CHICAGO BRIDGE & IRON CO N V
Form 10-Q
May 10, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-12815

CHICAGO BRIDGE & IRON COMPANY N.V.

The Netherlands	Prinses Beatrixlaan 35	98-0420223
(State or other jurisdiction of incorporation or organization)	2595 AK The Hague The Netherlands	(I.R.S. Employer Identification No.)
	31 70 373 2010 (Address and telephone number of principal executive offices)	

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.
x Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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).
x Yes o 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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

The number of shares outstanding of the registrant's common stock as of April 27, 2017 – 100,844,555

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

CHICAGO BRIDGE & IRON COMPANY N.V.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended March 31,	
	2017	2016
	(Unaudited)	
Revenue	$1,827,352	$2,134,629
Cost of revenue	1,676,401	1,879,059
Gross profit	150,951	255,570
Selling and administrative expense	73,057	80,946
Intangibles amortization	6,486	7,077
Equity earnings	(7,611)	(3,605)
Other operating expense (income), net	31	(180)
Operating income from continuing operations	78,988	171,332
Interest expense	(24,101)	(20,065)
Interest income	1,228	2,180
Income from continuing operations before taxes	56,115	153,447
Income tax expense	(13,704)	(39,524)
Net income from continuing operations	42,411	113,923
Net income from discontinued operations	9,494	6,039
Net income	51,905	119,962
Less: Net income attributable to noncontrolling interests ($413 and $448 related to discontinued operations)	(27,250)	(13,037)
Net income attributable to CB&I	$24,655	$106,925
Net income attributable to CB&I per share (Basic):		
Continuing operations	$0.16	$0.97
Discontinued operations	0.09	0.05
Total	$0.25	$1.02
Net income attributable to CB&I per share (Diluted):		
Continuing operations	$0.15	$0.96
Discontinued operations	0.09	0.05
Total	$0.24	$1.01
Weighted average shares outstanding:		
Basic	100,451	104,803
Diluted	101,360	105,785
Cash dividends on shares:		
Amount	$7,047	$7,359
Per share	$0.07	$0.07

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended March 31,	
	2017	2016
	(Unaudited)	
Net income	$51,905	$119,962
Other comprehensive income (loss) from continuing operations, net of tax:		
Change in cumulative translation adjustment	24,410	22,459
Change in unrealized fair value of cash flow hedges	353	1,303
Change in unrecognized prior service pension credits/costs	(76)	27
Change in unrecognized actuarial pension gains/losses	(1,433)	(2,153)
Other comprehensive income from discontinued operations, net of tax	495	233
Comprehensive income	75,654	141,831
Net income attributable to noncontrolling interests ($413 and $448 related to discontinued operations)	(27,250)	(13,037)
Change in cumulative translation adjustment attributable to noncontrolling interests	(970)	(1,257)
Comprehensive income attributable to CB&I	$47,434	$127,537

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and cash equivalents ($234,309 and $328,387 related to variable interest entities ("VIEs"))	$402,297	$490,679
Accounts receivable, net ($148,964 and $53,159 related to VIEs)	679,147	488,513
Inventory	202,766	190,102
Costs and estimated earnings in excess of billings ($83,198 and $26,186 related to VIEs)	493,828	410,749
Current assets of discontinued operations	915,324	414,732
Other current assets ($431,914 and $426,515 related to VIEs)	538,421	546,977
Total current assets	3,231,783	2,541,752
Equity investments	171,605	165,256
Property and equipment, net	500,187	505,944
Goodwill	2,816,232	2,813,803
Other intangibles, net	213,207	219,409
Deferred income taxes	714,574	730,108
Non-current assets of discontinued operations	—	462,144
Other non-current assets	416,383	401,004
Total assets	$8,063,971	$7,839,420
Liabilities		
Revolving facility and other short-term borrowings	$917,500	$407,500
Current maturities of long-term debt, net	223,829	503,910
Accounts payable ($334,155 and $337,089 related to VIEs)	893,757	964,548
Billings in excess of costs and estimated earnings ($446,849 and $407,325 related to VIEs)	1,481,540	1,395,349
Current liabilities of discontinued operations	258,817	247,469
Other current liabilities	959,173	1,017,473
Total current liabilities	4,734,616	4,536,249
Long-term debt, net	1,266,027	1,287,923
Deferred income taxes	6,454	7,307
Non-current liabilities of discontinued operations	—	5,388
Other non-current liabilities	439,122	441,216
Total liabilities	6,446,219	6,278,083
Shareholders' Equity		
Common stock, Euro .01 par value; shares authorized: 250,000; shares issued: 108,857 and 108,857; shares outstanding: 100,702 and 100,113	1,288	1,288
Additional paid-in capital	757,158	782,130
Retained earnings	1,388,214	1,370,606
Treasury stock, at cost: 8,155 and 8,744 shares	(313,105)	(344,870)
Accumulated other comprehensive loss	(372,837)	(395,616)
Total CB&I shareholders' equity	1,460,718	1,413,538
Noncontrolling interests ($7,288 and $6,874 related to discontinued operations)	157,034	147,799
Total shareholders' equity	1,617,752	1,561,337
Total liabilities and shareholders' equity	$8,063,971	$7,839,420

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2017	2016
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	$51,905	$119,962
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	26,264	31,801
Deferred income taxes	15,101	30,457
Stock-based compensation expense	10,247	14,532
Other operating income, net	(77)	(219)
Unrealized loss on foreign currency hedges	1,380	1,578
Excess tax benefits from stock-based compensation	—	(34)
Changes in operating assets and liabilities:		
Increase in receivables, net	(217,122)	(57,207)
Change in contracts in progress, net	(6,057)	58,361
(Increase) decrease in inventory	(12,346)	27,477
Decrease in accounts payable	(95,117)	(87,753)
Decrease (increase) in other current and non-current assets	12,926	(13,305)
(Decrease) increase in other current and non-current liabilities	(78,037)	8,944
Decrease in equity investments	953	2,158
Change in other, net	(702)	5,098
Net cash (used in) provided by operating activities	(290,682)	141,850
Cash Flows from Investing Activities		
Capital expenditures	(12,274)	(11,180)
Advances with partners of proportionately consolidated ventures, net	(23,788)	(25,787)
Proceeds from sale of property and equipment	1,108	4,331
Other, net	(8,342)	(14,863)
Net cash used in investing activities	(43,296)	(47,499)
Cash Flows from Financing Activities		
Revolving facility and other short-term borrowings (repayments), net	510,000	(82,700)
Advances with equity method and proportionately consolidated ventures, net	47,099	137,219
Repayments on long-term debt	(300,000)	(37,500)
Excess tax benefits from stock-based compensation	—	34
Purchase of treasury stock	(7,359)	(7,562)
Issuance of stock	3,877	4,477
Dividends paid	(7,047)	(7,359)
Distributions to noncontrolling interests	(18,985)	(18,001)
Net cash provided by (used in) financing activities	227,585	(11,392)
Effect of exchange rate changes on cash and cash equivalents	21,316	8,305
(Decrease) increase in cash and cash equivalents	(85,077)	91,264
Cash and cash equivalents, beginning of period	505,156	550,221
Cash and cash equivalents, end of period	420,079	641,485
Cash and cash equivalents, end of period - discontinued operations	(17,782)	(20,563)
Cash and cash equivalents, end of period - continuing operations	$402,297	$620,922

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except per share data)

