

MCDERMOTT INTERNATIONAL INC  
Form 10-Q  
August 10, 2015

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 June 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA  
(State or Other Jurisdiction of  
Incorporation or Organization)

72-0593134  
(I.R.S. Employer  
Identification No.)

757 N. ELDRIDGE PKWY  
HOUSTON, TEXAS

77079

(Address of Principal Executive Offices) (Zip Code)

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

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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 August 6, 2015 was 238,882,610.

McDERMOTT INTERNATIONAL, INC.

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## PART I—FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)			
	(In thousands, except share and per share amounts)			
Revenues	\$1,046,537	\$476,083	\$1,597,000	\$1,079,894
Costs and Expenses:				
Cost of operations	925,522	432,298	1,400,981	1,023,791
Selling, general and administrative expenses	47,793	53,444	99,469	105,408
Loss (gain) on disposal of assets	1,910	(35,105)	1,543	(41,544)
Impairment loss (gain)	6,808	(10,664)	6,808	(10,664)
Restructuring expenses	15,391	1,263	25,780	7,388
Total costs and expenses	997,424	441,236	1,534,581	1,084,379
Loss from Investments in Unconsolidated Affiliates	(7,481)	(3,322)	(14,222)	(2,199)
Operating Income (Loss)	41,632	31,525	48,197	(6,684)
Other Income (Expense):				
Interest expense, net	(12,985)	(38,745)	(25,164)	(38,684)
Gain on foreign currency, net	1,943	6,622	475	2,540
Other expense, net	(359)	(312)	(456)	(577)
Total other expense	(11,401)	(32,435)	(25,145)	(36,721)
Income (loss) before provision for income taxes and noncontrolling interests	30,231	(910)	23,052	(43,405)
Provision for income taxes	16,541	4,788	21,410	8,277
Net income (loss)	13,690	(5,698)	1,642	(51,682)
Less: net income attributable to noncontrolling interest	2,164	1,699	4,623	2,235
Net income (loss) attributable to McDermott International, Inc.	\$11,526	\$(7,397)	\$(2,981)	\$(53,917)
Income (loss) per share				
Net income (loss) attributable to McDermott International, Inc.:				
Basic	\$0.05	\$(0.03)	\$(0.01)	\$(0.23)
Diluted	\$0.04	\$(0.03)	\$(0.01)	\$(0.23)

Shares used in the computation of income (loss) per share:

Basic:	238,332,012	237,395,580	237,918,366	237,178,369
Diluted:	289,689,981	237,395,580	237,918,366	237,178,369

See accompanying notes to the Consolidated Financial Statements.

## McDERMOTT INTERNATIONAL, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30, 2015      2014 (Unaudited) (in thousands)		Six Months Ended June 30, 2015      2014	
Net income (loss)	\$13,690	\$(5,698)	\$1,642	\$(51,682)
Other comprehensive income (loss), net of tax:				
Unrealized gain on investments	4	31	16	7
Foreign currency translation adjustment	(4,944)	(939)	(6,986)	(1,260)
Gain on derivatives	27,559	737	10,674	15,266
Other comprehensive income (loss), net of tax	22,619	(171)	3,704	14,013
Total comprehensive income (loss)	36,309	(5,869)	5,346	(37,669)
Less: comprehensive income attributable to non-controlling interests	2,117	1,701	4,543	2,204
Comprehensive income (loss) attributable to McDermott International, Inc.	\$34,192	\$(7,570)	\$803	\$(39,873)

