58 times and a quarter-ending backlog of $1.5 billion, down 18% sequentially.

Orders were down 30% from the $469 million won in Q4, although orders for composite pipe processing technologies showed relative strength in the quarter. Of the total $1.5 billion backlog, approximately 69% is offshore and 82% is international.

As we move into the second quarter, we believe revenues will tick down slightly from $948 million recognized in the first quarter. We expect revenue out of backlog to be in the range of plus or minus $500 million.
Given the current market uncertainty, we anticipate reduced demand and increased pricing pressure for equipment and technologies across the segment, which will reduce margins into the high-single digits, which implies low 20% decremental margins. As in our other segments, we are actively reducing cost in the NOV Completion and Production Solutions to reflect lower levels of activity.

Our order outlook for onshore completion equipment remains soft, particularly for the North American pressure pumping market, as customers struggle with low utilization of existing equipment. We see customers cannibalizing spare parts and using existing stock wherever possible, but expect demand for repair and maintenance to return well in advance of orders for full frac spreads and coiled tubing units.

By nature, the FPSO-related bookings are uneven quarter to quarter. In today’s lower commodity price environment, we expect orders to slow as customers recalibrate costs for offshore production projects, although FEED-related activities and interest in pre-salt work continues.

Now, let’s discuss our financial statements. Working down the consolidated statement of income for the first quarter of 2015, you will see across the gross margin declined 270 basis points sequentially and 200 basis points year over year to 24.4%. SG&A decreased 8%, or $42 million sequentially, as we continue to make efforts to reduce costs across all business segments. As a percentage of revenue, SG&A was up 90 basis points sequentially and 40 basis points year over year to 10.1%.

Other items were $122 million in the quarter due to charges related to our early retirement plans. Interest expense and interest income were flat sequentially at $26 million and $5 million, respectively. As compared to 2014, interest expense remained $26 million and interest income increased $1 million from $4 million.

Equity income in our Voest Alpine JV decreased $7 million sequentially to $9 million, as demand for casing and drill pipe, and therefore green tube, moderated. Compared to the first quarter of 2014, equity income slightly decreased by $1 million. For the second quarter and full-year 2015, we believe year-over-year equity income will continue to fall as demand for casing and drill pipe decreases.

Other expense for the quarter was $56 million, which represented a $36 million delta sequentially, primarily due to fluctuations in foreign currencies and write-offs. The effective tax rate for the first quarter was 37.6%, which was an additional 9.5% over the 28.1% rate that we posted in the fourth quarter of 2014. Excluding discrete items in the quarter, the Company’s effective tax rate would have been 28.9%. We believe that a 30% to 31% effective tax rate for NOV continues to be a realistic estimate for the remainder of 2015.

If you now quickly turn to the first supplemental schedule, you will see that eliminations were $541 millions for the quarter, down slightly from $556 million in the fourth quarter of 2014. Unallocated expenses and eliminations were $227 million in the quarter, down $2 million sequentially on lower volume of inter-segment revenues.

And finally, if you turn to the last supplemental schedule, you will see that depreciation and amortization expense in the quarter was $190 million, down $9 million from the fourth quarter 2014 and $1 million from the prior year. EBITDA for the first quarter, excluding other items, was $837 million, or 17.4% of sales.

Turning to the balance sheet, our March 31, 2015 balance sheet employed working capital, excluding cash and debt, of $5.8 billion, up $355 million, or 6.6% sequentially. Several factors contributed to the increase, and we expect working capital to convert to cash and begin to fall later in the year.

The largest impact stems from our net of costs in excess of billings, and billings in excess of costs, and customer prepayments, which together make up the level of customer financing of our working capital and are tied to prepayments and progress billings. As orders have declined, down payments have declined, and our progress on projects is outpacing our progress payments, which we saw in the previous downturn of 2009, and which will continue for the next few quarters.

Working capital impact of this was $425 million in the first quarter. Offsetting items include our accounts receivable, which decreased $392 million, or 9% sequentially, due to lower revenues. Inventory increased $97 million, or 1.8% sequentially, mostly due to the transfer of certain short-lived downhole rental tools from PP&E into inventory.
While inventory is declining across most businesses, others are still receiving components ordered into construction schedules. So we expect inventory to begin to decline later in the year as we adjust our supply chain. We also had some customers postponing receipt of orders due to market conditions, which should turn around in this quarter. Also leading to a sequential increase in working capital, accounts payable, accrued compensation and accrued liabilities decreased $419 million, which they do every year in the first quarter.

For the quarter, the Company generated $114 million in cash flow from operations. Capital spending for the first quarter was $130 million, down 44% sequentially. In the quarter we also made dividend payments of $85 million (sic - see First Quarter Earnings Conference Call Remarks, "$185 million") and we spent $1.33 billion to repurchase 24.5 million shares for a total of $2.1 billion in share repurchases under our $3 billion authorization.