	Three Months Ended March 31, 2017								
	Common Stock				Treasury Stock		Accumulated		
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Shares	Amount	Other Comprehensive (Loss) Income	Non - controlling Interests	Total Shareholders' Equity
	(Unaudited)								
Balance at December 31, 2016	100,113	$1,288	$782,130	$1,370,606	8,744	$(344,870)	$(395,616)	$147,799	$1,561,337
Net income	—	—	—	24,655	—	—	—	27,250	51,905
Change in cumulative translation adjustment, net	—	—	—	—	—	—	23,935	970	24,905
Change in unrealized fair value of cash flow hedges, net	—	—	—	—	—	—	353	—	353
Change in unrecognized prior service pension credits/costs, net	—	—	—	—	—	—	(76)	—	(76)
Change in unrecognized actuarial pension gains/losses, net	—	—	—	—	—	—	(1,433)	—	(1,433)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(18,985)	(18,985)
Dividends paid ($0.07 per share)	—	—	—	(7,047)	—	—	—	—	(7,047)
Stock-based compensation expense	—	—	10,247	—	—	—	—	—	10,247
Purchase of treasury stock	(219)	—	—	—	219	(7,359)	—	—	(7,359)
Issuance of stock	808	—	(35,219)	—	(808)	39,124	—	—	3,905

Balance at March 31, 2017	100,702	$1,288	$757,158	$1,388,214	8,155	$(313,105)	$(372,837)	$157,034	$1,617,752

	Three Months Ended March 31, 2016								
	Common Stock				Treasury Stock		Accumulated		
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Shares	Amount	Other Comprehensive (Loss) Income	Non - controlling Interests	Total Shareholders' Equity
	(Unaudited)								
Balance at December 31, 2015	104,427	$1,288	$800,641	$1,712,508	4,430	$(206,407)	$(294,040)	$149,600	$2,163,590
Net income	—	—	—	106,925	—	—	—	13,037	119,962
Change in cumulative translation adjustment, net	—	—	—	—	—	—	21,435	1,257	22,692
Change in unrealized fair value of cash flow hedges, net	—	—	—	—	—	—	1,303	—	1,303
Change in unrecognized prior service pension credits/costs, net	—	—	—	—	—	—	27	—	27
Change in unrecognized actuarial pension gains/losses, net	—	—	—	—	—	—	(2,153)	—	(2,153)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(18,001)	(18,001)
Dividends paid ($0.07 per share)	—	—	—	(7,359)	—	—	—	—	(7,359)
Stock-based compensation expense	—	—	14,532	—	—	—	—	—	14,532
Purchase of treasury stock	(226)	—	—	—	226	(7,562)	—	—	(7,562)
Issuance of stock	923	—	(44,317)	—	(923)	42,620	—	—	(1,697)
Balance at March 31, 2016	105,124	$1,288	$770,856	$1,812,074	3,733	$(171,349)	$(273,428)	$145,893	$2,285,334

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
($ and share values in thousands, except per share data)
(Unaudited)

1. ORGANIZATION AND NATURE OF OPERATIONS

Organization and Nature of Operations—Founded in 1889, Chicago Bridge & Iron Company N.V. (“CB&I” or the “Company”) provides a wide range of services, including conceptual design, technology, engineering, procurement, fabrication, modularization, construction and commissioning services to customers in the energy infrastructure market throughout the world. Our business is aligned into three operating groups, which represent our reportable segments: Engineering & Construction; Fabrication Services; and Technology. See Note 2 and Note 4 for discussions of our discontinued operations and Note 15 for a discussion of our reportable segments and related financial information.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Consolidation—The accompanying unaudited interim Condensed Consolidated Financial Statements (“Financial Statements”) are prepared in accordance with the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (the “SEC”) and accounting principles generally accepted in the United States of America (“U.S. GAAP”). These Financial Statements include all wholly-owned subsidiaries and those entities which we are required to consolidate. See the “Partnering Arrangements” section of this footnote for further discussion of our consolidation policy for those entities that are not wholly-owned. Intercompany balances and transactions are eliminated in consolidation.

Basis of Presentation—We believe these Financial Statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our results of operations for the three months ended March 31, 2017 and 2016, our financial position as of March 31, 2017 and our cash flows for the three months ended March 31, 2017 and 2016. The December 31, 2016 Condensed Consolidated Balance Sheet (the “Balance Sheet”) was derived from our December 31, 2016 audited Consolidated Balance Sheet, adjusted to conform to our current year presentation.

On February 27, 2017, we entered into a definitive agreement (the “Agreement”) with CSVC Acquisition Corp (“CSVC”) in which CSVC will acquire our capital services operations, which are primarily comprised of our former Capital Services reportable segment and provides comprehensive and integrated maintenance services, environmental engineering and remediation, construction services, program management, and disaster response and recovery services for private-sector customers and governments (“Capital Services Operations”). The Capital Services Operations are considered a discontinued operation as the divestiture represents a strategic shift and will have a material effect on our operations and financial results. Operating results of the Capital Services Operations have been classified as a discontinued operation within the Condensed Consolidated Statements of Operations (the “Statement of Operations”) for the three months ended March 31, 2017 and 2016. Further, the assets and liabilities of the Capital Services Operations have been classified as assets and liabilities of discontinued operations within our March 31, 2017 and December 31, 2016 Balance Sheets, with all balances reported as current on our March 31, 2017 Balance Sheet. Cash flows of the Capital Services Operations are not reported separately within our Condensed Consolidated Statements of Cash flows. See Note 4 for additional discussion of our discontinued operations. Unless otherwise noted, the footnotes to our Financial Statements relate to our continuing operations.

We believe the disclosures accompanying these Financial Statements are adequate to make the information presented not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC for interim reporting periods. The results of operations and cash flows for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying Financial Statements should be read in conjunction with our Consolidated Financial Statements and notes thereto included in our 2016 Annual Report on Form 10-K (“2016 Annual Report”).

Use of Estimates—The preparation of our Financial Statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We believe the most significant estimates and judgments are associated with revenue recognition for our contracts, including estimating costs and the recognition of incentive fees and unapproved change orders and claims; fair value and recoverability assessments that must be periodically performed with respect to long-lived tangible assets, goodwill and other intangible assets; valuation of deferred tax assets and financial instruments; the determination of liabilities related to self-insurance programs and income taxes; and consolidation determinations with respect to our partnering arrangements. If the underlying estimates and assumptions upon which our Financial Statements are based change in the future, actual amounts may differ from those included in the accompanying Financial Statements.

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Revenue Recognition—Our revenue is primarily derived from long-term contracts and is generally recognized using the percentage of completion ("POC") method, primarily based on the percentage that actual costs-to-date bear to total estimated costs to complete each contract. We follow the guidance of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Revenue Recognition Topic 605-35 for accounting policies relating to our use of the POC method, estimating costs, and revenue recognition, including the recognition of incentive fees, unapproved change orders and claims, and combining and segmenting contracts. We primarily utilize the cost-to-cost approach to estimate POC as we believe this method is less subjective than relying on assessments of physical progress. Under the cost-to-cost approach, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue and is a significant factor in the accounting for contracts. Significant estimates that impact the cost to complete each contract are costs of engineering, materials, components, equipment, labor and subcontracts; labor productivity; schedule durations, including subcontractor or supplier progress; liquidated damages; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates. See Note 14 for discussion of projects with significant changes in estimated margins during the three months ended March 31, 2017 and 2016.

