

MCDERMOTT INTERNATIONAL INC

Form 10-K/A

April 06, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10 K/A

(Mark One)

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

For the fiscal year ended December 31, 2004
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 Number 001-08430

MCDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA

72-0593134

(State or Other Jurisdiction of Incorporation or
Organization)

(I.R.S. Employer Identification No.)

1450 POYDRAS STREET
NEW ORLEANS, LOUISIANA

70112-6050

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code (504) 587-5400

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock, \$1.00 par value	New York Stock Exchange
Rights to Purchase Preferred Stock (Currently Traded with Common Stock)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). YES NO

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 30, 2004), was approximately \$666,737,645.

The number of shares of the registrant's common stock outstanding at January 31, 2005 was 67,456,902.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the registrant's 2004 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

McDERMOTT INTERNATIONAL, INC.

INDEX TO FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

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Consent of Independent Registered Public Accounting Firm
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors of
McDermott International, Inc.

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report (which includes an emphasis of matter paragraph referring to Notes 1, 20 and 21 of the consolidated financial statements which discusses The Babcock & Wilcox Company's voluntary petition with the U.S. Bankruptcy Court to reorganize under Chapter 11 of the U.S. Bankruptcy Code as well as the preliminary settlement agreement and proposed consensual plan of reorganization filed with the U.S. Bankruptcy Court to resolve the Chapter 11 filing and other matters) dated March 25, 2005 appearing in the Annual Report on Form 10-K of McDermott International, Inc. for the year ended December 31, 2004 also included an audit of the financial statement schedules listed in the accompanying index of this Form 10K/A (Amendment No. 1). In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
New Orleans, Louisiana
March 25, 2005

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Schedule I

**McDERMOTT INTERNATIONAL, INC.
(PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS**

ASSETS

	December 31,	
	2004	2003
	(In thousands)	
Current Assets:		
Cash and cash equivalents	\$ 5,107	\$ 687
Accounts receivable trade, net	52	46
Accounts receivable other	39,008	84
Accounts receivable from subsidiaries	40,357	7,166
Accounts receivable from The Babcock & Wilcox Company	1,038	1,594
Other currents assets	682	3,417
Total Current Assets	86,244	12,994
Investments in Subsidiaries and Other Investees, at Equity	327,212	321,489
Notes Receivable from Subsidiaries	50	50
Property, Plant and Equipment, at Cost:		
Buildings	5	5
Machinery and equipment	61	61
Less accumulated depreciation	66	66
	62	62
Net Property, Plant and Equipment	4	4
Investments in Debt Securities	29,952	29,948
Accounts Receivable from The Babcock & Wilcox Company	2,793	2,793
Other Assets	1,049	18,979

TOTAL	\$ 447,304	\$ 386,257
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See accompanying notes to condensed financial information.

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Continued

LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)

	December 31,	
	2004	2003
	(In thousands)	
Current Liabilities:		
Accounts payable	\$ 113	\$ 97
Accounts payable to The Babcock & Wilcox Company	7,739	6,773
Accrued liabilities other	12,623	18,394
Income taxes	3,059	3,059
Total Current Liabilities	23,534	28,323
Notes Payable to Subsidiaries	63,411	66,901
Accounts Payable to Subsidiaries	254,574	225,484
Accrued Cost of The Babcock & Wilcox Company Bankruptcy Settlement	5,136	4,320
Negative Investments in Subsidiaries, at Equity, net of Subordinated Note to Subsidiary	357,899	423,533
Other Liabilities	4,193	873
Commitments and Contingencies.		
Stockholders Equity (Deficit):		
Common stock	69,561	68,129
Capital in excess of par value	1,122,055	1,105,828
Accumulated deficit	(1,060,908)	(1,122,547)
Treasury stock	(64,625)	(62,792)
Accumulated other comprehensive loss	(327,526)	(351,795)
Total Stockholders Equity (Deficit)	(261,443)	(363,177)
TOTAL	\$ 447,304	\$ 386,257

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Schedule I

McDERMOTT INTERNATIONAL, INC.
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF INCOME (LOSS)