See accompanying notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (Unaudited)	December 31, 2014 (Unaudited)
(In thousands, except shares and par value data)		
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$576,575	\$665,309
Restricted cash and cash equivalents	194,427	187,585
Accounts receivable – trade, net	287,264	143,370
Accounts receivable – other	67,727	79,915
Contracts in progress	400,720	357,617
Deferred income taxes	10,398	7,514
Other current assets	43,837	46,071
Total Current Assets	1,580,948	1,487,381
Property, Plant and Equipment	2,455,604	2,487,815
Less Accumulated depreciation	(837,739 )	(830,467 )
Net Property, Plant and Equipment	1,617,865	1,657,348
Accounts Receivable – Long-Term Retainages	140,867	137,468
Investments in Unconsolidated Affiliates	28,849	38,186
Deferred Income Taxes	13,713	17,313
Investments	1,056	2,216
Other Assets	101,241	76,967
Total Assets	\$3,484,539	\$3,416,879
<b>Liabilities and Equity</b>		
Current Liabilities:		
Notes payable and current maturities of long-term debt	\$27,690	\$27,026
Accounts payable	326,765	219,384
Accrued liabilities	428,149	369,749
Advance billings on contracts	113,086	199,865
Deferred income taxes	17,822	19,753
Income taxes payable	24,921	25,165
Total Current Liabilities	938,433	860,942
Long-Term Debt	826,472	837,443
Self-Insurance	18,793	17,026
Pension Liability	17,253	18,403
Non-current Income Taxes	48,602	49,229
Other Liabilities	82,180	94,722
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value \$1.00 per share, authorized	246,683	245,210

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400,000,000 shares; issued and outstanding 246,682,747 and 245,209,850 shares, respectively

Capital in excess of par value (including prepaid common stock purchase contracts)	1,684,395	1,676,815
Accumulated Deficit	(242,553 )	(239,572 )
Treasury stock, at cost: 7,802,013 and 7,400,027 shares, respectively	(97,076 )	(96,441 )
Accumulated other comprehensive loss	(94,024 )	(97,808 )
Stockholders' Equity - McDermott International, Inc.	1,497,425	1,488,204
Noncontrolling interest	55,381	50,910
Total Equity	1,552,806	1,539,114
Total Liabilities and Equity	\$3,484,539	\$3,416,879

See accompanying notes to the Consolidated Financial Statements.



McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Month Ended June 30,	
	2015	2014
	(Unaudited)	
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$1,642	\$(51,682 )
Non-cash items included in net income (loss):		
Depreciation and amortization	51,371	46,247
Drydock amortization	9,658	9,966
Stock-based compensation charges	9,891	10,352
Loss from investments in unconsolidated affiliates	14,222	2,199
Loss (gain) on asset disposals	1,543	(41,544 )
Impairment loss (gain)	6,808	(10,664 )
Restructuring expense (gain)	9,153	(982 )
Deferred taxes	(1,215 )	(4,375 )
Other non-cash items	(495 )	(2,868 )
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(147,293 )	86,305
Net contracts in progress and advance billings on contracts	(129,932 )	(88,771 )
Accounts payable	120,586	(31,756 )
Accrued and other current liabilities	48,380	(9,706 )
Pension liability and accrued postretirement and employee benefits	(942 )	9,563
Other assets and liabilities	(19,443 )	(15,195 )
TOTAL CASH USED IN OPERATING ACTIVITIES	(26,066 )	(92,911 )
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(47,985 )	(154,957 )
Increase in restricted cash and cash equivalents	(6,842 )	(166,219 )
Purchases of available-for-sale securities	-	(1,997 )
Sales and maturities of available-for-sale securities	2,875	11,303
Investments in unconsolidated affiliates	(4,783 )	(2,370 )
Proceeds from asset dispositions	10,510	53,704
Other	(232 )	(2,706 )
TOTAL CASH USED IN INVESTING ACTIVITIES	(46,457 )	(263,242 )
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	-	1,337,500
Repayment of debt	(13,402 )	(285,705 )
Debt issuance cost	-	(45,521 )
Distribution to noncontrolling interest	(24 )	(3,754 )
Other	(1,437 )	(1,244 )
TOTAL CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(14,863 )	1,001,276

EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(1,348 )	209
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(88,734 )	645,332
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	665,309	118,702
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$576,575	\$764,034

