

MCDERMOTT INTERNATIONAL INC  
Form 10-Q  
May 10, 2010  
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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, 2010

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)

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**REPUBLIC OF PANAMA**  
(State or Other Jurisdiction of

**72-0593134**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**777 N. ELDRIDGE PKWY.**

**HOUSTON, TEXAS**  
(Address of Principal Executive Offices)

**77079**  
(Zip Code)

Registrant's Telephone Number, Including Area Code (281) 870-5901

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 April 30, 2010 was 231,122,597

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**Table of Contents****PART I****McDERMOTT INTERNATIONAL, INC.****FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements  
McDERMOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2010 (Unaudited)	December 31, 2009
	(In thousands)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 775,980	\$ 899,270
Restricted cash and cash equivalents (Note 1)	96,040	69,920
Investments	12	12
Accounts receivable trade, net	550,275	642,995
Accounts and notes receivable unconsolidated affiliates	9,614	5,806
Accounts receivable other	66,211	68,035
Contracts in progress	408,479	400,831
Inventories (Note 1)	97,874	101,494
Deferred income taxes	107,236	100,828
Other current assets	72,132	68,730
<b>Total Current Assets</b>	<b>2,183,853</b>	<b>2,357,921</b>
Property, Plant and Equipment	2,655,474	2,608,740
Less accumulated depreciation	1,295,906	1,271,135
<b>Net Property, Plant and Equipment</b>	<b>1,359,568</b>	<b>1,337,605</b>
Investments	178,566	228,706
Goodwill	325,760	306,497
Deferred Income Taxes	265,971	275,567
Investments in Unconsolidated Affiliates	93,139	86,932
Other Assets	268,103	255,882
<b>TOTAL</b>	<b>\$ 4,674,960</b>	<b>\$ 4,849,110</b>

See accompanying notes to condensed consolidated financial statements.



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

	March 31, 2010 (Unaudited)	December 31, 2009
	(In thousands)	
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Notes payable and current maturities of long-term debt	\$ 13,558	\$ 16,270
Accounts payable	366,355	471,858
Accrued employee benefits	126,101	217,178
Accrued pension liability - current portion	213,188	173,271
Accrued contract cost	96,858	103,041
Advance billings on contracts	578,538	689,334
Accrued warranty expense	122,164	118,278
Income taxes payable	71,128	64,029
Accrued liabilities - other	176,882	155,773
Total Current Liabilities	1,764,772	2,009,032
Long-Term Debt	55,092	56,714
Accumulated Postretirement Benefit Obligation	106,461	105,605
Self-Insurance	89,044	87,222
Pension Liability	573,311	610,166
Other Liabilities	148,091	147,271
Contingencies and Commitments (Note 3)		
Stockholders' Equity:		
Common stock, par value \$1.00 per share, authorized 400,000,000 shares; issued 237,800,603 and 236,919,404 shares at March 31, 2010 and December 31, 2009, respectively	237,801	236,919
Capital in excess of par value	1,323,712	1,300,998
Retained earnings	1,011,588	951,647
Treasury stock at cost, 6,435,903 and 6,168,705 shares at March 31, 2010 and December 31, 2009, respectively	(73,725)	(69,370)
Accumulated other comprehensive loss (Note 1)	(596,845)	(612,997)
Stockholders' Equity - McDermott International, Inc.	1,902,531	1,807,197
Noncontrolling interest	35,658	25,903
Total Stockholders' Equity	1,938,189	1,833,100
TOTAL	\$ 4,674,960	\$ 4,849,110

See accompanying notes to condensed consolidated financial statements.



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

	Three Months Ended March 31,	
	2010	2009
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Revenues	\$ 1,181,930	\$ 1,493,263
Costs and Expenses:		
Cost of operations	934,851	1,228,622
(Gains) losses on asset disposals and impairments net	(2,093)	1,241
Selling, general and administrative expenses	167,952	141,394
Total Costs and Expenses	1,100,710	1,371,257
Equity in Income of Investees	10,588	9,200
Operating Income	91,808	131,206
Other Income (Expense):		
Interest income	680	2,813
Interest expense	(381)	(956)
Other expense net	(4,217)	(10,770)
Total Other Expense	(3,918)	(8,913)
Income before Provision for Income Taxes	87,890	122,293
Provision for Income Taxes	19,672	43,878
Net Income	\$ 68,218	\$ 78,415
Less: Net Income attributable to Noncontrolling Interest	(8,277)	(723)
Net Income Attributable to McDermott International, Inc.	\$ 59,941	\$ 77,692
Earnings per Share:		
Basic:		
Net Income Attributable to McDermott International, Inc.	\$ 0.26	\$ 0.34
Diluted:		
Net Income Attributable to McDermott International, Inc.	\$ 0.26	\$ 0.33
Shares used in the computation of earnings per share (Note 8):		
Basic	230,824,301	228,314,785
Diluted	234,753,035	232,586,245

See accompanying notes to condensed consolidated financial statements.





