

NATIONAL OILWELL VARCO INC  
Form 10-Q  
October 30, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
**Commission File Number 1-12317**

**NATIONAL OILWELL VARCO, INC.**  
**(Exact name of registrant as specified in its charter)**

**Delaware** **76-0475815**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**7909 Parkwood Circle Drive**

**Houston, Texas**

**77036-6565**

**(Address of principal executive offices)**

**(713) 346-7500**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of October 28, 2015 the registrant had 375,747,606 shares of common stock, par value \$.01 per share, outstanding.

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

	<b>September 30, 2015 (Unaudited)</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,846	\$ 3,536
Receivables, net	3,325	4,416
Inventories, net	5,172	5,281
Costs in excess of billings	1,669	1,878
Deferred income taxes	391	447
Prepaid and other current assets	530	604
<b>Total current assets</b>	<b>12,933</b>	<b>16,162</b>
Property, plant and equipment, net	3,122	3,362
Deferred income taxes	520	503
Goodwill	8,465	8,539
Intangibles, net	4,087	4,444
Investment in unconsolidated affiliates	331	362
Other assets	170	190
<b>Total assets</b>	<b>\$ 29,628</b>	<b>\$ 33,562</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 731	\$ 1,189
Accrued liabilities	2,810	3,518
Billings in excess of costs	1,180	1,775
Current portion of long-term debt and short-term borrowings	2	152
Accrued income taxes	112	431
Deferred income taxes	358	309
<b>Total current liabilities</b>	<b>5,193</b>	<b>7,374</b>
Long-term debt	3,981	3,014
Deferred income taxes	1,826	1,972
Other liabilities	422	430
<b>Total liabilities</b>	<b>11,422</b>	<b>12,790</b>

## Commitments and contingencies

## Stockholders' equity:

Common stock - par value \$.01; 1 billion shares authorized; 375,735,085 and 418,977,608 shares issued and outstanding at September 30, 2015 and

December 31, 2014	4	4
Additional paid-in capital	6,201	8,341
Accumulated other comprehensive loss	(1,477)	(834)
Retained earnings	13,398	13,181
Total Company stockholders' equity	18,126	20,692
Noncontrolling interests	80	80
Total stockholders' equity	18,206	20,772
Total liabilities and stockholders' equity	\$ 29,628	\$ 33,562

See notes to unaudited consolidated financial statements.

## NATIONAL OILWELL VARCO, INC.

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In millions, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenue	\$ 3,306	\$ 5,587	\$ 12,035	\$ 15,731
Cost of revenue	2,634	4,059	9,360	11,463
Gross profit	672	1,528	2,675	4,268
Selling, general and administrative	383	540	1,378	1,568
Intangible asset impairment	55		55	
Operating profit	234	988	1,242	2,700
Interest and financial costs	(24)	(26)	(76)	(79)
Interest income	2	4	9	13
Equity income in unconsolidated affiliates		9	16	42
Other income (expense), net	(20)	9	(106)	(12)
Income from continuing operations before income taxes	192	984	1,085	2,664
Provision for income taxes	36	283	330	806
Income from continuing operations	156	701	755	1,858
Income from discontinued operations				52
Net income	156	701	755	1,910
Net income attributable to noncontrolling interests	1	2	1	3
Net income attributable to Company	\$ 155	\$ 699	\$ 754	\$ 1,907
Per share data:				
Basic:				
Income from continuing operations	\$ 0.41	\$ 1.63	\$ 1.92	\$ 4.34
Income from discontinued operations	\$	\$	\$	\$ 0.12
Net income attributable to Company	\$ 0.41	\$ 1.63	\$ 1.92	\$ 4.46
Diluted:				
Income from continuing operations	\$ 0.41	\$ 1.62	\$ 1.92	\$ 4.31
Income from discontinued operations	\$	\$	\$	\$ 0.12

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Net income attributable to Company	\$ 0.41	\$ 1.62	\$ 1.92	\$ 4.43
Cash dividends per share	\$ 0.46	\$ 0.46	\$ 1.38	\$ 1.18
Weighted average shares outstanding:				
Basic	380	429	392	428
Diluted	381	431	393	430

See notes to unaudited consolidated financial statements.