See accompanying notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock Shares (Unaudited) (In thousands, except shares)	Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss ("AOCI")	Treasury Stock	Stockholders' Equity	Noncontrolling Interest ("NCI")	Total Equity
Balance at December 31, 2014	245,209,850	\$245,210	\$1,676,815	\$(239,572)	\$(97,808)	\$(96,441)	\$1,488,204	\$50,910	\$1,539,114
Net income (loss)	-	-	-	(2,981 )	-	-	(2,981 )	4,623	1,642
Other comprehensive income (loss), net of tax	-	-	-	-	3,784	-	3,784	(80 )	3,704
Exercise of stock options	196,340	196	484	-	-	-	680	-	680
Share vesting	1,282,118	1,282	(1,282 )	-	-	-	-	-	-
Stock-based compensation charges	-	-	8,330	-	-	813	9,143	-	9,143
Acquisition of noncontrolling interest	-	-	48	-	-	-	48	(72 )	(24 )
Purchase of treasury shares	(5,561 )	(5 )	-	-	-	(1,448 )	(1,453 )	-	(1,453 )
Balance at June 30, 2015	246,682,747	\$246,683	\$1,684,395	\$(242,553)	\$(94,024)	\$(97,076)	\$1,497,425	\$55,381	\$1,552,806

See accompanying notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

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 in 1959, is an engineering, procurement, construction and installation (“EPCI”) company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Operating in approximately 20 countries across the Americas, Europe, Africa, the Middle East and Asia, our integrated resources include a diversified fleet of marine vessels, fabrication facilities and engineering offices. We report our financial results under three reporting segments, consisting of the Americas, Europe and Africa (“AEA”) segment, the Middle East (“MEA”) segment and the Asia (“ASA”) segment. We support our activities with comprehensive project management and procurement services, while utilizing our fully integrated capabilities in both shallow water and deepwater construction. 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. We execute our contracts through a variety of methods, principally fixed-price, but also including cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods. In these notes to our accompanying unaudited Consolidated Financial Statements, unless the context otherwise indicates, “we,” “us” and “our” mean MII and its consolidated subsidiaries.

Basis of Presentation

The accompanying Consolidated Financial Statements are unaudited and have been prepared from our books and records in accordance with Rule 10-1 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. In the opinion of our management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of results of operations for a full year. These Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements and notes thereto included in MII’s Current Report on Form 8-K filed with the SEC on May 11, 2015.

Classification

During the quarter ended September 30, 2014, we committed to a plan to sell certain vessel equipment, including dynamic positioning thrusters and a deepwater pipelay winch system. These assets were classified as held for sale in subsequent quarterly and annual financial statements. In June 2015, we reclassified these assets as held for use in Property, Plant and Equipment in our Consolidated Balance Sheet. The decision to reclassify these assets was based on our determination not to proceed with a sale and to explore alternative uses for these assets within our vessel fleet instead, which we expect to be economically advantageous compared to a sale in the current environment.

Our Consolidated Financial Statements classify current derivative financial instrument assets as a component of Other current assets and current derivative financial instrument liabilities as a component of Accrued liabilities. In 2014, \$1.2 million of current derivative financial instrument assets and \$32.4 million of derivative financial instrument liabilities were reported in Accounts receivable—other and Accounts payable, respectively.

Recently Issued and Adopted Accounting Guidance

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The new guidance does not affect the recognition and measurement of debt issuance costs. Therefore, the amortization of debt issuance costs will be calculated using the interest method and be reported as interest expense. Retrospective application of this ASU is required for public entities for annual and interim periods beginning on or after December 15, 2015, and early adoption is permitted. We adopted this ASU in the first quarter of 2015. As a result, our accompanying Consolidated Financial Statements reflect debt issuance costs related to long-term debt as components of Long-term debt. These costs were previously reported by us as Other Assets (see Note 7). All comparable periods presented have been revised to reflect this change.

