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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended June 30, 2014**

**OR**

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

**Commission File Number 1-13884**

**Cameron International Corporation**

**(Exact Name of Registrant as Specified in its Charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**76-0451843**  
**(I.R.S. Employer**  
**Identification No.)**

**1333 West Loop South, Suite 1700, Houston, Texas**  
**(Address of Principal Executive Offices)**

**77027**  
**(Zip Code)**

**713/513-3300**

**(Registrant's Telephone Number, Including Area Code)**

**N/A**

**(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)**

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.

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 ☒

Number of shares outstanding of issuer's common stock as of July 17, 2014 was 202,901,463.

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# PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

### CAMERON INTERNATIONAL CORPORATION CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (dollars and shares in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)			
REVENUES	\$ 2,641	\$ 2,209	\$ 5,072	\$ 4,270
COSTS AND EXPENSES:				
Cost of sales (exclusive of depreciation and amortization shown separately below)	1,893	1,567	3,658	3,020
Selling and administrative expenses	346	315	675	618
Depreciation and amortization	90	67	177	135
Interest, net	30	25	62	51
Other costs (credits) (see Note 3)	(4)	35	44	66
Total costs and expenses	2,355	2,009	4,616	3,890
Income from continuing operations before income taxes	286	200	456	380
Income tax provision	(66)	(64)	(114)	(97)
Income from continuing operations	220	136	342	283
Income from discontinued operations, net of income taxes	13	4	7	6
Net income	233	140	349	289
Net income attributable to noncontrolling interests	12	—	17	—
Net income attributable to Cameron stockholders	\$ 221	\$ 140	\$ 332	\$ 289
Amounts attributable to Cameron stockholders:				
Income from continuing operations	\$ 208	\$ 136	\$ 325	\$ 283
Income from discontinued operations	13	4	7	6
Net income attributable to Cameron stockholders	\$ 221	\$ 140	\$ 332	\$ 289
Earnings per common share attributable to Cameron stockholders:				
Basic				
Continuing operations	\$ 1.02	\$ 0.55	\$ 1.55	\$ 1.15
Discontinued operations	0.06	0.02	0.04	0.02
	\$ 1.08	\$ 0.57	\$ 1.59	\$ 1.17
Diluted				
Continuing operations	\$ 1.02	\$ 0.55	\$ 1.54	\$ 1.14
Discontinued operations	0.06	0.02	0.04	0.02
	\$ 1.08	\$ 0.57	\$ 1.58	\$ 1.16
Shares used in computing earnings per common share:				
Basic	204	247	209	247
Diluted	205	248	211	249
Comprehensive income	\$ 218	\$ 91	\$ 360	\$ 163
Comprehensive income attributable to noncontrolling interests	4	—	24	—
Comprehensive income attributable to Cameron stockholders	\$ 214	\$ 91	\$ 336	\$ 163

The accompanying notes are an integral part of these statements.

**CAMERON INTERNATIONAL CORPORATION**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
(dollars in millions, except shares and per share data)

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,525	\$ 1,813
Short-term investments	56	41
Receivables, net	2,548	2,719
Inventories, net	3,268	3,133
Other	385	463
Total current assets	7,782	8,169
Plant and equipment, net	2,015	2,037
Goodwill	2,704	2,925
Intangibles, net	856	904
Other assets	235	214
<b>TOTAL ASSETS</b>	<b>\$ 13,592</b>	<b>\$ 14,249</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Short-term debt	\$ 562	\$ 297
Accounts payable and accrued liabilities	3,506	3,883
Accrued income taxes	100	80
Total current liabilities	4,168	4,260
Long-term debt	2,814	2,563
Deferred income taxes	251	277
Other long-term liabilities	229	233
Total liabilities	7,462	7,333
Stockholders' Equity:		
Common stock, par value \$.01 per share, 400,000,000 shares authorized, 263,111,472 shares issued at June 30, 2014 and December 31, 2013	3	3
Capital in excess of par value	3,220	3,207
Retained earnings	5,152	4,820
Accumulated other elements of comprehensive income (loss)	(76)	(80)
Less: Treasury stock, 60,027,350 shares at June 30, 2014 (41,683,164 shares at December 31, 2013)	(3,261)	(2,098)
Total Cameron stockholders' equity	5,038	5,852
Noncontrolling interests	1,092	1,064
Total equity	6,130	6,916
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 13,592</b>	<b>\$ 14,249</b>

The accompanying notes are an integral part of these statements.

**CAMERON INTERNATIONAL CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
(dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)			
Cash flows from operating activities:				
Net income	\$ 233	\$ 140	\$ 349	\$ 289
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on sale of Reciprocating Compression business	(95)	—	(95)	—
Depreciation	71	59	139	115
Amortization	19	11	38	25
Non-cash stock compensation expense	15	14	30	27
Gain from remeasurement of prior interest in equity method investment	(8)	—	(8)	—
Deferred income taxes and tax benefit of employee stock compensation plan transactions	34	(2)	17	12
Changes in assets and liabilities, net of translation, and non-cash items:				
Receivables	171	(236)	111	(71)
Inventories	(53)	(124)	(228)	(340)
Accounts payable and accrued liabilities	(257)	212	(471)	7
Other assets and liabilities, net	83	(44)	157	(57)
Net cash provided by operating activities	213	30	39	7
Cash flows from investing activities:				
Proceeds from sales and maturities of short-term investments	18	353	23	628
Purchases of short-term investments	(33)	(135)	(38)	(421)
Capital expenditures	(73)	(99)	(178)	(182)
Proceeds received from sale of Reciprocating Compression business, net	547	—	547	—
Other dispositions (acquisitions), net	(18)	8	(18)	9
Proceeds received and cash acquired from formation of OneSubsea	—	603	—	603
Proceeds from sales of plant and equipment	4	3	10	4
Net cash provided by investing activities	445	733	346	641
Cash flows from financing activities:				
Issuance of senior notes	500	—	500	—
Debt issuance costs	(4)	—	(4)	—
Short-term loan borrowings (repayments), net	(321)	(28)	9	9
Purchase of treasury stock	(303)	(93)	(1,205)	(125)
Proceeds from stock option exercises, net of tax payments from stock compensation plan transactions	16	7	25	29
Excess tax benefits from employee stock compensation plan transactions	4	2	6	8
Principal payments on capital leases	(5)	(7)	(8)	(10)
Net cash used for financing activities	(113)	(119)	(677)	(89)
Effect of translation on cash	8	(8)	4	(27)
Increase (decrease) in cash and cash equivalents	553	636	(288)	532
Cash and cash equivalents, beginning of period	972	1,082	1,813	1,186
Cash and cash equivalents, end of period	\$ 1,525	\$ 1,718	\$ 1,525	\$ 1,718

The accompanying notes are an integral part of these statements.

**CAMERON INTERNATIONAL CORPORATION**  
**CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY**  
(dollars in millions)

	Cameron Stockholders						
	Capital in		Accumulated Other Elements of		Treasury Stock	Noncontrolling Interests	
	Common Stock	Excess of Par Value	Retained Earnings	Comprehensive Income (Loss)			
	(Unaudited)						
Balance at December 31, 2013	\$ 3	\$ 3,207	\$ 4,820	\$ (80)	\$ (2,098)	\$ 1,064	
Net income	—	—	332	—	—	17	
Other comprehensive income (loss), net of tax	—	—	—	4	—	7	
Non-cash stock compensation expense	—	30	—	—	—	—	
Purchase of treasury stock	—	—	—	—	(1,210)	—	
Treasury stock issued under stock compensation plans	—	(22)	—	—	47	—	
Tax benefit of stock compensation plan transactions	—	5	—	—	—	—	
Purchase of noncontrolling ownership interests	—	—	—	—	—	4	
Balance at June 30, 2014	\$ 3	\$ 3,220	\$ 5,152	\$ (76)	\$ (3,261)	\$ 1,092	

The accompanying notes are an integral part of these statements.

**CAMERON INTERNATIONAL CORPORATION**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**Unaudited**

**Note 1: Basis of Presentation**

The accompanying Unaudited Consolidated Condensed Financial Statements of Cameron International Corporation (the Company) have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Those adjustments, consisting of normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the financial information for the interim periods, have been made. The results of operations for such interim periods are not necessarily indicative of the results of operations for a full year. The Unaudited Consolidated Condensed Financial Statements should be read in conjunction with the Current Report on Form 8-K dated June 16, 2014, which reflects a recasting of the Audited Consolidated Financial Statements and Notes thereto filed by the Company on Form 10-K for the year ended December 31, 2013 to reflect the Reciprocating Compression business as a discontinued operation for all periods presented (see Note 2 of the Notes to Consolidated Condensed Financial Statements below for further information).

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, estimates of total contract profit or loss on certain long-term production-type contracts, estimated losses on accounts receivable, estimated realizable value on excess and obsolete inventory, contingencies, including tax contingencies, estimated liabilities for litigation exposures and liquidated damages, estimated warranty costs, estimates related to pension accounting, estimates related to the fair value of reporting units for purposes of assessing goodwill for impairment, estimated proceeds from assets held for sale and estimates related to deferred tax assets and liabilities, including valuation allowances on deferred tax assets. Actual results could differ materially from these estimates.

Certain prior year amounts have been reclassified to conform to the current year presentation.

**Note 2: Discontinued Operations**

Effective June 1, 2014, the Company completed its previously announced sale of its Reciprocating Compression business, a division of the Process and Compression Systems (PCS) segment, to General Electric for cash consideration of approximately \$547 million, net of transaction costs. As a result of this sale, the Reciprocating Compression business is being reported as a discontinued operation in the Company's results of operations for the three- and six-month periods ended June 30, 2014 and 2013.

Summarized financial information for the Reciprocating Compression business is as follows (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Results of Operations:</b>				
Revenues	\$ 64	\$ 78	\$ 111	\$ 135
Cost of sales (excluding depreciation and amortization)	(49)	(58)	(86)	(99)
All other costs	(11)	(14)	(29)	(27)
Gain on sale of Reciprocating Compression business, before tax	95	—	95	—
Income before income taxes	99	6	91	9
Income tax provision	(86)	(2)	(84)	(3)
Income from discontinued operations, net of income taxes	\$ 13	\$ 4	\$ 7	\$ 6

The gain on the sale of the Reciprocating Compression business was determined as follows (in millions):

Sales price	\$ 550
Net assets sold	(442)
Transaction and other costs associated with the sale	(13)
Pre-tax gain	95
Tax provision	(85)
Gain on sale	<u>\$ 10</u>

The tax provision associated with the pre-tax gain is impacted by nondeductible goodwill of approximately \$192 million included in the total net assets sold.

The net assets sold of the Reciprocating Compression business were as follows (in millions):

Accounts receivable	\$ 79
Inventory	122
Goodwill	214
All other	27
Net assets sold	<u>\$ 442</u>

### Note 3: Other Costs (Credits)

Other costs (credits) consisted of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Goodwill impairment	\$ —	\$ —	\$ 40	\$ —
OneSubsea formation costs	—	28	—	45
Gain from remeasurement of prior interest in equity method investment	(8)	—	(8)	—
Impairment of intangible assets	4	—	4	—
Acquisition and other integration costs	—	2	2	3
Mark-to-market impact on currency derivatives not designated as accounting hedges	—	(3)	—	—
Currency devaluation, severance, restructuring and other costs, net	—	8	6	18
Total other costs (credits)	<u>\$ (4)</u>	<u>\$ 35</u>	<u>\$ 44</u>	<u>\$ 66</u>

As described further in Note 2 of the Notes to Consolidated Condensed Financial Statements, the Company completed the sale of its Reciprocating Compression business to General Electric, effective June 1, 2014. Reciprocating Compression had previously been included with the Process Systems and Equipment (PSE) business in the Process Systems & Reciprocating Compression reporting unit for goodwill impairment evaluation purposes. As a result of the classification of Reciprocating Compression as a discontinued operation in the first quarter of 2014 when a definitive agreement to sell the business was entered into, total reporting unit goodwill was allocated between the two businesses. Following this, the PSE business was evaluated as a separate reporting unit in connection with the Company's annual goodwill impairment review conducted during the first quarter of 2014. As a result of this review, the PSE goodwill amount, totaling approximately \$40 million, was fully impaired at that time.

