

MCDERMOTT INTERNATIONAL INC

Form 10-Q

May 10, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from _____ to _____

Commission File No. 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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REPUBLIC OF PANAMA
(State or Other Jurisdiction of

72-0593134
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

757 N. ELDRIDGE PKWY

HOUSTON, TEXAS
(Address of Principal Executive Offices)

77079
(Zip Code)

Registrant's Telephone Number, Including Area Code: (281) 870-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The number of shares of the registrant's common stock outstanding at April 27, 2012 was 235,575,847.

Table of Contents

McDERMOTT INTERNATIONAL, INC.

INDEX FORM 10-Q

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1 Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Statements of Income (Unaudited) Three Months Ended March 31, 2012 and 2011</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) Three Months Ended March 31, 2012 and 2011</u>	4
<u>Condensed Consolidated Balance Sheets (Unaudited) March 31, 2012 and December 31, 2011</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Three Months Ended March 31, 2012 and 2011</u>	6
<u>Condensed Consolidated Statements of Equity (Unaudited) Three Months Ended March 31, 2012 and 2011</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	27
<u>Item 4 Controls and Procedures</u>	27
<u>PART II OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	27
<u>Item 1A Risk Factors</u>	27
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 6 Exhibits</u>	28
<u>SIGNATURES</u>	29

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
McDERMOTT INTERNATIONAL, INC.**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended March 31, 2012 2011 (Unaudited)	
	(In thousands, except share and per share amounts)	
Revenues	\$ 727,678	\$ 899,240
Costs and Expenses:		
Cost of operations	597,434	747,225
Selling, general and administrative expenses	46,611	55,369
Gain on asset disposals	(226)	(225)
Total costs and expenses	643,819	802,369
Equity in Income (Loss) of Unconsolidated Affiliates	(3,683)	3,427
Operating Income	80,176	100,298
Other Income (Expense):		
Interest income	1,634	449
Gain (loss) on foreign currency net	9,441	(4,232)
Other expense net	(581)	(1,171)
Total other income (expense)	10,494	(4,954)
Income from continuing operations before provision for income taxes and noncontrolling interests	90,670	95,344
Provision for Income Taxes	28,743	22,579
Income from continuing operations before noncontrolling interests	61,927	72,765
Gain on disposal of discontinued operations	257	
Income from discontinued operations, net of tax	3,240	1,662
Total income from discontinued operations, net of tax	3,497	1,662
Net Income	65,424	74,427
Less: Net Income Attributable to Noncontrolling Interests	2,666	4,007
Net Income Attributable to McDermott International, Inc.	\$ 62,758	\$ 70,420
Earnings per Common Share:		

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Basic:

Income from continuing operations, less noncontrolling interests	0.25	0.29
Income from discontinued operations, net of tax	0.01	0.01
Net income attributable to McDermott International, Inc.	0.27	0.30

Diluted:

Income from continuing operations, less noncontrolling interests	0.25	0.29
Income from discontinued operations, net of tax	0.01	0.01
Net income attributable to McDermott International, Inc.	0.26	0.30

Shares used in the computation of earnings per share:

Basic	235,208,252	233,841,075
Diluted	237,332,627	236,745,578

See accompanying notes to condensed consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended March 31, 2012 2011 (Unaudited)	
	(In thousands)	
Net Income	\$ 65,424	\$ 74,427
Other comprehensive income (loss), net of tax:		
Amortization of benefit plan costs	3,045	4,963
Unrealized gain on investments	697	699
Realized loss on investments		8
Translation adjustments	3,113	2,763
Unrealized gain (loss) on derivatives	(5,887)	8,067
Realized (gain) loss on derivatives	1,294	(223)
Other comprehensive income, net of tax ⁽¹⁾	2,262	16,277
Total Comprehensive Income	\$ 67,686	\$ 90,704
Less: Comprehensive Income Attributable to Noncontrolling Interests	2,819	5,126
Comprehensive Income Attributable to McDermott International, Inc.	\$ 64,867	\$ 85,578

- (1) The tax impact on amounts presented in other comprehensive income are not significant.
See accompanying notes to condensed consolidated financial statements.

Table of Contents

McDERMOTT INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011 (Unaudited)
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 788,965	\$ 570,854
Restricted cash and cash equivalents	24,832	21,962
Investments	54,708	109,522
Accounts receivable trade, net	388,373	445,808
Accounts receivable other	61,140	53,386
Contracts in progress	259,664	287,390
Deferred income taxes	15,097	11,931
Assets held for sale		3,197
Other current assets	40,680	33,135
Total Current Assets	1,633,459	1,537,185
Property, Plant and Equipment	2,019,289	1,958,877
Less accumulated depreciation	(878,048)	(857,012)
Net Property, Plant and Equipment	1,141,241	1,101,865
Assets Held for Sale		55,571
Investments	30,991	29,484
Goodwill	41,202	41,202
Investments in Unconsolidated Affiliates	39,912	42,659
Other Assets	178,589	184,848
Total Assets	\$ 3,065,394	\$ 2,992,814
Liabilities and Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	\$ 10,061	\$ 8,941
Accounts payable	272,746	315,514
Accrued liabilities	307,797	309,515
Advance billings on contracts	358,052	320,438
Deferred income taxes	12,396	13,187
Income taxes payable	67,316	54,181
Total Current Liabilities	1,028,368	1,021,776
Long-Term Debt	82,180	84,794
Self-Insurance	24,969	23,585
Pension Liability	20,134	21,295
Other Liabilities	122,416	107,652
Commitments and Contingencies		
Stockholders' Equity:		
	243,085	242,416

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Common stock, par value \$1.00 per share, authorized 400,000,000 shares; issued 243,085,098 and 242,416,424 shares at March 31, 2012 and December 31, 2011, respectively		
Capital in excess of par value	1,379,153	1,375,976
Retained earnings	301,861	239,103
Treasury stock, at cost, 7,811,017 and 7,359,983 shares at March 31, 2012 and December 31, 2011, respectively	(98,011)	(95,827)
Accumulated other comprehensive loss	(99,921)	(102,030)
Stockholders' Equity - McDermott International, Inc.	1,726,167	1,659,638
Noncontrolling Interests	61,160	74,074
Total Equity	1,787,327	1,733,712
Total Liabilities and Equity	\$ 3,065,394	\$ 2,992,814

See accompanying notes to condensed consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended	
	March 31, 2012	March 31, 2011
	(Unaudited)	
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 65,424	\$ 74,427
Less: Income from discontinued operations, net of tax	3,497	1,662
Income from continuing operations	61,927	72,765
Non-cash items included in net income:		
Depreciation and amortization	23,276	20,525
Equity in (income) loss of unconsolidated affiliates	3,683	(3,427)
Gain on asset disposals	(226)	(225)
Benefit for deferred taxes	(4,131)	(6,929)
Pension costs	579	6,153
Other non-cash items	3,224	4,368
Changes in assets and liabilities, net of effects from dispositions:		
Accounts receivable	50,017	17,045
Net contracts in progress and advance billings on contracts	65,363	(244,062)
Accounts payable	(55,292)	23,947
Accrued and other current liabilities	(10,040)	39,311
Pension liability and accrued postretirement and employee benefits	7,489	(41,546)
Other assets and liabilities	26,992	20,038
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES CONTINUING OPERATIONS	172,861	(92,037)
NET CASH PROVIDED BY OPERATING ACTIVITIES DISCONTINUED OPERATIONS		114
TOTAL CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	172,861	(91,923)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(44,751)	(63,986)
Increase in restricted cash and cash equivalents	(2,870)	(8,493)
Purchases of available-for-sale securities	(40,319)	(298,169)
Sales and maturities of available-for-sale securities	94,380	258,361
Other investing activities	(2,150)	218
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES CONTINUING OPERATIONS	4,290	(112,069)
NET CASH PROVIDED BY INVESTING ACTIVITIES DISCONTINUED OPERATIONS	60,671	
TOTAL CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	64,961	(112,069)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in debt		11,837
Payment of debt	(1,494)	(2,158)
Distributions to noncontrolling interests	(15,733)	
Other financing activities	(1,784)	57

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NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES CONTINUING OPERATIONS	(19,011)	9,736
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(700)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	218,111	(194,256)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	570,854	403,463
CASH AND CASH EQUIVALENTS AT END OF PERIOD CONTINUING OPERATIONS	\$ 788,965	\$ 209,207

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes (net of refunds)	\$ 16,036	\$ 3,574
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See accompanying notes to condensed consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

	Common Stock			Accumulated					
			Capital In			Other		Non-	
	Shares	Par Value	Excess of Par Value	Retained Earnings	Treasury Stock	Comprehensive Income (Loss)	Stockholders Equity	Controlling Interests	Total Equity
	(Unaudited)								
	(In thousands, except share amounts)								
Balance December 31, 2010	240,791,473	\$ 240,791	\$ 1,357,316	\$ 100,373	\$ (85,735)	\$ (163,717)	\$ 1,449,028	\$ 63,239	\$ 1,512,267
Net income				70,420			70,420	4,007	74,427
Other comprehensive income, net of tax						15,158	15,158	1,119	16,277
Exercise of stock options	269,556	270	1,255				1,525		1,525
Share vesting	851,308	851	(851)						
Purchase of treasury shares					(6,483)		(6,483)		(6,483)
Stock-based compensation charges			5,615				5,615		5,615
Balance March 31, 2011	241,912,337	\$ 241,912	\$ 1,363,335	\$ 170,793	\$ (92,218)	\$ (148,559)	\$ 1,535,263	\$ 68,365	\$ 1,603,628
Balance December 31, 2011	242,416,424	\$ 242,416	\$ 1,375,976	\$ 239,103	\$ (95,827)	\$ (102,030)	\$ 1,659,638	\$ 74,074	\$ 1,733,712
Net income				62,758			62,758	2,666	65,424
Other comprehensive income, net of tax						2,109	2,109	153	2,262
Exercise of stock options	129,998	130	422				552		552
Share vesting	538,676	539	(539)						
Purchase of treasury shares					(2,184)		(2,184)		(2,184)
Stock-based compensation charges			3,294				3,294		3,294
Distributions to noncontrolling interests								(15,733)	(15,733)
Balance March 31, 2012	243,085,098	\$ 243,085	\$ 1,379,153	\$ 301,861	\$ (98,011)	\$ (99,921)	\$ 1,726,167	\$ 61,160	\$ 1,787,327

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See accompanying notes to condensed consolidated financial statements.