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

In January 2015, the FASB issued ASU 2015-01, Income Statement-Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates the concept of extraordinary items. Under this new guidance, entities will no longer be required to separately classify, present and disclose extraordinary events and transactions. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. We adopted this ASU in the second quarter of 2015. Our adoption of this ASU did not have any impact on the accompanying Consolidated Financial Statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the definition of a discontinued operation by raising the threshold for a disposal to qualify as discontinued operations. ASU 2014-08 also requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The pronouncement is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The application of this ASU did not have any impact on the accompanying Consolidated Financial Statements.

Accounting Guidance Issued But Not Adopted as of June 30, 2015

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which amends and changes the consolidation analysis currently required under U.S. GAAP. This ASU modifies the process used to evaluate whether limited partnerships and similar entities are variable interest entities or voting interest entities; affects the analysis performed by reporting entities regarding variable interest entities, particularly those with fee arrangements and related party relationships; and provides a scope exception for certain investment funds. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. We are currently assessing the impact of these amendments on our future Consolidated Financial Statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. Currently, there is no guidance in effect under U.S. GAAP regarding management's responsibility to assess whether there is substantial doubt about an entity's ability to continue as a going concern. Under ASU 2014-15, we will be required to assess our ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about our ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter with early adoption permitted. We are currently assessing the impact of the adoption of ASU 2014-15 on our future Consolidated Financial Statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 will be effective for us for annual and interim reporting periods beginning after December 15, 2016, with early application not permitted. Retrospective and modified retrospective application is allowed. In July 2015, the FASB approved the proposal to defer the original effective date for one year until

December 15, 2017. We are currently evaluating the requirements of this ASU and have not yet determined its impact on our future Consolidated Financial Statements and related disclosures.

## NOTE 2—REVENUE RECOGNITION

### Unapproved Change Orders

As of June 30, 2015, total unapproved change orders included in our estimates at completion aggregated \$158.7 million, of which approximately \$37.6 million was included in backlog. As of June 30, 2014, total unapproved change orders included in our estimates at completion aggregated \$297 million, of which approximately \$44 million was included in backlog.

### Claims Revenue

The amount of revenues and costs included in our estimates at completion (i.e., contract values) associated with claims, all of which related to our MEA segment, was \$6.5 million as of June 30, 2015 and 2014. In the accompanying Consolidated Financial Statements, for the three and six months ended June 30, 2015 and 2014, no material claims were included in revenues or costs. None of the pending claims reflected in our estimates at completion as of June 30, 2015 were the subject of any litigation proceedings.



McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

Deferred Profit Recognition

For the three and six months ended June 30, 2015 and 2014, we did not account for any projects under our deferred profit recognition policy.

Completed Contract Method

For the three and six months ended June 30, 2015 and 2014, we did not account for any contracts under the completed contract method.

Loss Recognition

As of June 30, 2015, 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.

Of the June 30, 2015 backlog, approximately \$364.8 million primarily related to three active projects that were in loss positions, as a result of which future revenues are expected to equal costs when recognized. Included in this amount was \$117.4 million of backlog associated with an EPCI project, PB Litoral, in Mexico, which is expected to be completed in the fourth quarter of 2015, and \$76.5 million of backlog pertaining to the five-year Agile vessel charter in Brazil, which is expected to be completed in the first quarter of 2017, both of which are managed by our AEA segment. The June 30, 2015 backlog amount also included \$170.7 million relating to an EPCI project, KJO Hout, in our MEA segment, which is also in a loss position and is expected to be completed in the second quarter of 2017. It is possible that our estimates of gross profit could increase or decrease based on changes in productivity, actual downtime and the resolution of change orders and claims with the customers.

