

Edgar Filing: MCDERMOTT INTERNATIONAL INC - Form 10-K/A

MCDERMOTT INTERNATIONAL INC
Form 10-K/A
April 30, 2003

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

(Mark One) FORM 10 - K/A

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

For the fiscal year ended December 31, 2002
OR

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

For the transition period from _____ to _____

Commission File Number 1-8430

MCDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA

72-0593134

(State or Other Jurisdiction
of Incorporation or Organization)

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

1450 POYDRAS STREET
NEW ORLEANS, LOUISIANA

70112-6050

(Address of Principal Executive Offices)

(Zip Code)

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best

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of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant was \$258,410,985 as of January 31, 2003.

The number of shares of the registrant's common stock outstanding at January 31, 2003 was 64,831,612.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the Company's 2002 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

MCDERMOTT INTERNATIONAL, INC.

INDEX TO FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

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| Report of Independent Accountants | 3 |
| Financial Statement Schedule Covered by Reports of Independent Accountants: | |
| I Condensed Financial Information of Registrant | 4 |
| II Valuation and Qualifying Accounts | 11 |
| All schedules other than the above have been omitted because they are not required or the information is included in the Consolidated Financial Statements or Notes thereto. | |
| Signature of Registrant | 12 |

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

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

We have audited the consolidated financial statements of McDermott International, Inc. (the "Company") as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the

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period ended December 31, 2002, and have issued our report thereon dated March 24, 2003. Our report includes an emphasis of matter paragraph referring to Notes 1, 12, 20 and 21 of the consolidated financial statements regarding the Company's wholly-owned subsidiary, The Babcock & Wilcox Company, losses related to certain construction projects at the Company's wholly owned subsidiary, J. Ray McDermott, S.A. and the negative impacts of these matters, among others, on the Company's liquidity. Our audit also included Schedule I - Condensed Financial Information of Registrant and Schedule II - Valuation and Qualifying Accounts. In our opinion, these financial statement schedules presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
New Orleans, Louisiana
March 24, 2003

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Schedule I

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

ASSETS

| | December 31, 2002 | 2001 |
|---|----------------------|---------|
| | ----- | ----- |
| | (In thousands) | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 163 | \$ 49 |
| Accounts receivable - trade, net | 37 | 59 |
| Accounts receivable - other | 162 | 149 |
| Accounts receivable from subsidiaries | 5,959 | 46,256 |
| Accounts receivable from The Babcock & Wilcox Company | 52 | 1,727 |
| Other current assets | 2,065 | 1,483 |
| | ----- | ----- |
| Total Current Assets | 8,438 | 49,723 |
| | ----- | ----- |
| Investments in Subsidiaries and Other Investees, at Equity | 306,451 | 793,920 |
| | ----- | ----- |
| Notes Receivable from Subsidiaries | 50 | 5,833 |
| | ----- | ----- |
| Property, Plant and Equipment, at Cost: | | |
| Buildings | 5 | -- |
| Machinery and equipment | 61 | 61 |
| | ----- | ----- |
| | 66 | 61 |
| Less accumulated depreciation | 61 | 61 |
| | ----- | ----- |
| Net Property, Plant and Equipment | 5 | -- |

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| | | |
|---|-----------|-----------|
| Investments in Debt Securities | 30,007 | 29,779 |
| Accounts Receivable from The Babcock & Wilcox Company | 2,297 | 565 |
| Other Assets | 20,595 | 21,195 |
| TOTAL | \$367,843 | \$901,015 |

See accompanying notes to condensed financial information.

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Continued

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

| | December 31, 2002 | 2001 |
|--|----------------------|------------|
| | (In thousands) | |
| Current Liabilities: | | |
| Accounts payable | \$ 144 | \$ 119 |
| Accounts payable to The Babcock & Wilcox Company | 5,803 | 4,964 |
| Accrued liabilities - other | 9,790 | 32,671 |
| Income taxes | 1,659 | 1,659 |
| Total Current Liabilities | 17,396 | 39,413 |
| Notes Payable to Subsidiaries | 23,220 | 37,031 |
| Accounts Payable to Subsidiaries | 171,350 | 53,588 |
| Accrued Cost of The Babcock & Wilcox Company | | |
| Bankruptcy Settlement | 61,533 | -- |
| Negative Investments in Subsidiaries, at Equity | 510,722 | -- |
| Other Liabilities | 379 | 873 |
| Commitments and Contingencies | | |
| Stockholders' Equity (Deficiency): | | |
| Common stock | 66,351 | 63,733 |
| Capital in excess of par value | 1,093,428 | 1,077,148 |
| Accumulated deficit | (1,027,318) | (250,924) |
| Treasury stock | (62,792) | (62,736) |
| Accumulated other comprehensive loss | (486,426) | (57,111) |
| Total Stockholders' Equity (Deficiency) | (416,757) | 770,110 |
| TOTAL | \$ 367,843 | \$ 901,015 |