Table of Contents

McDERMOTT INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

McDermott International, Inc. (MII), a corporation incorporated under the laws of the Republic of Panama, is a leading engineering, procurement, construction and installation (EPCI) company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services for oil and gas field developments, we deliver fixed and floating production facilities, pipeline and subsea systems from concept to commissioning. We support these activities with comprehensive project management and procurement services. Our customers include national, major integrated and other oil and gas companies, and we operate in most major offshore oil and gas producing regions throughout the world. In these notes to our condensed consolidated financial statements, unless the context otherwise indicates, we, us and our mean MII and its consolidated subsidiaries.

Basis of Presentation

We have presented our unaudited condensed consolidated financial statements in U.S. Dollars, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) applicable to interim reporting. Financial information and disclosures normally included in our financial statements prepared annually in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted. Readers of these financial statements should, therefore, refer to the consolidated financial statements and the accompanying notes in our annual report on Form 10-K for the year ended December 31, 2011.

We have included all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation. These unaudited condensed consolidated financial statements include the accounts of McDermott International, Inc., its consolidated subsidiaries and controlled entities. We use the equity method to account for investments in entities that we do not control, but over which we have significant influence. We generally refer to these entities as joint ventures or unconsolidated affiliates. We have eliminated intercompany transactions and accounts.

On March 19, 2012, we completed the sale of our former charter fleet business, which operated 10 of the 14 vessels acquired in our 2007 acquisition of substantially all of the assets of Secunda International Limited (the Secunda Acquisition). The condensed consolidated statements of income, comprehensive income, cash flows and equity reflect the historical operations of the charter fleet business as a discontinued operation through March 19, 2012. The consolidated balance sheet as of December 31, 2011 reflects the charter fleet business as held for sale. Accordingly, we have presented the notes to our condensed consolidated financial statements on the basis of continuing operations. In addition, certain 2011 amounts in the condensed consolidated statements of cash flows have been reclassified to conform to the 2012 presentation.

Business Segments

We report financial results under reporting segments consisting of Asia Pacific, Atlantic and the Middle East. We also report certain corporate and other non-operating activities under the heading Corporate and Other. Corporate and Other primarily reflects corporate personnel and activities, incentive compensation programs and other costs, which are generally fully allocated to our operating segments. See Note 8 for summarized financial information on our segments.

Revenue Recognition

We determine the appropriate accounting method for each of our long-term contracts before work on the project begins. We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the activity involved. We include the amount of accumulated contract costs and estimated earnings that exceed billings to customers in contracts in progress. We include billings to customers that exceed accumulated contract costs and estimated earnings in advance billings on contracts. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. Certain costs are generally excluded from the cost-to-cost method of measuring progress, such as

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significant costs for materials and major third-party subcontractors. Total estimated costs, and resulting contract income, are affected by changes in the expected cost of materials and labor, productivity, scheduling and other factors. Additionally, external factors such as weather, customer requirements and other factors outside of our control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of revenue and income recognition. In addition, change orders, which are a normal and recurring part of our business, can increase (and sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period when those estimates are revised.

Table of Contents

For contracts as to which we are unable to estimate the final profitability except to assure that no loss will ultimately be incurred, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these contracts, we only recognize gross margin when reasonably estimable, which we generally determine to be when the contract is approximately 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical, except to assure that no loss will be incurred, as deferred profit recognition contracts. We currently have two projects that we account for under our deferred profit recognition policy. These projects contributed revenues equal to costs totaling approximately \$10 million and \$7.9 million for the three-month periods ended March 31, 2012 and 2011, respectively.

Our policy is to account for fixed-price contracts under the completed contract method if we believe that we are unable to reasonably forecast cost to complete at start-up. Under the completed contract method, revenue and gross profit is recognized only when a contract is completed or substantially complete. We generally do not enter into fixed-price contracts without an estimate of cost to complete that we believe to be accurate. However, it is possible that in the time between contract execution and the start of work on a project, we could lose the ability to forecast cost to complete based on intervening events, including, but not limited to, experience on similar projects, civil unrest, strikes and volatility in our expected costs. In such a situation, we would use the completed contract method of accounting for that project. We did not enter into any contracts that we have accounted for under the completed contract method during the quarters ended March 31, 2012 and March 31, 2011.

A risk associated with fixed-priced contracts is that revenue from customers may not cover increases in our costs. It is possible that current estimates could materially change for various reasons, including, but not limited to, fluctuations in forecasted labor productivity, pipeline lay rates or steel and other raw material prices. Increases in costs associated with our fixed-price contracts could have a material adverse impact on our consolidated financial condition, results of operations and cash flows. Alternatively, reductions in overall contract costs at completion could materially improve our consolidated financial condition, results of operations and cash flows.

We include claims revenue for extra work or changes in scope of work in contract value when we consider collection to be probable and the value can be reasonably estimated. Claim revenue is only recorded in our consolidated financial statements to the extent of associated costs. For the three months ended March 31, 2012, approximately \$10 million of revenues equal to costs are reflected in our condensed consolidated financial statements pertaining to claims. Certain of our unconsolidated joint ventures also included approximately \$4 million of claim revenue and costs in their financial statements for the three months ended March 31, 2012. The amounts recorded for claims in the three months ended March 31, 2011 were not material to the condensed consolidated financial statements. We continue to actively engage in negotiations with our customers. However, these claims may be resolved at amounts that differ from our current estimates, which could result in increases or decreases in future estimated contract profits or losses.

As of March 31, 2012, we have provided for our estimated costs to complete on all of our ongoing contracts. However, it is possible that current estimates could change due to unforeseen events, which could result in adjustments to overall contract costs. Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. For all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

Use of Estimates

We use estimates and assumptions to prepare our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts we report in our financial statements and accompanying notes. Our actual results could differ from these estimates, and variances could materially affect our financial condition and results of operations in future periods.

Loss Contingencies

We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed the recorded provision or if such loss is not reasonably estimable. We are currently involved in litigation and other proceedings, as discussed in Note 9. We have accrued our estimates of the probable losses associated with these matters and associated legal costs are recognized in selling, general and administrative expenses as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

Cash and Cash Equivalents

Our cash and cash equivalents are highly liquid investments with maturities of three months or less when we purchase them.

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We record current cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes. At March 31, 2012, we had current restricted cash and cash equivalents totaling \$24.8 million, all of which was held in restricted foreign-entity accounts.

Table of Contents***Investments***

We classify investments available for current operations in the balance sheet as current assets, and we classify investments held for long-term purposes as noncurrent assets. We adjust the amortized cost of debt securities for amortization of premiums and accretion of discounts to maturity. That amortization is included in interest income. We include realized gains and losses on our investments in other expense net. The cost of securities sold is based on the specific identification method. We include interest earned on securities in interest income.

Investments in Unconsolidated Affiliates

We use the equity method of accounting for affiliates in which our investment ownership ranges from 20% to 50%. Currently, most of our significant investments in affiliates that are not consolidated are recorded using the equity method. Investments in entities where our ownership interest is less than 20% and where we are unable to exert significant influence are carried at cost.

Accounts Receivable Trade, Net

A summary of contract receivables is as follows:

	March 31, 2012	December 31, 2011
	(Unaudited)	
	(In thousands)	
Contract receivables:		
Contracts in progress	\$ 298,174	\$ 371,223
Completed contracts	29,570	28,369
Retainages	86,219	65,248
Unbilled	5,300	5,650
Less allowances	(30,890)	(24,682)
Accounts receivable trade, net	\$ 388,373	\$ 445,808

We expect to invoice our unbilled receivables once contractually specified milestones or other metrics are reached, and we expect to collect all unbilled amounts. We believe that our provision for losses on uncollectible accounts receivable is adequate for our credit loss exposure.

The following amounts represent retainages on contracts:

	March 31, 2012	December 31, 2011
	(Unaudited)	
	(In thousands)	
Retainages expected to be collected within one year	\$ 86,219	\$ 65,248
Retainages expected to be collected after one year	65,042	74,539
Total retainages	\$ 151,261	\$ 139,787

We have included in accounts receivable trade, net, retainages expected to be collected within one year. Retainages expected to be collected after one year are included in other assets.

Table of Contents

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition to defining fair value, the authoritative accounting guidance expands disclosures about fair value measurements and establishes a hierarchy for valuation inputs that emphasizes the use of observable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy established by this topic is broken down as follows:

Level 1 inputs are based upon quoted prices for identical instruments traded in active markets.

Level 2 inputs are based upon quoted prices for similar instruments in active markets, quoted prices for similar or identical instruments in inactive markets and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3 inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar valuation techniques.

The carrying amounts that we have reported for financial instruments, including cash and cash equivalents, accounts receivables and accounts payable approximate their fair values. See Note 5 for additional information regarding fair value measurements.

Derivative Financial Instruments

Our worldwide operations give rise to exposure to changes in certain market conditions, which may adversely impact our financial performance. When we deem it appropriate, we use derivatives as a risk management tool to mitigate the potential impacts of certain market risks. The primary market risk we manage through the use of derivative instruments is movement in foreign currency exchange rates. We use foreign currency derivative contracts to reduce the impact of changes in foreign currency exchange rates on our operating results. We use these instruments to hedge our exposure associated with revenues and/or costs on our long-term contracts and other cash flow exposures that are denominated in currencies other than our operating entities' functional currencies. We do not hold or issue financial instruments for trading or other speculative purposes.

In certain cases, contracts with our customers may contain provisions under which payments from our customers are denominated in U.S. Dollars and in a foreign currency. The payments denominated in a foreign currency are designed to compensate us for costs that we expect to incur in such foreign currency. In these cases, we may use derivative instruments to reduce the risks associated with foreign currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows.

Foreign Currency Translation

We translate assets and liabilities of our foreign operations, other than operations in highly inflationary economies, into U.S. Dollars at period-end exchange rates, and we translate income statement items at average exchange rates for the periods presented. We record adjustments resulting from the translation of foreign currency financial statements as a component of other comprehensive income, net of tax.