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**NATIONAL OILWELL VARCO, INC.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)****(In millions)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 156	\$ 701	\$ 755	\$ 1,910
Currency translation adjustments	(339)	(310)	(650)	(248)
Changes in derivative financial instruments, net of tax	(19)	(99)	7	(110)
Comprehensive income (loss)	(202)	292	112	1,552
Comprehensive income attributable to noncontrolling interest	1	2	1	3
Comprehensive income (loss) attributable to Company	\$ (203)	\$ 290	\$ 111	\$ 1,549

See notes to unaudited consolidated financial statements.

## NATIONAL OILWELL VARCO, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In millions)

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Income from continuing operations	\$ 755	\$ 1,858
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	564	579
Deferred income taxes	(122)	(36)
Equity income in unconsolidated affiliates	(16)	(42)
Dividend from unconsolidated affiliate	34	73
Intangible asset impairment	55	
Other, net	236	180
<b>Change in operating assets and liabilities, net of acquisitions:</b>		
Receivables	1,045	(201)
Inventories	(6)	(817)
Costs in excess of billings	209	(76)
Prepaid and other current assets	73	(73)
Accounts payable	(460)	186
Billings in excess of costs	(595)	38
Income taxes payable	(318)	(289)
Other assets/liabilities, net	(736)	409
<b>Net cash provided by continuing operating activities</b>	<b>718</b>	<b>1,789</b>
Discontinued operations		89
<b>Net cash provided by operating activities</b>	<b>718</b>	<b>1,878</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(332)	(468)
Business acquisitions, net of cash acquired	(70)	(181)
Cash distributed in spin-off		(253)
Other	24	117
<b>Net cash used in continuing investing activities</b>	<b>(378)</b>	<b>(785)</b>
Discontinued operations		(12)
<b>Net cash used in investing activities</b>	<b>(378)</b>	<b>(797)</b>
<b>Cash flows from financing activities:</b>		
Borrowings against lines of credit and other debt	9,184	153
Repayments on debt	(8,369)	(155)



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Cash dividends paid	(537)	(507)
Share repurchases	(2,221)	
Proceeds from stock options exercised	6	107
Other	(2)	9
Net cash used in continuing financing activities	(1,939)	(393)
Discontinued operations		
Net cash used in financing activities	(1,939)	(393)
Effect of exchange rates on cash	(91)	(33)
Increase (decrease) in cash and cash equivalents	(1,690)	655
Cash and cash equivalents, beginning of period	3,536	3,436
Cash and cash equivalents, end of period	\$ 1,846	\$ 4,091

Supplemental disclosures of cash flow information:

Cash payments during the period for:

Interest	\$ 57	\$ 57
Income taxes	\$ 760	\$ 1,097

See notes to unaudited consolidated financial statements.

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**NATIONAL OILWELL VARCO, INC.**

**Notes to Consolidated Financial Statements (Unaudited)**

**1. Basis of Presentation**

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

The accompanying unaudited consolidated financial statements of National Oilwell Varco, Inc. ( NOV or the Company ) present information in accordance with GAAP in the United States for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X. They do not include all information or footnotes required by GAAP in the United States for complete consolidated financial statements and should be read in conjunction with our 2014 Annual Report on Form 10-K.

In our opinion, the consolidated financial statements include all adjustments, which are of a normal recurring nature, unless otherwise disclosed, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Effective April 1, 2014, the Company reorganized its reporting segments. All prior periods are presented on this basis. Results of operations related to the spin-off of the Company's distribution business ( spin-off ) have been classified as discontinued operations in all prior periods presented on Form 10-Q. See Note 7 for discussion on the Company's reporting segments and Note 2 for discussion on the spin-off of the Company's distribution business.