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

	<b>Three Months Ended March 31, 2010      2009 (Unaudited) (In thousands)</b>	
Net Income	\$ 68,218	\$ 78,415
Other Comprehensive Income (Loss):		
Currency translation adjustments:		
Foreign currency translation adjustments	3,499	(5,372)
Unrealized (losses) gains on derivative financial instruments:		
Unrealized losses on derivative financial instruments	(4,006)	(1,854)
Realized gains on derivative financial instruments	871	1,922
Amortization of benefit plan costs	14,738	14,155
Unrealized gains (losses) on investments:		
Unrealized gains (losses) arising during the period	915	(1,872)
Realized gains (losses) recognized during the period	138	(50)
Other Comprehensive Income	16,155	6,929
Total Comprehensive Income	84,373	85,344
Comprehensive Income Attributable to Noncontrolling Interest	(8,280)	(714)
Comprehensive Income Attributable to McDermott International, Inc.	\$ 76,093	\$ 84,630

See accompanying notes to condensed consolidated financial statements.



See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31, 2010                      2009 (Unaudited) (In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 68,218	\$ 78,415
Non-cash items included in net income:		
Depreciation and amortization	36,862	36,022
Income of investees, less dividends	(5,327)	(1,142)
(Gains) losses on asset disposals and impairments net	(2,093)	1,241
Provision for deferred taxes	4,903	38,407
Amortization of pension and postretirement costs	22,859	21,970
Excess tax benefits from FAS 123(R) stock-based compensation	(2,556)	(134)
Other, net	14,236	13,159
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable	79,095	90,367
Net contracts in progress and advance billings on contracts	(122,333)	(208,063)
Accounts payable	(98,651)	(85,830)
Income taxes	8,591	(16,717)
Accrued and other current liabilities	11,486	29,767
Pension liability, accumulated postretirement benefit obligation and accrued employee benefits	(89,091)	(43,281)
Other, net	(4,794)	18,906
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(78,595)</b>	<b>(26,913)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in restricted cash and cash equivalents	(26,120)	(8,490)
Purchases of property, plant and equipment	(66,526)	(61,388)
Net decrease in available-for-sale securities	51,147	49,007
Acquisition of businesses, net of cash acquired	(9,612)	
Proceeds from asset disposals	3,985	279
Other, net		(1,055)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(47,126)</b>	<b>(21,647)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of long-term debt	(2,325)	(4,825)
Issuance of common stock	620	160
Payment of debt issuance costs	(683)	(19)
Excess tax benefits from FAS 123(R) stock-based compensation	2,556	134
Other		943
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>168</b>	<b>(3,607)</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH</b>	<b>2,263</b>	<b>(5,858)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(123,290)</b>	<b>(58,025)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>899,270</b>	<b>586,649</b>

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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 775,980	\$ 528,624
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### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest (net of amount capitalized)	\$ 398	\$ 1,124
Income taxes (net of refunds)	\$ 15,099	\$ 19,786

See accompanying notes to condensed consolidated financial statements.

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**McDERMOTT INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2010**

**(UNAUDITED)**

**NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

We have presented our condensed consolidated financial statements in U.S. Dollars in accordance with the interim reporting requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Financial information and disclosures normally included in our financial statements prepared annually in accordance with accounting principles generally accepted in the United States ( GAAP ) have been condensed or omitted. Readers of these financial statements should, therefore, refer to the consolidated financial statements and the notes in our annual report on Form 10-K for the year ended December 31, 2009.

We have included all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. These condensed consolidated financial statements include the accounts of McDermott International, Inc. and its subsidiaries and controlled entities consistent with Financial Accounting Standards Board ( FASB ) Topic *Consolidation*. We use the equity method to account for investments in entities that we do not control, but over which we have significant influence. We generally refer to these entities as joint ventures. We have eliminated all significant intercompany transactions and accounts. We have reclassified certain amounts previously reported to conform to the presentation at March 31, 2010 and for the three months ended March 31, 2010. We have evaluated subsequent events through the date of issuance of this report. We present the notes to our condensed consolidated financial statements on the basis of continuing operations, unless otherwise stated.

McDermott International, Inc. ( MII ), incorporated under the laws of the Republic of Panama in 1959, is an engineering and construction company with specialty manufacturing and service capabilities and is the parent company of the McDermott group of companies, including J. Ray McDermott, S.A. ( JRMSA ) and Babcock & Wilcox Investment Company ( BWICO ). In this quarterly report on Form 10-Q, unless the context otherwise indicates, we, us and our mean MII and its consolidated subsidiaries.

On December 7, 2009, we announced plans to separate our Government Operations segment and our Power Generation Systems segment into an independent publicly traded company to be named The Babcock & Wilcox Company. We plan to effect the separation through a spin-off transaction that is intended to be tax free to our shareholders. In the three months ended March 31, 2010, we incurred approximately \$24.0 million of costs directly related to the spin-off, consisting of severance and costs for professional services.

We operate in three business segments: Offshore Oil and Gas Construction, Government Operations and Power Generation Systems, further described as follows:

Our Offshore Oil and Gas Construction segment includes the business and operations of JRMSA, J. Ray McDermott Holdings, LLC and their respective subsidiaries. This segment supplies services primarily to offshore oil and gas field developments worldwide, including the front-end design and detailed engineering, fabrication and installation of offshore drilling and production facilities and installation of marine pipelines and subsea production systems. It also provides comprehensive project management and procurement services. This segment operates in most major offshore oil and gas producing regions, including the United States, Mexico, Canada, the Middle East, India, the Caspian Sea and Asia Pacific.

Our Government Operations segment includes the business and operations of BWX Technologies, Inc., Babcock & Wilcox Nuclear Operations Group, Inc., Babcock & Wilcox Technical Services Group, Inc. and their respective subsidiaries. This segment manufactures nuclear components and provides various services to the U.S. Government, including uranium processing, environmental site restoration services and management and operating services for various U.S. Government-owned facilities, pr