NOTE 3—USE OF ESTIMATES

We use estimates and assumptions to prepare our financial statements in conformity with U.S. GAAP. Those estimates and assumptions affect the amounts we report in our consolidated financial statements and accompanying notes. Our actual results could differ from those estimates, and variances could materially affect our financial condition and results of operations in future periods. Changes in project estimates generally exclude change orders and changes in scope, but may include, without limitation, changes in cost recovery estimates, unexpected changes in weather conditions, changes in productivity, unidentified required vessel repairs, customer and vendor delays and other costs. We generally expect to experience a reasonable amount of unanticipated events, and some of those events can result in significant cost increases above cost amounts we previously estimated. As of June 30, 2015, we have provided for our estimated costs to complete on all 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 all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

The following is a discussion of our most significant changes in estimates that impacted operating income for the three and six months ended June 30, 2015 and 2014.

Three months ended June 30, 2015

Operating income for the three months ended June 30, 2015 was positively impacted by net favorable changes in cost estimates totaling approximately \$7.3 million across all segments.

The AEA segment was positively impacted by net favorable changes in estimates aggregating approximately \$3.4 million, primarily due to reduced cost estimates attributable to the contract close-out process associated with the Papa Terra EPCI project in Brazil.

The MEA segment had net favorable changes in estimates aggregating approximately \$0.6 million. A project in Saudi Arabia was positively impacted by \$7 million due to productivity improvements and associated cost savings on the Intermac 406 vessel, which is working on a cable lay project. These favorable changes were partially offset by a \$4.9 million increase in pipelay cost estimates on a U.A.E. project, primarily due to changes in execution plan, and \$1.5 million of unfavorable change in estimates for multiple projects.

The ASA segment was positively impacted by net favorable changes in estimates and productivity bonuses earned totaling approximately \$3.3 million, driven by multiple projects, none of the individual results of which were material.

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

Six months ended June 30, 2015

Operating income for the six months ended June 30, 2015 was positively impacted by net favorable changes in cost estimates totaling approximately \$28.9 million across all segments.

The AEA segment was positively impacted by net favorable changes in estimates aggregating approximately \$10.0 million. Improvements primarily related to reduced cost estimates of approximately \$3.4 million attributable to the Papa Terra project, \$3.8 million due to productivity improvements on the Agile charter and reduced cost estimates of \$3.6 million attributable to a revised demobilization plan for one of our vessels, the North Ocean 105 (the “NO 105”), which is working on a subsea project in Brazil, partially offset by unfavorable impact of \$0.8 million driven by multiple projects.

The MEA segment was positively impacted by net favorable changes in estimates aggregating approximately \$9.7 million. One EPCI project in Saudi Arabia was positively impacted by \$6.9 million due to changes in revenue recovery and cost savings based on agreement with a customer on design optimization. . Another project in the U.A.E. improved by \$4.8 million as a result of an agreement with the customer on compensation for vessel downtime due to weather and standby delays. A project in Saudi Arabia was positively impacted by \$7.4 million of changes mostly due to productivity improvements and associated cost savings on the Intermac 406, which is working on a cable lay project. We also had favorable changes of \$1.3 million from multiple projects, none of the individual results of which were material. These favorable changes were partially offset by a \$5.8 million negative impact on another EPCI project in Saudi Arabia, primarily due to increase in cost estimates, as a result of a change in marine execution plans, and a \$4.9 million increase in pipelay cost estimates on a U.A.E. project, as a result of changes in execution plan.

The ASA segment experienced an improvement of approximately \$9.2 million, driven by multiple projects, none of the individual results of which were material, primarily due to favorable changes in estimates.

Three months ended June 30, 2014

Operating income for the three months ended June 30, 2014 was positively impacted by \$24.4 million of net favorable changes in cost estimates.