*Fair Value of Financial Instruments*

The carrying amounts of cash and cash equivalents, receivables, and payables approximated fair value because of the relatively short maturity of these instruments. Cash equivalents include only those investments having a maturity date of three months or less at the time of purchase. See Note 8 for the fair value of long-term debt and Note 11 for the fair value of derivative financial instruments.

**2. Spin-off of Distribution Business**

On May 30, 2014, the Company completed the previously announced spin-off of its distribution business into an independent public company named NOW Inc., which trades on the New York Stock Exchange under the symbol DNOW . After the close of the New York Stock Exchange on May 30, 2014, the stockholders of record as of May 22, 2014 (the Record Date ) received one share of NOW Inc. common stock for every four shares of NOV common stock held on the Record Date. No fractional shares of NOW Inc. common stock were distributed. Instead, the transfer agent aggregated any fractional shares into whole shares, sold those whole shares in the open market at prevailing rates and distributed the net cash proceeds, after deducting any taxes required to be withheld and any amount equal to all brokerage charges and commissions, pro rata to each holder who would otherwise have been entitled to receive fractional shares in the distribution.

The following table presents selected financial information regarding the results of operations of our distribution business, which is reported as discontinued operations (in millions):

	<b>Period Ended May 30, 2014</b>
Revenue from discontinued operations	\$ 1,701
Income from discontinued operations before income taxes	83
Income tax expense	31
Income from discontinued operations	\$ 52

Prior to the spin-off, sales to NOW were \$231 million for the period ended May 30, 2014 and purchases from NOW were \$82 million for the period ended May 30, 2014. Prior to May 30, 2014, the spin-off date, revenue and related cost of revenue were eliminated in consolidation between NOV and NOW. Beginning May 31, 2014, this revenue and cost of revenue represent third-party transactions with NOW.

**3. Inventories, net**

Inventories consist of (in millions):

	September 30, 2015	December 31, 2014
Raw materials and supplies	\$ 1,143	\$ 1,255
Work in process	892	1,027
Finished goods and purchased products	3,137	2,999
Total	\$ 5,172	\$ 5,281

**4. Accrued Liabilities**

Accrued liabilities consist of (in millions):

	September 30, 2015	December 31, 2014
Accrued vendor costs	\$ 773	\$ 815
Customer prepayments and billings	514	703
Compensation	295	662
Fair value of derivative financial instruments	271	297
Warranty	257	272
Taxes (non-income)	169	211
Insurance	119	126
Accrued commissions	85	97
Interest	29	11
Other	298	324
Total	\$ 2,810	\$ 3,518

*Service and Product Warranties*

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

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

Balance at December 31, 2014	\$ 272
Net provisions for warranties issued during the year	58

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Amounts incurred	(71)
Currency translation adjustments and other	(2)
Balance at September 30, 2015	\$ 257

**5. Costs and Estimated Earnings on Uncompleted Contracts**

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

	September 30, 2015	December 31, 2014
Costs incurred on uncompleted contracts	\$ 10,905	\$ 10,442
Estimated earnings	4,868	4,699
	15,773	15,141
Less: Billings to date	15,284	15,038
	\$ 489	\$ 103
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 1,669	\$ 1,878
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,180)	(1,775)
	\$ 489	\$ 103

**6. Accumulated Other Comprehensive Income (Loss)**

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

	Currency Translation Adjustments	Derivative Financial Instruments, Net of Tax	Defined Benefit Plans, Net of Tax	Total
Balance at December 31, 2014	\$ (515)	\$ (228)	\$ (91)	\$ (834)
Accumulated other comprehensive income (loss) before reclassifications	(650)	(151)		(801)
Amounts reclassified from accumulated other comprehensive income (loss)		158		158
Balance at September 30, 2015	\$ (1,165)	\$ (221)	\$ (91)	\$ (1,477)

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

**Three Months Ended September 30,**  
**2015** **2014**

	2015			2014				
	Currency Translation Adjustment	Derivative Financial Instruments	Defined Benefit Plans	Total	Currency Translation Adjustment	Derivative Financial Instruments	Defined Benefit Plans	Total
Revenue	\$	\$ (10)	\$	\$ (10)	\$	\$ (4)	\$	\$ (4)
Cost of revenue		82		82		6		6
Tax effect		(21)		(21)				
	\$	\$ 51	\$	\$ 51	\$	\$ 2	\$	\$ 2