Our long-term contracts are awarded on a competitively bid and negotiated basis and the timing of revenue recognition may be impacted by the terms of such contracts. We use a range of contracting options, including cost-reimbursable, fixed-price and hybrid, which has both cost-reimbursable and fixed-price characteristics. Fixed-price contracts, and hybrid contracts with a more significant fixed-price component, tend to provide us with greater control over project schedule and the timing of when work is performed and costs are incurred, and accordingly, when revenue is recognized. Cost-reimbursable contracts, and hybrid contracts with a more significant cost-reimbursable component, generally provide our customers with greater influence over the timing of when we perform our work, and accordingly, such contracts often result in less predictability with respect to the timing of revenue recognition. Contract revenue for our long-term contracts recognized under the POC method reflects the original contract price adjusted for approved change orders and estimated recoveries for incentive fees, unapproved change orders and claims. We recognize revenue associated with incentive fees when the value can be reliably estimated and recovery is probable. We recognize revenue associated with unapproved change orders and claims to the extent the related costs have been incurred, the value can be reliably estimated and recovery is probable. Our recorded incentive fees, unapproved change orders and claims reflect our best estimate of recovery amounts; however, the ultimate resolution and amounts received could differ from these estimates. See Note 14 for additional discussion of our recorded unapproved change orders, claims and incentives.

With respect to our engineering, procurement, and construction ("EPC") services, our contracts are not segmented between types of services, such as engineering and construction, if each of the EPC components is negotiated concurrently or if the pricing of any such services is subject to the ultimate negotiation and agreement of the entire EPC contract. However, an EPC contract including technology or fabrication services may be segmented if we satisfy the segmenting criteria in ASC 605-35. Revenue recorded in these situations is based on our prices and terms for similar services to third party customers. Segmenting a contract may result in different interim rates of profitability for each scope of service than if we had recognized revenue without segmenting. In some instances, we may combine contracts that are entered into in multiple phases, but are interdependent and include pricing considerations by us and the customer that are impacted by all phases of the project. Otherwise, if each phase is independent of the other and pricing considerations do not give effect to another phase, the contracts will not be combined.

Cost of revenue for our long-term contracts includes direct contract costs, such as materials and labor, and indirect costs that are attributable to contract activity. The timing of when we bill our customers is generally dependent upon advance billing terms, milestone billings based on the completion of certain phases of the work, or when services are provided. Projects with costs and estimated earnings recognized to date in excess of cumulative billings is reported on the Condensed Consolidated Balance Sheet (“Balance Sheet”) as costs and estimated earnings in excess of billings. Projects with cumulative billings in excess of costs and estimated earnings recognized to date is reported on the Balance Sheet as billings in excess of costs and estimated earnings. The net balances on our Balance Sheet are collectively referred to as Contracts in Progress, net and the components of these balances at March 31, 2017 and December 31, 2016 were as follows:

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Chicago Bridge & Iron Company N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	March 31, 2017		December 31, 2016	
	Asset	Liability	Asset	Liability
Costs and estimated earnings on contracts in progress	$9,014,256	$23,771,468	$8,466,638	$23,408,316
Billings on contracts in progress	(8,520,428)	(25,253,008)	(8,055,889)	(24,803,665)
Contracts in Progress, net	$493,828	$(1,481,540)	$410,749	$(1,395,349)

Any uncollected billed amounts, including contract retentions, are reported as accounts receivable. At March 31, 2017 and December 31, 2016, accounts receivable included contract retentions of approximately $77,300 and $72,100, respectively. Contract retentions due beyond one year were approximately $42,900 and $37,500 at March 31, 2017 and December 31, 2016, respectively.

Revenue for our service contracts that do not satisfy the criteria for revenue recognition under the POC method is recorded at the time services are performed. Revenue associated with incentive fees for these contracts is recognized when earned. Unbilled receivables for our service contracts are recorded within accounts receivable and were approximately $9,200 and $16,100 at March 31, 2017 and December 31, 2016, respectively.

Revenue for our pipe and steel fabrication and catalyst manufacturing contracts that are independent of an EPC contract, or for which we satisfy the segmentation criteria discussed above, is recognized upon shipment of the fabricated or manufactured units. During the fabrication or manufacturing process, all related direct and allocable indirect costs are capitalized as work in process inventory and such costs are recorded as cost of revenue at the time of shipment.

Our billed and unbilled revenue may be exposed to potential credit risk if our customers should encounter financial difficulties, and we maintain reserves for specifically-identified potential uncollectible receivables. At March 31, 2017 and December 31, 2016, our allowances for doubtful accounts were not material.

Other Operating Expense (Income), Net—Other operating expense (income), net generally represents (gains) losses associated with the sale or disposition of property and equipment.

Recoverability of Goodwill—Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually at a reporting unit level, absent any indicators of impairment or when other actions require an impairment assessment (such as a change in reporting units). We perform our annual impairment assessment during the fourth quarter of each year based upon balances as of October 1. We identify a potential impairment by comparing the fair value of the applicable reporting unit to its net book value, including goodwill. If the net book value exceeds the fair value of the reporting unit, an indication of potential impairment exists, and we measure the impairment by comparing the carrying value of the reporting unit’s goodwill to its implied fair value. To determine the fair value of our reporting units and test for impairment, we utilize an income approach (discounted cash flow method) as we believe this is the most direct approach to incorporate the specific economic attributes and risk profiles of our reporting units into our valuation model. This is consistent with the methodology used to determine the fair value of our reporting units in previous years. We generally do not utilize a market approach given the lack of relevant information generated by market transactions involving comparable businesses. However, to the extent market indicators of fair value become available, we consider such market indicators in our discounted cash flow analysis and determination of fair value. See Note 6 for additional discussion of our goodwill.

Recoverability of Other Long-Lived Assets—We amortize our finite-lived intangible assets on a straight-line basis with lives ranging from 6 to 20 years, absent any indicators of impairment. We review tangible assets and finite-lived intangible assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If a recoverability assessment is required, the estimated future cash flow associated with the asset or asset group will be compared to the asset’s carrying amount to determine if an impairment exists. See Note 6 for additional discussion of our intangible assets.

Earnings Per Share (“EPS”)—Basic EPS is calculated by dividing net income attributable to CB&I by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of dilutive securities, consisting of restricted shares, performance based shares (where performance criteria have been met), stock options and directors’ deferred-fee shares. See Note 3 for calculations associated with basic and diluted EPS.

Cash Equivalents—Cash equivalents are considered to be highly liquid securities with original maturities of three months or less.

Inventory—Inventory is recorded at the lower of cost and net realizable value and cost is determined using the first-in-first-out or weighted-average cost method. The cost of inventory includes acquisition costs, production or conversion costs, and other costs incurred to bring the inventory to a current location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. An allowance for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, estimates of future sales expectations and salvage value. See Note 5 for additional discussion of our inventory.

Foreign Currency—The nature of our business activities involves the management of various financial and market risks, including those related to changes in foreign currency exchange rates. The effects of translating financial statements of foreign operations into our reporting currency are recognized as a cumulative translation adjustment in accumulated other comprehensive income (loss) ("AOCI") which is net of tax, where applicable. Foreign currency transactional and re-measurement exchange gains (losses) are included within cost of revenue and were not material for the three months ended March 31, 2017 and 2016.