The AEA segment deteriorated by a net \$13.4 million from changes in estimates on three projects. On the PB Litoral project, we increased our estimated costs to complete by approximately \$20 million, primarily due to projected fabrication cost increases, reflecting reduced productivity and execution plan changes to mitigate further project delays, as well as procurement and marine installation cost increases. This project is in a loss position and is estimated to be completed in the fourth quarter of 2015. On Jack & St. Malo, a subsea project in the Gulf of Mexico, we increased our estimated costs to complete by approximately \$23.3 million, primarily due to equipment downtime issues on the North Ocean 102 (the “NO102”), our primary vessel working on the project. This project was completed in the third quarter of 2014. These negative impacts were partially offset by approximately \$30 million of project close-out improvements on the Papa Terra project, which was completed in 2014, from marine cost reductions and increased recoveries due to successful developments from an approval process for additional weather-related compensation.

The MEA segment experienced net favorable changes in estimates aggregating approximately \$22 million, primarily due to increased cost recovery estimates of approximately \$29.2 million on a pipelay project in the Caspian, which

was completed in 2014. The increased cost recovery estimates were based on positive developments during the three months ended June 30, 2014 from a project close-out process with the customer. This improvement was partially offset by \$7.2 million of increased estimated costs to complete an EPCI project in Saudi Arabia, mainly for the onshore scope of the project.

The ASA segment was positively impacted by net favorable changes in estimates aggregating approximately \$15.8 million, mostly due to reduced cost estimates on the Siakap Subsea Development (“Siakap”), a subsea project in Malaysia, which was completed in 2014, of approximately \$10.2 million during the three months ended June 30, 2014. Those reduced cost estimates were primarily related to project close-out savings on marine spread and procurement costs. In addition, completion of three smaller projects resulted in project close-out savings of approximately \$5.6 million.

Six months ended June 30, 2014

Operating income for the six months ended June 30, 2014 was negatively impacted by \$21.2 million of net unfavorable changes in cost estimates.

The AEA segment was negatively impacted by net unfavorable changes in estimates aggregating approximately \$39.3 million associated with four projects. On the PB Litoral project, we increased our estimated costs to complete by approximately \$55.4 million

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

due to liquidated damages and extended project management costs arising from project delays, projected fabrication cost increases reflecting reduced productivity and execution plan changes to mitigate further project delays, as well as procurement and marine installation cost increases. This project is in a loss position and is estimated to be completed in the fourth quarter of 2015. On the Jack & St. Malo project, we increased our estimated costs to complete by approximately \$22.5 million, primarily due to equipment downtime issues on the NO102, our primary vessel working on the project. This project was completed in the third quarter of 2014. These negative impacts were partially offset by \$33.7 million of project close out improvements on the Papa Terra project, from marine cost reductions upon completion of activities and increased recoveries due to successful developments from an approval process for additional weather-related compensation. We also recognized \$4.9 million of cost reductions, mainly due to project close-out improvements on Tubular Bells Gulfstar, a marine installation project in the Gulf of Mexico.

The MEA segment was negatively impacted by net unfavorable changes aggregating approximately \$12.7 million, due to changes in five projects in the region. On three EPCI projects in Saudi Arabia, we increased our estimated cost at completion by approximately \$35.3 million, primarily as a result of vessel downtime due to weather and standby delays, reduced productivity levels and increased cost estimates to complete the onshore scope of one of the projects. On another EPCI project in Saudi Arabia, we increased our overall estimated costs to complete by approximately \$6.6 million related to (1) the onshore work which was substantially completed in July 2014 and (2) delays in completing the offshore work, due to limited access to the project site, which was caused by schedule conflicts with another contractor. These negative changes were partially offset by approximately \$29.1 million of increased cost recovery estimates on a pipelay project in the Caspian, based on positive developments during the six months ended June 30, 2014 from the project close-out process with the customer.

The ASA segment experienced net favorable changes in estimates aggregating approximately \$30.8 million, mostly due to changes in estimates on the Siakap project, during the six months ended June 30, 2014. Those changes were primarily related to productivity improvements on our marine vessels and offshore support activities, as well as project close-out savings.

