

MCDERMOTT INTERNATIONAL INC  
Form 10-Q  
April 24, 2018

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, 2018

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.)
4424 West Sam Houston Parkway North HOUSTON, TEXAS (Address of Principal Executive Offices)	77041 (Zip Code)

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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 April 20, 2018 was 285,899,713.

TABLE OF CONTENTS

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 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>	28
<u>Item 3—Quantitative and Qualitative Disclosures about Market Risk</u>	41
<u>Item 4—Controls and Procedures</u>	42
<u>PART II—OTHER INFORMATION</u>	43
<u>Item 1—Legal Proceedings</u>	43
<u>Item 6—Exhibits</u>	44
<u>SIGNATURES</u>	46

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## CONSOLIDATED FINANCIAL STATEMENTS

## PART I: Item 1—FINANCIAL INFORMATION

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months Ended March 31,	
	2018	2017
	(In thousands, except share and per share amounts)	
Revenues	\$607,818	\$519,431
Costs and Expenses:		
Cost of operations	475,711	428,590
Research and development expenses	458	480
Selling, general and administrative expenses	48,934	36,533
Other operating (income) expenses, net	14,276	(2,211 )
Operating income	68,439	56,039
Other expense:		
Interest expense, net	(11,608 )	(17,706 )
Other non-operating income, net	1,719	560
Income before provision for income taxes	58,550	38,893
Provision for income taxes	20,715	10,771
Income before loss from Investments in Unconsolidated Affiliates	37,835	28,122
Loss from Investments in Unconsolidated Affiliates	(3,713 )	(3,927 )
Net income	34,122	24,195
Less: Net income (loss) attributable to noncontrolling interest	(1,067 )	2,279
Net income attributable to McDermott	\$35,189	\$21,916
Net income per share attributable to McDermott		
Basic	\$0.12	\$0.09
Diluted	\$0.12	\$0.08
Shares used in the computation of net income per share:		
Basic	284,658,938	241,829,988
Diluted	285,050,524	282,285,595

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED FINANCIAL STATEMENTS

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net income	\$34,122	\$24,195
Other comprehensive income (loss):		
Unrealized gain on investments	7	19
Gain on derivatives	230	2,135
Foreign currency translation	(596 )	239
Total comprehensive income	33,763	26,588
Less: Comprehensive income (loss) attributable to noncontrolling interests	(1,067 )	2,261
Comprehensive income attributable to McDermott	\$34,830	\$24,327

See accompanying Notes to the Consolidated Financial Statements.

## CONSOLIDATED FINANCIAL STATEMENTS

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017
	(In thousands, except share and per share amounts)	
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$412,725	\$390,263
Restricted cash and cash equivalents	6,074	17,929
Accounts receivable—trade, net	395,073	328,302
Accounts receivable—other	52,818	40,730
Contracts in progress	506,420	621,411
Other current assets	43,519	35,615
Total current assets	1,416,629	1,434,250
Property, plant and equipment	2,659,414	2,651,087
Less accumulated depreciation	(994,237 )	(985,273 )
Property, plant and equipment, net	1,665,177	1,665,814
Accounts receivable—long-term retainages	40,154	39,253
Investments in Unconsolidated Affiliates	5,318	7,501
Deferred income taxes	17,400	17,616
Other assets	55,970	58,386
Total assets	\$3,200,648	\$3,222,820
Liabilities and Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$24,264	\$24,264
Accounts payable	191,561	279,109
Accrued liabilities	341,637	336,747
Advance billings on contracts	40,207	32,252
Income taxes payable	40,670	34,562
Total current liabilities	638,339	706,934
Long-term debt	512,994	512,713
Self-insurance	16,550	16,097
Pension liabilities	14,535	14,400
Non-current income taxes	63,798	62,881
Other liabilities	115,479	121,018
Total liabilities	1,361,695	1,434,043
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$1.00 per share, authorized 400,000,000 shares; issued 294,407,255 and 292,525,841 shares, respectively	294,407	292,526
Capital in excess of par value	1,657,744	1,663,091

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Retained earnings/ (Accumulated deficit)	6,912	(48,221 )
Accumulated other comprehensive loss	(50,807 )	(50,448 )
Treasury stock, at cost: 8,507,542 and 8,499,021 shares, respectively	(96,347 )	(96,282 )
Stockholders' Equity—McDermott	1,811,909	1,760,666
Noncontrolling interest	27,044	28,111
Total equity	1,838,953	1,788,777
Total liabilities and equity	\$3,200,648	\$3,222,820

See accompanying Notes to the Consolidated Financial Statements.



## CONSOLIDATED FINANCIAL STATEMENTS

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	\$34,122	\$24,195
Non-cash items included in net income:		
Depreciation and amortization	22,776	21,381
Stock-based compensation charges	6,642	4,637
Loss from investments in Unconsolidated Affiliates	3,713	3,927
Other non-cash items	2,642	2,990
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	(67,672 )	161,321
Contracts in progress, net of Advance billings on contracts	142,890	(241,700)
Accounts payable	(89,641 )	95,276
Accrued and other current liabilities	5,752	1,869
Other assets and liabilities, net	(24,128 )	(25,444 )
Total cash provided by operating activities	37,096	48,452
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,386 )	(62,849 )
Proceeds from asset dispositions	52	55,391
Investments in Unconsolidated Affiliates	(1,565 )	-
Total cash used in investing activities	(19,899 )	(7,458 )
Cash flows from financing activities:		
Repayment of debt	(103 )	(5,167 )
Repurchase of common stock	(6,513 )	(6,614 )
Other	(79 )	-
Total cash used in financing activities	(6,695 )	(11,781 )
Effects of exchange rate changes on cash, cash equivalents and restricted cash	105	213
Net increase in cash, cash equivalents and restricted cash	10,607	29,426
Cash, cash equivalents and restricted cash at beginning of period	408,192	612,333
Cash, cash equivalents and restricted cash at end of period	\$418,799	\$641,759

See accompanying Notes to the Consolidated Financial Statements.



## CONSOLIDATED FINANCIAL STATEMENTS

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

	Common Stock Par Value (in thousands)	Capital in Excess of Par Value	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss ("AOCI")	Treasury Stock	Stockholders' Equity	Noncontrolling Interest ("NCI")	Total Equity
Balance at December 31, 2017	\$292,526	\$1,663,091	\$(48,221 )	\$(50,448 )	\$(96,282)	\$1,760,666	\$28,111	\$1,788,777
Adoption of ASC 606	-	-	19,944	-	-	19,944	-	19,944
Balance at January 1, 2018	292,526	1,663,091	(28,277 )	(50,448 )	(96,282)	1,780,610	28,111	1,808,721
Net income	-	-	35,189	-	-	35,189	(1,067 )	34,122
Other comprehensive loss, net of tax	-	-	-	(359 )	-	(359 )	-	(359 )
Common stock issued	2,740	(2,740 )	-	-	-	-	-	-
Stock-based compensation charges	-	2,982	-	-	-	2,982	-	2,982
Purchase of treasury shares	-	-	-	-	(6,513 )	(6,513 )	-	(6,513 )
Retirement of common stock	(859 )	(5,589 )	-	-	6,448	-	-	-
Balance at March 31, 2018	\$294,407	\$1,657,744	\$6,912	\$(50,807 )	\$(96,347)	\$1,811,909	\$27,044	