In May 2014, the Company increased its prior ownership interest in Cameron Services Middle East LLC from 49% to 90%, for approximately \$18 million. The Company recognized a pre-tax gain of nearly \$8 million as a result of remeasuring its prior interest, which had been accounted for under the equity method, to fair value upon obtaining control of this entity during the second quarter of 2014. At June 30, 2014, the purchase price allocation



for this business has been based upon preliminary estimates and assumptions, which are subject to change upon the receipt of additional information required to finalize the valuation. The primary areas that have not yet been finalized include amounts relating to inventory, property, plant and equipment, identifiable intangible assets, certain preacquisition contingencies, related adjustments to deferred income taxes and goodwill. The final valuation will be completed no later than one year from the acquisition date. Preliminary goodwill recognized at June 30, 2014 was approximately \$21 million, which is not deductible for tax purposes.

#### **Note 4: Receivables**

Receivables consisted of the following (in millions):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Trade receivables	\$ 2,107	\$ 2,368
Costs and estimated earnings in excess of billings on uncompleted contracts	305	253
Other receivables	160	119
Allowance for doubtful accounts	(24)	(21)
Total receivables	<u>\$ 2,548</u>	<u>\$ 2,719</u>

#### **Note 5: Inventories**

Inventories consisted of the following (in millions):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Raw materials	\$ 375	\$ 238
Work-in-process	1,015	894
Finished goods, including parts and subassemblies	2,067	2,208
Other	25	22
	<u>3,482</u>	<u>3,362</u>
Excess of current standard costs over LIFO costs	(91)	(120)
Allowances	(123)	(109)
Total inventories	<u>\$ 3,268</u>	<u>\$ 3,133</u>

#### **Note 6: Plant and Equipment and Goodwill**

Plant and equipment consisted of the following (in millions):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Plant and equipment, at cost	\$ 3,671	\$ 3,670
Accumulated depreciation	(1,656)	(1,633)
Total plant and equipment	<u>\$ 2,015</u>	<u>\$ 2,037</u>

Changes in goodwill during the six months ended June 30, 2014 were as follows (in millions):

Balance at December 31, 2013	\$ 2,925
Sale of Reciprocating Compression business	(213)
Impairment (See Note 3)	(40)
Acquisitions	21
Adjustments to the purchase price allocation for prior year acquisitions	19
Translation effect of currency changes and other	(8)
Balance at June 30, 2014	<u>\$ 2,704</u>

**Note 7: Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consisted of the following (in millions):

	June 30, 2014	December 31, 2013
Trade accounts payable and accruals	\$ 690	\$ 1,184
Advances from customers	1,737	1,676
Other accruals	1,079	1,023
Total accounts payable and accrued liabilities	<u>\$ 3,506</u>	<u>\$ 3,883</u>

Activity during the six months ended June 30, 2014 associated with the Company's product warranty accruals was as follows (in millions):

Balance December 31, 2013	Net warranty provisions	Charges against accrual	Sale of Reciprocating Compression	Translation and other	Balance June 30, 2014
<u>\$ 46</u>	<u>\$ 26</u>	<u>\$ (18)</u>	<u>\$ (7)</u>	<u>\$ –</u>	<u>\$ 47</u>

**Note 8: Debt**

The Company's debt obligations were as follows (in millions):

	June 30, 2014	December 31, 2013
Commercial paper (0.33% weighted average rate)	\$ 263	\$ –
Senior notes:		
Floating rate notes due June 2, 2014	–	250
1.6% notes due April 30, 2015	250	250
1.15% notes due December 15, 2016	250	250
1.40% notes due June 15, 2017	250	–
6.375% notes due July 15, 2018	450	450
4.5% notes due June 1, 2021	250	250
3.6% notes due April 30, 2022	250	250
4.0% notes due December 15, 2023	250	250
3.7% notes due June 15, 2024	250	–
7.0% notes due July 15, 2038	300	300
5.95% notes due June 1, 2041	250	250
5.125% notes due December 15, 2043	250	250
Unamortized original issue discount	(7)	(7)
Other debt	60	57
Obligations under capital leases	60	60
	<u>3,376</u>	<u>2,860</u>
Current maturities	(562)	(297)
Long-term maturities	<u>\$ 2,814</u>	<u>\$ 2,563</u>

On June 20, 2014, the Company completed the public offering of \$500 million in aggregate principal amount of senior unsecured notes as follows:

- \$250 million principal amount of 1.4% Senior Notes due June 15, 2017, sold at an offering price of 99.951%, and
- \$250 million principal amount of 3.7% Senior Notes due June 15, 2024, sold at an offering price of 99.769%.

Interest on the notes will be payable semiannually on June 15 and December 15 of each year, beginning December 15, 2014. The notes may be redeemed in whole or in part by the Company prior to maturity, as provided for in the terms of each note, for an amount equal to the principal amount of the notes redeemed plus a specified make-whole premium. All of the Company's senior notes rank equally with the Company's other existing unsecured and unsubordinated debt.

Utilizing proceeds from these notes, on July 21, 2014, the Company paid approximately \$253 million, which included a make-whole premium plus accrued interest, to redeem early its \$250 million principal amount of 1.6% Senior Notes.

During the first quarter of 2014, the Company's Board of Directors authorized the establishment of a \$500 million commercial paper program. This program allows for issuances of commercial paper with maturities of up to 364 days to be used for general corporate purposes. The average term of the outstanding commercial paper at June 30, 2014 was approximately 62 days.

On April 11, 2014, the Company entered into a new \$750 million three-year multi-currency syndicated Revolving Credit Facility expiring April 11, 2017. Up to \$200 million of this new facility may be used for letters of credit and \$92 million of letters of credit issued and outstanding under a previously existing \$170 million bi-lateral facility were transferred to the new Revolving Credit Facility at close and concurrently the \$170 million bi-lateral facility was amended to reduce its capacity to \$40 million. The new Revolving Credit Facility contains covenants and terms consistent with the Company's existing \$835 million five-year multi-currency Revolving Credit Facility, which matures on June 6, 2016, and it serves as the primary backstop to the commercial paper program. At June 30, 2014, no amounts had been borrowed under the \$835 million Revolving Credit Facility. The Company has issued letters of credit totaling \$77 million under the new \$750 million Revolving Credit Facility and \$29 million under the \$40 million bi-lateral facility, leaving \$673 million and \$11 million, respectively, available for future use at June 30, 2014.

#### Note 9: Income Taxes

The Company's effective tax rate on income from continuing operations for the first six months of 2014 was 25.1% compared to 25.6% for the first half of 2013. The components of the effective tax rates for both periods were as follows (dollars in millions):

	Six Months Ended June 30,			
	2014		2013	
	Tax Provision	Tax Rate	Tax Provision	Tax Rate
Forecasted tax expense by jurisdiction	\$ 109	24.0%	\$ 91	23.8%
Adjustments to income tax provision:				
Recognition of certain historical tax benefits as prior uncertainty regarding those benefits has been resolved	—	—	(1)	(0.1)
Tax effect of goodwill impairment	10	2.1	—	—
Finalization of prior year returns	(4)	(0.9)	9	2.4
Tax effects of changes in legislation	—	—	(7)	(1.9)
Changes in valuation allowances	—	—	5	1.4
Accrual adjustments and other	(1)	(0.1)	—	—
Tax provision	<u>\$ 114</u>	<u>25.1%</u>	<u>\$ 97</u>	<u>25.6%</u>

**Note 10: Business Segments**

The Company's operations are organized into three separate business segments – Drilling & Production Systems (DPS), Valves & Measurement (V&M) and PCS. Summary financial data by segment follows (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues:				
DPS	\$ 1,903	\$ 1,438	\$ 3,608	\$ 2,707
V&M	536	534	1,028	1,056
PCS	202	237	436	507
	<u>\$ 2,641</u>	<u>\$ 2,209</u>	<u>\$ 5,072</u>	<u>\$ 4,270</u>
Income (loss) before income taxes:				
DPS	\$ 235	\$ 196	\$ 418	\$ 350
V&M	107	109	201	222
PCS	13	17	28	37
Corporate & other	(69)	(122)	(191)	(229)
	<u>\$ 286</u>	<u>\$ 200</u>	<u>\$ 456</u>	<u>\$ 380</u>

Corporate & other includes expenses associated with the Company's back office support and public company costs, all of the Company's interest income and interest expense and other costs as described further in Note 3 of the Notes to Consolidated Condensed Financial Statements.

**Note 11: Earnings Per Share**

The calculation of basic and diluted earnings per share for each period presented was as follows (dollars and shares in millions, except per share amounts):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income from continuing operations	\$ 220	\$ 136	\$ 342	\$ 283
Net income attributable to noncontrolling interests	12	–	17	–
Net income from continuing operations attributable to Cameron	208	136	325	283
Income from discontinued operations, net of taxes	13	4	7	6
Net income attributable to Cameron	<u>\$ 221</u>	<u>\$ 140</u>	<u>\$ 332</u>	<u>\$ 289</u>
Average shares outstanding (basic)	204	247	209	247
Common stock equivalents	1	1	2	2
Diluted shares	<u>205</u>	<u>248</u>	<u>211</u>	<u>249</u>
Basic earnings per share:				
Continuing operations	\$ 1.02	\$ 0.55	\$ 1.55	\$ 1.15
Discontinued operations	0.06	0.02	0.04	0.02
	<u>\$ 1.08</u>	<u>\$ 0.57</u>	<u>\$ 1.59</u>	<u>\$ 1.17</u>
Diluted earnings per share:				
Continuing operations	\$ 1.02	\$ 0.55	\$ 1.54	\$ 1.14
Discontinued operations	0.06	0.02	0.04	0.02
	<u>\$ 1.08</u>	<u>\$ 0.57</u>	<u>\$ 1.58</u>	<u>\$ 1.16</u>

Activity in the Company's treasury shares were as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Treasury shares at beginning of period	56,109,636	15,768,832	41,683,164	16,415,336
Purchases of treasury shares	4,516,668	1,500,002	19,673,771	2,113,455
Net change in treasury shares owned by participants in nonqualified deferred compensation plans	(1,614)	(1,068)	38,148	52,107
Treasury shares issued in satisfaction of stock option exercises and vesting of restricted stock units	(597,340)	(266,036)	(1,367,733)	(1,579,168)
Treasury shares at end of period	<u>60,027,350</u>	<u>17,001,730</u>	<u>60,027,350</u>	<u>17,001,730</u>

The average cost of treasury shares acquired for the three- and six-month periods ended June 30, 2014 was \$63.00 and \$61.37, respectively. The average cost of treasury shares acquired for the three- and six-month periods ended June 30, 2013 was \$60.93 and \$61.77, respectively.

The Company has an authorized stock repurchase program whereby the Company may purchase shares directly or indirectly by way of open market transactions or structured programs, including the use of derivatives, for the Company's own account or through commercial banks or financial institutions. The program, initiated in October 2011, has had a series of authorizations by the Board of Directors totaling \$3.2 billion since inception. At June 30, 2014, the Company had remaining authority for future stock purchases totaling approximately \$456 million.

#### **Note 12: Accumulated Other Comprehensive Income (Loss)**

The changes in the components of accumulated other elements of comprehensive income (loss) for the three months ended June 30, 2014 and 2013 were as follows (in millions):

	<b>Three Months Ended June 30, 2014</b>				<b>Three Months Ended June 30, 2013</b>
	<b>Accumulated Foreign Currency Translation Gain (Loss)</b>	<b>Prior Service Credits and Net Actuarial Losses</b>	<b>Accumulated Gain (Loss) on Cash Flow Hedge Derivatives</b>	<b>Total</b>	
Balance at beginning of period	\$ (40)	\$ (45)	\$ 16	\$ (69)	\$ (107)
Other comprehensive income (loss) before reclassifications:					
Pre-tax	(3)	—	(3)	(6)	(51)
Tax effect	—	—	1	1	1
Amounts reclassified from accumulated other comprehensive income to:					
Revenues	—	—	(2)	(2)	—
Cost of sales	—	—	(2)	(2)	—
Selling and administrative expense	—	—	—	—	1
Tax effect	—	—	2	2	—
Net current period other comprehensive loss	(3)	—	(4)	(7)	(49)
Balance at end of period	<u>\$ (43)</u>	<u>\$ (45)</u>	<u>\$ 12</u>	<u>\$ (76)</u>	<u>\$ (156)</u>

The changes in the components of accumulated other elements of comprehensive income (loss) for the six months ended June 30, 2014 and 2013 were as follows (in millions):

	Six Months Ended June 30, 2014				Six Months Ended June 30, 2013
	Accumulated Foreign Currency Translation Gain (Loss)	Prior Service Credits and Net Actuarial Losses	Accumulated Gain (Loss) on Cash Flow Hedge Derivatives	Total	
Balance at beginning of year	\$ (49)	\$ (45)	\$ 14	\$ (80)	\$ (30)
Other comprehensive income (loss) before reclassifications:					
Pre-tax	6	—	4	10	(132)
Tax effect	—	—	(2)	(2)	5
Amounts reclassified from accumulated other comprehensive income to:					
Revenues	—	—	(5)	(5)	(2)
Cost of sales	—	—	(2)	(2)	
Selling and administrative expense	—	—	—	—	3
Tax effect	—	—	3	3	-
Net current period other comprehensive income (loss)	6	—	(2)	4	(126)
Balance at end of period	\$ (43)	\$ (45)	\$ 12	\$ (76)	\$ (156)

### Note 13: Contingencies

The Company is subject to a number of contingencies, including litigation, tax contingencies and environmental matters.