**Nine Months Ended September 30,**

**2015**

**2014**

	2015			2014				
	Currency Translation Adjustment	Derivative Financial Instruments	Defined Benefit Plans	Total	Currency Translation Adjustment	Derivative Financial Instruments	Defined Benefit Plans	Total
Revenue	\$	\$ (11)	\$	\$ (11)	\$	\$ (25)	\$	\$ (25)
Cost of revenue		234		234		5		5
Tax effect		(65)		(65)		5		5
	\$	\$ 158	\$	\$ 158	\$	\$ 15	\$	\$ 15

The Company's reporting currency is the U.S. dollar. A majority of the Company's international entities in which there is a substantial investment have the local currency as their functional currency. As a result, currency translation adjustments resulting from the process of translating the entities' financial statements into the reporting currency are reported in Other Comprehensive Income or Loss in accordance with ASC Topic 830 Foreign Currency Matters (ASC Topic 830). For the three and nine months ended September 30, 2015, a majority of these local currencies weakened against the U.S. dollar resulting in net Other Comprehensive Loss of \$339 million and \$650 million, respectively, upon the translation from local currencies to the U.S. dollar. For the three and nine months ended September 30, 2014, a majority of these local currencies weakened against the U.S. dollar resulting in net Other Comprehensive Loss of \$310 million and \$248 million, respectively, upon the translation from local currencies to the U.S. dollar.

The effect of changes in the fair values of derivatives designated as cash flow hedges are accumulated in Other Comprehensive Income or Loss, net of tax, until the underlying transactions to which they are designed to hedge are realized. The movement in Other Comprehensive Income or Loss from period to period will be the result of the combination of changes in fair value for open derivatives and the outflow of Other Comprehensive Income or Loss related to cumulative changes in the fair value of derivatives that have settled in the current or prior periods. The accumulated effect was Other Comprehensive Loss of \$19 million (net of tax of \$5 million) and Income of \$7 million (net of tax of \$8 million) for the three and nine months ended September 30, 2015, respectively. The accumulated effect was Other Comprehensive Loss of \$99 million (net of tax of \$38 million) and \$110 million (net of tax of \$42 million) for the three and nine months ended September 30, 2014, respectively.



**7. Business Segments**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenue:</b>				
Rig Systems	\$ 1,496	\$ 2,659	\$ 5,949	\$ 7,287
Rig Aftermarket	570	837	1,946	2,372
Wellbore Technologies	834	1,469	2,961	4,193
Completion & Production Solutions	798	1,191	2,619	3,320
Eliminations	(392)	(569)	(1,440)	(1,441)
<b>Total Revenue</b>	<b>\$ 3,306</b>	<b>\$ 5,587</b>	<b>\$ 12,035</b>	<b>\$ 15,731</b>
<b>Operating Profit (Loss):</b>				
Rig Systems	\$ 253	\$ 533	\$ 1,093	\$ 1,485
Rig Aftermarket	145	229	479	637
Wellbore Technologies	(7)	278	110	762
Completion & Production Solutions	3	185	160	479
Unallocated expenses and eliminations	(160)	(237)	(600)	(663)
<b>Total Operating Profit</b>	<b>\$ 234</b>	<b>\$ 988</b>	<b>\$ 1,242</b>	<b>\$ 2,700</b>
<b>Operating Profit (Loss)%:</b>				
Rig Systems	16.9%	20.0%	18.4%	20.4%
Rig Aftermarket	25.4%	27.4%	24.6%	26.9%
Wellbore Technologies	(0.8%)	18.9%	3.7%	18.2%
Completion & Production Solutions	0.4%	15.5%	6.1%	14.4%
<b>Total Operating Profit %</b>	<b>7.1%</b>	<b>17.7%</b>	<b>10.3%</b>	<b>17.2%</b>

Sales from one segment to another generally are priced at estimated equivalent commercial selling prices; however, segments originating an external sale are credited with the full profit to the Company. Eliminations include intercompany transactions conducted between the four reporting segments that are eliminated in consolidation. Intercompany transactions within each reporting segment are eliminated within each reporting segment.