Financial Instruments—We do not engage in currency speculation; however, we utilize foreign currency exchange rate derivatives on an ongoing basis to hedge against certain foreign currency related operating exposures. We generally seek hedge accounting treatment for contracts used to hedge operating exposures and designate them as cash flow hedges. Therefore, gains and losses, exclusive of credit risk and forward points (which represent the time value component of the fair value of our derivative positions), are included in AOCI until the associated underlying operating exposure impacts our earnings. Changes in the fair value of (1) credit risk and forward points, (2) instruments deemed ineffective during the period, and (3) instruments that we do not designate as cash flow hedges are recognized within cost of revenue.

For those contracts designated as cash flow hedges, we document all relationships between the derivative instruments and associated hedged items, as well as our risk-management objectives and strategy for undertaking hedge transactions. This process includes linking all derivatives to specific firm commitments or highly-probable forecasted transactions. We continually assess, at inception and on an ongoing basis, the effectiveness of derivative instruments in offsetting changes in the cash flow of the designated hedged items. Hedge accounting designation is discontinued when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the cash flow of the hedged item, including firm commitments or forecasted transactions, (2) the derivative is sold, terminated, exercised, or expires, (3) it is no longer probable that the forecasted transaction will occur, or (4) we determine that designating the derivative as a hedging instrument is no longer appropriate. See Note 9 for additional discussion of our financial instruments.

Income Taxes—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using currently enacted income tax rates for the years in which the differences are expected to reverse. A valuation allowance ("VA") is provided to offset any net deferred tax assets ("DTA(s)") if, based upon the available evidence, it is more likely than not that some or all of the DTAs will not be realized. The realization of our net DTAs depends upon our ability to generate sufficient future taxable income of the appropriate character and in the appropriate jurisdictions.

Income tax and associated interest and penalty reserves, where applicable, are recorded in those instances where we consider it more likely than not that additional tax will be due in excess of amounts reflected in income tax returns filed worldwide, irrespective of whether or not we have received tax assessments. We continually review our exposure to additional income tax obligations and, as further information is known or events occur, changes in our tax and penalty reserves may be recorded within income tax expense and changes in interest reserves may be recorded in interest expense.

Partnering Arrangements—In the ordinary course of business, we execute specific projects and conduct certain operations through joint venture, consortium and other collaborative arrangements (collectively referred to as "venture(s)"). We have various ownership interests in these ventures, with such ownership typically proportionate to our decision making and distribution rights. The ventures generally contract directly with the third party customer; however, services may be performed directly by the ventures, or may be performed by us, our partners, or a combination thereof.

Venture net assets consist primarily of working capital and property and equipment, and assets may be restricted from being used to fund obligations outside of the venture. These ventures typically have limited third party debt or have debt that is non-recourse in nature; however, they may provide for capital calls to fund operations or require participants in the venture to provide additional financial support, including advance payment or retention letters of credit.

Each venture is assessed at inception and on an ongoing basis as to whether it qualifies as a VIE under the consolidations guidance in ASC 810. A venture generally qualifies as a VIE when it (1) meets the definition of a legal entity, (2) absorbs the operational risk of the projects being executed, creating a variable interest, and (3) lacks sufficient capital investment from the partners, potentially resulting in the venture requiring additional subordinated financial support, if necessary, to finance its future activities.

If at any time a venture qualifies as a VIE, we perform a qualitative assessment to determine whether we are the primary beneficiary of the VIE and, therefore, need to consolidate the VIE. We are the primary beneficiary if we have (1) the power to direct the economically significant activities of the VIE and (2) the right to receive benefits from, and obligation to absorb losses of, the VIE. If the venture is a VIE and we are the primary beneficiary, or we otherwise have the ability to control the venture, we consolidate the venture. If we are not determined to be the primary beneficiary of the VIE, or only have the ability to significantly influence, rather than control the venture, we do not consolidate the venture. We account for unconsolidated ventures using either proportionate consolidation for both the Balance Sheet and Statement of Operations, when we meet the applicable accounting criteria to do so, or utilize the equity method. See Note 7 for additional discussion of our material partnering arrangements.

New Accounting Standards—In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance, including ASC 605-35. The new standard prescribes a five-step revenue recognition model that focuses on transfer of control and entitlement to payment when determining the amount of revenue to be recognized. The new model requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time for each of these obligations. These concepts, as well as other aspects of the ASU, may change the method and/or timing of revenue recognition for certain of our contracts, primarily associated with our fabrication and manufacturing contracts. We expect that revenue generated from our EPC and engineering services contracts will continue to be recognized over time utilizing the cost-to-cost measure of progress consistent with current practice. We also expect our revenue recognition disclosures to significantly expand due to the new qualitative and quantitative requirements regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from our contracts. We will adopt the standard, including any updates to the standard, upon its effective date in the first quarter 2018 utilizing the modified retrospective approach. This approach will result in a cumulative adjustment to beginning equity in the first quarter 2018 for uncompleted contracts impacted by the adoption of the standard. We are continuing to assess the potential impact of the new standard on our Financial Statements.

In February 2016, the FASB issued ASU 2016-02, which requires the recognition of a right-of-use asset and a lease liability for most lease arrangements with a term greater than one year, and increases qualitative and quantitative disclosures regarding leasing transactions. The standard is effective for us in the first quarter 2019, although early adoption is permitted. Transition requires application of the new guidance at the beginning of the earliest comparative balance sheet period presented utilizing a modified retrospective approach. We are assessing the timing of adoption of the new standard and its potential impact on our Financial Statements.

In the first quarter 2017, we adopted ASU 2015-11, which simplifies the subsequent measurement of our inventory by requiring inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Our adoption of the standard did not have a material impact on our Financial Statements.

In the first quarter 2017, we adopted ASU 2016-09, which modified the accounting for excess tax benefits and tax deficiencies associated with share-based payments, amended the associated cash flow presentation, and allows for forfeitures to be either recognized when they occur, or estimated. ASU 2016-09 eliminated the requirement to recognize excess tax benefits in additional paid-in capital (“APIC”), and the requirement to evaluate tax deficiencies for APIC or income tax expense classification, and provided for these benefits or deficiencies to be recorded as an income tax expense or benefit in the Statement of Operations. Additionally, tax benefits of dividends on share-based payment awards are reflected as an income tax expense or benefit in the income statement. With these changes, tax-related cash flows resulting from share-based payments are classified as operating activities as opposed to financing, as previously presented. We have elected to recognize forfeitures as they occur, rather than estimating expected forfeitures. Our adoption of the standard did not have a material impact on our Financial Statements.

In the first quarter 2017, the FASB issued, and we early adopted, ASU 2017-04, which eliminated the second step of the goodwill impairment test that required a hypothetical purchase price allocation. ASU 2017-04 requires that if a reporting unit's carrying value exceeds its fair value, an impairment charge would be recognized for the excess amount, not to exceed the carrying amount of goodwill. Our early adoption of the standard in the first quarter 2017 did not have a material impact on our Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. EARNINGS PER SHARE
A reconciliation of weighted average basic shares outstanding to weighted average diluted shares outstanding and the computation of basic and diluted EPS are as follows:

	Three Months Ended March 31,	
	2017	2016
Net income from continuing operations attributable to CB&I (net of $26,837 and $12,589 of noncontrolling interests)	$15,574	$101,334
Net income from discontinued operations attributable to CB&I (net of $413 and $448 of noncontrolling interests)	9,081	5,591
Net income attributable to CB&I	$24,655	$106,925
Weighted average shares outstanding—basic	100,451	104,803
Effect of restricted shares/performance based shares/stock options [1]	892	969
Effect of directors' deferred-fee shares	17	13
Weighted average shares outstanding—diluted	101,360	105,785
Net income attributable to CB&I per share (Basic):		
Continuing operations	$0.16	$0.97
Discontinued operations	0.09	0.05
Total	$0.25	$1.02
Net income attributable to CB&I per share (Diluted):		
Continuing operations	$0.15	$0.96
Discontinued operations	0.09	0.05
Total	$0.24	$1.01

(1) Antidilutive shares excluded from diluted EPS were not material for the three months ended March 31, 2017 or 2016.