To fund the share repurchases in the quarter, we borrowed $1.1 billion using our commercial paper program, which increased total debt to $4.2 billion and our net-debt-to-capitalization to a very manageable 6.4%. As a result, we ended the first quarter of 2015 with a cash balance of $3 billion, down $512 million sequentially. Of that $3 billion in cash, almost 7% of the balance was in the US at March 31, 2015.

In summary, we saw spending and orders slow in all areas of the business as lower commodity price drove down E&P capital spending and drilling activity. And we have a challenging quarter ahead as we see the full impact of reduced activity levels and pricing pressures on our business.

As an industry, we are actively reducing costs throughout the supply chain as we seek new levels of efficiency. While it is early and uncertain, we are encouraged as rig count declines begin to slow and we get closer to trough levels.

Deflationary costs may entice improved levels of activity, and as our industry improves from a contraction mode to an expansion mode, NOV will start to see the full effect of the cost reduction efforts we are making today. Our continued investment in technologies, capacity, and aftermarket support have made us the oilfield’s preferred equipment and technology provider. And as we pivot to new opportunities, we expect National Oilwell to emerge a stronger, more resilient and more dependable partner for our customers. With that, we would like to open up for questions.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions)

And from Raymond James we have Marshall Adkins online. Please go ahead.


Good morning, guys. As usual, a very, very thorough overview. We appreciate that. I don't have a lot of real specific ones.

I want to ask just kind of a bigger picture broader question, Clay. The industry obviously has changed dramatically in the last few years. We're starting to see dollars flow more into the US versus offshore, given the improving economics here.

How do you see NOV evolving over the next five years? I know that's kind of a big picture question, but I just want to get a sense of how you adjust to the changing environment from one where you've dominated offshore rigs and where improving your offshore completion stuff to one where maybe more dollars are spent in the US?
Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman

Yes. Great question, Marshall, and something we’re obviously continuing to think about here. We benefited greatly from a lot of offshore rig building through the last decade, and have been a big participant in that. And we’ve also done a lot -- we’ve been very transactional. We’ve invested a lot of M&A capital through the last decade.

When we look back to the past 10 years, 97% of our M&A capital have gone into our other three segments, really away from the rig-building space, building out really interesting positions, trying to position us for option value across multiple trends underway. So when we look at, for instance, a shale well drilling operation, what you see out there is a Tier 1 rig, premium drill pipe, downhole tools, mud motors. You see on the completion side coil tubing units, in-coil tubing, frac spreads, sanders, mixing units, basically all of the picks and shovels. All of the hardware that go into the unconventional shale trend, NOV’s global-leading provider of.

We look across the oilfield and we see opportunities in waste management. And so things like thermal absorption technology to clean up drill cuttings. Water management opportunities, we’ve got some great technologies in around osmosis clean up and desalinization of water. De-oiling of water with our WaterWolf products.

So we’re doing more on the production side. So this has been -- we’ve had a steady application of capital into other trends, recognizing that this industry always changes. And over the past few years, of course, the big change were the shales have emerged as a much lower marginal cost source of oil and the deepwater has some challenges.

But I also know from cycle to cycle, marginal costs sort of rearrange themselves. There’s a lot of smart people in this industry focused on their particular resource base. And with regard to the deepwater, I think certainly the marginal costs out there are coming down. And NOV plans on being a part of that.

So when it comes to building FPSO vessels, the industry’s being challenged. We thing we’ve got some great ideas to apply there to bring cost down.

The owners of the deepwater reservoirs are experiencing much lower drilling costs with the deflation that has gone on in the drilling space. And these joint ventures that you’ve heard about that are really focused on subsea processes, I think are going to have a great benefit, too.

There’s a lot of hay to be made here with reducing back pressures on reservoirs, subsea lifting, subsea separation. And I think you kind of add all that up, and marginal costs for deepwater reserves are going to come down.

What we try to do at NOV is to position ourselves across these various trends and really sort of maximize option value in the participation of all these trends. So looking forward, we see great opportunity as all participants try to reduce their marginal cost.

We also see a lot more NOV equipment out there that’s going to need a lot more aftermarket support. And we’ve been investing in that footprint globally, and are going to be there to take care of those rigs.


So obviously you’ve had this great transformation. You have an incredibly strong balance sheet. And over the historical cycles, you always end up being better. Does that mean we transform this balance sheet into more M&A, particularly in those three other parts of the business you built up the last five years?

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman

Yes, we are looking hard at what’s next for NOV. And I think we are very, very good at deploying capital into acquisition opportunities and then integrating those and maximizing returns on those opportunities. And so we are engaged in lots of conversations out there.
There's a big merger you may have heard about. We're really interested in seeing what comes out of that. So all these downturns provide pretty extraordinary opportunities to deploy capital, to kind of reposition ourselves for the next upturn. So that's what we're looking to do.

