

MCDERMOTT INTERNATIONAL INC

Form 10-K/A

March 30, 2007

Table of Contents

**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, 2006

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.)

777 N. ELDRIDGE PKWY.
HOUSTON, TEXAS

77079

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code (281) 870-5000
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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
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, 2006) was approximately \$4,995,795,675.

The number of shares of the registrant's common stock outstanding at January 31, 2007 was 110,831,565.

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 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

McDERMOTT INTERNATIONAL, INC.
INDEX TO FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

| | Page |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 3 |
| Financial Statement Schedule Covered by Reports of Independent Registered Public Accounting Firm: I Condensed Financial Information of Registrant | 5 |
| <u>Consent of Independent Registered Public Accounting Firm</u> | |
| <u>Consent of Independent Registered Public Accounting Firm</u> | |
| <u>Supplementary Financial Information on Panamanian Securities Regulations</u> | |
| All schedules other than the above have been omitted because they are not required or the information is included in the previously filed Form 10-K on March 1, 2007. | |
| <u>Signature of Registrant</u> | 12 |
| Consent of Independent Registered Public Accounting Firm | |
| Supplementary Financial Information | |

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of McDermott International, Inc.:

We have audited the 2006 consolidated financial statements, the 2006 financial statement schedules, and the retrospective adjustments to the 2005 and 2004 consolidated financial statements of McDermott International Inc. and subsidiaries (the Company) as of and for the year ended December 31, 2006, and have issued our report thereon dated March 1, 2007; such report has previously been filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the emergence of a wholly owned subsidiary of McDermott International, Inc. from Chapter 11 of the U.S. Bankruptcy Code and the adoption of Statement of Financial Accounting Standard (SFAS) No. 123(R), Share-Based Payment as of January 1, 2006 and SFAS No. 158, Employee Accounting for Defined Benefit Pension and Other Postretirement Plans as of December 31, 2006). Our audit also included the 2006 financial statement schedule of the Company listed in the accompanying index of this Form 10K/A as Condensed Financial Information of Registrant. The 2006 financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, such 2006 financial statement schedule, when considered in relation to the basic 2006 consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The financial statement schedules of the Company listed in the accompanying index of this Form 10K/A as Condensed Financial Information of Registrant as of December 31, 2005, and for the years ended December 31, 2005 and 2004, before the effects of the retrospective adjustments for the discontinued operations and the common stock split in 2006, were audited by other auditors whose report, dated February 28, 2006, expressed an unqualified opinion on those schedules. We have audited the retrospective adjustments to the 2005 and 2004 consolidated financial statements of the Company for the discontinued operations and the stock split in 2006, and have issued our report thereon dated March 1, 2007. In our opinion, the retrospective adjustments to the accompanying 2005 and 2004 financial statement schedules, when considered in relation to the retrospective adjustments to the basic 2005 and 2004 consolidated financial statements, have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2005 and 2004 financial statement schedules of the Company other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2005 and 2004 financial statement schedules taken as a whole.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 1, 2007

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
McDermott International, Inc.

Our audits of the consolidated financial statements for the years ended December 31, 2005 and 2004, before the effects of the adjustments to retrospectively reflect the discontinued operations described in Note 2 to the consolidated financial statements and the adjustments to retrospectively reflect the three-for-two stock split described in Note 8 to the consolidated financial statements, referred to in our report dated February 28, 2006 appearing in the 2006 Annual Report on Form 10-K of McDermott International, Inc. also included an audit of the Condensed Financial Information of Registrant financial statement schedule information as of December 31, 2005 and for the years ended December 31, 2005 and 2004, before the adjustments to retrospectively reflect the discontinued operations described in Note 4 to the schedule and the three-for-two stock split referred to in Note 5 to the schedule. The 2005 and 2004 Condensed Financial Information of Registrant financial statement schedule information before the effects of the adjustments to retrospectively reflect the discontinued operations and the three-for-two stock split referred to above is not presented herein. In our opinion, the 2005 and 2004 Condensed Financial Information of Registrant financial statement schedule information, before the effect of the adjustments to retrospectively reflect the discontinued operations described in Note 4 and the adjustments to retrospectively reflect the three-for-two stock split described in Note 5, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements referred to above.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect the discontinued operations described in Note 4 or the adjustments to retrospectively reflect the three-for-two stock split described in Note 5 and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