## NOTE 4—ACCOUNTS RECEIVABLE

Accounts Receivable—Trade, Net

A summary of contract receivables is as follows:

	June 30, 2015	December 31, 2014
	(in thousands)	
Contract receivables:		
Contracts in progress	\$277,871	\$106,174
Completed contracts	15,934	34,698
Retainages	14,954	28,586
Unbilled	4,303	4,303
Less allowances	(25,798 )	(30,391 )

Accounts receivable-trade, net \$287,264 \$143,370

Contract retainages generally represent amounts withheld by our customers until project completion, in accordance with the terms of the applicable contracts. The following is a summary of retainages on our contracts:

	June 30, 2015	December 31, 2014
	(in thousands)	
Retainages expected to be collected within one year	\$14,954	\$28,586
Retainages expected to be collected after one year	140,867	137,468
Total retainages	\$155,821	\$166,054

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

## NOTE 5—CONTRACTS IN PROGRESS AND ADVANCE BILLINGS ON CONTRACTS

Components of contracts in progress and advance billings on contracts are as follows:

	June 30, 2015	December 31, 2014
	(In thousands)	
Costs incurred less costs of revenue recognized	\$107,199	\$90,191
Revenues recognized less billings to customers	293,521	267,426
Contracts in Progress	\$400,720	\$357,617
Billings to customers less revenue recognized	324,128	578,896
Costs incurred less costs of revenue recognized	(211,042)	(379,031)
Advance Billings on Contracts	\$113,086	\$199,865

## NOTE 6—RESTRUCTURING

In 2014 we completed a major review of our cost structure, and we are implementing a plan, which we refer to as the McDermott Profitability Initiative (the “MPI”), to increase our profitability and flexibility through reduced fixed and variable costs. The plan includes headcount reductions, centralization of operational activities, other cost reduction initiatives and certain asset impairments. For the three and six months ended June 30, 2015, expenses incurred under the MPI totaled \$13 million and \$21.5 million, respectively.

During 2013 and 2014, we implemented a restructuring of our Americas operations, which involved our Morgan City, Louisiana, Houston, Texas, New Orleans, Louisiana and some Brazil locations. The restructuring involved, among other things, reductions of management, administrative, fabrication and engineering personnel, and the discontinued utilization of the Morgan City facility. For the three and six months ended June 30, 2015, expenses incurred under the Americas restructuring totaled \$2.4 million and \$4.2 million, respectively.

We completed a Corporate restructuring during 2014. Costs associated with our Corporate restructuring activities primarily included severance, relocation and other personnel-related costs and costs for advisors, as well as costs for certain executive management changes that became effective during the fourth quarter of 2013.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

The following table presents amounts incurred during the three and six months ended June 30, 2015, as well as amounts incurred from the inception of our restructuring efforts up to June 30, 2015 and amounts expected to be incurred in the future by major type of cost and by segment.

	Incurring in the three months ended June 30, 2015 (In thousands)	Incurring in the three months ended June 30, 2014	Incurring in the six months ended June 30, 2015	Incurring in the six months ended June 30, 2014	Incurring from inception to June 30, 2015	Estimate of remaining amounts to be incurred	Total
<b>Americas Restructuring</b>							
Impairments and write offs	\$-	\$(1,340)	\$-	\$(1,340)	\$ 12,923	\$ -	\$12,923
Severance and other personnel-related costs	1,621	1,225	2,502	3,254	15,882	-	15,882
Morgan City environmental reserve	-	-	-	-	5,925	-	5,925
Morgan City yard-related expenses	820	1,047	1,734	2,649	12,584	707	13,291
Other	-	-	-	-	158	-	158
	2,441	932	4,236	4,563	47,472	707	48,179
<b>Corporate Restructuring</b>							
Severance and other personnel-related costs	-	-	-	908	2,599	-	2,599
Legal and other advisor fees	-	331	-	1,917	3,204	-	3,204
Other	-	-	-	-	798	-	798
	-	331	-	2,825	6,601	-	