Earnings per Share

We have computed earnings per common share on the basis of the weighted average number of common shares, and, where dilutive, common share equivalents, outstanding during the indicated periods. See Note 7 for our earnings per share computations.

Comprehensive Loss

The components of accumulated other comprehensive income (loss) (AOCI) included in stockholders' equity are as follows:

	March 31, 2012	December 31, 2011
	(Unaudited) (In thousands)	
Foreign currency translation adjustments	\$ (9,325)	\$ (12,438)
Net loss on investments	(3,706)	(4,403)
Net gain (loss) on derivative financial instruments	(1,657)	3,089
Unrecognized losses on benefit obligations	(85,233)	(88,278)
Accumulated other comprehensive loss	\$ (99,921)	\$ (102,030)

Table of Contents**Impairment Review**

We review goodwill for impairment on an annual basis or more frequently if circumstances indicate that an impairment may exist. The annual impairment review involves comparing the fair value to the net book value of each applicable reporting unit and, therefore, is significantly impacted by estimates and judgments.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation is required, the fair value of each applicable asset is compared to its carrying value. Factors that impact our determination of potential impairment include forecasted utilization of equipment and estimates of forecasted cash flows from projects expected to be performed in future periods. Our estimates of cash flow may differ from actual cash flow due to, among other things, technological changes, economic conditions or changes in operating performance. Any changes in such factors may negatively affect our business segments and result in future asset impairments.

Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued an update to the topic *Fair Value Measurement*. This update provides guidance about how fair value should be applied where it is already required or permitted under GAAP. The update does not extend the use of fair value or require additional fair value measurements, but rather provides explanations about how to measure fair value and requires prospective application. The update is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this update did not have a material impact on our condensed consolidated financial statements.

In June 2011, the FASB issued an update to the topic *Comprehensive Income*. This update eliminates the option to present components of other comprehensive income as part of the statement of equity and requires those components to instead be presented as one continuous statement with the statement of operations or as a separate, consecutive financial statement. The update is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this update did not have a material impact on our condensed consolidated financial statements.

In September 2011, the FASB issued an update to the topic *Intangibles Goodwill and Other*. This update amends current guidance on the testing of goodwill for impairment, by providing an entity with the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, prior to calculating the fair value of the reporting unit. The update is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this update did not have a material impact on our condensed consolidated financial statements.

NOTE 2 DISCONTINUED OPERATION**Charter Fleet Business**

On March 19, 2012, we completed the sale of our former charter fleet business, which operated 10 of the 14 vessels acquired in our 2007 Secunda Acquisition. The cash proceeds from the charter fleet sale were approximately \$61 million, resulting in a gain on the sale of approximately \$0.3 million.

The following table presents selected financial information regarding the results of operations attributable to our former charter fleet business:

	\$xxx,xxx	\$xxx,xxx
	Three Months Ended	
	March 31,	
	2012 ⁽¹⁾	2011
	(Unaudited)	
	(In thousands)	
Revenues	\$ 8,184	\$ 9,504
Gain on disposal of discontinued operations	257	
Income before provision for income taxes	3,240	2,411

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	3,497	2,411
Provision for income taxes		(749)
Income from discontinued operations, net of tax	\$ 3,497	\$ 1,662

⁽¹⁾ Includes the charter fleet operations through March 19, 2012.

Table of Contents

The following table presents the carrying values of the major classes of assets and liabilities held for sale that are included in our unaudited condensed consolidated balance sheets:

	March 31, 2012	December 31, 2011 (Unaudited) (In thousands)
Other assets	\$	\$ 3,197
Property, plant and equipment net		45,892
Other assets		9,679
Total long-term assets held for sale	\$	\$ 55,571

NOTE 3 PENSION PLANS

Although we currently provide retirement benefits for most of our U.S. employees through sponsorship of the McDermott Thrift Plan, some of our longer-term U.S. employees and former employees are entitled to retirement benefits under the McDermott (U.S.) Retirement Plan, a non-contributory qualified defined benefit pension plan (the McDermott Plan), and several non-qualified supplemental defined benefit pension plans. The McDermott Plan and the non-qualified supplemental defined benefit pension plans are collectively referred to herein as the Domestic Plans. The McDermott Plan has been closed to new participants since 2006, and benefit accruals under the McDermott Plan were frozen completely in 2010.

We also sponsor a defined benefit pension plan established under the laws of the Commonwealth of the Bahamas, the J. Ray McDermott, S.A. Third Country National Employees Pension Plan (the TCN Plan) which provides retirement benefits for certain of our current and former foreign employees. Effective August 1, 2011, new entry into the TCN Plan was closed, and effective December 31, 2011, benefit accruals under the TCN Plan were frozen. Effective January 1, 2012, we established a new global defined contribution plan to provide retirement benefits to employees who may have otherwise obtained benefits under the TCN Plan.

Net periodic benefit cost for the Domestic Plans and the TCN Plan includes the following components:

	Domestic Plans Three Months Ended March 31, 2012		TCN Plan Three Months Ended March 31, 2011	
	2012	2011 (Unaudited) (In thousands)	2012	2011
Service cost	\$	\$	\$	\$ 685
Interest cost	6,693	7,075	461	595
Expected return on plan assets	(9,000)	(6,525)	(611)	(613)
Amortization of prior service cost				4
Recognized net actuarial loss and other	2,590	4,248	446	684
Net periodic benefit cost	\$ 283	\$ 4,798	\$ 296	\$ 1,355

NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS

We enter into derivative financial instruments primarily to hedge certain firm purchase commitments and forecasted transactions denominated in foreign currencies. We record these contracts at fair value on our consolidated balance sheets. Depending on the hedge designation at the inception of the contract, the related gains and losses on these contracts are either: (1) deferred as a component of AOCI until the hedged item is recognized in earnings; (2) offset against the change in fair value of the hedged firm commitment through earnings; or (3) recognized immediately in earnings. At the inception and on an ongoing basis, we assess the hedging relationship to determine its effectiveness in offsetting

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changes in cash flows or fair value attributable to the hedged risk. We exclude from our assessment of effectiveness the portion of the fair value of the forward contracts attributable to the difference between spot exchange rates and forward exchange rates. The ineffective portion of a derivative's change in fair value and any portion excluded from the assessment of effectiveness are immediately recognized in earnings. Gains and losses on derivative financial instruments that are immediately recognized in earnings are included as a component of gain (loss) on foreign currency net in our condensed consolidated statements of income. At March 31, 2012, we had designated the majority of our foreign currency forward-exchange contracts as cash flow hedging instruments.

Table of Contents

At March 31, 2012, we had deferred \$1.7 million of net losses on these derivative financial instruments in AOCI, and we expect to reclassify approximately \$4 million of deferred losses out of AOCI over the next 12 months.

At March 31, 2012, our derivative financial instruments consisted of foreign currency forward-exchange contracts. During the quarter ended March 31, 2012, we entered into derivative contracts with an aggregate notional value of approximately \$825 million to mitigate currency exchange movements associated with various foreign currency expenditures we expect to incur on one of our EPCI projects through 2017. As a result, the notional value of our outstanding derivative contracts totaled approximately \$1.2 billion at March 31, 2012, with maturities extending through 2017. The fair value of these contracts at March 31, 2012 was in a net liability position totaling \$9.1 million.

The following tables summarize our derivative financial instruments:

Asset and Liability Derivatives

	March 31, 2012	December 31, 2011 (Unaudited) (In thousands)
<u>Derivatives Designated as Hedges:</u>		
<u>Location</u>		
Accounts receivable other	\$ 7,506	\$ 2,765
Other assets	2,738	66
Total asset derivatives	\$ 10,244	\$ 2,831
Accounts payable	\$ 11,073	\$ 6,891
Other liabilities	8,320	969
Total liability derivatives	\$ 19,393	\$ 7,860

The Effects of Derivative Instruments on our Financial Statements

	Three Months Ended March 31, 2012 2011 (Unaudited) (In thousands)	
<u>Derivatives Designated as Hedges:</u>		
Amount of gain (loss) recognized in other comprehensive income	\$ (6,040)	\$ 6,948
Income (loss) reclassified from AOCI into income: effective portion		
<u>Location</u>		
Cost of operations	\$ 1,294	\$ (135)
Gain (loss) recognized in income: ineffective portion and amount excluded from effectiveness testing		
<u>Location</u>		
Gain (loss) on foreign currency net	\$ 2,350	\$ (1,970)

NOTE 5 FAIR VALUE MEASUREMENTS

The following is a summary of our available-for-sale securities measured at fair value:

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	\$xxx,xxx March 31, 2012	\$xxx,xxx Level 1 (Unaudited) (In thousands)	\$xxx,xxx Level 2	\$xxx,xxx Level 3
Mutual funds ⁽¹⁾	\$ 1,990	\$	\$ 1,990	\$
Commercial paper	69,598		69,598	
Asset-backed securities and collateralized mortgage obligations ⁽²⁾	8,345		2,168	6,177
Corporate notes and bonds ⁽³⁾	5,766		5,766	
Total	\$ 85,699	\$	\$ 79,522	\$ 6,177

Table of Contents

	December 31, 2011	Level 1	Level 2	Level 3
		(In thousands)		
Mutual funds	\$ 1,923	\$	\$ 1,923	\$
Commercial paper	123,210		123,210	
Asset-backed securities and collateralized mortgage obligations	8,131		2,101	6,030
Corporate notes and bonds	5,742		5,742	
Total	\$ 139,006	\$	\$ 132,976	\$ 6,030

- (1) Various U.S. equities and other investments managed under mutual funds
(2) Asset-backed and mortgage-backed securities with maturities of up to 26 years
(3) Corporate notes and bonds with maturities of three years or less

Our Level 2 investments consist of commercial paper, corporate notes and bonds, asset-backed commercial paper notes backed by a pool of mortgage-backed securities and mutual funds. The fair value of our Level 2 investments was determined using a market approach which is based on quoted prices and other information for similar or identical instruments.

Our Level 3 investment consists of asset-backed commercial paper notes backed by a pool of mortgage-backed securities. The fair value of this Level 3 investment was based on the calculation of an overall weighted-average valuation, using the prices of the underlying individual securities. Individual securities in the pool were valued based on market observed prices, where available. If market prices were not available, prices of similar securities backed by similar assets were used.