	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
Costs and Expenses:			
Cost of operations	\$ 1,743	\$ 688	\$ 479
Gain on settlement of pension plan	(27,722)		
Selling, general and administrative expenses	12,608	15,021	16,877
	(13,371)	15,709	17,356
Operating Income (Loss) before Equity in Income (Loss) of Investees	13,371	(15,709)	(17,356)
Equity in Income (Loss) of Subsidiaries and Other Investees	50,874	(83,983)	(762,691)
Operating Income (Loss)	64,245	(99,692)	(780,047)
Other Income (Expense):			
Interest income	510	905	1,603
Interest expense	(1,761)	(1,671)	(2,340)
Estimated gain (loss) on The Babcock & Wilcox Company bankruptcy settlement	(678)	138	(4,596)
Other net	(654)	(368)	(483)
	(2,583)	(996)	(5,816)
Income (Loss) from Continuing Operations Before Provision for Income Taxes and Cumulative Effect of Accounting Change	61,662	(100,688)	(785,863)
Provision for Income Taxes	23	1,470	
Income (Loss) from Continuing Operations before Cumulative Effect of Accounting Change	61,639	(102,158)	(785,863)
Income from Discontinued Operations		3,219	9,469

Income (Loss) before Cumulative Effect of Accounting Change	61,639	(98,939)	(776,394)
Cumulative Effect of Accounting Change		3,710	
Net Income (Loss)	\$ 61,639	\$ (95,229)	\$ (776,394)

See accompanying notes to condensed financial information.

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Schedule I

MCDERMOTT INTERNATIONAL, INC
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
Net Income (Loss)	\$ 61,639	\$ (95,229)	\$ (776,394)
Other Comprehensive Income (Loss):			
Equity in other comprehensive income (loss) of subsidiaries and other investees	24,276	134,758	(429,416)
Minimum pension liability adjustments	17	22	17
Unrealized gains on investments:			
Unrealized gains arising during the period			84
Reclassification adjustment for gains included in net income	(24)	(149)	
Other Comprehensive Income (Loss)	24,269	134,631	(429,315)
Comprehensive Income (Loss)	\$ 85,908	\$ 39,402	\$ (1,205,709)

See accompanying notes to condensed financial information.

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Schedule I

McDERMOTT INTERNATIONAL, INC.
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	\$ 61,639	\$ (95,229)	\$ (776,394)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,063	2,777	3,612
Cumulative effect of accounting change		(3,710)	
Equity in income or loss of subsidiaries and other investees, less dividends	(45,174)	83,983	863,031
Estimated (gain) loss on The Babcock & Wilcox Company bankruptcy settlement	678	(138)	4,596
Other	9,929	6,090	10,650
Changes in assets and liabilities:			
Accounts and notes receivable	(71,565)	(3,176)	40,249
Prepaid pensions	17,925		
Accounts payable	30,072	55,057	118,626
Notes payable to subsidiaries	(3,490)	43,681	(13,811)
Income taxes		1,400	
Other, net	(1,729)	(2,746)	(14,325)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,348	87,989	236,234
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment			(5)
Purchases of available-for-sale securities	(88,673)	(87,657)	(166,402)
Maturities of available-for-sale securities	85,335	85,306	107,085
Sales of available-for-sale securities	3,730	2,483	58,738
Execution of put/call agreement with McDermott Inc.			(242,945)
(Increase) decrease in loans to subsidiaries		(90,000)	5,783
Other	(2)	(556)	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	390	(90,424)	(237,746)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of common stock	\$ 2,800	\$	\$ 1,394
Other	(118)	2,959	232
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,682	2,959	1,626

NET INCREASE IN CASH AND CASH EQUIVALENTS	4,420	524	114
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	687	163	49
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 5,107	\$ 687	\$ 163

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest, including intercompany interest (net of amount capitalized)

\$ 1,755	\$ 1,701	\$ 2,325
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Income taxes, net of refunds

\$ 23	\$ 70	\$
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See accompanying notes to condensed financial information.