As discussed in Notes 1, 20 and 22 to the consolidated financial statements included in the 2005 Form 10-K (not separately presented herein), on February 22, 2000, The Babcock & Wilcox Company (B&W), a wholly owned subsidiary of the Company, filed a voluntary petition with the U.S. Bankruptcy Court to reorganize under Chapter 11 of the U.S. Bankruptcy Code. On January 17, 2006 the United States District Court for the Eastern District of Louisiana issued an order confirming B&W s Chapter 11 Joint Plan of Reorganization and associated settlement agreement and on February 22, 2006, B&W s Plan and associated settlement agreement became effective and B&W emerged from Chapter 11.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
February 28, 2006

Table of Contents

Schedule I

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

| | December 31, | |
|--|-----------------------|-------------|
| | 2006 | 2005 |
| | (In thousands) | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,293 | \$ 100 |
| Restricted cash and cash equivalents | 1,006 | |
| Short-term investments | | 4,642 |
| Accounts receivable - other | 213 | 56 |
| Accounts receivable from subsidiaries | 42,198 | 44,226 |
| Accounts receivable from The Babcock & Wilcox Company | | 4,072 |
| Other currents assets | 372 | 475 |
| | | |
| Total Current Assets | 45,082 | 53,571 |
| | | |
| Investments in Subsidiaries and Other Investees, at Equity | 519,299 | 363,143 |
| | | |
| Notes Receivable from Subsidiaries | 50 | 28,050 |
| | | |
| Property, Plant and Equipment, at Cost: | | |
| Buildings | 5 | 5 |
| Machinery and equipment | 61 | 61 |
| | 66 | 66 |
| Less accumulated depreciation | 64 | 63 |
| | | |
| Net Property, Plant and Equipment | 2 | 3 |
| | | |
| Investments in Debt Securities | 33,201 | 32,953 |
| | | |
| Accounts Receivable from The Babcock & Wilcox Company | | 2,793 |
| | | |
| Other Assets | 41 | 1,085 |
| | | |
| TOTAL | \$ 597,675 | \$ 481,598 |

See accompanying notes to condensed financial information.

5

Table of Contents

Continued

LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)

| | December 31, | |
|---|-----------------------|-------------|
| | 2006 | 2005 |
| | (In thousands) | |
| Current Liabilities: | | |
| Accounts payable | \$ 361 | \$ 205 |
| Accounts payable to The Babcock & Wilcox Company | | 7,571 |
| Accrued liabilities other | 1,063 | 2,940 |
| Income taxes | 4,300 | 1,360 |
| | | |
| Total Current Liabilities | 5,724 | 12,076 |
| | | |
| Notes Payable to Subsidiaries | 11,824 | 61,761 |
| | | |
| Accounts Payable to Subsidiaries | 69,905 | 190,802 |
| | | |
| Accrued Cost of The Babcock & Wilcox Company Bankruptcy Settlement | | 5,566 |
| | | |
| Negative Investments in Subsidiaries, at Equity, net of Subordinated Note to Subsidiary | 112,648 | 294,614 |
| | | |
| Other Liabilities | 9,194 | 77 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Stockholders Equity (Deficit): | | |
| Common stock | 113,897 | 110,787 |
| Capital in excess of par value | 1,214,282 | 1,146,194 |
| Accumulated deficit | (513,607) | (862,931) |
| Treasury stock | (60,581) | (56,496) |
| Accumulated other comprehensive loss | (365,611) | (420,852) |
| | | |
| Total Stockholders Equity (Deficit) | 388,380 | (83,298) |
| | | |
| TOTAL | \$ 597,675 | \$ 481,598 |