#### *Litigation*

The Company has been and continues to be named as a defendant in a number of multi-defendant, multi-plaintiff tort lawsuits. At June 30, 2014, the Company's Consolidated Condensed Balance Sheet included a liability of approximately \$16 million for such cases. The Company believes, based on its review of the facts and law, that the potential exposure from these suits will not have a material adverse effect on its consolidated results of operations, financial condition or liquidity.

#### *Tax and Other Contingencies*

The Company has legal entities in over 50 countries. As a result, the Company is subject to various tax filing requirements in these countries. The Company prepares its tax filings in a manner which it believes is consistent with such filing requirements. However, some of the tax laws and regulations to which the Company is subject require interpretation and/or judgment. Although the Company believes the tax liabilities for periods ending on or before the balance sheet date have been adequately provided for in the financial statements, to the extent a taxing authority believes the Company has not prepared its tax filings in accordance with the authority's interpretation of the tax laws and regulations, the Company could be exposed to additional taxes.

The Company has been assessed customs duties and penalties by the government of Brazil totaling almost \$58 million at June 30, 2014, including interest accrued at local country rates, following a customs audit for the years 2003-2010. The Company filed an administrative appeal and believes this assessment will ultimately be proven to be incorrect because of numerous errors in the assessment, and because the government has not provided appropriate supporting documentation for the assessment. As a result, the Company currently expects no material adverse impact on its results of operations or cash flows as a result of the ultimate resolution of this matter. No amounts have been accrued for this assessment as of June 30, 2014 as no loss is currently considered probable.

### ***Environmental Matters***

The Company is currently identified as a potentially responsible party (PRP) for one site designated for cleanup under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) or similar state law. The site is Osborne, Pennsylvania (a landfill into which a predecessor of the Reciprocating Compression operation in Grove City, Pennsylvania deposited waste), where remediation was completed in 2011 and remaining costs relate to ongoing ground water monitoring. The Company is also a party with de minimis exposure at other CERCLA sites.

The Company is engaged in site cleanup under the Voluntary Cleanup Plan of the Texas Commission on Environmental Quality ("TCEQ") at a former manufacturing location in Houston, Texas and one in Missouri City, Texas. With respect to the Missouri City site, the Company was notified in 2014 by the TCEQ that it may discontinue and decommission the ground-water treatment system there in preparation for site closure. With respect to the Houston site, in 2001 the Company discovered that contaminated underground water had migrated under an adjacent residential area. Pursuant to applicable state regulations, the Company notified the affected homeowners. Concerns over the impact on property values of the underground water contamination and its public disclosure led to a number of claims by homeowners. The Company has settled these claims, primarily as a result of the settlement of a class action lawsuit, and is obligated to reimburse approximately 190 homeowners for any diminution in value of their property due to contamination concerns at the time of the property's sale. Test results of monitoring wells on the southeastern border of the plume indicate that the plume is moving in a new direction, likely as a result of a ground water drainage system completed as part of an interstate highway improvement project. As a result, the Company notified 39 additional homeowners, and may provide notice to additional homeowners, whose property is adjacent to the class area that their property may be affected. The Company continues to monitor the situation to determine whether additional remedial measures would be appropriate. The Company believes, based on its review of the facts and law, that any potential exposure from existing agreements as well as any possible new claims that may be filed with respect to this underground water contamination will not have a material adverse effect on its financial position or results of operations. The Company's Consolidated Balance Sheet included a noncurrent liability of approximately \$7 million for these matters as of June 30, 2014.

Additionally, the Company has discontinued operations at a number of other sites which had been active for many years and which may have yet undiscovered contamination. The Company does not believe, based upon information currently available, that there are any material environmental liabilities existing at these locations. At June 30, 2014, the Company's Consolidated Balance Sheet included a noncurrent liability of nearly \$3 million for these environmental matters.

### **Note 14: Fair Value of Financial Instruments**

#### ***Fair Value of Financial Instruments***

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, trade receivables, trade payables, derivative instruments and debt instruments. The book values of trade receivables, trade payables and floating-rate debt instruments are considered to be representative of their respective fair values.

Following is a summary of the Company's financial instruments which have been valued at fair value in the Company's Consolidated Balance Sheets at June 30, 2014 and December 31, 2013:

(in millions)	Fair Value Based on Quoted Prices in Active Markets for Identical Assets (Level 1)		Fair Value Based on Significant Other Observable Inputs (Level 2)		Total	
	2014	2013	2014	2013	2014	2013
<b>Cash and cash equivalents:</b>						
Cash	\$ 536	\$ 618	\$ —	\$ —	\$ 536	\$ 618
Money market funds	960	1,172	—	—	960	1,172
Commercial paper	—	—	10	4	10	4
Non-U.S. bank and other obligations	19	19	—	—	19	19
<b>Short-term investments:</b>						
U.S. Treasury securities	56	41	—	—	56	41
<b>Non-qualified plan assets:</b>						
Money market funds	1	1	—	—	1	1
Domestic bond funds	3	3	—	—	3	3
Domestic equity funds	6	5	—	—	6	5
International equity funds	3	3	—	—	3	3
Blended equity funds	5	4	—	—	5	4
Common stock	2	2	—	—	2	2
<b>Derivatives, net asset (liability):</b>						
Foreign currency contracts	—	—	5	19	5	19
	\$ 1,591	\$ 1,868	\$ 15	\$ 23	\$ 1,606	\$ 1,891

Fair values for financial instruments utilizing level 2 inputs were determined from information obtained from third party pricing sources, broker quotes or calculations involving the use of market indices.

At June 30, 2014, the fair value of the Company's fixed-rate debt (based on Level 1 quoted market rates) was approximately \$3.3 billion as compared to the \$3.0 billion face value of the debt recorded, net of original issue discounts, in the Company's Consolidated Condensed Balance Sheet. At December 31, 2013, the fair value of the Company's fixed-rate debt (based on Level 1 quoted market rates) was approximately \$2.7 billion as compared to the \$2.5 billion face value of the debt.

### *Derivative Contracts*

In order to mitigate the effect of exchange rate changes, the Company will often attempt to structure sales contracts to provide for collections from customers in the currency in which the Company incurs its manufacturing costs. In certain instances, the Company will enter into foreign currency forward contracts to hedge specific large anticipated receipts or disbursements in currencies for which the Company does not expect to have fully offsetting local currency expenditures or receipts. The Company was party to a number of short- and long-term foreign currency forward contracts at June 30, 2014. The purpose of the majority of these contracts was to hedge large anticipated non-functional currency cash flows on major subsea, drilling, valve or other equipment contracts. Many of these contracts have been designated as and are accounted for as cash flow hedges with changes in the fair value of those contracts recorded in accumulated other comprehensive income (loss) in the period such change occurs. Certain other contracts, many of which are centrally managed, are intended to offset other foreign currency exposures but have not been designated as hedges for accounting purposes and, therefore, any change in the fair value of those contracts is reflected in earnings in the period such change occurs. The Company determines the fair value of its outstanding foreign currency forward contracts based on quoted exchange rates for the respective currencies applicable to similar instruments.

The Company manages its debt portfolio to achieve an overall desired position of fixed and floating rates and employs from time to time interest rate swaps as a tool to achieve that goal.



Total gross volume bought (sold) by notional currency and maturity date on open derivative contracts at June 30, 2014 was as follows (in millions):

	Notional Amount - Buy				Notional Amount - Sell			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
<b>Foreign exchange</b>								
<b>forward contracts -</b>								
Notional currency in:								
Australian dollar	17	—	—	17	(17)	—	—	(17)
Chinese yuan	20	—	—	20	—	—	—	—
Euro	107	28	10	145	(23)	(4)	(1)	(28)
Malaysian ringgit	51	215	3	269	(14)	—	—	(14)
Norwegian krone	612	513	54	1,179	(159)	(64)	—	(223)
Pound sterling	52	17	1	70	(37)	(17)	(1)	(55)
U.S. dollar	56	7	—	63	(389)	(215)	(47)	(651)

While the Company reports and generally settles its individual derivative financial instruments on a gross basis, the agreements between the Company and its third party financial counterparties to the derivative contracts generally provide both the Company and its counterparties with the legal right to net settle contracts that are in an asset position with other contracts that are in an offsetting liability position, if required. The fair values of derivative financial instruments recorded in the Company's Consolidated Condensed Balance Sheets at June 30, 2014 and December 31, 2013 were as follows (in millions):

	June 30, 2014		December 31, 2013	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
<b>Derivatives designated as hedging instruments:</b>				
Current	\$ 18	\$ 13	\$ 28	\$ 10
Non-current	3	2	3	2
Total derivatives designated as hedging instruments	<u>21</u>	<u>15</u>	<u>31</u>	<u>12</u>
<b>Derivatives not designated as hedging instruments:</b>				
Current	2	3	6	6
Non-current	—	—	—	—
Total derivatives not designated as hedging instruments	<u>2</u>	<u>3</u>	<u>6</u>	<u>6</u>
Total derivatives	<u>\$ 23</u>	<u>\$ 18</u>	<u>\$ 37</u>	<u>\$ 18</u>

The amount of pre-tax gain (loss) from the ineffective portion of derivatives designated as hedging instruments and from derivatives not designated as hedging instruments was (in millions):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Derivatives designated as hedging instruments -</b>				
Cost of sales	\$ (1)	\$ (1)	\$ 1	\$ (5)
<b>Derivatives not designated as hedging instruments -</b>				
Cost of sales	1	—	2	—
Other costs	—	3	—	—
	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ (5)</u>

#### **Note 15: Recently Issued Accounting Pronouncements**

##### ***Revenue***

In May 2014, the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards (IFRS).

The core principle of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), is that a company will recognize revenue when it transfers promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. Companies will need to:

- identify performance obligations in each contract,
- estimate the amount of variable consideration to include in the transaction price, and
- allocate the transaction price to each separate performance obligation.

ASU 2014-09 will be effective for Cameron no earlier than the first quarter of 2017. The Company is beginning the process of evaluating the impact of the new standard on its business and addressing whether it will select either the full retrospective or the modified retrospective implementation method upon adoption in 2017.

##### ***Discontinued operations***

The FASB issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08) in April 2014.

This new standard:

- raises the threshold for disposals to qualify as discontinued operations,
- allows companies to have significant continuing involvement and continuing cash flows with the discontinued operation, and
- provides for new and additional disclosures of discontinued operations and individually material disposal transactions.

The Company expects to adopt the new standard when it becomes effective in the first quarter of 2015.