Changes in Level 3 Instrument

The following is a summary of the changes in our Level 3 instrument measured on a recurring basis for the three months ended March 31, 2012 and March 31, 2011:

	Three Months Ended March 31, 2012 2011 (Unaudited)	
	(In thousands)	
Balance at beginning of period	\$ 6,030	\$ 7,372
Total realized and unrealized gains	442	504
Principal repayments	(295)	(373)
Balance at end of period	\$ 6,177	\$ 7,503

Unrealized Losses on Investments

Our net unrealized loss on investments was \$3.7 million and \$4.4 million at March 31, 2012 and December 31, 2011, respectively. The investments in an unrealized loss position for twelve months or longer are asset-backed and mortgage-backed obligations. These investments have generally shown a positive trend, continue to perform and we currently do not have the intent to sell these securities before their anticipated recovery. Based on our analysis of these investments, we believe that none of our available-for-sale securities were other than temporarily impaired as of March 31, 2012. The amount of investments in an unrealized loss position for less than twelve months was not significant for either of the periods presented. The following is a summary of our available-for-sale securities:

**Twelve Months or
Greater**

	Fair Value (Unaudited)	Unrealized Losses (Unaudited)
(In thousands)		
March 31, 2012		
Mutual funds	\$ 1,990	\$
Commercial paper	69,598	
Asset-backed securities and collateralized mortgage obligations	8,345	(3,761)
Corporate notes and bonds	5,766	
Total	\$ 85,699	\$ (3,761)

	Fair Value (Unaudited)	Unrealized Losses (Unaudited)
Twelve Months or Greater		
(In thousands)		
December 31, 2011		
Mutual funds	\$ 1,923	\$
Commercial paper	123,210	
Asset-backed securities and collateralized mortgage obligations	8,131	(4,358)
Corporate notes and bonds	5,742	
Total	\$ 139,006	\$ (4,358)

Other Financial Instruments

We used the following methods and assumptions in estimating our fair value disclosures for our other financial instruments:

Cash and cash equivalents and restricted cash and cash equivalents. The carrying amounts that we have reported in the accompanying unaudited condensed consolidated balance sheets for cash and cash equivalents and restricted cash and cash equivalents approximate their fair values.

Short-term and long-term debt. The fair value of debt instruments is classified as Level 2 within the fair value hierarchy and is valued using a market approach based on quoted prices for similar instruments traded in active markets. Where quoted prices are not available, the income approach is used to value these instruments based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt issues of similar quality and terms.

Forward contracts. The fair value of forward contracts is classified as Level 2 within the fair value hierarchy and is valued using observable market parameters for similar instruments traded in active markets. Where quoted prices are not available, the income approach is used to value these forward contracts, which discounts future cash flows based on current market expectations and credit risk.

The estimated fair values of certain of our financial instruments are as follows:

	March 31, 2012 Carrying Amount	Fair Value (Unaudited) (In thousands)	December 31, 2011 Carrying Amount	Fair Value
Balance Sheet Instruments				
Cash and cash equivalents	\$ 788,965	\$ 788,965	\$ 570,854	\$ 570,854
Restricted cash and cash equivalents	\$ 24,832	\$ 24,832	\$ 21,962	\$ 21,962

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Investments	\$ 85,699	\$ 85,699	\$ 139,006	\$ 139,006
Debt	\$ 92,241	\$ 95,940	\$ 93,735	\$ 96,187
Forward contracts	\$ (9,149)	\$ (9,149)	\$ (5,029)	\$ (5,029)

Table of Contents**NOTE 6 STOCK BASED COMPENSATION**

Equity instruments are measured at fair value on the grant date. Stock-based compensation expense is generally recognized on a straight-line basis over the requisite service periods of the awards. We use a Black-Scholes model to determine the fair value of certain share-based awards, such as stock options. Additionally, we use a Monte Carlo model to determine the fair value of certain share-based awards that contain market and performance-based conditions. The use of these models requires highly subjective assumptions, such as assumptions about the expected life of the award, vesting probability, expected dividend yield and the volatility of our stock price.

Total stock-based compensation expense, net recognized for the three months ended March 31, 2012 and March 31, 2011 is as follows:

	Three Months Ended March 31, 2012 2011 (Unaudited)	
	(In thousands)	
Stock Options	\$ 994	\$ 808
Restricted Stock		673
Restricted Stock Units	1,460	4,012
Performance Shares	840	122
Total	\$ 3,294	\$ 5,615

NOTE 7 EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Basic:		
Income from continuing operations less noncontrolling interests	\$ 59,261	\$ 68,758
Income from discontinued operations, net of tax	3,497	1,662
Net income attributable to McDermott International, Inc.	\$ 62,758	\$ 70,420
Diluted:		
Weighted average common shares (basic)	235,208,252	233,841,075
Effect of dilutive securities:		
Stock options, restricted stock and restricted stock units ⁽¹⁾	2,124,375	2,904,503
Adjusted weighted average common shares and assumed exercises of stock options and vesting of stock awards (diluted)	237,332,627	236,745,578

Basic earnings per share:

Income from continuing operations less noncontrolling interests	0.25	0.29
Income from discontinued operations, net of tax	0.01	0.01
Net income attributable to McDermott International, Inc.	0.27	0.30

Diluted earnings per share:

Income from continuing operations less noncontrolling interests	0.25	0.29
Income from discontinued operations, net of tax	0.01	0.01
Net income attributable to McDermott International, Inc.	0.26	0.30

- ⁽¹⁾ Approximately 1.8 million and 0.4 million shares underlying outstanding stock-based awards were excluded from the computation of diluted earnings per share because they were antidilutive for the three-month periods ended March 31, 2012 and 2011, respectively.

Table of Contents**NOTE 8 SEGMENT REPORTING**

We report our financial results under a geographic-based reporting structure, which coincides with how our financial information is reviewed and evaluated on a regular basis by our chief operating decision maker. Accordingly, we have three reporting segments consisting of Asia Pacific, Atlantic and the Middle East. We also report certain corporate and other non-operating activities under the heading Corporate and Other.

Reporting segments are measured based on operating income, which is defined as revenues reduced by total costs and expenses and equity in income (loss) of unconsolidated affiliates. Summarized financial information is shown in the following tables:

	Three Months Ended March 31, 2012 2011 (Unaudited)	
	(In thousands)	
Revenues⁽¹⁾:		
Asia Pacific	\$ 297,035	\$ 474,813
Atlantic	99,604	39,894
Middle East	331,039	384,533
Total revenues	\$ 727,678	\$ 899,240
Operating income:		
Asia Pacific	\$ 57,434	\$ 38,879
Atlantic	(11,993)	(17,637)
Middle East	34,735	79,056
Total operating income	\$ 80,176	\$ 100,298
Capital expenditures⁽²⁾:		
Asia Pacific	\$ 16,565	\$ 26,986
Atlantic	11,875	28,752
Middle East	15,776	7,711
Corporate and Other	535	537
Total capital expenditures	\$ 44,751	\$ 63,986
Depreciation and amortization:		
Asia Pacific	\$ 4,857	\$ 5,736
Atlantic	7,184	3,793
Middle East	7,494	7,363
Corporate and Other	3,741	3,633
Total depreciation and amortization	\$ 23,276	\$ 20,525

⁽¹⁾ Intersegment transactions included in revenues were not significant for either of the periods presented.

⁽²⁾ Total capital expenditures exclude approximately \$13 million and \$4 million in accrued capital expenditures for the three months ended March 31, 2012 and 2011, respectively.

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	March 31, 2012	December 31, 2011
	(Unaudited) (In thousands)	
Segment assets:		
Asia Pacific	\$ 1,065,504	\$ 934,134
Atlantic	326,337	419,258
Middle East	1,185,590	1,065,478
Corporate and other	487,963	515,176
 Total continuing operations	 3,065,394	 2,934,046
Total discontinued operations		58,768
 Total assets	 \$ 3,065,394	 \$ 2,992,814

Table of Contents**NOTE 9 COMMITMENTS AND CONTINGENCIES*****Litigation***

The following discussion presents information relating to pending litigation discussed in Note 13 Commitments and Contingencies in our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no material subsequent developments relating to these matters.

On or about August 23, 2004, a declaratory judgment action entitled *Certain Underwriters at Lloyd's London, et al. v. J. Ray McDermott, Inc. et al.*, was filed by certain underwriters at Lloyd's, London and Threadneedle Insurance Company Limited (the London Insurers), in the 23rd Judicial District Court, Assumption Parish, Louisiana, against MII, J. Ray McDermott, Inc. (JRMI) and two insurer defendants, Travelers and INA, seeking a declaration that the London Insurers have no obligation to indemnify MII and JRMI for certain bodily injury claims, including claims for asbestos and welding rod fume personal injury which have been filed by claimants in various state courts. Additionally, Travelers filed a cross-claim requesting a declaration of non-coverage in approximately 20 underlying matters. This proceeding was stayed by the Court on January 3, 2005. We do not believe an adverse judgment or material losses in this matter are probable, and, accordingly, we have not accrued any amounts relating to this contingency. Although there is a possibility of an adverse judgment, the amount or potential range of loss is not estimable at this time. The insurer-plaintiffs in this matter commenced this proceeding in a purported attempt to obtain a determination of insurance coverage obligations for occupational exposure and/or environmental matters for which we have given notice that we could potentially seek coverage. Because estimating losses would require, for every matter, known and unknown, on a case by case basis, anticipating what impact on coverage a judgment would have and a determination of an otherwise expected insured value, damages cannot be reasonably estimated.