Included in operating profit are other items related to intangible asset impairments; costs associated with a Voluntary Early Retirement Plan established by the Company during the first quarter of 2015; costs related to severance and facility closures; items related to acquisitions, such as transaction costs, the amortization of backlog and inventory that was stepped up to fair value during purchase accounting; the costs of the spin-off of the Company's distribution business and certain legal costs. Other items by segment are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Other items:</b>				

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Rig Systems	\$ 22	\$	\$ 65	\$
Rig Aftermarket	1		11	
Wellbore Technologies	29		83	9
Completion & Production Solutions	60	(1)	92	6
Unallocated expenses and eliminations		2		36
Total other items	\$ 112	\$ 1	\$ 251	\$ 51

**8. Debt**

Debt consists of (in millions):

	September 30, 2015	December 31, 2014
Senior Notes, interest at 6.125% payable semiannually, principal due on August 15, 2015	\$	\$ 151
Senior Notes, interest at 1.35% payable semiannually, principal due on December 1, 2017	500	500
Senior Notes, interest at 2.6% payable semiannually, principal due on December 1, 2022	1,396	1,396
Senior Notes, interest at 3.95% payable semiannually, principal due on December 1, 2042	1,096	1,096
Commercial paper	946	
Other	45	23
<b>Total debt</b>	<b>3,983</b>	<b>3,166</b>
Less current portion	2	152
<b>Long-term debt</b>	<b>\$ 3,981</b>	<b>\$ 3,014</b>

On August 15, 2015, the Company repaid \$151 million of its 6.125% unsecured Senior Notes using available cash balances.

During the second quarter of 2015, the Company exercised its accordion option to increase aggregate borrowing capacity under its five-year unsecured revolving credit facility by an additional \$1.0 billion, bringing the aggregate borrowing capacity to \$4.5 billion. The facility expires September 28, 2018. The Company also has a commercial paper program under which borrowings are classified as long-term since the program is supported by the \$4.5 billion, five-year revolving credit facility. At September 30, 2015, there were \$946 million in commercial paper borrowings, and there were \$84 million in outstanding letters of credit issued under the credit facility, resulting in \$3,470 million of funds available under this revolving credit facility. Interest under this multicurrency facility is based upon LIBOR, NIBOR or EURIBOR plus 0.875% subject to a ratings-based grid, or the U.S. prime rate. The credit facility contains a financial covenant regarding maximum debt to capitalization and the Company was in compliance at September 30, 2015.

The Company also had \$2,959 million of additional outstanding letters of credit at September 30, 2015 that are under various bilateral letter of credit facilities. Other letters of credit are issued as bid bonds, advanced payment bonds and performance bonds.

The fair value of the Company's debt is estimated using Level 2 inputs in the fair value hierarchy and is based on quoted prices for those or similar instruments. At September 30, 2015 and December 31, 2014, the fair value of the Company's unsecured Senior Notes approximated \$2,704 million and \$2,974 million, respectively. At September 30,

2015 and December 31, 2014, the carrying value of the Company's unsecured Senior Notes approximated \$2,992 million and \$3,143 million, respectively. The carrying value of the Company's variable rate borrowings approximates fair value.

