

MCDERMOTT INTERNATIONAL INC
Form 10-Q
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from _____ to _____

Commission File No. 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA (State or Other Jurisdiction of	72-0593134 (I.R.S. Employer
Incorporation or Organization)	Identification No.)
757 N. ELDRIDGE PKWY	
HOUSTON, TEXAS	77079
(Address of Principal Executive Offices)	(Zip Code)
Registrant's Telephone Number, Including Area Code: (281) 870-5000	

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

The number of shares of the registrant's common stock outstanding at May 1, 2014 was 237,544,687.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

McDERMOTT INTERNATIONAL, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Revenues	\$ 603,811	\$ 807,488
Costs and Expenses:		
Cost of operations	591,493	712,814
Selling, general and administrative expenses	55,397	52,226
Gain on asset disposals	(6,439)	(14,716)
Restructuring charges	6,125	
Total costs and expenses	646,576	750,324
Equity in Earnings (Loss) of Unconsolidated Affiliates	1,123	(4,131)
Operating Income (Loss)	(41,642)	53,033
Other Income (Expense):		
Interest income	61	342
Loss on foreign currency net	(4,082)	(2,526)
Other income (expense) net	(265)	782
Total other income (expense)	(4,286)	(1,402)
Income (loss) before provision for income taxes and noncontrolling interests	(45,928)	51,631
Provision for Income Taxes	3,489	27,313
Net Income (Loss)	(49,417)	24,318
Less: Net Income Attributable to Noncontrolling Interests	536	3,765
Net Income (Loss) Attributable to McDermott International, Inc.	\$ (49,953)	\$ 20,553

Earnings per Common Share:

Basic:		
Income (loss) from operations, less noncontrolling interests	(0.21)	0.09
Net income (loss) attributable to McDermott International, Inc.	(0.21)	0.09
Diluted:		
Income (loss) from operations, less noncontrolling interests	(0.21)	0.09
Net income (loss) attributable to McDermott International, Inc.	(0.21)	0.09
Shares used in the computation of earnings per share:		
Basic	236,961,158	235,941,185
Diluted	236,961,158	239,199,881

See accompanying notes to condensed consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Three Months Ended March 31, 2014 2013 (Unaudited)	
	(In thousands)	
Net Income (Loss)	\$ (49,417)	\$ 24,318
Other comprehensive income (loss), net of tax:		
Amortization of benefit plan costs	3,171	3,655
Unrealized gain on investments	(24)	401
Translation adjustments	(320)	7,214
Gain (loss) on derivatives	14,529	(17,566)
Other comprehensive income, net of tax ⁽¹⁾	17,356	(6,296)
Total Comprehensive Income (Loss)	\$ (32,061)	\$ 18,022
Less: Comprehensive Income Attributable to Noncontrolling Interests	\$ 503	3,753
Comprehensive Income (Loss) Attributable to McDermott International, Inc.	\$ (32,564)	\$ 14,269

(1) The tax impacts on amounts presented in other comprehensive income are not significant.
See accompanying notes to condensed consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2014	December 31, 2013
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 268,130	\$ 118,702
Restricted cash and cash equivalents	43,286	23,652
Accounts receivable trade, net	332,062	381,858
Accounts receivable other	109,330	89,273
Contracts in progress	431,893	425,986
Deferred income taxes	7,092	7,091
Investments	3,248	
Assets held for sale	1,396	1,396
Other current assets	61,353	32,242
Total Current Assets	1,257,790	1,080,200
Property, Plant and Equipment	2,397,254	2,367,686
Less accumulated depreciation	(913,650)	(889,009)
Net Property, Plant and Equipment	1,483,604	1,478,677
Investments	2,189	13,511
Investments in Unconsolidated Affiliates	48,897	50,536
Assets held for sale	10,121	12,243
Other Assets	221,328	172,204
Total Assets	\$ 3,023,929	\$ 2,807,371
Liabilities and Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	\$ 258,417	\$ 39,543
Accounts payable	423,166	398,739
Accrued liabilities	383,401	365,224
Advance billings on contracts	278,881	278,929
Deferred income taxes	20,257	17,892
Income taxes payable	16,656	20,657
Total Current Liabilities	1,380,778	1,120,984