On December 16, 2005, a proceeding entitled *Antoine, et al. vs. J. Ray McDermott, Inc., et al.* (Antoine Suit), was filed in the 24th Judicial District Court, Jefferson Parish, Louisiana, by approximately 88 plaintiffs against approximately 215 defendants, including our subsidiaries formerly known as JRMI and Delta Hudson Engineering Corporation (DHEC), generally alleging injuries for exposure to asbestos, and unspecified chemicals, metals and noise while the plaintiffs were allegedly employed as Jones Act seamen. This case was dismissed by the Court on January 10, 2007, without prejudice to plaintiffs' rights to refile their claims. On January 29, 2007, 21 plaintiffs from the dismissed Antoine Suit filed a matter entitled *Boudreaux, et al. v. McDermott, Inc., et al.* (the Boudreaux Suit), in the United States District Court for the Southern District of Texas, against JRMI and our subsidiary formerly known as McDermott Incorporated, and approximately 30 other employer defendants, alleging Jones Act seaman status and generally alleging exposure to welding fumes, solvents, dyes, industrial paints and noise. The Boudreaux Suit was transferred to the United States District Court for the Eastern District of Louisiana on May 2, 2007, which entered an order in September 2007 staying the matter until further order of the Court due to the bankruptcy filing of one of the co-defendants. Additionally, on January 29, 2007, another 43 plaintiffs from the dismissed Antoine Suit filed a matter entitled *Antoine, et al. v. McDermott, Inc., et al.* (the New Antoine Suit), in the 164th Judicial District Court for Harris County, Texas, against JRMI, our subsidiary formerly known as McDermott Incorporated and approximately 65 other employer defendants and 42 maritime products defendants, alleging Jones Act seaman status and generally alleging personal injuries for exposure to asbestos and noise. On April 27, 2007, the District Court entered an order staying all activity and deadlines in the New Antoine Suit, other than service of process and answer/appearance dates, until further order of the Court. The New Antoine Suit plaintiffs filed a motion to lift the stay on February 20, 2009, which is pending before the Texas District Court. The plaintiffs seek monetary damages in an unspecified amount in both the Boudreaux Suit and New Antoine Suit cases and attorneys' fees in the New Antoine Suit. We cannot reasonably estimate the extent of a potential judgment against us, if any, and we intend to vigorously defend these suits.

Additionally, due to the nature of our business, we are, from time to time, involved in litigation or subject to disputes or claims related to our business activities, including, among other things:

performance- or warranty-related matters under our customer and supplier contracts and other business arrangements; and

workers' compensation claims, Jones Act claims, occupational hazard claims, including asbestos-exposure claims, premises liability claims and other claims.

Based upon our prior experience, we do not expect that any of these other litigation proceedings, disputes and claims will have a material adverse effect on our consolidated financial condition, results of operations or cash flows; however, because of the inherent uncertainty of litigation and, in some cases, the availability and amount of potentially applicable insurance, we can provide no assurance that the resolution of any particular claim or proceeding to which we are a party will not have a material effect on our consolidated financial condition, results of operations or cash flows for the fiscal period in which that resolution occurs.

Environmental Matters

We have been identified as a potentially responsible party at various cleanup sites under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (" CERCLA "), and other environmental laws can impose liability for the entire cost of cleanup on any of the potentially responsible parties, regardless of fault or the lawfulness of the original conduct. Generally, however, where there are multiple responsible parties, a final allocation of costs is made based on the amount and type of wastes disposed of by each party and the number of financially viable parties, although this may not be the case with respect to any particular site. We have not been determined to be a major contributor of wastes to any of these sites. On the basis of our relative contribution of waste to each site, we expect our share of the ultimate liability for the various sites will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows in any given year.

Table of Contents

At March 31, 2012 we had total environmental reserves of \$1.2 million, all of which was included in current liabilities. Inherent in the estimates of those reserves and recoveries are our expectations regarding the levels of contamination, remediation costs and recoverability from other parties, which may vary significantly as remediation activities progress. Accordingly, changes in estimates could result in material adjustments to our operating results, and the ultimate loss may differ materially from the amounts that we have provided for in our consolidated financial statements.

Contracts Containing Liquidated Damages Provisions

Many of our contracts contain provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under these provisions. These contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. As of March 31, 2012, it is possible that we may incur liabilities for liquidated damages aggregating approximately \$36 million, of which approximately \$15 million has been recorded in our financial statements, based on our actual or projected failure to meet certain specified contractual milestone dates. The date range during which these potential liquidated damages could arise is from June 2011 to December 2012. We believe we will be successful in obtaining schedule extensions or other customer-agreed changes that should resolve the potential for additional liquidated damages. Accordingly, we believe that no amounts for these potential liquidated damages in excess of the amounts currently reflected in our financial statements are probable of being paid by us. However, we may not achieve relief on some or all of the issues.

NOTE 10 SUBSEQUENT EVENT

On April 20, 2012, McDermott and one of its wholly owned subsidiaries, McDermott Australia Pte. Ltd. (McDermott Australia), entered into a secured Letter of Credit Reimbursement Agreement (the Reimbursement Agreement) with Australia and New Zealand Banking Group Limited (ANZ). In accordance with the terms of the Reimbursement Agreement, ANZ issued letters of credit in the aggregate amount of approximately \$109 million to support McDermott Australia's performance obligations under contractual arrangements relating to a field development project. The obligations of McDermott and McDermott Australia under the Reimbursement Agreement are secured by McDermott Australia's interest in the contractual arrangements and certain related assets.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the safe harbor protection for forward-looking statements that applicable federal securities law affords. This information should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included under Item 1 and the audited consolidated financial statements and the related notes and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2011.

In this quarterly report on Form 10-Q, unless the context otherwise indicates, we, us and our mean MII and its consolidated subsidiaries.

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential security holders about our company. These statements may include projections and estimates concerning the scope, execution, timing and success of specific projects and our future backlog, revenues, income and capital spending. Forward-looking statements are generally accompanied by words such as estimate, project, predict, forecast, believe, expect, anticipate, plan, seek, goal, could, may, or should the uncertainty of future events or outcomes. Sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

These forward-looking statements include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to:

future levels of revenues, operating margins, income from operations, net income or earnings per share;

outcome of project awards and scope, execution and timing of specific projects;

anticipated levels of demand for our products and services;

future levels of capital, environmental or maintenance expenditures;

the success or timing of completion of ongoing or anticipated capital or maintenance projects;

the adequacy of our sources of liquidity and capital resources;

expectations regarding the acquisition or divestiture of assets;

the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows; and

the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation.

These forward-looking statements speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently

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subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

general economic and business conditions and industry trends;

general developments in the industries in which we are involved;

decisions about offshore developments to be made by oil and gas companies;

the highly competitive nature of our industry;

cancellations of and adjustments to backlog and the resulting impact from using backlog as an indicator of future revenues or earnings;

the capital investment required to maintain and/or upgrade our fleet of vessels;

the ability of our suppliers and subcontractors to deliver raw materials in sufficient quantities and/or perform in a timely manner;

our ability to appropriately bid, estimate and effectively perform projects on time, in accordance with the schedules established by the applicable contracts with customers;

volatility and uncertainty of the credit markets;

our ability to comply with covenants in our credit agreements and other debt instruments and availability, terms and deployment of capital;

Table of Contents

the unfunded liabilities of our pension plans may negatively impact our liquidity and, depending upon future operations, may impact our ability to fund our pension obligations;

the continued availability of qualified personnel;

the operating risks normally incident to our lines of business, including the potential impact of liquidated damages;

changes in, or our failure or inability to comply with, government regulations;

adverse outcomes from legal and regulatory proceedings;

impact of potential regional, national and/or global requirements to significantly limit or reduce greenhouse gas and other emissions in the future;

changes in, and liabilities relating to, existing or future environmental regulatory matters;

changes in tax laws;

rapid technological changes;

the consequences of significant changes in interest rates and currency exchange rates;

difficulties we may encounter in obtaining regulatory or other necessary approvals of any strategic transactions;

the risks associated with integrating acquired businesses;

the risk we may not be successful in updating and replacing current key financial and human resources legacy systems;

social, political and economic situations in foreign countries where we do business;

the risks associated with our international operations, including local content requirements;

interference from adverse weather conditions;

the possibilities of war, other armed conflicts or terrorist attacks;

the effects of asserted and unasserted claims and the extent of available insurance coverages;

our ability to obtain surety bonds, letters of credit and financing;

our ability to maintain builder's risk, liability, property and other insurance in amounts and on terms we consider adequate and at rates that we consider economical;

the aggregated risks retained in our captive insurance subsidiary; and

the impact of the loss of insurance rights as part of the Chapter 11 Bankruptcy settlement concluded in 2006 involving several of our former subsidiaries.

We believe the items outlined above are important factors that could cause estimates in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this report and in our annual report on Form 10-K for the year ended December 31, 2011. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our security holders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

Recent Development

Charter Fleet Sale

On March 19, 2012, we completed the sale of our former charter fleet business, which operated 10 of the 14 vessels acquired in our 2007 acquisition of substantially all of the assets of Secunda International Limited (the "Secunda Acquisition").

Accounting for Contracts

We execute our contracts through a variety of methods, including fixed-price, cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods, with fixed-price being the most prevalent. Contracts are usually awarded through a competitive bid process, primarily based on price. However, other factors that customers may consider include facility or equipment availability, technical capabilities of equipment and personnel, efficiency, safety record and reputation.

Fixed-price contracts are for a fixed amount to cover costs and any profit element for a defined scope of work. Fixed-price contracts entail more risk to us because they require us to predetermine both the quantities of work to be performed and the costs associated with executing the work.

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable.

THE SELLING STOCKHOLDER AND PLAN OF DISTRIBUTION

The shares of common stock being offered by the selling stockholder are those issuable to the selling stockholder Sileas Corporation as a result of a partial conversion of that certain original \$13,524,405 principal amount promissory note issued by Sileas Corporation in favor of the Longview Fund, L.P., dated February 20, 2009, as amended, which consists of 800,000 shares of Optex Systems Holdings, Inc.'s common stock issued upon conversion of \$2,688,000 principal amount of the note or \$3.36 per share conversion price.

The table below lists the selling stockholder and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of common stock held by each of the selling stockholder. The second column lists the number of shares of common stock beneficially owned by the selling stockholder, based on its ownership of shares of common stock, as of November 2, 2016.

The third column lists the shares of common stock being offered by this prospectus by the selling stockholder.