Table of Contents

Schedule I

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

| | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| | (In thousands) | | |
| Costs and Expenses: | | | |
| Cost of operations | \$ (1,517) | \$ (8,818) | \$ 1,743 |
| Gain on settlement of pension plan | | (1,390) | (27,722) |
| Selling, general and administrative expenses | 14,520 | 18,476 | 12,608 |
| | 13,003 | 8,268 | (13,371) |
| Operating Income (Loss) before Equity in Income of Investees | (13,003) | (8,268) | 13,371 |
| Equity in Income of Subsidiaries and Other Investees | 356,865 | 206,252 | 50,874 |
| Operating Income | 343,862 | 197,984 | 64,245 |
| Other Income (Expense): | | | |
| Interest income | 1,752 | 1,332 | 510 |
| Interest expense | (4,905) | (3,608) | (1,761) |
| Estimated loss on The Babcock & Wilcox Company bankruptcy settlement | | (430) | (678) |
| Other net | 4,586 | 1,000 | (654) |
| | 1,433 | (1,706) | (2,583) |
| Income Before Provision for (Benefit from) Income Taxes | 345,295 | 196,278 | 61,662 |
| Provision for (Benefit from) Income Taxes | 2,996 | (1,699) | 23 |
| Net Income | \$ 342,299 | \$ 197,977 | \$ 61,639 |

See accompanying notes to condensed financial information.

Table of Contents

Schedule I

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

| | Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2006 | 2005 | 2004 |
| | (In thousands) | | |
| Net Income | \$ 342,299 | \$ 197,977 | \$ 61,639 |
| Other Comprehensive Income (Loss): | | | |
| Equity in other comprehensive income (loss) of subsidiaries and other investees | 167,776 | (93,454) | 24,276 |
| Minimum pension liability adjustments | 35 | 13 | 17 |
| Unrealized gains (losses) arising during the period | 636 | 115 | (24) |
| Other Comprehensive Income (Loss) | 168,447 | (93,326) | 24,269 |
| Comprehensive Income | \$ 510,746 | \$ 104,651 | \$ 85,908 |

See accompanying notes to condensed financial information.

Table of Contents

Schedule I

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

| | Year Ended December 31, | | |
|--|--------------------------------|-----------------|--------------|
| | 2006 | 2005 | 2004 |
| | (In thousands) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net Income | \$ 342,299 | \$ 197,977 | \$ 61,639 |
| Depreciation and amortization | 742 | 1,047 | 3,063 |
| Equity in income of subsidiaries and other investees, less dividends | (234,211) | (206,002) | (45,174) |
| Estimated loss on The Babcock & Wilcox Company bankruptcy settlement | | 430 | 678 |
| Other | 18,035 | 3,985 | 9,929 |
| Changes in assets and liabilities: | | | |
| Accounts and notes receivable | 8,736 | 32,101 | (71,565) |
| Prepaid pensions | | | 17,925 |
| Accounts payable | (130,187) | (63,848) | 30,072 |
| Notes payable to subsidiaries | (49,937) | (1,650) | (3,490) |
| Income taxes | 2,940 | (1,699) | |
| Other, net | 6,913 | (403) | (1,729) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (34,670) | (38,062) | 1,348 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Increase in restricted cash | (1,006) | | |
| Purchases of available-for-sale securities | (211,170) | (207,132) | (88,673) |
| Maturities of available-for-sale securities | 213,069 | 205,224 | 85,335 |
| Sales of available-for-sale securities | 4,597 | | 3,730 |
| Investments in equity investees | (355,016) | | |
| Return of capital from equity investees | 249,998 | | |
| Increase (decrease) in loans to subsidiaries | 119,234 | (28,000) | |
| Other | (3,440) | (857) | (2) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 16,266 | (30,765) | 390 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Issuance of common stock | 19,647 | 60,951 | 2,800 |
| Other | (50) | 2,869 | (118) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 19,597 | 63,820 | 2,682 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,193 | (5,007) | 4,420 |

| | | | |
|--|----------|--------|----------|
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 100 | 5,107 | 687 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,293 | \$ 100 | \$ 5,107 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

| | | | |
|---|----------|----------|----------|
| Interest, including intercompany interest (net of amount capitalized) | \$ 4,905 | \$ 3,666 | \$ 1,755 |
| Income taxes, net of refunds | \$ 56 | \$ | \$ 23 |

See accompanying notes to condensed financial information.