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

*In addition to the historical data contained herein, this document includes forward-looking statements regarding future market strength, customer spending and order levels, revenues and earnings of the Company, as well as expectations regarding equipment deliveries, margins, profitability, the ability to control and reduce raw material, overhead and operating costs, cash generated from operations, capital expenditures and the use of existing cash balances and future anticipated cash flows made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results may differ materially from those described in any forward-looking statements. Any such statements are based on current expectations of the Company's performance and are subject to a variety of factors, some of which are not under the control of the Company, which can affect the Company's results of operations, liquidity or financial condition. Such factors may include overall demand for, and pricing of, the Company's products; the size and timing of orders; the Company's ability to successfully execute large subsea and drilling projects it has been awarded; the possibility of cancellations of orders in backlog; the Company's ability to convert backlog into revenues on a timely and profitable basis; the impact of acquisitions the Company has made or may make; changes in the price of (and demand for) oil and gas in both domestic and international markets; raw material costs and availability; political and social issues affecting the countries in which the Company does business; fluctuations in currency markets worldwide; and variations in global economic activity. In particular, current and projected oil and gas prices historically have generally directly affected customers' spending levels and their related purchases of the Company's products and services. As a result, changes in oil and gas price expectations may impact the demand for the Company's products and services and the Company's financial results due to changes in cost structure, staffing and spending levels the Company makes in response thereto. See additional factors discussed in "Factors That May Affect Financial Condition and Future Results" contained herein.*

*Because the information herein is based solely on data currently available, it is subject to change as a result of, among other things, changes in conditions over which the Company has no control or influence, and should not therefore be viewed as assurance regarding the Company's future performance. Additionally, the Company is not obligated to make public disclosure of such changes unless required under applicable disclosure rules and regulations.*

## SECOND QUARTER 2014 COMPARED TO SECOND QUARTER 2013

### Market Conditions

Information related to a measure of drilling activity and certain commodity spot and futures prices during each quarter and the number of deepwater floaters and semis under contract at the end of each period follows:

	Three Months Ended June 30,		Increase (Decrease)	
	2014	2013	Amount	%
Drilling activity (average number of working rigs during period) <sup>(1)</sup> :				
United States	1,852	1,761	91	5.2%
Canada	202	155	47	30.3%
Rest of world	1,345	1,306	39	3.0%
Global average rig count	3,399	3,222	177	5.5%
Commodity prices (average of daily U.S. dollar prices per unit during period) <sup>(2)</sup> :				
West Texas Intermediate Cushing, OK crude spot price per barrel in U.S. dollars	\$ 103.06	\$ 94.14	\$ 8.92	9.5%
Henry Hub natural gas spot price per MMBtu in U.S. dollars	\$ 4.59	\$ 4.02	\$ 0.57	14.2%
Twelve-month futures strip price (U.S. dollar amount at period end) <sup>(2)</sup> :				
West Texas Intermediate Cushing, OK crude oil contract (per barrel)	\$ 101.10	\$ 93.62	\$ 7.48	8.0%
Henry Hub natural gas contract (per MMBtu)	\$ 4.35	\$ 3.76	\$ 0.59	15.7%
Contracted drillships and semi-submersibles by location at period-end <sup>(3)</sup> :				
U.S. Gulf of Mexico	49	40	9	22.5%
Central and South America	76	88	(12)	(13.6)%
Northwestern Europe	46	47	(1)	(2.1)%
West Africa	45	27	18	66.7%
Southeast Asia and Australia	26	23	3	13.0%
Other	44	45	(1)	(2.2)%
Total	286	270	16	5.9%

(1) Based on average monthly rig count data from Baker Hughes

(2) Source: Bloomberg

(3) Source: ODS-Petrodata Ltd.

The increase in average worldwide operating rigs during the second quarter of 2014 as compared to the second quarter of 2013 was primarily due to a 30% increase in activity in Canada as a result of a 41% increase in the average number of rigs drilling for gas. Also contributing to the increase during the quarter was a 9% increase in the average number of rigs drilling for oil in North America as compared to the second quarter of 2013.

Crude oil prices (West Texas Intermediate, Cushing, OK) were fairly consistent but trended upward towards the end of the second quarter of 2014 reaching a high of \$107.26 in late June before closing the period at \$105.37 per barrel. On average, crude oil prices were almost 10% higher during the second quarter of 2014 as compared to the second quarter of 2013. The twelve month futures price for crude oil at June 30, 2014 was slightly lower compared to spot prices near the end of the quarter.

Natural gas (Henry Hub) prices were fairly consistent throughout the second quarter of 2014, averaging \$4.59 per MMBtu, which is a 14% increase as compared to the same period in 2013. The 12-month futures strip price for natural gas at June 30, 2014 was \$4.35 per MMBtu, which is comparable to the spot price at June 30, 2014.

With the recent increase in the number of drillships and semi-submersibles available for contract and under contract, a slowdown in demand for newbuild construction has occurred as the drilling industry undergoes a rebalancing of supply and demand for such rigs.

The oilfield service industry has also been experiencing customer slowdowns and delays on certain large subsea projects. As an example, the Company announced in November 2013 that Chevron's Rosebank project in the UK North Sea was being deferred in order for Chevron to work with its partners to improve project economics. The original award received by Cameron for this project totaled in excess of \$500 million. It was agreed that OneSubsea would continue to work on its awarded scope and work with Chevron on improving the project's economics.

### **Critical Accounting Policies**

Goodwill – During the first quarter of each annual period, the Company reviews the carrying value of goodwill in accordance with accounting rules on impairment of goodwill, which require that the Company estimate the fair value of each of its reporting units annually, or when impairment indicators exist, and compare such amounts to their respective carrying values to determine if an impairment of goodwill is required. The estimated fair value of each reporting unit is determined using discounted future expected cash flow models (level 3 unobservable inputs) consistent with the accounting guidance for fair value measurements. Certain estimates and judgments are required in the application of the discounted cash flow models, including, but not limited to, estimates of future cash flows and the selection of a discount rate.

As described further in Note 2 of the Notes to Consolidated Condensed Financial Statements, effective June 1, 2014, the Company completed the previously announced sale of its Reciprocating Compression business, a division of the Process and Compression Systems (PCS) segment, to General Electric for cash consideration of approximately \$547 million, net of transaction costs. Reciprocating Compression had previously been included with the Process Systems and Equipment (PSE) business in the Process Systems & Reciprocating Compression reporting unit for goodwill impairment evaluation purposes. As a result of the classification of Reciprocating Compression as a discontinued operation in the first quarter of 2014 when a definitive agreement to sell the business was entered into, total reporting unit goodwill was allocated between the two businesses. Following this, the PSE business was evaluated as a separate reporting unit in connection with the Company's annual goodwill impairment review conducted during the first quarter of 2014. As a result of this review, the PSE goodwill amount, totaling approximately \$40 million, was fully impaired at that time.

### **Consolidated Results**

Net income attributable to Cameron stockholders for the second quarter of 2014 totaled \$221 million, compared to \$140 million for the second quarter of 2013. Earnings from continuing operations per diluted share totaled \$1.02 for the second quarter of 2014, compared to \$0.55 per diluted share for the second quarter of 2013. Included in the second quarter 2014 results were certain gains, net of costs, totaling \$0.02 per diluted share, primarily associated with:

- a gain from remeasurement of a prior interest in an equity method investment, and
- an impairment of certain intangible assets.

The results for the second quarter of 2013 included after-tax charges of \$0.22 per share, primarily related to formation costs for OneSubsea, including additional income tax expense incurred in connection with the formation, as well as currency devaluation, severance, restructuring and other costs.

Absent these gains, net of certain costs, and other costs for the same period in 2013, diluted earnings from continuing operations per share would have increased nearly 30% in the second quarter of 2014 as compared to the second quarter of 2013.

Total revenues for the Company increased \$432 million, or 19.6%, during the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. Nearly 35% of the increase was attributable to businesses acquired during the last twelve months with the remaining increase reflecting higher revenues in each major product line in the Drilling & Production Systems (DPS) segment. Revenues in the Valves & Measurement (V&M) segment were relatively flat compared to the same period last year, while PCS segment revenues, excluding discontinued operations, were down nearly 15%.

As a percent of revenues, cost of sales (exclusive of depreciation and amortization) increased from 70.9% during the second quarter of 2013 to 71.7% for the second quarter of 2014, mainly as a result of higher costs in relation to revenues in the DPS segment as described further below under “Segment Results”.

Selling and administrative expenses increased \$31 million, or 9.8%, during the three months ended June 30, 2014 as compared to the three months ended June 30, 2013. This increase was primarily due to higher business activity levels in the DPS segment, along with the impact of additional costs from newly acquired businesses. Selling and administrative expenses were 13.1% of revenues for the second quarter of 2014, down from 14.3% for the second quarter of 2013, reflecting the impact of cost control efforts initiated in 2014.

Depreciation and amortization expense totaled \$90 million for the second quarter of 2014 as compared to \$67 million during the second quarter of 2013, an increase of \$23 million. The increase was due mainly to higher depreciation expense as a result of recent increased levels of capital spending and the impact of additional depreciation and acquired intangible amortization expense associated mainly with businesses acquired from Schlumberger in connection with the formation of OneSubsea.

Net interest increased \$5 million, from \$25 million during the second quarter of 2013 to \$30 million during the second quarter of 2014, mainly resulting from additional interest associated with \$750 million of new senior notes issued by the Company in December 2013.

Other credits, net of costs totaled \$4 million for the three months ended June 30, 2014 as compared to costs of \$35 million for the three months ended June 30, 2013. See Note 3 of the Notes to Consolidated Condensed Financial Statements for further information on the nature of these items.

The Company’s effective tax rate on income from continuing operations for the second quarter of 2014 was 23.0% compared to 31.8% for the second quarter of 2013. The components of the effective tax rates for both periods were as follows (dollars in millions):

	Three Months Ended June 30,			
	2014		2013	
	Tax Provision	Tax Rate	Tax Provision	Tax Rate
Forecasted tax expense by jurisdiction	\$ 68	24.0%	\$ 50	24.7%
Adjustments to income tax provision:				
Recognition of certain historical tax benefits as prior uncertainty regarding those benefits has been resolved	—	—	(1)	(0.3)
Finalization of prior year returns	(1)	(0.5)	10	4.8
Changes in valuation allowances	—	—	5	2.6
Accrual adjustments and other	(1)	(0.5)	—	—
Tax provision	<u>\$ 66</u>	<u>23.0%</u>	<u>\$ 64</u>	<u>31.8%</u>

## Segment Results

### DPS Segment –

(\$ in millions)	Three Months Ended June 30,		Increase (Decrease)	
	2014	2013	\$	%
Revenues	\$ 1,903	\$ 1,438	\$ 465	32.3%
Income from continuing operations before income taxes	\$ 235	\$ 196	\$ 39	19.9%
Income from continuing operations before income taxes as a percent of revenues	12.3%	13.6%	N/A	(1.3)%
Orders	\$ 1,690	\$ 1,503	\$ 187	12.4%
Backlog (at period-end)	\$ 9,209	\$ 8,470	\$ 739	8.7%

#### *Revenues*

The increase in revenues was due to:

- a 37% increase in drilling equipment revenues, primarily related to increased shipments associated with higher beginning-of-the-period backlog levels and production efficiency improvements,
- growth of 37% in subsea equipment revenues, mainly due to businesses acquired during the last twelve months, which represented almost three-fourths of the change, along with higher revenues on a large project offshore West Africa, and
- a 19% increase in sales of surface equipment, largely as a result of higher activity levels in the unconventional resource regions of North America, as well as higher shipments to customers operating in the North Sea and the impact of businesses acquired during the last twelve months.

#### *Income from continuing operations before income taxes as a percent of revenues*

The decrease in the ratio of income from continuing operations before income taxes as a percent of revenues was due primarily to:

- a 0.9 percentage-point increase in the ratio of cost of sales to revenues resulting mainly from lower project margins in the drilling equipment product line due to higher costs, as well as higher warranty costs, partially offset by better cost recovery on a West African subsea project, and
- a 0.6 percentage-point increase in the ratio of depreciation and amortization expense to revenues as a result of higher depreciation and amortization expense during the second quarter of 2014 largely related to (1) businesses acquired from Schlumberger as part of the formation of OneSubsea and (2) higher capital spending to (a) enhance the Company's aftermarket capabilities, and (b) expand the fleet of rental equipment available in the Surface Systems division.

#### *Orders*

The increase in total segment orders was primarily the result of a 70% increase in subsea orders mainly due to businesses acquired during the last twelve months, which accounted for approximately 63% of the growth, as well as changes to a large project offshore West Africa.

Partially offsetting these increases was a 5% decline in orders for drilling equipment primarily reflecting a slowdown in activity relating to jack-up rigs.