Name of Selling Stockholder	Number of Shares of Common Stock Owned Prior to Offering	Maximum Number of Shares of Common Stock to be Sold Pursuant to this Prospectus (15)	Number of Shares of Common Stock Owned After Offering
Longview Fund, L.P. (1)	801,350	800,000	1,350

(1) Viking Asset Management, the authorized agent of the Longview Fund, L.P. ("Longview"), has discretionary authority to vote and dispose of the shares held by Longview and may be deemed to be the beneficial owner of these shares. Merrick Okamoto, in his capacity as Manager of Viking Asset Management, may also be deemed to have investment discretion and voting power over the shares held by Longview. Mr. Okamoto disclaims any such beneficial ownership of the shares. Viking Asset Management is not affiliated with any FINRA members. This selling stockholder acquired the securities in the ordinary course of business, and at the time of the purchase of the securities to be resold, the seller had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

PLAN OF DISTRIBUTION

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable

We are registering the shares of common stock described above under “Selling Stockholder” by the holder thereof. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling stockholder may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling stockholder will be responsible for underwriting discounts or commissions or agent’s commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions, pursuant to one or more of the following methods:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

- through the writing or settlement of options, whether such options are listed on an options exchange or otherwise;
- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales made after the date the Registration Statement is declared effective by the SEC;
- broker-dealers may agree with a selling security holder to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholder may also sell shares of common stock under Rule 144 promulgated under the Securities Act of 1933, as amended, if available, rather than under this prospectus. In addition, the selling stockholder may transfer the shares of common stock by other means not described in this prospectus. If the selling stockholder effect such

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable

transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling stockholder or commissions from purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the shares of common stock or otherwise, the selling stockholder may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling stockholder may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling stockholder may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares.

The selling stockholder may pledge or grant a security interest in some or all of the notes, warrants or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending, if necessary, the list of selling stockholder to include the pledgee, transferee or other successors in interest as selling stockholder under this prospectus. The selling stockholder also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

To the extent required by the Securities Act and the rules and regulations thereunder, the selling stockholder and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be “underwriters” within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed, which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholder and any discounts, commissions or concessions allowed or re-allowed or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling stockholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling stockholder and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, including, without

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limitation, to the extent applicable, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling stockholder and any other participating person. To the extent applicable, Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will pay all expenses of the registration of the shares of common stock pursuant to the registration rights agreement, estimated to be \$25,000 in total, including, without limitation, Securities and Exchange Commission filing fees and expenses of compliance with state securities or “blue sky” laws; provided, however, a selling stockholder will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling stockholder against liabilities, including some liabilities under the Securities Act in accordance with the registration rights agreements or the selling stockholder will be entitled to contribution. We may be indemnified by the selling stockholder against civil liabilities, including liabilities under the Securities Act that may arise from any written information furnished to us by the selling stockholder specifically for use in this prospectus, in accordance with the related registration rights agreements or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the shares of common stock will be freely tradable in the hands of persons other than our affiliates.

DESCRIPTION OF SECURITIES

Optex Systems Holdings is authorized to issue 2,000,000,000 shares of common stock and 5,000 shares of preferred stock of which 1,027 shares are designated as Series A preferred stock, and 1,010 shares are designated as Series B preferred stock and 1,000 shares are to be designated as Series C preferred stock. As of August 15, 2016, there were 1,755,436 shares of common stock issued and outstanding, 536.9 shares of Series A preferred stock issued and outstanding and 801.6 shares of Series B preferred stock issued and outstanding.

Common Stock

The holders of common stock are entitled to one vote per share. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of legally available funds. However, the current policy of the board of directors is to retain earnings, if any, for operations and growth. Upon liquidation, dissolution or winding-up, the holders of common stock are entitled to share ratably in all assets that are legally available for distribution. The holders of common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of any series of preferred stock, which may be designated solely by action of the board of directors and issued in the future.

Series C Preferred Stock

Our board of directors shall have designated 400 shares of our preferred stock as Series C convertible preferred stock ("Series C preferred stock"), none of which are currently issued and outstanding. The preferences and rights of the Series C preferred stock will be as set forth in a Certificate of Designation (the "Series C Certificate of Designation") filed as an exhibit to the registration statement of which this prospectus is a part.

Pursuant to a transfer agency agreement between us and Equity Stock Transfer, as transfer agent, the Series C preferred stock will be issued in book-entry form and shall initially be represented only by one or more global certificates deposited with The Depository Trust Company, or DTC, and registered in the name of Cede & Co., a nominee of DTC, or as otherwise directed by DTC.

In the event of a liquidation, the holders of Series C preferred stock are entitled to participate on an as-converted-to-Common Stock basis with holders of the Common Stock in any distribution of assets of the Company

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable

to the holders of the Common Stock. The Series C Certificate of Designation provides, among other things, that we shall not pay any dividends on shares of Common Stock (other than dividends in the form of Common Stock) unless and until such time as we pay dividends on each Series C preferred share on an as-converted basis. Other than as set forth in the previous sentence, the Series C Certificate of Designation provides that no other dividends shall be paid on Series C preferred stock.

With certain exceptions, as described in the Series C Certificate of Designation, the Series C preferred stock have no voting rights. However, as long as any shares of Series C preferred stock remain outstanding, the Series C Certificate of Designation provides that we shall not, without the affirmative vote of holders of a majority of the then-outstanding Series C preferred stock, (a) alter or change adversely the powers, preferences or rights given to the Series C preferred stock or alter or amend the Series C Certificate of Designation, (b) increase the number of authorized shares of Series C preferred stock or (c) amend our certificate of incorporation in any manner that adversely affects the rights of holders of Series C preferred stock.

Each Series C preferred share is convertible at any time at the holder's option into a number of shares of common stock equal to \$5,000 divided by the Series C Conversion Price. The "Series C Conversion Price" is initially \$1.20 and is subject to adjustment for stock splits, stock dividends, distributions, subdivisions and combinations. Notwithstanding the foregoing, the Series C Certificate of Designation further provides that we shall not effect any conversion of Series C preferred stock, with certain exceptions, to the extent that, after giving effect to an attempted conversion, the holder of Series C preferred stock (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of Common Stock in excess of 4.99% of the shares of our Common Stock then outstanding after giving effect to such exercise (the "preferred stock Beneficial Ownership Limitation"); provided, however, that upon notice to the Company, the holder may increase or decrease the preferred stock Beneficial Ownership Limitation, provided that in no event shall the preferred stock Beneficial Ownership Limitation exceed 9.99% and any increase in the preferred stock Beneficial Ownership Limitation will not be effective until 61 days following notice of such increase from the holder to us.

We do not intend to apply for listing of the Series C preferred stock on any securities exchange or other trading system.

Warrants Issued in the August 2016 Offering

The warrants issued entitle the holder to purchase one share of our common stock at an exercise price equal to \$1.50 per share, or 125% of the offering price per share, at any time commencing upon consummation of this offering and terminating at 5:00 p.m., New York City time, on the five year anniversary of the date of issuance.

Pursuant to a warrant agreement between us and Equity Stock Transfer, LLC, as warrant agent, the warrants will be issued in book-entry form and shall initially be represented only by one or more global warrants deposited with the warrant agent, as custodian on behalf of The Depository Trust Company, or DTC, and registered in the name of Cede & Co., a nominee of DTC, or as otherwise directed by DTC. The material provisions of the warrants are set forth herein but are only a summary and are qualified in their entirety by the provisions of the warrant agreement that has been filed as an exhibit to the registration statement of which this prospectus forms a part.

The exercise price and number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including in the event of a stock splits, stock dividend, extraordinary dividend on or recapitalization, reorganization, merger or consolidation. For one year following the issuance date of the warrants, the exercise price of the warrants will also be adjusted for issuances of common stock at a price below their exercise price, on the date of issuance of any option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any common stock or common stock equivalents, at an effective price per share less than the exercise price then in effect. Under such adjustment, the exercise price of the warrants shall be reduced to that lower issuance price per share. Under the terms of the Warrants, there can only be one such price reset during the term of the warrant.

Under the terms of the warrant agreement, we have agreed to use our best efforts to maintain the effectiveness of the registration statement and current prospectus relating to common stock issuable upon exercise of the warrants until the expiration of the warrants. During any period we fail to have maintained an effective registration statement covering the shares underlying the warrants, the warrant holder may exercise the warrants on a cashless basis. The warrant holders do not have the rights or privileges of holders of common stock and any voting rights until they exercise their warrants and receive shares of common stock, except as set forth in the warrants. After the issuance of shares of common stock upon exercise of the warrants, each holder will be entitled to one vote for each share held of record on all matters to be voted on by stockholders.

Subject to limited exceptions, a holder of warrants will not have the right to exercise any portion of its warrants if the holder (together with such holder's affiliates, and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of common stock in excess of 4.99% (or, at the election of the holder, 9.99%) of the shares of our common stock then outstanding after giving effect to such exercise (the "Beneficial Ownership Limitation"); provided, however, that, upon notice to the Company, the holder may increase

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable

or decrease the Beneficial Ownership Limitation, provided that in no event shall the Beneficial Ownership Limitation exceed 9.99% and any increase in the Beneficial Ownership Limitation will not be effective until 61 days following notice of such increase from the holder to us.

No fractional shares of common stock will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share, we will, upon exercise, round up to the nearest whole number of shares of common stock to be issued to the warrant holder. If multiple warrants are exercised by the holder at the same time, we will aggregate the number of whole shares issuable upon exercise of all the warrants. There is no established trading market for the warrants. The underwriters intend to submit an application to have the warrants trade on the OTCQB; however, no assurances can be given that such application will be approved.

In the event of a fundamental transaction (as defined in warrant), then the Company or any successor entity will pay at the holder's option, exercisable at any time concurrently with or within 30 days after the consummation of the fundamental transaction, an amount of cash equal to the value of the remaining unexercised portion of the warrants on the date of consummation of the fundamental transaction as determined in accordance with the Black Scholes option pricing model.

Preferred Stock

Series A Preferred Stock

On March 24, 2009, Optex Systems Holdings filed a Certificate of Designation with the Secretary of State of the State of Delaware authorizing a series of preferred stock, under its articles of incorporation, known as “Series A preferred stock”. This Certificate of Designation was approved by Our Board of Directors and Shareholders at a Board Meeting and Shareholders Meeting held on February 25, 2009. The Certificate of Designation originally set forth the following terms for the Series A preferred stock as described in the table below.