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4. DISPOSITION OF CAPITAL SERVICES OPERATIONS

Transaction Summary— As discussed in Note 2, on February 27, 2017, we entered into the Agreement for the sale of our Capital Services Operations. Under the Agreement, we will receive estimated transaction consideration of approximately $755,000 (the “Sales Price”) upon closing, which is anticipated in the second quarter 2017. The Sales Price will be reduced or increased to the extent working capital of the Capital Services Operations is below or exceeds, respectively, required closing working capital under the Agreement. Although differences between actual closing working capital and required closing working capital will impact our net proceeds, we do not anticipate a material pre-tax gain or loss to result from the transaction upon closing. In addition, the transaction is anticipated to result in a taxable gain (due to the non-deductibility of goodwill) and corresponding income tax expense of approximately $100,000 in the quarter of close; however, we do not anticipate any material cash taxes associated with the taxable gain due to the use of previously recorded net operating loss carryforwards. The net proceeds of the transaction will be used to reduce our outstanding debt. At March 31, 2017, the fair value of the Capital Services Operations exceeded the carrying value of its net assets.

Assets and Liabilities—The carrying values of the major classes of assets and liabilities of the discontinued Capital Services Operations within our Balance Sheets at March 31, 2017 and December 31, 2016 were as follows:

	March 31, 2017	December 31, 2016
Assets		
Cash	$17,782	$ 14,477
Accounts receivable, net	265,634	239,146
Costs and estimated earnings in excess of billings	163,404	153,275
Other assets	36,751	7,834
Property and equipment, net	56,256	—
Goodwill [1]	229,607	—
Other intangibles, net	145,890	—
Current assets of discontinued operations	915,324	414,732
Property and equipment, net	—	59,746
Goodwill [1]	—	229,607
Other intangibles, net	—	148,440
Other assets	—	24,351
Non-current assets of discontinued operations	—	462,144
Total assets of discontinued operations	$915,324	$ 876,876
Liabilities		
Accounts payable	$116,702	$ 141,028
Billings in excess of costs and estimated earnings	54,946	53,986
Other liabilities	87,169	52,455
Current liabilities of discontinued operations	258,817	247,469
Other liabilities	—	5,388
Non-current liabilities of discontinued operations	—	5,388
Total liabilities of discontinued operations	$258,817	$ 252,857
Noncontrolling interests of discontinued operations	$7,288	$ 6,874

(1) The carrying value of goodwill for the Capital Services Operations includes the impact of a $655,000 impairment charge recorded in the fourth quarter 2016 in connection with our annual impairment assessment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Results of Operations—The results of our Capital Services Operations that have been reflected within discontinued operations in our Statement of Operations for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,	
	2017	2016
Revenue	$552,947	$564,981
Cost of revenue	518,687	532,946
Gross profit	34,260	32,035
Selling and administrative expense	13,038	11,651
Intangibles amortization	2,550	4,200
Other operating income	(372)	(424)
Operating income from discontinued operations	19,044	16,608
Interest expense [1]	(6,863)	(5,833)
Interest income	9	309
Income from discontinued operations before taxes	12,190	11,084
Income tax expense	(2,696)	(5,045)
Net income from discontinued operations	9,494	6,039
Net income from discontinued operations attributable to noncontrolling interests	(413)	(448)
Net income from discontinued operations attributable to CB&I	$9,081	$5,591

[1] Interest expense was allocated to the Capital Services Operations due to a requirement to use the net proceeds of the transaction to repay our debt on a pro-rata basis. The allocation was based upon the anticipated pro-rata debt amounts to be repaid.

Cash Flows—Cash flows for our Capital Services Operations for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,	
	2017	2016
Operating cash flows	$(17,544)	$(11,696)
Investing cash flows	$(844)	$(793)

Unapproved Change Orders, Claims and Incentives—At March 31, 2017 and December 31, 2016, our Capital Services Operations had unapproved change orders, claims and incentives included in project price of approximately $19,600 and $8,400, respectively. Of the aforementioned amounts, approximately $16,800 had been recognized as revenue for the discontinued operations on a cumulative POC basis through March 31, 2017.

5. INVENTORY

The components of inventory at March 31, 2017 and December 31, 2016 were as follows:

	March 31, 2017	December 31, 2016
Raw materials	$107,898	$ 65,969
Work in process	62,041	51,625
Finished goods	32,827	72,508
Total	$202,766	$ 190,102

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. GOODWILL AND OTHER INTANGIBLES

Goodwill—At March 31, 2017 and December 31, 2016, our goodwill balances were $2,816,232 and $2,813,803, respectively, attributable to the excess of the purchase price over the fair value of net assets acquired in connection with our acquisitions. The change in goodwill for the three months ended March 31, 2017 is as follows:

	Total
Balance at December 31, 2016	$2,813,803
Foreign currency translation and other	2,631
Amortization of tax goodwill in excess of book goodwill	(202)
Balance at March 31, 2017 [(1)]	$2,816,232

(1) At March 31, 2017, we had approximately $453,100 of cumulative impairment losses which were recorded in our Engineering & Construction operating group during 2015 related to the sale of our nuclear power construction business (our “Nuclear Operations”) on December 31, 2015.

As discussed further in Note 2, goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually at a reporting unit level, absent any indicators of impairment or when other actions require an impairment assessment (such as a change in reporting units). We perform our annual impairment assessment during the fourth quarter of each year based upon balances as of October 1. At December 31, 2016, we had the following three operating groups and reporting units:

- Engineering & Construction—Our Engineering & Construction operating group represented a reporting unit.
- Fabrication Services—Our Fabrication Services operating group represented a reporting unit.
- Technology—Our Technology operating group represented a reporting unit.

During the three months ended December 31, 2016, we performed a quantitative assessment of goodwill for each of the aforementioned reporting units. Based upon these quantitative assessments, the fair value of each of these reporting units substantially exceeded their respective net book values, and accordingly, no impairment charge was necessary as a result of our impairment assessments. During the three months ended March 31, 2017, no indicators of goodwill impairment were identified for any of these reporting units. If, based on future assessments our goodwill is deemed to be impaired, the impairment would result in a charge to earnings in the period of impairment. There can be no assurance that future goodwill impairment tests will not result in charges to earnings. See Note 4 for discussion of our goodwill impairment for the Capital Services Operations recorded in the fourth quarter 2016 in connection with our annual impairment assessment.

Other Intangible Assets—The following table presents our acquired finite-lived intangible assets at March 31, 2017 and December 31, 2016, including the March 31, 2017 weighted-average useful lives for each major intangible asset class and in total:

		March 31, 2017		December 31, 2016	
	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Backlog and customer relationships	18 Years	$99,086	$(22,758)	$99,086	$(21,374)
Process technologies	15 Years	259,189	(134,005)	258,516	(129,261)
Tradenames	12 Years	27,125	(15,430)	27,090	(14,648)
Total [(1)]	16 Years	$385,400	$(172,193)	$384,692	$(165,283)

(1) The decrease in other intangibles, net during the three months ended March 31, 2017 primarily related to amortization expense of approximately $6,500.