### *Backlog (at period-end)*

Higher subsea equipment backlog, largely as a result of strong 2013 order rates, accounted for nearly 80% of the total increase in DPS segment backlog from June 30, 2013 to June 30, 2014. Strong order rates, primarily in North America and the Asia Pacific/Middle East region, as well as backlog added from businesses acquired during the last twelve months, also led to a nearly 24% increase in surface equipment backlog levels from June 30, 2013. Drilling equipment backlog was down less than 1% despite the reversal of nearly \$243 million in backlog in the first quarter of 2014 as the result of a customer cancellation of a large drilling project award issued in 2012. The Company reached agreement with the customer in July 2014 which will result in an additional payment from the customer of \$21 million in connection with the cancelled contract.

### **V&M Segment –**

(\$ in millions)	Three Months Ended June 30,		Increase/(Decrease)	
	2014	2013	\$	%
Revenues	\$ 536	\$ 534	\$ 2	0.4%
Income from continuing operations before income taxes	\$ 107	\$ 109	\$ (2)	(1.8)%
Income from continuing operations before income taxes as a percent of revenues	20.0%	20.4%	N/A	(0.4)%
Orders	\$ 517	\$ 524	\$ (7)	(1.3)%
Backlog (at period-end)	\$ 1,026	\$ 1,063	\$ (37)	(3.5)%

### *Revenues*

Favorable North American market conditions and the impact of businesses acquired in the last twelve months contributed to an increase of 25% in sales of measurement products and a 12% improvement in sales of distributed valves. Mostly offsetting these gains were lower activity levels resulting from project slippage and recent order weakness for pipeline valves and the timing of valve deliveries due to various customer changes which resulted in sales declines of 14% and 7% for engineered valves and process valves, respectively.

### *Income from continuing operations before income taxes as a percent of revenues*

The ratio of income from continuing operations before income taxes as a percent of revenues was down slightly compared to the same period of the year. Increased overhead costs and higher depreciation and amortization expense as a result of increased capital spending in recent periods more than offset slightly higher product margins.

### *Orders*

Overall, total segment orders were down modestly when compared to the same period last year. Project timing delays contributed to a 19% decrease in engineered valve orders. Mostly offsetting this decline was a 28% improvement in distributed valve orders reflecting higher activity levels in North America.

### *Backlog (at period-end)*

Backlog levels for the V&M segment decreased slightly from June 30, 2013, as recent order rates for new engineered and process valves have not kept up with recent deliveries. These decreases were partially offset by strong demand for distributed valves and measurement products reflecting continued strength in the North American market.



## PCS Segment –

(\$ in millions)	Three Months Ended		Increase (Decrease)	
	June 30,			
	2014 <sup>(1)</sup>	2013 <sup>(1)</sup>	\$	%
Revenues	\$ 202	\$ 237	\$ (35)	(14.8)%
Income from continuing operations before income taxes	\$ 13	\$ 17	\$ (4)	(23.5)%
Income from continuing operations before income taxes as a percent of revenues	6.4%	7.2%	N/A	(0.8)%
Orders	\$ 229	\$ 212	\$ 17	8.0%
Backlog (at period-end)	\$ 908	\$ 832	\$ 76	9.1%

<sup>(1)</sup> Excluding discontinued operations

### *Revenues*

The revenue decrease in the PCS segment was due primarily to:

- an 18% decrease in custom process systems revenues largely as a result of the timing of manufacturing activity on large projects,
- a 7% decrease in centrifugal compression revenues mainly due to declines in deliveries of plant air equipment and aftermarket revenues as a result of recent weak order rates, and
- a 4% decline in deliveries of wellhead and midstream processing equipment due to weak demand.

### *Income from continuing operations before income taxes as a percent of revenues*

The decrease in the ratio of income from continuing operations before income taxes as a percent of revenues was due primarily to a 1.1 percentage-point increase in the ratio of depreciation and amortization expense to revenues as a result of higher depreciation and amortization expense during the second quarter of 2014 in relation to lower revenues for the period, as mentioned above. Depreciation and amortization increased across each of the businesses mainly due to increased capital spending in recent periods.

### *Orders*

The increase in segment orders was almost entirely attributable to a 46% increase in demand for wellhead and midstream processing equipment, mainly related to a large award for a new cryogenic gas processing system.

### *Backlog (at period-end)*

Overall segment backlog was up 9% at June 30, 2014 as compared to June 30, 2013, as a 33% increase in backlog in the custom process systems business, largely resulting from a \$250 million award received in the fourth quarter of 2013 for equipment to be provided for a gas processing facility in Malaysia, was partially offset by a 19% decline in backlog for centrifugal compression equipment, due to recent weak order rates for new plant air, air separation and engineered air units.

## Corporate Segment –

The \$53 million decrease in the loss from continuing operations before income taxes in the Corporate segment during the second quarter of 2014 as compared to the second quarter of 2013 (see Note 10 of the Notes to Consolidated Condensed Financial Statements) was due mainly to:

- a \$39 million decrease in other costs, net of credits, as described further in Note 3 of the Notes to Consolidated Condensed Financial Statements, and
- a \$12 million decrease in selling and administrative expenses, mainly reflecting the effects of cost control efforts put in place in 2014 which have lowered employee-related costs, including travel, and information technology and other facility costs.

## SIX MONTHS ENDED JUNE 30, 2014 COMPARED TO SIX MONTHS ENDED JUNE 30, 2013

### Market Conditions

Information related to drilling activity and certain commodity spot prices during the first six months of each period follows:

	Six Months Ended June 30,		Increase	
	2014	2013	Amount	%
Drilling activity (average number of working rigs during period) <sup>(1)</sup> :				
United States	1,816	1,760	56	3.2%
Canada	364	346	18	5.2%
Rest of world	1,341	1,290	51	4.0%
Global average rig count	3,521	3,396	125	3.7%
Commodity prices (average of daily U.S. dollar prices per unit during period) <sup>(2)</sup> :				
West Texas Intermediate Cushing, OK crude spot price per barrel in U.S. dollars	\$ 100.89	\$ 94.22	\$ 6.67	7.1%
Henry Hub natural gas spot price per MMBtu in U.S. dollars	\$ 4.95	\$ 3.76	\$ 1.19	31.6%

(1) Based on average monthly rig count data from Baker Hughes

(2) Source: Bloomberg

The increase in average worldwide operating rigs during the first six months of 2014 as compared to the first six months of 2013 was driven by higher North American oil drilling activity and higher foreign activity primarily in the Middle East and Africa. Despite the improvement in natural gas pricing, the challenging economics associated with horizontal shale development drilling at current prices continues to constrain the overall rig market. The average number of rigs drilling for gas was flat in North America in the first half of 2014 as compared to the first half of 2013.

Crude oil prices (West Texas Intermediate, Cushing, OK) continued to trend upward throughout much of the first half of 2014 reaching a high of \$107.26 per barrel in mid-June before closing the period at \$105.37 per barrel. On average, crude oil prices were 7% higher during the first half of 2014 as compared to the first half of 2013.

In early February 2014, natural gas (Henry Hub) prices reached their highest levels since September 2011, before leveling off to close at \$4.41 per MMBtu at June 30, 2014. On average, prices during the first half of 2014 were up 32% as compared to the same period in 2013.

## Consolidated Results

Net income attributable to Cameron stockholders for the six months ended June 30, 2014 totaled \$332 million, compared to \$289 million for the first six months of 2013. Earnings from continuing operations per diluted share totaled \$1.54 for the first six months of 2014, compared to \$1.14 per diluted share for the same period in 2013. Included in the results for the six months ended June 30, 2014 were charges, net of certain gains, totaling \$0.19 per diluted share, primarily associated with:

- a goodwill impairment charge related to the PSE business and an impairment of certain intangible assets,
- a gain from remeasurement of a prior interest in an equity method investment, and
- severance, restructuring, integration and other costs, net of certain gains.

The results for the first six months of 2013 included after-tax charges of \$0.31 per share, primarily related to formation costs for OneSubsea, including additional income tax expense incurred in connection with the formation, as well as currency devaluation, severance, restructuring and other costs.

Absent these costs in both periods, diluted earnings from continuing operations per share would have increased nearly 19% as compared to the first half of 2013.

Total revenues for the Company increased \$802 million, or 18.8%, during the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. Nearly 34% of the increase was attributable to businesses acquired during the last twelve months with the remaining increase reflecting higher revenues in each major product line in the DPS segment. Revenues in the V&M segment were down 3% compared to the same period last year while PCS segment revenues, excluding discontinued operations, were down 14%.

As a percent of revenues, cost of sales (exclusive of depreciation and amortization) were 72.1% for the first six months of 2014 as compared to 70.7% for the first six months of 2013. The increase was mainly the result of higher costs in relation to revenues in the DPS and PCS segments as described further below under “Segment Results”.

Selling and administrative expenses increased \$57 million, or 9.2%, during the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. This increase was primarily due to higher business activity levels in the DPS segment, along with the impact of additional costs from newly acquired businesses. Selling and administrative expenses were 13.3% of revenues for the first six months of 2014, down from 14.5% for the same period in 2013, reflecting the impact of cost control efforts initiated in 2014.

Depreciation and amortization expense totaled \$177 million for the six months ended June 30, 2014 as compared to \$135 million for the six months ended June 30, 2013, an increase of \$42 million. The increase was due mainly to higher depreciation expense as a result of recent increased levels of capital spending and the impact of additional depreciation and acquired intangible amortization expense associated mainly with businesses acquired from Schlumberger in connection with the formation of OneSubsea.

Net interest increased \$11 million, from \$51 million during the first half of 2013 to \$62 million during the first half of 2014, mainly resulting from additional interest associated with \$750 million of new senior notes issued by the Company in December 2013.

Other costs, net of credits, totaled \$44 million for the six months ended June 30, 2014 as compared to \$66 million for the six months ended June 30, 2013, a decrease of \$22 million. See Note 3 of the Notes to Consolidated Condensed Financial Statements for further information on the nature of these items.

The effective income tax rate for the first six months of 2014 was 25.1% as compared to 25.6% for the first six months of 2013. The components of the effective tax rates for both periods were as follows (dollars in millions):

	Six Months Ended June 30,			
	2014		2013	
	Tax Provision	Tax Rate	Tax Provision	Tax Rate
Forecasted tax expense by jurisdiction	\$ 109	24.0%	\$ 91	23.8%
Adjustments to income tax provision:				
Recognition of certain historical tax benefits as prior uncertainty regarding those benefits has been resolved	—	—	(1)	(0.1)
Tax effect of goodwill impairment	10	2.1	—	—
Finalization of prior year returns	(4)	(0.9)	9	2.4
Tax effects of changes in legislation	—	—	(7)	(1.9)
Changes in valuation allowances	—	—	5	1.4
Accrual adjustments and other	(1)	(0.1)	—	—
Tax provision	<u>\$ 114</u>	<u>25.1%</u>	<u>\$ 97</u>	<u>25.6%</u>

## Segment Results

### DPS Segment –

(\$ in millions)	Six Months Ended		Increase (Decrease)	
	June 30,			
	2014	2013	\$	%
Revenues	\$ 3,608	\$ 2,707	\$ 901	33.3%
Income from continuing operations before income taxes	\$ 418	\$ 350	\$ 68	19.4%
Income from continuing operations before income taxes as a percent of revenues	11.6%	12.9%	N/A	(1.3)%
Orders	\$ 3,449	\$ 4,246	\$ (797)	(18.8)%

#### Revenues

The increase in revenues was due to:

- an increase of 47% in subsea equipment revenues, over two-thirds of which was due to businesses acquired during the last twelve months, along with higher revenues associated with a large project offshore West Africa, higher project activity levels in the Europe/Africa region and increased aftermarket sales,
- an increase of 37% in drilling equipment revenues, primarily related to increased shipments associated with higher beginning-of-the-year backlog levels and production efficiency improvements, and
- growth of 16% in surface equipment revenues, largely as a result of increased activity levels in unconventional resource regions of North America, as well as increased deliveries to customers operating in the North Sea and the impact of businesses acquired during the last twelve months.

*Income from continuing operations before income taxes as a percent of revenues*

The decrease in the ratio of income from continuing operations before income taxes as a percent of revenues was due primarily to a 1.2 percentage-point increase in the ratio of cost of sales to revenues resulting mainly from:

- a mix shift to a higher proportion of subsea project revenues, which inherently carry lower margins than non-project related businesses, during the first six months of 2014 as compared to the same period in 2013, and
- lower margins in the drilling equipment product line due to higher project costs, as well as higher warranty costs.