Authorized Shares:	1,027
Per Share Stated Value:	\$6,860.34
Liquidation Preference:	Per share stated value
Conversion Price into common stock:	\$2.50 per share, as adjusted on a pro rata basis for stock splits, dividends, combinations or reclassifications and on a full ratchet basis for equity issuances at a price less than the then in effect exercise price
Voting Rights:	The Series A preferred shares shall vote along with the common stock on an as converted basis and shall have one vote per share.

Our preferred shareholders have agreed to waive our obligation to pay future dividends on their shares of preferred stock after the date of effectiveness of this registration statement and in conjunction with the reduction in their per share conversion price to \$0.01 as of the date of effectiveness, in accordance with the terms of the preferred conversion feature of the Series A preferred stock and in exchange for waiver of payment of accrued dividends through July 15, 2011 through an offsetting increase in the stated value of the Series A preferred stock. To date, the accrued dividends on Series A preferred stock total \$883,569, which when divided by the 1027 shares of Series A preferred stock outstanding equals an increase in the stated value of the shares to \$6,860.34 per share. Our calculations are set forth below:

100% Total for Shares Owned by Both Sileas Corp. and Alpha Capital Anstalt	Regarding Shares Owned by Sileas Corp.	Regarding Shares Owned by Alpha Capital Anstalt	
1,027 shares	926	101	
100%	90.2	% 9.8	%
\$883,569 in dividends accrued	\$ 796,979	\$ 86,590	
\$883,569 total increase in total value, which is \$860.34 per share	New stated value of \$6,860.34 per Share	New stated value of \$6,860.34 per share	

Series B Preferred Stock

On March 26, 2015, we filed a Certificate of Designation with respect to its Certificate of Incorporation to authorize a series of preferred stock known as “Series B Preferred Stock” under Article FOURTH thereof, with 1010 shares of Series B preferred stock issuable thereunder. The amendment was approved by our Board of Directors under Article FOURTH of its Certificate of Incorporation, as amended. The Certificate of Designation sets forth the following terms of the Series B preferred stock as described in the table below:

Authorized Shares:	1010
Per Share Stated Value:	\$1,629.16
Liquidation Preference:	Per share stated value to other classes of equity except to Series A preferred stock
Conversion Price into Common Stock:	\$2.50 per share
Voting Rights:	Additionally, the holders of the Series B preferred stock are entitled to vote together with the common stock and the Series A preferred stock on an “as-converted” basis.

Stock Options

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable.

As of the date of this prospectus, we have 52,850 outstanding stock options that represent potential future cash proceeds to our company of \$528,500. On December 9, 2011, our Board of Directors authorized an amendment to its Stock Option Plan to increase the number of issuable shares from 6,000 to 50,000 and authorize the grant of 10,000 options to two board members and a total of 36,070 to our employees including 20,000 options to executive officers, at an exercise price of \$10.00 per share with each grant to vest 25% per year over four years for each year with which the grantee is still employed by or serving as our director (with all unvested options automatically expiring on the date of termination of employment by or service as a director) and all unvested options immediately vesting upon a change of control due to a merger or acquisition of us. On December 19, 2013, the Board of Directors of Optex Systems Holdings, Inc. authorized an amendment to its Stock Option Plan to increase the number of issuable shares from 50,000 to 75,000 and authorized the grant of 20,000 options to three board members and a grant of 5,000 to an Optex Systems Holdings officer. The options have an exercise price of \$10.00 per share with each grant to vest 25% per year over four years for each year with which the grantee is still employed by or serving as a director of Optex Systems Holdings, Inc. (with all unvested options automatically expiring on the date of termination of employment by or service as a director of Optex Systems Holdings, Inc.) and all unvested options immediately vesting upon a change of control due to a merger or acquisition of the Company. The holders of options are not required to exercise their rights at any time and we are unable to predict the amount and timing of any future option exercises. We reserve the right to temporarily reduce the exercise prices of our options from time to time in order to encourage the early exercise of the options. As of the date of this prospectus, 57,850 of the stock options had vested and 5,000 were exercised.

Delaware Anti-takeover Statute

We are subject to the provisions of section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, those provisions prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

~~the~~ transaction is approved by the board of directors before the date the interested stockholder attained that status;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the ~~interested~~ stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or

on or after the date the business combination is approved by the board of directors and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines “business combination” to include the following:

~~any~~ merger or consolidation involving the corporation and the interested stockholder;

any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

Represents options to purchase 7,500 shares of our common stock which have vested and are currently ~~exercisable~~ exercisable

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

A Delaware corporation may opt out of this provision either with an express provision in its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out, and do not currently intend to opt out, of this provision. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Certificate of Incorporation and By-laws

Our Certificate of Incorporation and by-laws include provisions that may have the effect of delaying or preventing a change of control or changes in our management. These provisions include:

the right of the board of directors to elect a director to fill a vacancy created by the resignation of a director or the expansion of the board of directors;

the requirement for advance notice for nominations of candidates for election to the board of directors or for proposing matters that can be acted upon at a stockholders' meeting (as set forth in Article II Section IV of the Bylaws which require notice to be given least ten (10) and not more than sixty (60) days prior to each meeting, and notice of each special meeting shall also state the purpose or purposes for which it has been called); and

~~the~~ right of our board of directors to alter our bylaws without stockholder approval.

Also pursuant to the reorganization, we amended our bylaws which provided for a fiscal year end on December 31 to a fiscal year ending on the Sunday nearest September 30.

Transfer Agent

Our transfer agent is Equity Stock Transfer of New York, NY.

LEGAL MATTERS

The legality of the shares of common stock offered by this prospectus will be passed upon for us by Jolie Kahn, Esq. of Philadelphia, PA.

EXPERTS

The financial statements as of September 27, 2015 and September 28, 2014 incorporated in this prospectus have been so included in reliance on the report of PMB Helin Donovan, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the shares and its underlying securities was employed on a contingency basis, or had, or is to receive, in connection with the offering, a substantial interest, direct or indirect, in the registrant or any of its parents or subsidiaries. Nor was any such person connected with the registrant or any of its parents or subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer, or employee.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the notes offered hereby. This prospectus, which is part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information, we refer you to the registration statement and the exhibits and schedules filed as part of the registration statement. If a document has been filed as an exhibit to the registration statement, we refer you to the copy of the document that has been filed. A copy of the registration statement, including the exhibits and schedules thereto, may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

INFORMATION INCORPORATED BY REFERENCE

The rules of the SEC allow us to incorporate information into this prospectus by reference. The information incorporated by reference is considered to be a part of this prospectus. This prospectus incorporates by reference the documents listed below:

• our Annual Report on Form 10-K for the year ended September 27, 2015, filed on December 15, 2015;

• our Quarterly Reports on Form 10-Q for the three months ended December 27, 2015 filed on February 16, 2016, on Form 10-Q for the three and six months ended March 27, 2016 filed on May 11, 2016 and on Form 10-Q for the three and nine months ended June 26, 2016 filed on August 8, 2016;

• our Preliminary Information Statement on Schedule 14C, filed on December 15, 2015 and Definitive Information Statements on Schedule 14C, filed on December 28, 2015 and August 26, 2016; and

• our Current Reports on Form 8-K, filed on October 6 and November 9, 2015 and April 19 and 28, May 6, June 17, August 1, 2016 and August 10, 2016.

Any statement made in this prospectus or in a document incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified, to constitute a part of this prospectus.

You can obtain any of the filings incorporated by reference into this prospectus through us or from the SEC through the SEC's website at <http://www.sec.gov>. We will provide, without charge, to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon written or oral request of such person, a copy of any or all of the reports and documents referred to above which have been or may be incorporated by reference into this prospectus. You should direct requests for those documents to:

Optex Systems Holdings, Inc.
1420 Presidential Drive
Richardson, TX 75081

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable

Our reports and documents incorporated by reference into this prospectus may also be found in the “Investors Relations” section of our website at <http://www.optexsys.com>. Our website and the information contained in it or connected to it shall not be deemed to be incorporated into this prospectus or any registration statement of which it forms a part.

800,000 Shares of Common Stock

PROSPECTUS

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable

PART II — INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

Expenses of the Registrant in connection with the issuance and distribution of the securities being registered, are estimated as follows:

	(Thousands)
Legal Fees and Expenses	17,500
Transfer Agent Fees and Expenses	2,000
SEC Registration Fee	75
Accountants' Fees and Expenses	5,000
Printing and Engraving Expenses	425
Total	\$ 25,000

Item 14. Indemnification of Directors and Officers

Section 102 of the Delaware General Corporation Law allows a corporation to eliminate the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except where the director breached his or her duty of loyalty to the corporation or its stockholders, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock purchase or redemption in violation of the Delaware General Corporation Law or obtained an improper personal benefit.

Our amended and restated certificate of incorporation specifically limits each director's personal liability, as permitted by Section 102 of the Delaware General Corporation Law, and provides that if the Delaware General Corporation Law is hereafter amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law as so amended.

Section 145 of the Delaware General Corporation Law provides, among other things, that a corporation may indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said section, and the indemnification provided

Represents options to purchase 7,500 shares of our common stock which have vested and are currently exercisable

for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested directors of otherwise both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person. Our amended and restated certificate of incorporation provides for indemnification of our directors, officers, employees and agents to the fullest extent permitted by the Delaware General Corporation Law.

Item 15. Recent Sales of Unregistered Securities

Since January 1, 2012, we have issued and sold the following securities in transactions exempt from registration under Section 4(2) of the Securities Act of 1933:

On November 17, 2014, we entered into a subscription agreement to sell up to \$2.1 million principal amount of convertible promissory notes a series of notes with an aggregate principal amount of \$1,550 thousand. An additional convertible promissory note for \$10 thousand was issued to the placement agent in consideration for placement services on the transaction.

All of the above equity transactions were made in reliance on Section 4(2) of the Securities Act and/or Regulation D promulgated under the Securities Act as private placements of our securities to institutional investors.