**9. Tax**

The effective tax rate for the three and nine months ended September 30, 2015 was 18.8% and 30.4%, respectively, compared to 28.8% and 30.3% for the same periods in 2014. Compared to the U.S. statutory rate, the effective tax rate was positively impacted in the periods by the effect of lower tax rates on income earned in foreign jurisdictions, and foreign exchange losses for tax reporting in Norway. The effective tax rate was negatively impacted by foreign dividends net of foreign tax credits, nondeductible expenses and a foreign audit settlement during the nine months ended September 30, 2015. Excluding discrete items, the effective tax rate for the three and nine months ended September 30, 2015 was 20.3% and 27.8%, respectively.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Federal income tax at U.S. federal statutory rate	\$ 67	\$ 344	\$ 380	\$ 932
Foreign income tax rate differential	(30)	(91)	(117)	(189)
State income tax, net of federal benefit		8	3	23
Nondeductible expenses		1	17	20
Tax benefit of manufacturing deduction	7	(13)	(3)	(31)
Foreign dividends, net of foreign tax credits	(1)	113	14	134
Tax impact of foreign exchange	(4)	16	(22)	14
Change in valuation allowance		(94)		(92)
Change in tax reserves	(2)		67	
Other	(1)	(1)	(9)	(5)
<b>Provision for income taxes</b>	<b>\$ 36</b>	<b>\$ 283</b>	<b>\$ 330</b>	<b>\$ 806</b>

The balance of unrecognized tax benefits at September 30, 2015 was \$113 million, \$40 million of which if ultimately realized, would be recorded as an income tax benefit. Included in the change in the balance of unrecognized tax benefits is an uncertain tax position identified in a foreign jurisdiction totaling \$69 million, of which the Company has settled and paid \$69 million as of September 30, 2015. The Company does not anticipate that its total unrecognized tax benefits at September 30, 2015 will significantly change due to the settlement of audits or the expiration of statutes of limitation within 12 months of this reporting date.

The Company is subject to taxation in the U.S., various states and foreign jurisdictions. The Company has significant operations in the United States, Canada, the United Kingdom, the Netherlands and Norway. Tax years that remain subject to examination by major tax jurisdiction vary by legal entity, but are generally open in the U.S. for tax years after 2009 and outside the U.S. for tax years after 2007.

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

## 10. Stock-Based Compensation

The Company has a stock-based compensation plan known as the National Oilwell Varco, Inc. Long-Term Incentive Plan (the Plan). The Plan provides for the granting of stock options, performance-based share awards, restricted stock, phantom shares, stock payments and stock appreciation rights. The number of shares authorized under the Plan is 39.5 million. At September 30, 2015, 5,914,169 shares remain available for future grants under the Plan, all of which are available for grants of stock options, performance-based share awards, restricted stock awards, phantom shares, stock payments and stock appreciation rights.

On February 25, 2015, the Company granted 5,746,153 stock options with a fair value of \$15.41 per share and an exercise price of \$54.74 per share; 653,750 shares of restricted stock and restricted stock units with a fair value of \$54.74 per share; and performance share awards to senior management employees with potential payouts varying from zero to 396,666 shares. The stock options vest over a three-year period from the grant date while the restricted stock and restricted stock units vest on the third anniversary of the date of grant. The performance share awards can be earned based on performance against established goals over a three-year performance period. The performance share awards are divided into two equal, independent parts that are subject to two separate performance metrics: 50% with a TSR (total shareholder return) goal (the TSR Award) and 50% with an internal ROC (return on capital) goal (the ROC Award).

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

On May 13, 2015, the Company granted 26,992 restricted stock awards with a fair value of \$51.88 per share. The awards were granted to non-employee members of the board of directors and vest on the first anniversary of the grant date.

On August 28, 2015, the Company granted 75,000 restricted stock awards with a fair value of \$41.65 per share. The awards were granted to an officer of the Company and vest over a three-year period from the grant date.

Total stock-based compensation for all stock-based compensation arrangements under the Plan was \$21 million and \$83 million for the three and nine months ended September 30, 2015 and \$23 million and \$75 million for the three and nine months ended September 30, 2014, respectively. Included in stock-based compensation for the nine months ended September 30, 2015 is \$18 million related to the Voluntary Early Retirement Plan established by the Company in the first quarter of 2015. The total income tax benefit recognized in the Consolidated Statements of Income for all stock-based compensation arrangements under the Plan was \$7 million and \$20 million for the three and nine months ended September 30, 2015, respectively and \$7 million and \$23 million for the three and nine months ended September 30, 2014, respectively.