*Orders*

The decrease in orders was primarily due to:

- a 62% decrease in subsea orders, mainly as a result of an award received during the first six months of 2013 from Petrobras for subsea trees and associated equipment for use in Pre- and Post-Salt basins offshore Brazil, as well as a large booking in the same period to supply subsea production systems to a project offshore Nigeria, with no similar-sized large awards received in the first six months of 2014, and
- a 5% decrease in orders for surface equipment due mainly to a slowdown in 2014 in the pace of orders from customers operating in Saudi Arabia and Iraq as compared to the record level of orders received in 2013. This decline was largely offset by continued strength in activity levels in the unconventional resource regions in North America.

Offsetting these decreases were nearly \$200 million of orders added from businesses acquired during the last twelve months and a 9% increase in orders for drilling equipment reflecting several large rig project awards received early in 2014.

**V&M Segment –**

(\$ in millions)	Six Months Ended June 30,		Decrease	
	2014	2013	\$	%
Revenues	\$ 1,028	\$ 1,056	\$ (28)	(2.7)%
Income from continuing operations before income taxes	\$ 201	\$ 222	\$ (21)	(9.5)%
Income from continuing operations before income taxes as a percent of revenues	19.6%	21.0%	N/A	(1.4)%
Orders	\$ 1,053	\$ 1,062	\$ (9)	(0.8)%

*Revenues*

Overall segment sales were down modestly for the six months ended June 30, 2014 when compared to the same period last year. Project slippage and recent order weakness for pipeline valves and the timing of valve deliveries due to various customer changes contributed to sales declines of 15% and 9% for engineered valves and process valves, respectively. Partially offsetting these declines were increases of 8% and 19% for sales of distributed valves and measurement products, respectively, as a result of current strength in the North American market.

*Income before income taxes as a percent of revenues*

The decrease in the ratio of income from continuing operations before income taxes as a percent of revenues was primarily attributable to a 0.5 percentage-point increase in the ratio of selling and administrative costs to revenues, due mainly to higher employee-related costs in relation to the decline in revenues, and a 0.8 percentage-point increase in the ratio of depreciation and amortization expense to revenues due to higher depreciation from

higher recent capital spending levels mainly in the engineered valve product line and the impact of businesses acquired during the last twelve months.

### *Orders*

Overall, total segment orders were relatively flat when compared to the same period last year. Project slippage contributed to declines of approximately 10% and 20% in both engineered and process valve orders, respectively. This was mostly offset by a 17% increase in orders for distributed valves resulting from higher North American activity levels.

### **PCS Segment –**

(\$ in millions)	Six Months Ended June 30,		Decrease	
	2014	2013	\$	%
Revenues	\$ 436	\$ 507	\$ (71)	(14.0)%
Income from continuing operations before income taxes	\$ 28	\$ 37	\$ (9)	(24.3)%
Income from continuing operations before income taxes as a percent of revenues	6.4%	7.3%	N/A	(0.9)%
Orders	\$ 416	\$ 480	\$ (64)	(13.3)%

### *Revenues*

The decrease in revenues was due primarily to:

- a 13% decline in custom process systems revenues largely as a result of the timing of manufacturing activity on large projects,
- a 19% decline in wellhead and midstream processing equipment sales mainly to customers in North America, and
- a 16% decrease in sales of centrifugal air separation and engineered air equipment due to recent weak order rates.

### *Income from continuing operations before income taxes as a percent of revenues*

The decrease in the ratio of income before income taxes as a percent of revenues was primarily due to:

- a 0.6 percentage-point increase in the ratio of cost of sales to revenues primarily due to lower product margins in the wellhead and midstream processing equipment product line, and
- higher depreciation and amortization expense in relation to a decline in revenues, primarily due to increased capital spending in recent periods, the impact of which has been partially offset by an improvement in the ratio of selling and administrative costs to revenues due to the effect of cost control efforts implemented during 2014.

## *Orders*

Overall, segment orders decreased across most major product lines. The decreases were primarily the result of:

- a 15% decline in orders for custom process systems largely related to slippage of project timelines,
- a 15% decline in centrifugal compression equipment orders driven mainly by a 45% decrease in demand for plant air machines, primarily from international customers, and
- a 7% decline in demand for wellhead and midstream processing equipment, mainly from customers in North America.

## **Corporate Segment –**

The \$38 million decrease in the loss before income taxes in the Corporate segment during the six-month period ended June 30, 2014 as compared to the six-month period ended June 30, 2013 (see Note 10 of the Notes to Consolidated Condensed Financial Statements) was due primarily to:

- a \$22 million decrease in other costs, net of credits, as described further in Note 3 of the Notes to Consolidated Condensed Financial Statements, and
- a \$15 million decrease in selling and administrative expenses, mainly reflecting the effects of cost control efforts put in place in 2014 which have lowered employee-related costs, including travel, and certain facility costs.

## **Liquidity and Capital Resources**

### *Consolidated Condensed Statements of Cash Flows*

During the first six months of 2014, net cash provided by operations totaled \$39 million, an increase of \$32 million from the \$7 million of cash provided by operations during the first six months of 2013.

Cash totaling \$588 million was used to increase working capital during the first six months of 2014 compared to \$404 million during the first six months of 2013, an increase of \$184 million. During the first six months of 2014, increased collections due to the high level of year end receivables added \$111 million in cash. Offsetting this was \$228 million of cash used to build inventory levels, primarily in the DPS segment, in order to meet the demands from the high backlog and activity levels in that business segment. The timing of payments to third parties and annual employee incentive payouts made in the first half of 2014 also contributed to a use of cash totaling \$471 million for the period.

Cash provided by investing activities was \$346 million for the first six months of 2014. In June 2014, the Company received \$547 million of cash, net of transaction costs, from the sale of the Reciprocating Compression business to General Electric. Additionally, capital spending during the first six months of 2014 totaled \$178 million. Capital needs in the Surface Systems and OneSubsea divisions of the DPS segment, along with continued development of the Company's enhanced business information systems, accounted for the majority of the 2014 capital spending.

Net cash used for financing activities totaled \$677 million for the first six months of 2014. Approximately \$1.2 billion of cash was used to acquire nearly 20 million shares of treasury stock during the first half of 2014. In 2014, the Board of Directors authorized the Company to initiate a commercial paper program with authority to issue up to \$500 million in short-term debt. Under this program, the Company issued commercial paper totaling \$263 million in principal amount for use in funding the treasury stock purchases referred to above and for other corporate needs. The average term of the outstanding commercial paper as of June 30, 2014 was approximately 62 days. The Company currently anticipates being able to continue to issue new commercial paper to fund or extend outstanding commercial paper as it comes due for payment. During June 2014, the Company repaid \$250 million of floating rate

notes upon maturity and issued a total of \$500 million of new senior notes split equally between 3- and 10-year maturities.

#### *Future liquidity requirements*

At June 30, 2014, the Company had \$1.6 billion of cash, cash equivalents and short-term investments. Approximately \$493 million of the Company's cash, cash equivalents and short-term investments at June 30, 2014 were in the OneSubsea venture. Dividends of available cash from OneSubsea to the venture partners, 40% of which would go to Schlumberger, require approval of the OneSubsea Board of Directors prior to payment. On July 11, 2014, a dividend of €75 million was paid to the venture partners with Cameron's non-U.S. partnership receiving €45 million and Schlumberger receiving €30 million. Of the remaining cash, cash equivalents and short-term investments not held by OneSubsea, \$657 million was located in the United States. Of this amount, approximately \$253 million, which included a make-whole premium plus accrued interest, was used to redeem early the Company's \$250 million principal amount of 1.6% Senior Notes on July 21, 2014.

Total debt at June 30, 2014 was nearly \$3.4 billion, most of which was in the United States. Excluding capital leases, approximately \$1.0 billion of the debt obligations have maturities within the next three-year period. The remainder of the Company's long-term debt is due in varying amounts between 2018 and 2043.

Excluding discontinued operations, the Company's backlog decreased slightly from December 31, 2013, mainly due to the cancellation of a large drilling project award in the first quarter of 2014 totaling nearly \$243 million, but was still at a near record high at June 30, 2014. Orders during the first six months of 2014 were down nearly 15% from the same period in 2013 due mainly to certain large subsea project awards received in the first six months of 2013 that did not repeat during the half of 2014. The timing of such large project awards are inconsistent period over period. The Company views its backlog of unfilled orders, current order rates, current rig count levels and current and future expected oil and gas prices to be, in varying degrees, leading indicators of and factors in determining its estimates of future revenues, cash flows and profitability levels. Information regarding actual 2014 and 2013 average rig count and commodity price levels and forward-looking twelve-month market-traded futures prices for crude oil and natural gas are shown in more detail under the captions "Market Conditions" above. A more detailed discussion of second quarter and year-to-date orders and June 30 backlog levels by segment may be found under "Segment Results" for each period above. The Company currently anticipates growth in consolidated orders, backlog and revenues during the second half of 2014 in relation to the same period in 2013. The Company also expects full year capital spending on new equipment and facilities to be between \$450 million to \$500 million for 2014, as compared to \$520 million during 2013. The high backlog levels and expected growth however, may increase working capital needs in certain businesses in order in order to meet the increased customer demand.

The Company believes, based on its current financial condition, existing backlog levels and current expectations for future market conditions, that it will be able to meet its short- and longer-term liquidity needs with existing cash, cash equivalents and short-term investments on hand, expected cash flow from future operating activities and amounts available for borrowing under its \$835 million five-year multi-currency Revolving Credit Facility, which matures on June 6, 2016, and its new three-year \$750 million Revolving Credit Facility, described further in Note 8 of the Notes to Consolidated Condensed Financial Statements. Up to \$200 million of this new facility may be used for letters of credit. The Company also has a bi-lateral \$40 million facility with a third-party bank, expiring on February 2, 2015. At June 30, 2014, no amounts had been borrowed under the \$835.0 million facility. The Company had issued letters of credit totaling \$77 million under the new \$750 million Revolving Credit Facility and \$29 million under the \$40 million bi-lateral facility, leaving \$673 million and \$11 million, respectively, available for future use.

In addition, the Company announced in January 2014 that it was exploring strategic alternatives for its Centrifugal Compression business.

The Company has an authorized stock repurchase program whereby the Company may purchase shares directly or indirectly by way of open market transactions or structured programs, including the use of derivatives, for the Company's own account or through commercial banks or financial institutions. The program, initiated in October 2011, has had a series of authorizations by the Board of Directors totaling \$3.2 billion since inception. At June 30, 2014, the Company had remaining authority for future stock purchases totaling approximately \$456 million.



## Factors That May Affect Financial Condition and Future Results

*The inability of the Company to deliver its backlog or future orders on time could affect the Company's future sales and profitability and its relationships with its customers.*

At June 30, 2014, the Company's backlog was approximately \$11 billion, excluding discontinued operations. The ability to meet customer delivery schedules for this backlog, as well as future orders, is dependent on a number of factors including, but not limited to, access to the raw materials required for production, an adequately trained and capable workforce, project engineering expertise for large subsea projects, sufficient manufacturing plant capacity and appropriate planning and scheduling of manufacturing resources. Many of the contracts the Company enters into with its customers require long manufacturing lead times and contain penalty clauses relating to on-time delivery. A failure by the Company to deliver in accordance with customer expectations could subject the Company to financial penalties or loss of financial incentives and may result in damage to existing customer relationships. Additionally, the Company bases its earnings guidance to the financial markets on expectations regarding future order rates and the timing of delivery of product currently in backlog. Failure to deliver equipment in accordance with expectations could negatively impact the market price performance of the Company's common stock and other publicly-traded financial instruments.

*Expansion of the Company's offerings in the drilling market creates additional risks not previously present.*

The Company's acquisitions of LeTourneau Technologies Drilling Systems, Inc. and the TTS Energy Division of TTS Group ASA (TTS) expanded the Company's portfolio of products and services available to customers involved in oil and gas drilling activities. These acquisitions brought large drilling rig construction projects not previously offered and a record backlog. As a result of both, the complexity of execution within this business has increased from that of the past. Also, the Company has recently struggled to increase production capacity to deliver its record backlog.