Table of Contents

Schedule I

McDERMOTT INTERNATIONAL, INC.
(PARENT COMPANY ONLY)
NOTES TO CONDENSED FINANCIAL INFORMATION
DECEMBER 31, 2005

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

As of December 31, 2006, McDermott International, Inc. (MII) had outstanding performance guarantees for one contract executed by Volund, a subsidiary of The Babcock & Wilcox Company (B&W). This guarantee will expire on December 31, 2007 and has an aggregate cap of \$0.8 million. This project has been completed.

Additionally, as of December 31, 2006, MII had outstanding performance guarantees for two contracts executed by one of B&W's Canadian subsidiaries. The total contract value of these projects was approximately \$300 million, and the warranty periods extend to the years 2023 and 2024. These projects have also been completed and are in the warranty periods.

Also as of December 31, 2006, MII had an outstanding performance guarantee for a contract executed by B&W with TXU Corp. This guarantee will expire in 2014 and has a cap of \$490 million.

MII has never had to satisfy a performance guaranty for Volund or B&W. Under the terms of an agreement between MII and B&W, B&W must reimburse MII for any costs MII may incur under any of these performance guarantees. As of December 31, 2006, B&W had sufficient liquidity to cover its obligations under this agreement. However, if Volund 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 MII, and such liabilities are not covered by insurance, MII would be liable.

MII has agreed to indemnify certain surety companies for obligations of various subsidiaries of MII under surety bonds issued to meet various contracting and statutory requirements. As of December 31, 2006, the aggregate outstanding amount of surety bonds that were guaranteed by MII and issued in connection with the business operations of its subsidiaries was approximately \$15.7 million.

One of B&W's Canadian subsidiaries has received notice of a possible warranty claim on one of its projects on a contract executed in 1998. This project included a limited-term performance bond totaling approximately \$140 million for which MII entered into an indemnity arrangement with the surety underwriters. At this time, B&W's subsidiary continues to analyze the facts and circumstances surrounding this issue. It is possible that B&W's subsidiary may incur warranty costs in excess of amounts provided for as of December 31, 2006. It is also possible that a claim could be initiated by the B&W subsidiary's customer against the surety underwriter should certain events occur. If such a claim were successful, the surety could seek to recover from B&W's subsidiary the costs incurred in satisfying the customer claim. If the surety seeks recovery from B&W's subsidiary, we believe that B&W's subsidiary would have adequate liquidity to satisfy its obligations. However, if claims are made by the surety against B&W's subsidiary, and B&W's subsidiary is unable to satisfy its obligations, MII could ultimately have to satisfy any claims. This surety bond is not included in our disclosures above as the project is deemed complete and in the warranty phase. In addition, Babcock & Wilcox Companies (B&WC) has provided a parent company guarantee to the customer of the B&W subsidiary for contract performance associated with this project.

NOTE 3 DIVIDENDS RECEIVED

McDermott International, Inc. received dividends from its consolidated subsidiaries of \$122.7 million, \$0.3 million and \$5.7 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Table of Contents

NOTE 4 DISCONTINUED OPERATIONS

In April 2006, J. Ray McDermott, S.A., a wholly owned subsidiary of MII, completed the sale of its Mexican subsidiary, Talleres Navales del Golfo, S.A. de C.V. (TNG). Income (loss) from discontinued operations related to TNG of \$12.9 million, \$0.1 million and (\$3.2) million was included in equity in income of subsidiaries and other investees for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTE 5 COMMON STOCK SPLIT

On May 3, 2006, the Board of Directors declared a three-for-two stock split effected in the form of a stock dividend. The dividend was paid on May 31, 2006 to stockholders of record as of the close of business on May 17, 2006. All balance sheets presented have been restated to reflect the effect of the stock split. For the year ended December 31, 2005, capital in excess of par value was reduced by \$36.9 million and common stock was increased by \$36.9 million.

Table of Contents

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 and
Duly
Authorized Representative)

/s/ Michael S. Taff

By: Michael S. Taff
Vice President and
Chief Accounting Officer
(Principal Accounting Officer and
Duly
Authorized Representative)

March 30, 2007

Table of Contents

EXHIBIT INDEX

| Exhibit Number | |
|-------------------|--|
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 23.2 | Consent of Independent Registered Public Accounting Firm |
| 99 | Supplementary Financial Information on Panamanian Securities Regulations |