7. PARTNERING ARRANGEMENTS

As discussed in Note 2, we account for our unconsolidated ventures using either proportionate consolidation, when we meet the applicable accounting criteria to do so, or the equity method. Further, we consolidate any venture that is determined to be a VIE for which we are the primary beneficiary, or which we otherwise effectively control.

Proportionately Consolidated Ventures—The following is a summary description of our significant joint ventures which have been accounted for using proportionate consolidation:

- CB&I/Zachry—We have a venture with Zachry (CB&I—50% / Zachry—50%) to perform EPC work for two liquefied natural gas ("LNG") liquefaction trains in Freeport, Texas. Our proportionate share of the venture project value is approximately $2,700,000. In addition, we have subcontract and risk sharing arrangements with Chiyoda to support our responsibilities to the venture. The costs of these arrangements are recorded in cost of revenue.
- CB&I/Zachry/Chiyoda—We have a venture with Zachry and Chiyoda (CB&I—33.3% / Zachry—33.3% / Chiyoda—33.3%) to perform EPC work for an additional LNG liquefaction train at the aforementioned project site in Freeport, Texas. Our proportionate share of the venture project value is approximately $675,000.
- CB&I/Chiyoda—We have a venture with Chiyoda (CB&I—50% / Chiyoda—50%) to perform EPC work for three LNG liquefaction trains in Hackberry, Louisiana. Our proportionate share of the venture project value is approximately $3,200,000.

The following table presents summarized balance sheet information for our share of our proportionately consolidated ventures at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
CB&I/Zachry		
Current assets [(1)]	$ 284,106	$ 260,934
Non-current assets	2,571	3,204
Total assets	$ 286,677	$ 264,138
Current liabilities [(1)]	$ 397,540	$ 379,339
CB&I/Zachry/Chiyoda		
Current assets [(1)]	$ 92,371	$ 84,279
Non-current assets	1,745	1,969
Total assets	$ 94,116	$ 86,248
Current liabilities [(1)]	$ 76,741	$ 73,138
CB&I/Chiyoda		
Current assets [(1)]	$ 344,070	$ 337,479
Current liabilities [(1)]	$ 138,372	$ 150,179

(1) Our venture arrangements allow for excess working capital of the ventures to be advanced to the venture partners. Such advances are returned to the ventures for working capital needs as necessary. Accordingly, at a reporting period end a venture may have advances to its partners which are reflected as an advance receivable within current assets of the venture. At March 31, 2017 and December 31, 2016, other current assets on the Balance Sheet included approximately $398,600 and $374,800, respectively, related to our proportionate share of advances from the ventures to our venture partners, and other current liabilities included approximately $420,800 and $394,400, respectively, related to advances to CB&I from the ventures.

Equity Method Ventures—The following is a summary description of our significant joint ventures which have been accounted for using the equity method:

- Chevron-Lummus Global ("CLG")—We have a venture with Chevron (CB&I—50% / Chevron—50%) which provides proprietary process technology licenses and associated engineering services and catalyst, primarily for the refining industry. As sufficient capital investments in CLG have been made by the venture partners, it does not qualify as a VIE.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- NET Power—We have a venture with Exelon and 8 Rivers Capital (CB&I—33.3% / Exelon—33.3% / 8 Rivers Capital—33.3%) to commercialize a new natural gas power generation system that recovers the carbon dioxide produced during combustion. NET Power is building a first-of-its-kind demonstration plant which is being funded by contributions and services from the venture partners and other parties. We have determined the venture to be a VIE; however, we do not effectively control NET Power and therefore do not consolidate it. Our cash commitment for NET Power totals $47,300 and at March 31, 2017, we had made cumulative investments totaling approximately $44,900.
- CB&I/CTCI—We have a venture with CTCI (CB&I—50% / CTCI—50%) to perform EPC work for a liquids ethylene cracker and associated units in Sohar, Oman. We have determined the venture to be a VIE; however, we do not effectively control the venture and therefore do not consolidate it. Our proportionate share of the venture project value is approximately $1,400,000. Our venture arrangement allows for excess working capital of the venture to be advanced to the venture partners. Such advances are returned to the venture for working capital needs as necessary. At March 31, 2017 and December 31, 2016, other current liabilities included approximately $167,700 and $147,000, respectively, related to advances to CB&I from the venture.

Consolidated Ventures—The following is a summary description of our significant joint ventures we consolidate due to their designation as VIEs for which we are the primary beneficiary:

- CB&I/Kentz—We have a venture with Kentz (CB&I—65% / Kentz—35%) to perform the structural, mechanical, piping, electrical and instrumentation work on, and to provide commissioning support for, three LNG trains, including associated utilities and a gas processing and compression plant, for the Gorgon LNG project, located on Barrow Island, Australia. Our venture project value is approximately $5,900,000.
- CB&I/AREVA—We have a venture with AREVA (CB&I—52% / AREVA—48%) to design, license and construct a mixed oxide fuel fabrication facility in Aiken, South Carolina. Our venture project value is approximately $5,800,000.

The following table presents summarized balance sheet information for our consolidated ventures at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
CB&I/Kentz		
Current assets	$ 126,162	$ 68,867
Current liabilities	$ 117,520	$ 87,822
CB&I/AREVA		
Current assets	$ 25,674	$ 16,313
Current liabilities	$ 43,349	$ 47,652
All Other (1)		
Current assets	$ 34,285	$ 69,785
Non-current assets	16,634	16,382
Total assets	$ 50,919	$ 86,167
Current liabilities	$ 9,475	$ 7,748

(1) Other ventures that we consolidate are not individually material to our financial results and are therefore aggregated as “All Other”.

Other—The use of these ventures exposes us to a number of risks, including the risk that our partners may be unable or unwilling to provide their share of capital investment to fund the operations of the venture or complete their obligations to us, the venture, or ultimately, our customer. Differences in opinions or views among venture partners could also result in delayed decision-making or failure to agree on material issues, which could adversely affect the business and operations of the venture. In addition, agreement terms may subject us to joint and several liability for our venture partners, and the failure of our venture partners to perform their obligations could impose additional performance and financial obligations on us. The aforementioned factors could result in unanticipated costs to complete the projects, liquidated damages or contract disputes, including claims against our partners.

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8. DEBT

Our outstanding debt at March 31, 2017 and December 31, 2016 was as follows:

	March 31, 2017	December 31, 2016
Current		
Revolving facility and other short-term borrowings	$917,500	$407,500
Current maturities of long-term debt	225,000	506,250
Less: unamortized debt issuance costs	(1,171)	(2,340)
Current maturities of long-term debt, net of unamortized debt issuance costs	223,829	503,910
Current debt, net of unamortized debt issuance costs	$1,141,329	$911,410
Long-Term		
Term Loan: $1,000,000 term loan (interest at LIBOR plus a floating margin)	$—	$300,000
Second Term Loan: $500,000 term loan (interest at LIBOR plus a floating margin)	500,000	500,000
Senior Notes: $800,000 senior notes, series A-D (fixed interest ranging from 4.15% to 5.30%)	800,000	800,000
Second Senior Notes: $200,000 senior notes (fixed interest of 4.53%)	200,000	200,000
Less: unamortized debt issuance costs	(8,973)	(5,827)
Less: current maturities of long-term debt	(225,000)	(506,250)
Long-term debt, net of unamortized debt issuance costs	$1,266,027	$1,287,923