Large drilling rig projects are accounted for using accounting rules for production-type and construction-type contracts. In accordance with this guidance, the Company estimates the expected margin on these projects and recognizes this margin as units are completed. These projects (i) require significantly more engineering and project management expertise than are needed for projects involving the supply of drilling stacks and associated equipment to customers, (ii) are larger in financial scope and (iii) require longer lead times than many other projects involving the Company's Drilling Systems business. Additionally, unplanned difficulties in engineering and managing the construction of such major projects could result in cost overruns and financial penalties which could negatively impact the Company's margins and cash flow. Similar to subsea systems projects described below, a reduction in expected margins on these projects from such unplanned events would result in a cumulative adjustment to reduce margins previously recognized in the period a change in estimate is determined.

*Execution of subsea systems projects exposes the Company to risks not present in its other businesses.*

Cameron, through OneSubsea, is a significant participant in the subsea systems projects market. This market is different from most of the Company's other markets since subsea systems projects are larger in scope and complexity, in terms of both technical and logistical requirements. Subsea projects typically (i) involve long lead times, (ii) are larger in financial scope, (iii) require substantial engineering resources to meet the technical requirements of the project and (iv) often involve the application of existing technology to new environments and, in some cases, may require the development of new technology. The Company's OneSubsea business has a backlog of approximately \$4 billion for subsea systems projects at June 30, 2014. To the extent the Company experiences unplanned difficulties in meeting the technical and/or delivery requirements of the projects or has difficulty fully integrating the businesses contributed by Schlumberger to OneSubsea into its operations, the Company's earnings or liquidity could be negatively impacted. As the integration of the Schlumberger and Cameron businesses continues, issues may arise as we continue to refine the technologies and scale up the combined operations to meet customer demand. The Company accounts for its subsea projects, as it does its separation and drilling projects, using accounting rules for construction-type and production type contracts. Factors that may affect future project costs and margins include the ability to properly execute the engineering and design phases consistent with our customers' expectations, production efficiencies obtained, and the availability and costs of labor, materials and subcomponents. These factors can impact the accuracy of the Company's estimates and materially impact the Company's future period earnings. If the Company experiences cost overruns, the expected margin could

decline. Were this to occur, in accordance with the accounting guidance, the Company would record a cumulative adjustment to reduce the margin previously recorded on the related project in the period a change in estimate is determined. Subsea systems projects accounted for approximately 14.9% of total revenues in the first six months of 2014.

*As a designer, manufacturer, installer and servicer of oil and gas pressure control equipment, the Company may be subject to liability, personal injury, property damage and environmental contamination should such equipment fail to perform to specifications.*

Cameron provides products and systems to customers involved in oil and gas exploration, development and production, as well as in certain other industrial markets. Some of the Company's equipment is designed to operate in high-temperature and/or high-pressure environments on land, on offshore platforms and on the seabed and some equipment is designed for use in hydraulic fracturing operations. Cameron also provides aftermarket parts and repair services at numerous facilities located around the world or at customer sites for this and other equipment.

Because of applications to which the Company's products and services are put, particularly those involving the high temperature and/or pressure environments, a failure of such equipment, or a failure of our customer to maintain or operate the equipment properly, could cause damage to the equipment, damage to the property of customers and others, personal injury and environmental contamination, onshore or offshore, leading to claims against Cameron.

*The implementation of an upgraded business information system may disrupt the Company's operations or its system of internal controls.*

The Company has a project underway to upgrade its SAP business information systems worldwide. The first stage of this multi-year effort was completed at the beginning of the third quarter of 2011 with the deployment of the upgraded system for certain businesses within the Company's PCS segment. Certain other businesses began operating on the upgraded system during 2012. As of December 2013, nearly all businesses within the V&M segment were utilizing the upgraded system and, effective July 1, 2014; the Surface Systems division of the DPS segment began operating on the upgraded system. The Drilling Systems and OneSubsea divisions of the DPS segment and the corporate office functions are expected to be migrated to the upgraded system during the remainder of 2014 and beyond, with completion anticipated in 2016. The DPS and V&M segments are major contributors to the Company's consolidated revenues and income before income taxes.

As this system continues to be deployed throughout the Company, delays or difficulties may be encountered in effectively and efficiently processing transactions and conducting business operations until such time as personnel are familiar with all appropriate aspects and capabilities of the upgraded systems.

*The Company's operations and information systems are subject to cybersecurity risks.*

Cameron continues to increase its dependence on digital technologies to conduct its operations. Many of the Company's files are digitized and more employees are working in almost paperless environments. Additionally, the hardware, network and software environments to operate SAP, the Company's main enterprise-wide operating system, have been outsourced to third parties. Other key software products used by the Company to conduct its operations either reside on servers in remote locations or are operated by the software vendors or other third parties for the Company's use as "Cloud-based" or "Web-based" applications. The Company has also outsourced certain information technology development, maintenance and support functions. As a result, the Company is exposed to potentially severe cyber incidents at both its internal locations and outside vendor locations that could result in a theft of intellectual property and/or disruption of its operations for an extended period of time resulting in the loss of critical data and in higher costs to correct and remedy the effects of such incidents, although no such material incidents have occurred to date.

*Fluctuations in currency markets can impact the Company's profitability.*

The Company has established multiple "Centers of Excellence" facilities for manufacturing such products as subsea trees, subsea chokes, subsea production controls and blowout preventers. These production facilities are located in the United Kingdom, Brazil, Romania, Italy, Norway and other European and Asian countries. To the extent the Company sells these products in U.S. dollars, the Company's profitability is eroded when the U.S. dollar weakens against the British pound, the euro, the Brazilian real and certain Asian currencies, including the Singapore

dollar. Alternatively, profitability is enhanced when the U.S. dollar strengthens against these same currencies. For further information on the use of derivatives to mitigate certain currency exposures, see Item 3, “Quantitative and Qualitative Disclosures about Market Risk” below and Note 14 of the Notes to Consolidated Condensed Financial Statements.

*The Company’s operations expose it to risks of non-compliance with numerous countries’ import and export laws and regulations, and with various nations’ trade regulations including U.S. sanctions.*

The Company’s operations expose it to trade and import and export regulations in multiple jurisdictions. In addition to using “Centers of Excellence” for manufacturing products to be delivered around the world, the Company imports raw materials, semi-finished goods and finished products into many countries for use in country or for manufacturing and/or finishing for re-export and import into another country for use or further integration into equipment or systems. Most movement of raw materials, semi-finished or finished products by the Company involves exports and imports. As a result, compliance with multiple trade sanctions and embargoes and import and export laws and regulations pose a constant challenge and risk to the Company. The Company has received a number of inquiries from U.S. governmental agencies, including the U.S. Securities and Exchange Commission and the Office of Foreign Assets Control, regarding compliance with U.S. trade sanction and export control laws, the most recent of which was received in December 2012 and replied to by the Company in January 2013. The Company has undergone and will likely continue to undergo governmental audits to determine compliance with export and customs laws and regulations.

*The Company’s operations expose it to political and economic risks and instability due to changes in economic conditions, civil unrest, foreign currency fluctuations, and other risks, such as local content requirements, inherent to international businesses.*

The political and economic risks of doing business on a worldwide basis include the following:

- volatility in general economic, social and political conditions;
- the effects of civil unrest and sanctions imposed by the United States and other governments on transactions with various countries, such as Iran;
- the effects of civil unrest and, in some cases, military action on the Company’s business operations, customers and employees, such as that recently occurring in several countries in the Middle East, in Ukraine and in Venezuela;
- exchange controls or other similar measures that result in restrictions on repatriation of capital and/or income, such as those involving the currencies of, and the Company’s operations in, Angola and Nigeria; and
- reductions in the number or capacity of qualified personnel.

In recent months, civil unrest and military action have increased in Iraq which may impact the ability of that country to continue to produce and export oil at current levels. Such unrest may also jeopardize the Company’s in-country investments and on-going business activities supporting Iraq’s oil and gas production infrastructure. At June 30, 2014, less than 1% of the Company’s backlog related to future deliveries to customers doing business in Iraq. Additionally, less than 1% of the Company’s property, plant and equipment was located in Iraq and less than 1% of the Company’s receivables were for sales into Iraq to multinational operators and to Iraqi drilling and production companies. The Company is also evaluating its options under the force majeure clauses of each of the major contracts with its customers doing business in Iraq in the event the current situation in that country continues to deteriorate.

Cameron also has manufacturing and service operations that are essential parts of its business in other developing countries and volatile areas in Africa, Latin America, Russia and other countries that were part of the Former Soviet Union, the Middle East, and Central and South East Asia. Recent increases in activity levels in certain of these regions have increased the Company’s risk of identifying and hiring sufficient numbers of qualified personnel to meet increased customer demand in selected locations. The Company also purchases a large portion of its raw materials and components from a relatively small number of foreign suppliers in China, India and other developing countries. The ability of these suppliers to meet the Company’s demand could be adversely affected by the factors described above.

In addition, customers in countries such as Angola and Nigeria increasingly are requiring the Company to accept payments in the local currencies of these countries. These currencies do not currently trade actively in the world's foreign exchange markets. The Company also has various manufacturing and aftermarket operations in Venezuela that contributed \$37 million in revenues during the first six months of 2014. The economy in Venezuela is highly inflationary and becoming more regulated. These factors, along with recent civil unrest, create political and economic uncertainty with regard to their impact on the Company's continued operations in this country.

The Venezuelan government has maintained currency controls and a fixed official exchange rate since February 2003. In February 2013, the Venezuelan government devalued its currency from 4.3 bolivars to the U.S. dollar to an official rate of 6.3 bolivars to the U.S. dollar. Since then, the Company has used the official rate of 6.3 bolivars to the U.S. dollar to remeasure non-functional currency transactions in its financial statements. Due to the highly inflationary status of the Venezuelan economy, the Company's operations in Venezuela are accounted for as U.S. dollar functional currency entities. In addition, the Company considers its earnings in Venezuela to be permanently reinvested. In early 2014, Venezuelan government officials indicated that this official rate will increasingly be reserved only for settlement of U.S. dollar denominated obligations related to purchases of "essential goods and services." Through the end of the second quarter of 2014, Petroleos de Venezuela (PDVSA), the Company's primary customer, has continued to pay its U.S. dollar denominated obligations to the Company at the official rate. Recent events, however, create uncertainty as to whether this will continue. First, in January 2014, the Venezuelan government significantly expanded the use of the Supplementary Foreign Currency Administration System (SICAD) auction rate and indicated this rate (SICAD 1) would be used for certain transactions and activities. In February 2014, the Venezuelan government signed into law a plan to open a new exchange control mechanism (SICAD 2) which may be available to all entities for all transactions. At June 30, 2014, the published SICAD 1 rate was 10.6 bolivars to the U.S. dollar and the published SICAD 2 rate was approximately 49.98 bolivars to the U.S. dollar. Recently, Rafael Ramirez, the Venezuelan Vice President for the Economy and Oil Minister announced that the three exchange rates would progressively converge, with a new system involving a single unified rate that could be in place by the end of 2014. The Company is currently evaluating the impact of these changes on its business and is monitoring the payment practices of its primary customer to determine what effect there may be on its non-functional currency assets and liabilities. A foreign exchange loss during 2014 may ultimately result from this evaluation or from changes in the payment practices of the Company's primary customer.

Increasingly, some of the Company's customers, particularly the national oil companies, have required a certain percentage, or an increased percentage, of local content in the products they buy directly or indirectly from the Company. This requires the Company to add to or expand manufacturing capabilities in certain countries that are presently without the necessary infrastructure or human resources in place to conduct business in a manner as typically done by Cameron. This increases the risk of untimely deliveries, cost overruns and defective products.

*The Company's operations expose it to risks resulting from differing and/or increasing tax rates.*

Economic conditions around the world have resulted in decreased tax revenues for many governments, which have led and could continue to lead to changes in tax laws in countries where the Company does business, including further changes in the United States. Changes in tax laws could have a negative impact on the Company's future results.

*The Company's operations require it to deal with a variety of cultures, as well as agents and other intermediaries, exposing it to anti-corruption compliance risks.*

Doing business on a worldwide basis necessarily involves exposing the Company and its operations to risks inherent in complying with the laws and regulations of a number of different nations. These laws and regulations include various anti-bribery and anti-corruption laws.