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Long-Term Debt	49,761	49,019
Self-Insurance	21,715	20,531
Pension Liability	15,516	15,681
Non-current Income Taxes	55,455	56,042
Other Liabilities	89,019	104,770
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value \$1.00 per share, authorized 400,000,000 shares; issued 244,739,400 and 244,271,365 shares at March 31, 2014 and December 31, 2013, respectively	244,739	244,271
Capital in excess of par value	1,417,374	1,414,457
Retained earnings	(121,110)	(71,157)
Treasury stock, at cost, 7,231,536 and 7,130,294 shares at March 31, 2014 and December 31, 2013, respectively	(97,407)	(97,926)
Accumulated other comprehensive loss	(122,742)	(140,131)
Stockholders' Equity McDermott International, Inc.	1,320,854	1,349,514
Noncontrolling Interests	90,831	90,830
Total Equity	1,411,685	1,440,344
Total Liabilities and Equity	\$ 3,023,929	\$ 2,807,371

See accompanying notes to condensed consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended	
	March 31,	2013
	2014	2013
	(Unaudited)	
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (49,417)	\$ 24,318
Non-cash items included in net income (loss):		
Depreciation and amortization	24,602	20,222
Drydock amortization	6,946	5,550
Restructuring charges	675	
Equity in (earnings) loss of unconsolidated affiliates	(1,123)	4,131
Gain on asset disposals	(6,439)	(14,716)
Benefit for deferred taxes	(2,628)	5,332
Stock-based compensation charges	4,387	3,923
Net periodic pension benefit cost	2,854	642
Other non-cash items	2,331	1,749
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	26,365	(6,573)
Net contracts in progress and advance billings on contracts	(5,974)	(19,935)
Accounts payable	32,727	(125,234)
Accrued and other current liabilities	15,046	(20,774)
Pension liability and accrued postretirement and employee benefits	5,880	(19,657)
Other assets and liabilities	(78,560)	(46,093)
TOTAL CASH USED IN OPERATING ACTIVITIES	(22,328)	(187,115)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(37,893)	(37,649)
Increase in restricted cash and cash equivalents	(19,634)	(3,826)
Purchases of available-for-sale securities	(1,997)	(3,744)
Sales and maturities of available-for-sale securities	10,055	31,193
Proceeds from the sale and disposal of assets	8,370	35,621
Other investing activities	(1,950)	(4,596)
TOTAL CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(43,049)	16,999
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term debt	250,000	
Payment of debt	(31,373)	(1,494)

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Distributions to noncontrolling interests	(502)	(6,200)
Debt issuance cost and other financing activities	(3,356)	(1,015)
TOTAL CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	214,769	(8,709)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	36	213
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	149,428	(178,612)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	118,702	640,147
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 268,130	\$ 461,535

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes (net of refunds)	\$ 11,668	\$ 25,916
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See accompanying notes to condensed consolidated financial statements.

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MCDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock		Capital In			Accumulated Other Comprehensive Income (Loss)		Stockholders Equity	Non- Controlling Interests	Total Equity
	Shares	Par Value	Excess of Par Value	Retained Earnings	Treasury Stock	(Loss)	Equity	Interests	Equity	
(Unaudited)										
(In thousands, except share amounts)										
Balance December 31, 2012	243,442,156	\$ 243,442	\$ 1,391,271	\$ 445,756	\$ (98,725)	\$ (94,413)	\$ 1,887,331	\$ 64,774	\$ 1,952,105	
Net income				20,553			20,553	3,765	24,318	
Other comprehensive income, net of tax						(6,284)	(6,284)	(12)	(6,296)	