Committed Facilities—We have a five-year, $1,350,000 committed revolving credit facility (the “Revolving Facility”) with Bank of America N.A. (“BofA”), as administrative agent, and BNP Paribas Securities Corp., BBVA Compass, Credit Agricole Corporate and Investment Bank (“Credit Agricole”) and TD Securities, each as syndication agents, which expires in October 2018. The Revolving Facility has a $270,000 financial letter of credit sublimit and has financial and restrictive covenants described further below. The Revolving Facility also includes customary restrictions regarding subsidiary indebtedness, sales of assets, liens, investments, type of business conducted, and mergers and acquisitions, and includes a limitation for dividend payments and share repurchases, among other restrictions. In addition to interest on debt borrowings, we are assessed quarterly commitment fees on the unutilized portion of the facility as well as letter of credit fees on outstanding instruments. The interest, commitment fee, and letter of credit fee percentages are based upon our quarterly leverage ratio. In the event we borrow funds under the facility, interest is assessed at either prime plus an applicable floating margin, or LIBOR plus an applicable floating margin, as described further below. At March 31, 2017, we had $505,000 of outstanding borrowings under the facility and $69,073 of outstanding letters of credit under the facility (none of which were financial letters of credit), providing $775,927 of available capacity. During the three months ended March 31, 2017, our weighted average interest rate on borrowings under the facility was approximately 2.9%, inclusive of the applicable floating margin.

We have a five-year, $800,000 committed revolving credit facility (the “Second Revolving Facility”) with BofA, as administrative agent, and BNP Paribas Securities Corp., BBVA Compass, Credit Agricole and Bank of Tokyo Mitsubishi UFJ, each as syndication agents, which expires in July 2020. The Second Revolving Facility supplements our Revolving Facility, has a $50,000 financial letter of credit sublimit and has financial and restrictive covenants described further below. In addition to interest on debt borrowings, we are assessed quarterly commitment fees on the unutilized portion of the facility as well as letter of credit fees on outstanding instruments. The interest, commitment fee, and letter of credit fee percentages are based upon our quarterly leverage ratio. In the event we borrow funds under the facility, interest is assessed at either prime plus an applicable floating margin, or LIBOR plus an applicable floating margin, as described further below. At March 31, 2017, we had $212,500 of outstanding borrowings and $7,551 of outstanding letters of credit under the facility (including $2,757 of financial letters of credit), providing $579,949 of available capacity. During the three months ended March 31, 2017, our weighted average interest rate on borrowings under the facility was approximately 5.0%, inclusive of the applicable floating margin.

Uncommitted Facilities—We also have various short-term, uncommitted letter of credit and borrowing facilities (the "Uncommitted Facilities") across several geographic regions of approximately $4,567,776, of which $563,000 may be utilized for borrowings. At March 31, 2017, we had $200,000 of outstanding borrowings and $1,737,589 of outstanding letters of credit under these facilities, providing $2,630,187 of available capacity, of which $363,000 may be utilized for borrowings. During the three months ended March 31, 2017, our weighted average interest rate on borrowings under the facilities was approximately 2.2%.

Term Loans—On February 13, 2017, we paid the remaining $300,000 of principal on our four-year, $1,000,000 unsecured term loan (the "Term Loan") with BofA as administrative agent. Interest was based upon LIBOR plus an applicable floating margin for the period (0.98% and 2.25%, respectively). In conjunction with the settlement of the Term Loan, we also settled our associated interest rate swap that hedged against a portion of the Term Loan, which resulted in a weighted average interest rate of approximately 2.6% during the three months ended March 31, 2017.

At March 31, 2017, we had $500,000 outstanding on a five-year, $500,000 term loan (the "Second Term Loan") with BofA as administrative agent. Interest and principal under the Second Term Loan is payable quarterly in arrears beginning in June 2017 and bears interest at LIBOR plus an applicable floating margin, as described further below. During the three months ended March 31, 2017, our weighted average interest rate on the Second Term Loan was approximately 2.4%, inclusive of the applicable floating margin. Future annual maturities for the Second Term Loan are $56,250, $75,000, $75,000 and $293,750 for 2017, 2018, 2019, and 2020, respectively. The Second Term Loan has financial and restrictive covenants described further below.

Senior Notes—We have a series of senior notes totaling $800,000 in the aggregate (the "Senior Notes") with Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Credit Agricole, as administrative agents. The Senior Notes have financial and restrictive covenants described further below. The Senior Notes include Series A through D, which contain the following terms:

- Series A—Interest due semi-annually at a fixed rate of 4.15%, with principal of $150,000 due in December 2017
- Series B—Interest due semi-annually at a fixed rate of 4.57%, with principal of $225,000 due in December 2019
- Series C—Interest due semi-annually at a fixed rate of 5.15%, with principal of $275,000 due in December 2022
- Series D—Interest due semi-annually at a fixed rate of 5.30%, with principal of $150,000 due in December 2024

We have senior notes totaling $200,000 (the "Second Senior Notes") with BofA as administrative agent. Interest is due semi-annually at a fixed rate of 4.53%, with principal of $200,000 due in July 2025. The Second Senior Notes have financial and restrictive covenants described further below.

Compliance and Other—On February 24, 2017, and effective for the period ended December 31, 2016, we amended our Revolving Facility, Second Revolving Facility, Second Term Loan, Senior Notes and Second Senior Notes (collectively, "Senior Facilities"). The amendments established a new maximum leverage ratio of 3.50 at December 31, 2016, decreasing to 3.00 at December 31, 2017, or 45 days subsequent to the closing of the sale of our Capital Services Operations (the "Closing Date") as described in Note 4, if earlier. The amendments also established a new minimum net worth of $1,201,507, maintained our required fixed charge ratio at 1.75, and will reduce our Revolving Facility from $1,350,000 to $1,150,000 at the Closing Date. The amendments also included other financial and restrictive covenants.

On May 8, 2017, and effective for the period ended March 31, 2017, we further amended our Senior Facilities. The amendments require us to secure the Senior Facilities through the pledge of cash, accounts receivable, inventory, fixed assets, and stock of subsidiaries. In addition, the amendments require us to repay the Senior Facilities on a pro-rata basis with the proceeds from the sale of our Capital Services Operations, the issuance of any unsecured debt that is subordinate ("Subordinated Debt") to the Senior Facilities, the issuance of any equity securities, or the sale of any assets. The amendments also establish new maximum leverage ratios for borrowings under the Senior Facilities ("Senior Secured Leverage Ratio") as follows: 4.00 at March 31, 2017; 4.50 at June 30, 2017 and September 30, 2017; 3.00 at December 31, 2017 and March 31, 2018; and 2.50 at June 30, 2018. The amendments prohibit mergers and acquisitions, open-market share repurchases, and increases to dividends until our leverage ratio is below 3.00 for two consecutive quarters. In addition to the Senior Secured Leverage Ratio, the amendments establish total maximum leverage ratios for all borrowings among the Senior Facilities and any Subordinated Debt as follows: 5.25 at June 30, 2017; 6.00 at September 30, 2017; 4.00 at December 31, 2017 and March 31, 2018; 3.25 at June 30, 2018; and 3.00 at September 30, 2018.