II-1

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Item 16. Exhibits and Financial Statement Schedules

Exhibits

Exhibit No.	Description
1.1	Form of Underwriting Agreement. (28)
2.1	Agreement and Plan of Reorganization, dated as of the March 30, 2009, by and between registrant, a Delaware corporation and Optex Systems, Inc., a Delaware corporation ⁽¹⁾ .
3.1	Certificate of Incorporation, as amended, of Optex Systems Holdings, Inc ⁽²⁾ .
3.2	Bylaws of Optex Systems Holdings ⁽¹⁾ .
3.3	Charters of the Audit Committee, Compensation Committee and Nominating Committee ⁽²⁶⁾ .
4.1	Certificate of Powers, Designations, Preferences and Rights of the Series B Preferred Stock of Optex Systems Holdings, Inc. dated March 26, 2015 ⁽²³⁾ .
4.2	Certificate of Designation of the Series C Convertible Preferred Stock of Optex Systems Holdings, Inc. ⁽²⁹⁾
5.1	Opinion of Jolie Kahn, Esq.
10.1	2009 Stock Option Plan ⁽¹⁾ .
10.2	Employment Agreement with Danny Schoening ⁽¹⁾ .
10.3	Lease for 1420 Presidential Blvd., Richardson, TX ⁽¹⁾ .
10.4	Form of Warrant ⁽³⁾
10.5	Specimen Stock Certificate ⁽³⁾
10.6	Contract W52H0905D0248 with Tank-automotive and Armaments Command, dated August 19, 2005 ⁽⁵⁾⁽⁶⁾
10.7	Contract W52H0909D0128 with Tank-automotive and Armaments Command, dated March 24, 2009 ⁽⁵⁾
10.8	Contract W52H0905D0260 with Tank-automotive and Armaments Command, dated August 3, 2005 ⁽⁵⁾⁽⁶⁾
10.9	PO# 40050551 with General Dynamics, dated June 8, 2009 ⁽⁵⁾⁽⁶⁾
10.10	Contract 9726800650 with General Dynamics, dated April 9, 2007 ⁽⁵⁾⁽⁶⁾

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- 10.11 Form of Subscription Agreement⁽⁴⁾
- 10.12 Single Source Supplier Purchase Orders with TSP Inc.⁽⁵⁾
- 10.13 Single Source Supplier Purchase Orders with SWS Trimac⁽⁵⁾
- 10.14 Single Source Supplier Purchase Orders with Danaher Controls⁽⁵⁾
- 10.15 Single Source Supplier Purchase Orders with Spartech Polycast⁽⁵⁾
- 10.16 Third Amendment to Lease, between Aquipor DFWIP and Optex Systems, Inc., dated January 7, 2010 ⁽⁵⁾
- 10.17 \$250,000 principal amount Note in favor of the Longview Fund, L.P., dated October 27, 2009⁽⁹⁾
- 10.18 Investor Relations Agreement, dated April 1, 2009 between Optex Systems and American Capital Ventures, Inc.⁽⁹⁾
- 10.19 Form of Loan and Security Agreement between Optex Systems, Inc. and Peninsula Bank Business Funding, dated March 4, 2010⁽⁵⁾

II-2

Exhibit No.	Description
10.20	Form of Unconditional Guaranty executed by Optex Systems Holdings, Inc. in favor of Peninsula Bank Business Funding, dated March 4, 2010 ⁽⁵⁾
10.21	Form of Warrant issued by Optex Systems Holdings, Inc. to Peninsula Bank Business Funding, dated March 4, 2010 ⁽⁵⁾
10.22	Allonge to Promissory Note, dated January 5, 2010 ⁽⁹⁾
10.23	Showcase Agreement between Optex Systems, Inc. and ECON Corporate Services, Inc., dated April 1, 2009 ⁽⁹⁾
10.24	Consulting Agreement dated June 29, 2009, between ZA Consulting, Inc. and Optex Systems, Inc. ⁽⁹⁾
10.25	Purchase Order dated June 28, 2010 with TACOM-Warren ⁽⁷⁾
10.26	First Amendment to Loan and Security Agreement, dated August 3, 2010, by and between Peninsula Bank Business Funding and Optex Systems, Inc. ⁽⁸⁾
10.27	Waiver by Peninsula Bank Business Funding to Optex Systems, Inc., dated November 24, 2010 ⁽¹⁰⁾
10.28	Second Amendment to Loan and Security Agreement, dated November 29, 2010, by and between Peninsula Bank Business Funding and Optex Systems, Inc. ⁽¹⁰⁾
10.29	Third Amendment to Loan and Security Agreement, dated February 15, 2011, by and between Peninsula Bank Business Funding and Optex Systems, Inc. ⁽¹¹⁾
10.30	Fourth Amendment to Loan and Security Agreement, dated March 22, 2011, by and between Peninsula Bank Business Funding and Optex Systems, Inc. ⁽¹²⁾
10.31	Waiver of Series A preferred shareholders ⁽¹⁴⁾
10.32	Form of Subscription Agreement ⁽¹⁵⁾
10.33	PO# SPRDL1-12-C-0023 with DLA Land-Warren, dated October 24, 2011 ⁽¹⁶⁾
10.34	Agreement with GDLS-Canada, dated as of November 4, 2011 ⁽¹⁹⁾
10.35	Amendment to 2009 Stock Option Plan ⁽¹⁷⁾
10.36	Amendment to the Articles of Incorporation ⁽¹⁸⁾
10.37	Amendment to Credit Facility with Avidbank ⁽²⁰⁾
10.38	Purchase Agreement dated November 4, 2014 ⁽²¹⁾

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- 10.39 Assignment of Lease dated October 30, 2014⁽²¹⁾
- 10.40 Form of Subscription Agreement⁽²²⁾
- 10.41 Form of Convertible Note⁽²²⁾
- 10.42 Form of Registration Rights Agreement⁽²²⁾
- 10.43 Form of Make Whole Agreement⁽²²⁾
- 10.44 Supply Agreement, dated May 26, 2015, between Optex Systems Holding, Inc. and Nightforce Optics, Inc.⁽²⁴⁾
- 10.45 First Amendment to Amended and Restated Loan and Security Agreement with Avidbank⁽²⁶⁾
- 10.46 Restricted Stock Unit Plan⁽²⁷⁾
- 10.47 Form of RSU Agreement⁽²⁷⁾
- 10.48 Employment Agreement with Karen Hawkins, dated as of August 1, 2016⁽²⁵⁾
- 14.1 Code of Ethics⁽³⁾
- 21.1 List of Subsidiaries — Optex Systems, Inc.
- 23.1 Consent of Jolie Kahn, Esq. (included in Exhibit 5.1)
- 23.2 Consent of PMB Helin Donovan LLP

II-3

- (1) Incorporated by reference from our Current Report on Form 8-K dated April 3, 2009.
- (2) Incorporated by reference from our Amendment No. 4 to Registration Statement on Form S-1 filed on September 28, 2009
- (3) Incorporated by reference from our Registration Statement on Form S-1 filed on May 19, 2009
- (4) Incorporated by reference from our Form 10-K for the fiscal year ended September 27, 2009, filed on January 11, 2010
- (5) Incorporated by reference from our Amendment No. 4 to Registration Statement on Form S-1 filed on June 14, 2010
- This exhibit is missing part of the original bid/solicitation package as such information can only be obtained from
- (6) third parties with which the registrant has no affiliation, and registrant has made requests from such third parties for such information, and such parties have not been able to provide such information.
- (7) Incorporated by reference from our Current Report on Form 8-K dated July 2, 2010
- (8) Incorporated by reference from our Form 10-Q for the quarter ended on June 27, 2010, filed on September 11, 2010
- (9) Incorporated by reference from our Amendment No. 5 to Registration Statement on Form S-1 filed on September 3, 2010
- (10) Incorporated by reference from our Amendment No. 20 to Registration Statement on Form S-1 filed on January 13, 2011
- (11) Incorporated by reference from our Form 10-Q for the quarter ended on January 2, 2011, filed on February 16, 2011
- (12) Incorporated by reference from our Current Report on Form 8-K filed on March 28, 2011
- (13) Intentionally left blank
- (14) Incorporated by reference from our Form S-1 filed on August 1, 2011
- (15) Incorporated by reference from our Form S-1 filed on September 2, 2011
- (16) Incorporated by reference from our Current Report on Form 8-K filed on November 7, 2011
- (17) Incorporated by reference from our Form 10-K filed on December 27, 2011
- (18) Incorporated by reference from our Amendment No. 5 to Registration Statement on Form S-1 filed on January 27, 2012
- (19) Incorporated by reference from our Form 10-K/A for the year ended September 29, 2013, filed on March 27, 2012
- (20) Incorporated by reference from our Form 10-Q for the quarter ended on April 1, 2012, filed on May 15, 2012
- (21) Incorporated by reference from our Current Report on Form 8-K, dated November 7, 2014
- (22) Incorporated by reference from our Current Report on Form 8-K, dated November 18, 2014
- (23) Incorporated by reference from our Current Report on Form 8-K, dated April 1, 2015
- (24) Incorporated by reference from our Current Report on Form 8-K, dated July 13, 2015
- (25) Incorporated by reference from our Current Report on Form 8-K, dated August 10, 2016
- (26) Incorporated by reference from our Current Report on Form 8-K filed on April 28, 2016
- (27) Incorporated by reference from our Current Report on Form 8-K filed on June 17, 2016
- (28) Incorporated by reference from our Amendment No. 2 to Form S-1 filed on August 12, 2016
- (29) Incorporated by reference from our Amendment No. 5 to Form S-1 filed on August 22, 2016.

Item 17. Undertakings

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The undersigned registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

i. To include any prospectus required by section 10(a)(3) of the Securities Act;

To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

iii. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

2. That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

II-4

4. That, for the purpose of determining liability under the Securities Act to any purchaser:

i. If the registrant is relying on Rule 430B (Section 430B of this chapter):

A. Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

That, for the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

i. Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

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- ii. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- iii. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- iv. Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

6. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

II-5

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in Richardson, TX, on the 7th day of November, 2016.

OPTEX SYSTEMS HOLDINGS, INC.

By: /s/ Danny Schoening
Danny Schoening, Principal Executive Officer

By: /s/ Karen Hawkins
Karen Hawkins, Principal Financial Officer

Date: November 7, 2016

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Peter Benz Peter Benz	Chairman and Director	November 7, 2016
/s/ David Kittay David Kittay	Director	November 7, 2016
/s/ Owen Naccarato Owen Naccarato	Director	November 7, 2016
/s/ Danny Schoening Danny Schoening	CEO and Director	November 7, 2016
/s/ Charles Trego Charles Trego	Director	November 7, 2016