The Company does business and has operations in a number of developing countries that have relatively underdeveloped legal and regulatory systems compared to more developed countries. Several of these countries are generally perceived as presenting a higher than normal risk of corruption, or as having a culture in which requests for improper payments are not discouraged. Maintaining and administering an effective anti-bribery compliance program under the U.S. Foreign Corrupt Practices Act (FCPA), the United Kingdom's Bribery Act of 2010, and similar statutes of other nations, in these environments presents greater challenges to the Company than is the case in other, more developed countries.

Additionally, the Company's business involves the use of agents and other intermediaries, such as customs clearance brokers, in these countries as well as others. As a result, the risk to the Company of compliance violations is increased because actions taken by any of them when attempting to conduct business on our behalf could be imputed to us by law enforcement authorities.

*The Company is subject to environmental, health and safety laws and regulations that expose the Company to potential liability and proposed new regulations that would restrict activities to which the Company currently provides equipment and services.*

The Company's operations are subject to a variety of national and state, provincial and local laws and regulations, including laws and regulations relating to the protection of the environment. The Company is required to invest financial and managerial resources to comply with these laws and expects to continue to do so in the future. To date, the cost of complying with governmental regulation has not been material, but the fact that such laws or regulations are frequently changed makes it impossible for the Company to predict the cost or impact of such laws and regulations on the Company's future operations. The modification of existing laws or regulations or the adoption of new laws or regulations imposing more stringent environmental restrictions could adversely affect the Company.

*The Company provides equipment and services to companies employing hydraulic fracturing or "fracking" and could be adversely impacted by additional regulations of this enhanced recovery technique.*

Environmental concerns have been raised regarding the potential impact on underground water supplies of hydraulic fracturing which involves the pumping of water and certain chemicals under pressure into a well to break apart shale and other rock formations in order to increase the flow of oil and gas embedded in these formations. Recently, a number of U.S. states have proposed regulations regarding disclosure of chemicals used in fracking operations or have temporarily suspended issuance of permits for such operations. Additionally, the United States Environmental Protection Agency (EPA) issued rules, which become effective in January 2015, that are designed to limit the release of volatile organic compounds, or pollutants, from natural gas wells that are hydraulically fractured. The EPA has published draft permitting guidance for oil and gas hydraulic fracturing activities using diesel fuels and is continuing to study whether the fracking process has any negative impact on underground water supplies. A draft of the final report on the results of the study is expected in 2014. Should these regulations, or additional regulations, restrict or curtail hydraulic fracturing activities, the Company's revenues and earnings could be negatively impacted.

*Enacted and proposed climate protection regulations and legislation may impact the Company's operations or those of its customers.*

The EPA has made a finding under the United States Clean Air Act that greenhouse gas emissions endanger public health and welfare and the EPA has enacted regulations requiring monitoring and reporting by certain facilities and companies of greenhouse gas emissions. In June 2014, the U.S. Supreme Court prohibited the EPA from being able to require limits on carbon dioxide and other heat trapping gases from sources that would otherwise not need an air pollution permit.

Also, in June 2014, the EPA, acting under President Obama's Climate Action Plan, proposed its Clean Power Plan, which would set U.S. state-by-state guidelines for power plants to meet by 2030 to cut their carbon emissions by 30% nationwide from 2005 levels. The guidelines are also intended to cut pollution, nitrogen oxides and sulfur dioxide by more than 25% during the same period. Under the Clean Power Plan, states are to develop plans to meet state-specific goals to reduce carbon pollution and submit those plans to the EPA by June 2016, with a later deadline provided under certain circumstances. While these proposed rules may hasten the switch from coal to cleaner burning fuels such as natural gas, the overall long-term economic impact of the plan is uncertain at this point.

Carbon emission reporting and reduction programs have also expanded in recent years at the state, regional and national levels with certain countries having already implemented various types of cap-and-trade programs aimed at reducing carbon emissions from companies that currently emit greenhouse gases.

To the extent the Company's customers are subject to these or other similar proposed or newly enacted laws and regulations, the Company is exposed to risks that the additional costs by customers to comply with such laws and regulations could impact their ability or desire to continue to operate at current or anticipated levels in certain jurisdictions, which could negatively impact their demand for the Company's products and services.

To the extent Cameron becomes subject to any of these or other similar proposed or newly enacted laws and regulations, the Company expects that its efforts to monitor, report and comply with such laws and regulations, and any related taxes imposed on companies by such programs, will increase the Company's cost of doing business in certain jurisdictions, including the United States, and may require expenditures on a number of its facilities and possibly on modifications of certain of its products.

The Company could also be impacted by new laws and regulations establishing cap-and-trade and those that might favor the increased use of non-fossil fuels, including nuclear, wind, solar and bio-fuels or that are designed to increase energy efficiency. If the proposed or newly executed laws have the effect of dampening demand for oil and gas production, they could lower spending by customers for the Company's products and services.

*Downturns in the oil and gas industry have had, and will likely in the future have, a negative effect on the Company's sales and profitability.*

Demand for most of the Company's products and services, and therefore its revenue, depends to a large extent upon the level of capital expenditures related to oil and gas exploration, development, production, processing and transmission. Declines, as well as anticipated declines, in oil and gas prices could negatively affect the level of these activities, or could result in the cancellation, modification or rescheduling of existing orders. As an example, natural gas spot prices in the United States declined during the first half of 2012 to less than \$2 per MMBtu, the lowest level in the last decade. Although natural gas prices have subsequently increased, current rig count levels associated with dry gas extraction activities have not fully recovered to previous levels. This price decline negatively impacted 2012 order levels by certain of the Company's customers which affected the Company's 2012 and 2013 revenues and profitability. See also the discussion in "Market Conditions" above.

## **Environmental Remediation**

The Company's worldwide operations are subject to domestic and international regulations with regard to air, soil and water quality as well as other environmental matters. The Company, through its environmental management system and active third-party audit program, believes it is in substantial compliance with these regulations.

The Company is heir to a number of older manufacturing plants that conducted operations in accordance with the standards of the time, but which have since changed. The Company has undertaken clean-up efforts at these sites and now conducts its business in accordance with today's standards. The Company's clean-up efforts have yielded limited releases of liability from regulators in some instances, and have allowed sites with no current operations to be sold. The Company conducts environmental due diligence prior to all new site acquisitions. For further information, refer to Note 13 of the Notes to Consolidated Condensed Financial Statements.

## **Environmental Sustainability**

The Company has pursued environmental sustainability in a number of ways. Processes are monitored in an attempt to produce the least amount of waste. All of the waste disposal firms used by the Company are carefully selected in an attempt to prevent any future Superfund involvements. Actions are taken in an attempt to minimize the generation of hazardous wastes and to minimize air emissions. Recycling of process water is a common practice. Best management practices are used in an effort to prevent contamination of soil and ground water on the Company's sites.

Cameron has implemented a corporate "HSE Management System" based on the principles of ISO 14001 and OHSAS 18001. The HSE Management System contains a set of corporate standards that are required to be implemented and verified by each business unit. Cameron has also implemented a corporate regulatory compliance audit program to verify facility compliance with environmental, health and safety laws and regulations. The compliance program employs or uses independent third-party auditors to audit facilities on a regular basis specific to country, region, and local legal requirements. Audit reports are circulated to the senior management of the

Company and to the appropriate business unit. The compliance program requires corrective and preventative actions be taken by a facility to remedy all findings of non-compliance which are tracked on the corporate HSE data base.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company is currently exposed to market risk from changes in foreign currency exchange rates, changes in the value of its equity instruments and changes in interest rates. A discussion of the Company's market risk exposure in financial instruments follows.

#### *Foreign Currency Exchange Rates*

A large portion of the Company's operations consist of manufacturing and sales activities in foreign jurisdictions, principally in Europe, Canada, West Africa, the Middle East, Latin America and the Pacific Rim. As a result, the Company's financial performance may be affected by changes in foreign currency exchange rates in these markets. Overall, for those locations where the Company is a net receiver of local non-U.S. dollar currencies, Cameron generally benefits from a weaker U.S. dollar with respect to those currencies. Alternatively, for those locations where the Company is a net payer of local non-U.S. dollar currencies, a weaker U.S. dollar with respect to those currencies will generally have an adverse impact on the Company's financial results. The impact on the Company's financial results of gains or losses arising from foreign currency denominated transactions, if material, have been described under "Results of Operations" in this Management's Discussion and Analysis of Financial Condition and Results of Operations for the periods shown.

#### *Capital Markets and Interest Rates*

The Company is subject to interest rate risk on its variable-interest rate and commercial paper borrowings. Variable-rate debt, where the interest rate fluctuates periodically, exposes the Company's cash flows to variability due to changes in market interest rates. Additionally, the fair value of the Company's fixed-rate debt changes with changes in market interest rates.

The Company manages its debt portfolio to achieve an overall desired position of fixed and floating rates and employs from time to time interest rate swaps as a tool to achieve that goal. The major risks from interest rate derivatives include changes in the interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions.

The fair values of the 1.15% and 1.4% 3-year Senior Notes, the 3.6%, 3.7%, 4.0%, 4.5% and 6.375% 10-year Senior Notes and the 5.125%, 5.95% and 7.0% 30-year Senior Notes are principally dependent on prevailing interest rates. The fair value of the commercial paper is expected to approximate its book value.

The Company has various other long-term debt instruments, but believes that the impact of changes in interest rates in the near term will not be material to these instruments.

### **Item 4. Controls and Procedures**

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of the Company's Sarbanes-Oxley Disclosure Committee and the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2014 to ensure that information required to be disclosed by the Company that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There were no material changes in the Company's internal control over financial reporting during the quarter ended June 30, 2014.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

The Company has been and continues to be named as a defendant in a number of multi-defendant, multi-plaintiff tort lawsuits. At June 30, 2014, the Company's Consolidated Condensed Balance Sheet included a liability of approximately \$16 million for such cases. The Company believes, based on its review of the facts and law, that the potential exposure from these suits will not have a material adverse effect on its consolidated results of operations, financial condition or liquidity.

### Item 1A. Risk Factors

The information set forth under the caption "Factors That May Affect Financial Condition and Future Results" on pages 33 – 38 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company has an authorized stock repurchase program whereby the Company may purchase shares directly or indirectly by way of open market transactions or structured programs, including the use of derivatives, for the Company's own account or through commercial banks or financial institutions. The program, initiated in October 2011, has had a series of authorizations by the Board of Directors totaling \$3.2 billion since inception. At June 30, 2014, the Company had remaining authority for future stock purchases totaling approximately \$456 million.

Shares of common stock purchased and placed in treasury during the three months ended June 30, 2014 under the Board's authorization program described above were as follows:

Period	Total number of shares purchased during the period	Average price paid per share	Cumulative number of shares purchased as part of repurchase program	Maximum number of shares that may yet be purchased under repurchase program <sup>(1)</sup>
4/1/14 – 4/30/14	3,788,207	\$ 62.73	46,362,733	2,815,393
5/1/14 – 5/31/14	452,100	\$ 63.62	46,814,833	7,416,387
6/1/14 – 6/30/14	276,361	\$ 65.76	47,091,194	6,736,137
Total	4,516,668	\$ 63.00	47,091,194	6,736,137

<sup>(1)</sup> Based upon month-end stock price. At June 30, 2014, the closing stock price was \$67.71 per share.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

N/A



## **Item 5. Other Information**

- (a) Information Not Previously Reported in a Report on Form 8-K

None

- (b) Material Changes to the Procedures by Which Security Holders May Recommend Board Nominees.

There have been no material changes to the procedures enumerated in the Company's definitive proxy statement filed on Schedule 14A with the Securities and Exchange Commission on April 1, 2014 with respect to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

## **Item 6. Exhibits**

Exhibit 31.1 –

Certification

Exhibit 31.2 –

Certification

Exhibit 32.1 –

Certification of the CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS –

XBRL Instance Document

Exhibit 101.SCH –

XBRL Taxonomy Extension Schema Document

Exhibit 101. CAL –

XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF

XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB –

XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE –

XBRL Taxonomy Extension Presentation Linkbase Document

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 24, 2014

CAMERON INTERNATIONAL CORPORATION

(Registrant)

By: /s/ Charles M. Sledge

Charles M. Sledge

Senior Vice President and Chief Financial Officer  
and authorized to sign on behalf of the Registrant

## EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification
31.2	Certification
32.1	Certification of the CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document