Interest on outstanding borrowings under the amended Revolving Facility, Second Revolving Facility and the Second Term Loan is based on our quarterly leverage ratio and is assessed at either prime plus an applicable floating margin (4.00% and 1.50%, respectively at March 31, 2017), or LIBOR plus an applicable floating margin (0.98% and 2.50%, respectively at March 31, 2017). Our fixed rate interest on our amended Senior Notes and Second Senior Notes was increased by an incremental 0.50% over the rates in effect at March 31, 2017 discussed above. Further, the amended Senior Notes and Second Senior Notes include provisions relating to our credit profile, which if not maintained will result in an incremental annual cost of up to 2.00% of the outstanding balance under the notes.

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During the three months ended March 31, 2017, maximum outstanding borrowings under our Revolving Facility and Second Revolving Facility (collectively, “Committed Facilities”) and Uncommitted Facilities were approximately $1,709,000. At March 31, 2017, we were in compliance with all our amended financial and restrictive covenants of our Senior Facilities with a leverage ratio of 3.91, a fixed charge coverage ratio of 3.07, and net worth of $1,460,718. If we are unable to remain in compliance with these covenants, and such covenants are not further amended, it could result in all of our debt becoming current. Our ability to remain in compliance with such covenants in the second quarter 2017, and over the next twelve months, will require the successful securitization of the assets required under the amendments to our Senior Facilities and will likely require us to complete the sale of our Capital Services Operations during the second quarter 2017 to reduce our debt, which we believe is probable.

In addition to providing letters of credit, we also issue surety bonds in the ordinary course of business to support our contract performance. At March 31, 2017, we had $837,707 of outstanding surety bonds. Capitalized interest was insignificant for the three months ended March 31, 2017 and 2016.

9. FINANCIAL INSTRUMENTS

Derivatives

Foreign Currency Exchange Rate Derivatives—At March 31, 2017, the notional value of our outstanding forward contracts to hedge certain foreign exchange-related operating exposures was approximately $143,600. These contracts vary in duration, maturing up to five years from period-end. We designate certain of these hedges as cash flow hedges and accordingly, changes in their fair value are recognized in AOCI until the associated underlying operating exposure impacts our earnings. Forward points, which are deemed to be an ineffective portion of the hedges, are recognized within cost of revenue and are not material.

Financial Instruments Disclosures

Fair Value—Financial instruments are required to be categorized within a valuation hierarchy based upon the lowest level of input that is significant to the fair value measurement. The three levels of the valuation hierarchy are as follows:

- Level 1—Fair value is based upon quoted prices in active markets.
- Level 2—Fair value is based upon internally-developed models that use, as their basis, readily observable market parameters. Our derivative positions are classified within level 2 of the valuation hierarchy as they are valued using quoted market prices for similar assets and liabilities in active markets. These level 2 derivatives are valued utilizing an income approach, which discounts future cash flow based upon current market expectations and adjusts for credit risk.
- Level 3—Fair value is based upon internally-developed models that use, as their basis, significant unobservable market parameters. We did not have any level 3 classifications at March 31, 2017 or December 31, 2016.

The following table presents the fair value of our foreign currency exchange rate derivatives and interest rate derivatives at March 31, 2017 and December 31, 2016, respectively, by valuation hierarchy and balance sheet classification:

	March 31, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative Assets [1]								
Other current assets	$—	$1,220	$—	$1,220	$—	$1,146	$—	$1,146
Other non-current assets	—	242	—	242	—	82	—	82
Total assets at fair value	$—	$1,462	$—	$1,462	$—	$1,228	$—	$1,228
Derivative Liabilities								
Other current liabilities	$—	$(4,372)	$—	$(4,372)	$—	$(3,509)	$—	$(3,509)
Other non-current liabilities	—	(581)	—	(581)	—	(725)	—	(725)
Total liabilities at fair value	$—	$(4,953)	$—	$(4,953)	$—	$(4,234)	$—	$(4,234)

(1)

We are exposed to credit risk on our hedging instruments associated with potential counterparty non-performance, and the fair value of our derivatives reflects this credit risk. The total level 2 assets at fair value above represent the maximum loss that we would incur on our outstanding hedges if the applicable counterparties failed to perform according to the hedge contracts. To help mitigate counterparty credit risk, we transact only with counterparties that are rated as investment grade or higher and monitor all counterparties on a continuous basis.

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The carrying values of our cash and cash equivalents (primarily consisting of bank deposits), accounts receivable and accounts payable approximate their fair values because of the short-term nature of these instruments. At March 31, 2017, the fair values of our Second Term Loan, based upon the current market rates for debt with similar credit risk and maturities, approximated its carrying value as interest is based upon LIBOR plus an applicable floating margin. Our Senior Notes and Second Senior Notes are categorized within level 2 of the valuation hierarchy. Our Senior Notes had a total fair value of approximately $796,100 and $785,700 at March 31, 2017 and December 31, 2016, respectively, based on current market rates for debt with similar credit risk and maturities. Our Second Senior Notes had a total fair value of approximately $204,000 and $206,400 at March 31, 2017 and December 31, 2016, respectively, based on current market rates for debt with similar credit risk and maturities.

Derivatives Disclosures

Fair Value—The following table presents the total fair value by underlying risk and balance sheet classification for derivatives designated as cash flow hedges and derivatives not designated as cash flow hedges at March 31, 2017 and December 31, 2016:

	Other Current and Non-Current Assets		Other Current and Non-Current Liabilities	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Derivatives designated as cash flow hedges				
Interest rate	$—	$ 49	$—	$ —
Foreign currency	505	109	(325)	(536)
Fair value	$505	$ 158	$(325)	$ (536)
Derivatives not designated as cash flow hedges				
Foreign currency	$957	$ 1,070	$(4,628)	$ (3,698)
Fair value	$957	$ 1,070	$(4,628)	$ (3,698)
Total fair value	$1,462	$ 1,228	$(4,953)	$ (4,234)

Master Netting Arrangements (“MNAs”)—Our derivatives are executed under International Swaps and Derivatives Association MNAs, which generally allow us and our counterparties to net settle, in a single net payable or receivable, obligations due on the same day, in the same currency and for the same type of derivative instrument. We have elected the option to record all derivatives on a gross basis in our Balance Sheet. The following table presents our derivative assets and liabilities at March 31, 2017 on a gross basis and a net settlement basis:

	Gross Amounts Recognized (i)	Gross Amounts Offset on the Balance Sheet (ii)	Net Amounts Presented on the Balance Sheet (iii) = (i) - (ii)	Gross Amounts Not Offset on the Balance Sheet (iv)		Net Amount (v) = (iii) - (iv)
				Financial Instruments	Cash Collateral Received	
Derivative Assets						
Foreign currency	1,462	—	1,462	(167)	—	1,295
Total assets	$ 1,462	$ —	$ 1,462	$ (167)	$ —	$ 1,295
Derivative Liabilities						
Foreign currency	(4,953)	—	(4,953)	167	—	(4,786)
Total liabilities	$ (4,953)	$ —	$ (4,953)	$ 167	$ —	$ (4,786)

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AOCI/Other—The following table presents the total value, by underlying risk, recognized in other comprehensive income (“OCI”) and reclassified from AOCI to interest expense (interest rate derivatives) and cost of revenue (foreign currency derivatives) during the three months ended March 31, 2017 and 2016 for derivatives designated as cash flow hedges:

	Amount of Gain (Loss) on Effective Derivative Portion			
	Recognized in OCI		Reclassified from AOCI into Earnings [1]	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2017	2016	2017	2016
Derivatives designated as cash flow hedges				
Interest rate	$ —	$ (713)	$ 49	$ (181)
Foreign currency	682	1,476	124	