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Schedule I

McDERMOTT INTERNATIONAL, INC.
(PARENT COMPANY ONLY)
NOTES TO CONDENSED FINANCIAL INFORMATION
DECEMBER 31, 2004

NOTE 1 BASIS OF PRESENTATION

The accompanying financial statements have been prepared to present the unconsolidated financial position, results of operations and cash flows of McDermott International, Inc. (Parent Company Only). Investments in subsidiaries and other investees are stated under the equity basis of accounting which is at cost plus equity in undistributed earnings from date of acquisition. These Parent Company Only financial statements should be read in conjunction with McDermott International, Inc.'s consolidated financial statements filed in the Annual Report on Form 10-K.

NOTE 2 CONTINGENCIES

At the time of The Babcock & Wilcox Company (B&W) bankruptcy filing, McDermott International, Inc. was a maker or guarantor of outstanding letters of credit aggregating approximately \$146,500,000 (\$0 at December 31, 2004) which were issued in connection with the business operations of B&W and its subsidiaries. Although new letters of credit have been issued under B&W's Debtor in Possession (DIP) Credit Facility to backstop or replace these preexisting letters of credit, McDermott International, Inc. has agreed to indemnify and reimburse B&W and its filing subsidiaries for any customer draw on any letter of credit issued under the DIP Credit Facility to backstop or replace any such preexisting letter of credit for which B&W has exposure and for the associated letter of credit fees paid under the facility. As of December 31, 2004, approximately \$17.3 million in letters of credit have been issued under the DIP Credit Facility to replace or backstop these preexisting letters of credit.

McDermott International, Inc. has agreed to indemnify our two surety companies for obligations of various of its subsidiaries, including B&W and several of its subsidiaries, under surety bonds issued to meet bid bond and performance bond requirements imposed by their customers. As of December 31, 2004, the aggregate outstanding amount of surety bonds that were guaranteed by McDermott International, Inc. and issued in connection with the business operations of its subsidiaries was approximately \$48.0 million, of which \$43.8 million related to the business operations of B&W and its subsidiaries.

As of December 31, 2004, McDermott International, Inc. had outstanding performance guarantees for four projects of one of its subsidiaries. McDermott International, Inc. has never had to satisfy a performance guaranty for this subsidiary or any of its other subsidiaries. All of these guarantees (with a total cap of \$132 million) relate to projects which have been completed and are in the warranty periods, the latest of which would expire in January 2006. The subsidiary has incurred minimal warranty costs in prior years and any substantial warranty costs in the future could possibly be covered in whole or in part by insurance. However, if the subsidiary incurs substantial warranty liabilities and is unable to respond, and such liabilities are not covered by insurance, McDermott International, Inc. would ultimately have to satisfy those claims.

As of December 31, 2004, McDermott International, Inc. had outstanding performance guarantees for four contracts for a subsidiary of The Babcock & Wilcox Company (B&W). These guarantees, the last of which will expire on December 31, 2007, were all executed in 2001 and have a cap of \$75 million. These projects have all been completed and McDermott International, Inc. has never had to satisfy a performance guaranty for this subsidiary of B&W. Under the terms of an agreement between McDermott International, Inc. and B&W, B&W must reimburse

McDermott International, Inc. for any costs it may incur under any of these performance guarantees. As of December 31, 2004, B&W has sufficient liquidity to cover its obligations under this agreement. However, if this B&W subsidiary incurs and is unable to satisfy substantial warranty liabilities on these projects prior to expiration of the guaranty periods and B&W is not able to satisfy its contractual obligation to McDermott International, Inc. and such liabilities are not covered by insurance, McDermott International, Inc. would be liable.

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NOTE 3 DIVIDENDS RECEIVED

McDermott International, Inc. received dividends from its consolidated subsidiaries of \$5,700,000, \$98,880,000 and \$100,000,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

NOTE 4 LIQUIDITY

As a result of the B&W bankruptcy filing in February 2000, our access to the cash flows of B&W and its subsidiaries has been restricted. Further, McDermott, Inc. (MI) is restricted, as a result of covenants in its debt instruments, in its ability to transfer funds to MII and MII 's other subsidiaries, including J. Ray McDermott, S.A. (JRM), through cash dividends or through unsecured loans or investments. Given these issues, we have assessed our ability to continue as a viable business and have concluded that we can fund our operating activities and capital requirements. The following items are noted:

B&W Chapter 11 Filing. Our ability to obtain a successful and timely resolution to the B&W Chapter 11 proceedings has impacted our access to, and sources of, capital. We believe the completion of the overall settlement outlined in Note 20 to the McDermott International, Inc. 's consolidated financial statements will alleviate the impact of this uncertainty.