I'm actually pretty excited about that. We're doing the painful things, reducing costs as required, but the more fun aspects to think about through the downturn, what do we look like we come out? And our plan is to be stronger and better and to maximize opportunities in the downturn.

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Great works, guys. Thanks.

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**Clay Williams** - National Oilwell Varco, Inc. - President, CEO & Chairman

Thank you, Marshall.

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**Operator**

From RBC we have Kurt Hallead on the line. Please go ahead.

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**Kurt Hallead** - RBC Capital Markets - Analyst

Hey, good morning.

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**Clay Williams** - National Oilwell Varco, Inc. - President, CEO & Chairman

Hey, Kurt.

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**Kurt Hallead** - RBC Capital Markets - Analyst

So you guys again, I echo Marshall's about providing excellent information. Appreciate all that info. At your Analyst Day back in November, you guys outlined a very long-term outlook, predicated some of it, or at least based some of it, on the Exxon's forty-year outlook, or so on and so forth.

I don't imagine in six months' time that really changes a 40-year outlook. But given the dynamics in the offshore drilling business, how do you assess the prospective structural decline in this cycle versus any other offshore drilling cycle that you may have been a part of, Clay or Loren, however you want -- may address that.

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**Clay Williams** - National Oilwell Varco, Inc. - President, CEO & Chairman

Yes, we talked very explicit at our Analyst Day about basing our strategic plans on a generational look at oil and gas supply, which the Exxon Mobil Outlook 2040 is. And certainly -- but the other thing we highlighted at that conference, if you remember, Kurt, is the fact that we go through cyclical downturns.

So this is not -- where we are today is not a surprise to us. I think the challenge for management is to make sure we're looking through this and continuing to work on a long-term strategic plans and execute our long-term vision, which is still very, very exciting.

With regards to the offshore, like I mentioned earlier, all sources of crude are continually working on reducing their marginal cost, to slide down that marginal cost curve and not be the last barrel produced in terms of economic efficiency. And the offshore is absolutely no exception.
And so what’s encouraging about what we see today is that at $100 a barrel, there’s not as much incentive to do things differently. When oil price drop to $50 a barrel and the IOC’s have found, for instance, 5 billion barrels in the lower tertiary in the Gulf of Mexico, there’s a strong incentive to figure out. They know the resource base is there.

How do we figure out how to produce that at lower cost? And they have the extra tailwind of drilling process deflation. Pricing is dropping for services on drilling those wells on the rigs required, the dayrates around the rigs required to drill those wells.

And so it’s a pretty good backdrop to do things differently. And there’s a lot of active and constructive participation from our customers around that. We will bring the marginal costs down on subsea barrels.

Loren Singletary - National Oilwell Varco, Inc. - VP of Investor and Industry Relations

I might add, Kurt, that even in the darkest days of the 1980s, we never went a year when we didn’t sell an offshore rig, whether it was a jack-up or a floating rig of some sort. And I think that with the retirements and the scrapping of offshore rigs today at new high levels, I think that we’ll get a balance of offshore floating rigs sooner than later.

So we’re probably in a new paradigm, really, for the offshore market. But the next couple of quarters, maybe the next year or so, are going to be pretty skinny. But we will still be selling a few rigs in the next year.

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman

That’s a great point. And the rigs that are working out there are going to need components for replacement and they’re going to need components for upgrade. And that’s kind of the base business we’ve survived on in the 1980s and 1990s.

Kurt Hallead - RBC Capital Markets - Analyst

Okay, great. And then maybe a quick follow-up here is, when you talk about a number of different M&A transactions and perspective businesses that may have to be sold, or at least ones that Haliburton already put on the market, you see this as a potential transformative opportunity for NOV?

I know you guys have typically not wanted to be involved in the services element of things. Are you guys pretty much going to remain the equipment provider of choice? How are you assessing the outlook here?

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman

We’re all about deploying capital into interesting situations to enhance competitive advantage and enhance our franchise. And so we tend to look at all opportunities continuously and reassess what we are, where we’re going continuously. So I’ll leave it that way. But we’re always looking for opportunities to deploy capital for the benefit of our shareholders.

Kurt Hallead - RBC Capital Markets - Analyst

Great. Hey, thanks guys. Appreciate it.

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman

Think you, Kurt.
Operator
From Simmons and Company we have Bill Herbert online. Please go ahead.

Bill Herbert - Simmons & Company International - Analyst
Thanks. Good morning. Actually a question along the same lines, and I'm going to widen it a little bit here. So a couple of recurring queries, and sort of a subtext of this call is the prospects for transformation. I guess my question is similar to what was just expressed. The circumference of plausible industrial fit, has it widened? And same question with regard to scale in terms of the size of the deal that you're willing to do and the price that you're willing to pay for it?

