

MCDERMOTT INTERNATIONAL INC
Form 10-Q
July 25, 2017

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 June 30, 2017

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 Incorporation or Organization)	72-0593134 (I.R.S. Employer Identification No.)
757 N. ELDRIDGE PKWY HOUSTON, TEXAS	77079

Edgar Filing: MCDERMOTT INTERNATIONAL INC - Form 10-Q

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 21, 2017 was 283,975,398.

McDERMOTT INTERNATIONAL, INC.

INDEX—FORM 10-Q

	PAGE
<u>PART I—FINANCIAL INFORMATION</u>	1
<u>Item 1—Consolidated Financial Statements</u>	1
<u>Consolidated Statements of Operations</u>	1
<u>Consolidated Statements of Comprehensive Income</u>	2
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Consolidated Statements of Stockholders' Equity</u>	5
<u>Notes to the Consolidated Financial Statements</u>	6
<u>Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3—Quantitative and Qualitative Disclosures about Market Risk</u>	37
<u>Item 4—Controls and Procedures</u>	39
<u>PART II—OTHER INFORMATION</u>	40
<u>Item 1—Legal Proceedings</u>	40
<u>Item 6—Exhibits</u>	41
<u>SIGNATURES</u>	42

PART I—FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except share and per share amounts)			
Revenues	\$788,673	\$706,627	\$1,308,104	\$1,435,659
Costs and Expenses:				
Cost of operations	650,449	595,343	1,079,039	1,211,345
Research and development expenses	821	99	1,301	130
Selling, general and administrative expenses	50,022	52,075	86,609	90,403
Other operating (income) expenses, net	182	2,122	(2,029)	40,800
Total costs and expenses	701,474	649,639	1,164,920	1,342,678
Operating income	87,199	56,988	143,184	92,981
Other expense:				
Interest expense, net	(21,204)	(12,655)	(38,910)	(23,893)
Other non-operating expense, net	(2,491)	(2,851)	(1,877)	(6,242)
Total other expense, net	(23,695)	(15,506)	(40,787)	(30,135)
Income before provision for income taxes	63,504	41,482	102,397	62,846
Provision for income taxes	22,918	19,804	33,689	39,134
Income before income (loss) from Investments in Unconsolidated Affiliates	40,586	21,678	68,708	23,712
Income (loss) from Investments in Unconsolidated Affiliates	(4,127)	127	(8,054)	(4,351)
Net income	36,459	21,805	60,654	19,361
Less: Net income attributable to noncontrolling interest	46	1,148	2,325	876
Net income attributable to McDermott International, Inc.	\$36,413	\$20,657	\$58,329	\$18,485

Net income per share attributable to McDermott International, Inc.:				
Basic	\$0.13	\$0.09	\$0.22	\$0.08
Diluted	\$0.13	\$0.07	\$0.21	\$0.07
Shares used in the computation of net income per share:				
Basic	282,660,314	240,338,540	262,438,822	239,739,204
Diluted	284,982,270	284,909,414	284,122,560	283,132,238

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income	\$36,459	\$21,805	\$60,654	\$19,361
Other comprehensive income (loss), net of tax:				
Unrealized gain on investments	20	12	39	17
Gain on derivatives	8,504	4,621	10,639	35,412
Foreign currency translation	(231)	(4,027)	8	(7,370)
Other comprehensive income, net of tax	8,293	606	10,686	28,059
Total comprehensive income	44,752	22,411	71,340	47,420
Less: Comprehensive income attributable to noncontrolling interests	82	1,140	2,343	855
Comprehensive income attributable to McDermott International, Inc.	\$44,670	\$21,271	\$68,997	\$46,565

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2017	December 31, 2016
	(In thousands, except share and per share amounts)	
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 393,726	\$ 595,921
Restricted cash and cash equivalents	15,154	16,412
Accounts receivable—trade, net	331,327	334,384
Accounts receivable—other	40,239	36,929
Contracts in progress	619,164	319,138
Other current assets	38,047	29,599
Total current assets	1,437,657	1,332,383
Property, plant and equipment	2,617,382	2,586,179
Less accumulated depreciation	(939,651)	(898,878)
Property, plant and equipment, net	1,677,731	1,687,301
Accounts receivable—long-term retainages	92,797	127,193
Investments in Unconsolidated Affiliates	12,138	17,023
Deferred income taxes	18,748	21,116
Other assets	52,377	37,214
Total assets	\$ 3,291,448	\$ 3,222,230
Liabilities and Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$ 13,807	\$ 48,125
Accounts payable	434,954	173,203
Accrued liabilities	340,613	277,584
Advance billings on contracts	66,148	192,486
Income taxes payable	26,786	17,945
Total current liabilities	882,308	709,343
Long-term debt	526,692	704,395
Self-insurance	17,734	16,980
Pension liabilities	19,043	19,471
Non-current income taxes	60,341	60,870
Other liabilities	124,834	115,703
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$1.00 per share, authorized 400,000,000 shares; issued 292,469,416 and 249,690,281 shares, respectively	292,469	249,690
Capital in excess of par value	1,656,231	1,695,119
Accumulated deficit	(168,438)	(226,767)
Accumulated other comprehensive loss	(56,191)	(66,895)
Treasury stock, at cost: 8,494,018 and 8,302,004 shares, respectively	(96,244)	(94,957)

Edgar Filing: MCDERMOTT INTERNATIONAL INC - Form 10-Q

Stockholders' Equity—McDermott International, Inc.	1,627,827	1,556,190
Noncontrolling interest	32,669	39,278
Total equity	1,660,496	1,595,468
Total liabilities and equity	\$3,291,448	\$3,222,230

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income	\$60,654	\$19,361
Non-cash items included in net income:		
Depreciation and amortization	49,685	48,929
Impairment loss	-	32,311
Stock-based compensation charges	11,838	9,242
Loss from investments in Unconsolidated Affiliates	8,054	4,351
Other non-cash items	12,375	4,948
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	37,453	(30,835)
Contracts in progress, net of Advance billings on contracts	(410,678)	67,698
Accounts payable	260,091	(65,212)
Accrued and other current liabilities	68,722	(45,523)
Other assets and liabilities, net	(8,011)	30,520
Total cash provided by operating activities	90,183	75,790
Cash flows from investing activities:		
Purchases of property, plant and equipment	(80,922)	(170,674)
Proceeds from asset dispositions	55,391	388
Investments in Unconsolidated Affiliates	(1,300)	(4,105)
Total cash used in investing activities	(26,831)	(174,391)
Cash flows from financing activities:		
Repayment of debt	(230,509)	(88,845)
Payment of debt and letter of credit issuance cost	(18,784)	(8,211)
Acquisition of NCI	(10,652)	-
Repurchase of common stock	(7,020)	(2,572)
Total cash used in financing activities	(266,965)	(99,628)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	160	(601)
Net decrease in cash, cash equivalents and restricted cash		