JRM 's Letters of Credit. At December 31, 2004, JRM had \$69.0 million in outstanding letters of credit secured by collateral accounts funded with cash equal to 105% of the amount outstanding. In addition, JRM had \$24.1 million in letters of credit outstanding under a \$25 million letter of credit facility entered on August 25, 2004. This facility provided for an immediate credit advance of \$25 million, which was placed in a cash collateral account to secure the letters of credit issued under the facility. The obligation to repay the \$25 million advance under the facility is secured with liens placed on certain JRM assets, including its domestic accounts receivable and the DB26 vessel. The term of the facility is 36 months with an optional redemption by JRM after 18 months, with no financial covenants. The non-financial covenants and certain other terms and conditions of the \$25 million letter of credit facility are similar to those set forth in the indenture relating to the JRM Secured Notes.

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Schedule II

McDERMOTT INTERNATIONAL, INC.
VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions			Balance at End of Period
		Charged to Costs and Expense ⁽²⁾	Charged to Other Accounts (In thousands)	Deductions ⁽³⁾	
Estimated Drydock Liability ⁽¹⁾ :					
Year Ended December 31, 2004	\$ 35,116	\$ 9,075	\$	\$ (16,511)	\$ 27,680
Year Ended December 31, 2003	\$ 31,874	\$ 11,673	\$	\$ (8,431)	\$ 35,116
Year Ended December 31, 2002	\$ 36,171	\$ 10,378	\$	\$ (14,675)	\$ 31,874
Valuation Allowance for Deferred Tax Assets ⁽⁴⁾ :					
Year Ended December 31, 2004	\$ (199,281)	\$ 2,785	\$ 8,225	\$	\$ (188,271)
Year Ended December 31, 2003	\$ (214,827)	\$ (31,521)	\$ 47,067	\$	\$ (199,281)
Year Ended December 31, 2002	\$ (12,840)	\$ (43,866)	\$ (158,121)	\$	\$ (214,827)

⁽¹⁾ *Estimated drydock liability is reported within accrued liabilities-other and other liabilities on the balance sheet.*

⁽²⁾ *Net of reductions and other adjustments, all of which are charged to costs and expenses.*

⁽³⁾ *Cash payment of drydock costs.*

⁽⁴⁾ *Amounts charged Other Accounts included in Other Comprehensive Income (Minimum Pension Liability).*

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Schedule V

McDERMOTT INTERNATIONAL, INC.
 SUPPLEMENTARY INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS
 (In thousands)

Consolidated Property-Casualty Entities

	Reserves for		Net	Claims and Claim		Paid	Premiums
	Unpaid	Claims		Adjustment Expenses	Incurred		
	and Claim	Adjustment	Investment	Current	Prior	Adjustment	Written
	Expenses	Premiums	Income	Year	Year	Expenses	
For the Year Ended:							
December 31, 2004	\$ 58,753	\$ 3,567	\$ 2,407	\$ 6,696	\$ (7,953)	\$ 13,322	\$ 3,567
December 31, 2003	\$ 73,333	\$ 20,183	\$ 2,447	\$ 19,651	\$ (9,577)	\$ 16,096	\$ 20,183
December 31, 2002	\$ 79,959	\$ 8,925	\$ 4,359	\$ 22,565	\$ (14,035)	\$ 11,217	\$ 8,925

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SIGNATURE OF THE REGISTRANT

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

MCDERMOTT INTERNATIONAL, INC.

/s/ Francis S. Kalman

By: Francis S. Kalman
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

April 6, 2005

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EXHIBIT INDEX

Exhibit
Number

23.1	Consent of Independent Registered Public Accounting Firm
99	Supplementary Financial Information on Panamanian Securities Regulations

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