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman
(Laughter) Not much of which I can answer, or will answer very quantitatively. We maximize returns by trying to minimize capital going into these opportunities. We are a veteran of many, many, many transactions. We've done this many times before and built up global-leading franchises around the world, across pretty much all that we do.

We're number one in just about everything that we do. And that's very central to our strategy. And so in terms of what comes available, not just out of the big red/blue merger we've all been talking about, but more broadly, what's out there, what's possible. We're always looking at opportunities.

But the cornerstone of that effort really resides in market leadership. We've been very clear. We think market leadership carries demonstrable competitive all advantage in this space.

We think we reduce risk for our customers by being market leader. We think scale gets us up learning curves faster. It support broader global networks to deliver products and services and equipment. Let's us leverage R&D efforts and introduce new products more quickly.

For lots of reasons market leadership carries lower risk and higher returns. And so that's pretty central to what we do when we evaluate opportunities to deploy capital, Bill.

Bill Herbert - Simmons & Company International - Analyst
And a question with regard to theory versus practice. I mean, clearly right deal/right scale/right size you'll do it. I'm just curious as to practically speaking, given the catharsis of the last six months, has the possible opportunity set ex-Halliburton increased, or do we need additional duration to this downturn in order to increase the number of possibilities and also narrow the bid/ask spread?

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman
Yes, that's the key thing, what you said last. We need sellers to reset expectations. And so we're helping them do that.

Bill Herbert - Simmons & Company International - Analyst
Okay. Thanks very much, guys.

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman
[All right], Bill.
Operator
From FBR Capital Markets we have Tom Curran on the line. Please go ahead.

Tom Curran - Wells Fargo Securities, LLC - Analyst
Good morning, guys.

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman
Good morning

Tom Curran - Wells Fargo Securities, LLC - Analyst
So just sticking with Bill's topic there and delving a bit deeper into the line of questioning. Clay, perhaps you give us an update on how the current pipeline of prospects compares in North America versus internationally? And certain focal technologies or niches within the divisions where you ideally would make a move.

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman
I'm going to be a little cryptic around that because I don't really want to tell my competitors my playbook. But what I would say is again, we're focused on big picture trends in the industry, market leadership and competitive advantage. And looking to deploy capital into those areas more broadly.

I will tell you specifically where we've been deploying capital the last couple of years has really enhanced our aftermarket in particular around rig. The rising installed base of NOV equipment and technology out there is pretty transparent to you and everybody. And so what we see are a lot more NOV rigs running and a lot more customers in need of close OEM support.

And what we find is that these great little businesses that we can acquire. In fact, two weeks ago I was touring one that we bought in West Africa, for instance, South Africa. It's been a great addition and great reputation, and what we've been able to bring to that business is kind of the NOV global reach and scale. And so that's been a great help for our customers in that region.

But around the world, all of our customers want us to be closer to the coal face, closer to their rigs for aftermarket support. So that's an interesting area. And that's part of the reason at our Analyst Day we said, growth prospects for rig aftermarket long term are terrific, and we're putting capital behind that. In other businesses, again we have opportunities to grow those, expand their footprint and so kind of a similar pattern.

Tom Curran - Wells Fargo Securities, LLC - Analyst
And should we think of you adhering to the same reluctance you exhibited thus far within Wellbore Technologies about pushing any further into new services that would lead you to compete directly with some of your oilfield service customers?

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman
We're always kind of reevaluating our business model, and does it make sense? And frankly, there's already some level of competition within that business. And that's very common across oilfield services.
It’s not uncommon for competitors to sell to each other in one product line and compete on another. And so -- but we think about that very closely. We don’t want to unnecessarily end up in a competitive conflict situation that really takes a toll on our P&L. So I’ll leave it there.

Tom Curran - Wells Fargo Securities, LLC - Analyst

Thanks. I’ll turn it back.

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman

Thanks, Tom.

Operator

Thank you. We will now turn it back to Clay Williams for closing remarks.

Clay Williams - National Oilwell Varco, Inc. - President, CEO & Chairman

Thanks, Brandon. I appreciate everyone’s patience this morning and apologies for the technical difficulties that we started off with.

I really also want to thank our terrific employees for the hard work that they all put in here every day. And although we have a pretty challenging road ahead, we’re adapting quickly. We have lots of opportunities emerging to launch new products and to acquire some pretty interesting businesses, and really position ourselves for the upturn.

So we’re doing what we got to do in the short term, looking through that for opportunities in the long term. And I know we will emerge better and stronger.

And again, thank you all for joining us. We look forward to updating you in July.

Operator

Ladies and gentlemen, this concludes today’s conference. Thank you for joining. You may now disconnect.