Schedule I

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

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| | (In thousands) | | |
| Costs and Expenses: | | | |
| Cost of operations | \$ 479 | \$ 4,710 | \$ 5,300 |
| Selling, general and administrative expenses | 16,877 | 18,264 | 2,245 |
| | ----- | ----- | ----- |
| | 17,356 | 22,974 | 7,545 |
| | ----- | ----- | ----- |
| Loss on Asset Disposals-net | -- | -- | (517) |
| | ----- | ----- | ----- |
| Operating Loss before Equity in Income (Loss) of Investees | (17,356) | (22,974) | (8,062) |
| | ----- | ----- | ----- |
| Equity in Income (Loss) of Subsidiaries and Other Investees | (706,095) | 2,809 | (10,025) |
| | ----- | ----- | ----- |
| Operating Loss | (723,451) | (20,165) | (18,087) |
| | ----- | ----- | ----- |
| Other Income (Expense): | | | |
| Interest income | 1,603 | 2,113 | 2,811 |
| Interest expense | (2,340) | (4,740) | (6,486) |
| Estimated loss on The Babcock & Wilcox Company bankruptcy settlement | (61,533) | -- | -- |
| Other - net | (483) | (1,800) | (5,442) |
| | ----- | ----- | ----- |
| | (62,753) | (4,427) | (9,117) |
| | ----- | ----- | ----- |
| Loss from Continuing Operations before Benefit from Income Taxes and Extraordinary Item | (786,204) | (24,592) | (27,204) |
| | ----- | ----- | ----- |
| Benefit from Income Taxes | -- | (170) | (2,340) |
| | ----- | ----- | ----- |
| Loss from Continuing Operations before Extraordinary Item | (786,204) | (24,422) | (24,864) |
| | ----- | ----- | ----- |
| Income from Discontinued Operations | 9,469 | 3,565 | 2,782 |
| | ----- | ----- | ----- |

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| | | | |
|--------------------------------|---------------------|--------------------|--------------------|
| Loss before Extraordinary Item | (776,735) | (20,857) | (22,082) |
| Extraordinary Item | 341 | 835 | -- |
| Net Loss | <u>\$ (776,394)</u> | <u>\$ (20,022)</u> | <u>\$ (22,082)</u> |

See accompanying notes to condensed financial information.

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Schedule I

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

| | Year Ended December 31, | | |
|--|-------------------------|--------------------|--------------------|
| | 2002 | 2001 | 2000 |
| | (In thousands) | | |
| Net Loss | <u>\$ (776,394)</u> | <u>\$ (20,022)</u> | <u>\$ (22,082)</u> |
| Other Comprehensive Income (Loss): | | | |
| Equity in other comprehensive loss of subsidiaries and other investees | (429,416) | (2,272) | (8,386) |
| Minimum pension liability adjustments | 17 | 19 | 18 |
| Reclassification adjustment for gains (losses) included in net income | 84 | (6) | 497 |
| Other Comprehensive Loss | <u>(429,315)</u> | <u>(2,259)</u> | <u>(7,871)</u> |
| Comprehensive Loss | <u>(1,205,709)</u> | <u>(22,281)</u> | <u>(29,953)</u> |

See accompanying notes to condensed financial information.

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Schedule I

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

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| | Year Ended December 31, | | |
|--|-------------------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| | (In thousands) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net Loss | \$ (776,394) | \$ (20,022) | \$ (22,082) |
| | ----- | ----- | ----- |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 3,612 | 1,931 | 1,450 |
| Equity in income or loss of subsidiaries and other investees, less dividends | 806,094 | 19,691 | 7,243 |
| Estimated loss on The Babcock & Wilcox Company bankruptcy settlement | 61,533 | -- | -- |
| Other | 10,650 | 7,984 | 9,029 |
| Changes in assets and liabilities: | | | |
| Accounts and notes receivable | 40,249 | (30,102) | 1,507 |
| Accounts payable | 104,815 | 4,011 | (135,077) |
| Income taxes | -- | -- | (1) |
| Other, net | (14,325) | 393 | 9,581 |
| | ----- | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 236,234 | (16,114) | (128,350) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of property, plant and equipment | (5) | -- | -- |
| Purchases of available-for-sale securities | (166,402) | (101,301) | (10,473) |
| Maturities of available-for-sale securities | 107,085 | 7,000 | 10,325 |
| Sales of available-for-sale securities | 58,738 | 93,451 | 1,247 |
| Execution of put/call agreement with McDermott Inc. | (242,945) | -- | -- |
| Decrease in loans to subsidiaries | 5,783 | 11,326 | 122,710 |
| | ----- | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (237,746) | 10,476 | 123,809 |
| | ===== | ===== | ===== |

Continued

| | Year Ended December 31, | | |
|---------------------------------------|-------------------------|-------|-------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| | (In thousands) | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |

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| | | | |
|---|----------|----------|---------|
| Issuance of common stock | \$ 1,394 | \$ 1,000 | \$ 47 |
| Dividends paid | -- | -- | (8,972) |
| Purchase of McDermott International, Inc. stock | -- | -- | (5) |
| Other | 232 | 4,641 | 4,526 |
| | ----- | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 1,626 | 5,641 | (4,404) |
| | ----- | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 114 | 3 | (8,945) |
| | ----- | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 49 | 46 | 8,991 |
| | ----- | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 163 | \$ 49 | \$ 46 |
| | ===== | ===== | ===== |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

| | | | |
|--|----------|----------|----------|
| Interest, including intercompany interest (net of amount capitalized) | \$ 2,325 | \$ 5,275 | \$ 6,453 |
| Income taxes, net of refunds | \$ -- | \$ 3 | \$ 361 |
| | ===== | ===== | ===== |

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

| | | | |
|---|-------|-------|------------|
| Settlement of intercompany balances with a subsidiary | \$ -- | \$ -- | \$ 932,935 |
| | ===== | ===== | ===== |

See accompanying notes to condensed financial information.

MCDERMOTT INTERNATIONAL, INC.
(PARENT COMPANY ONLY)
NOTES TO CONDENSED FINANCIAL INFORMATION
DECEMBER 31, 2002

NOTE 1 - BASIS OF PRESENTATION

The accompanying financial statements have been prepared to present the unconsolidated financial position, results of operations and cash flows of McDermott International, Inc. (Parent Company Only). Investments in subsidiaries and other investees are stated at cost plus equity in undistributed earnings from date of acquisition. These Parent Company Only financial statements should be read in conjunction with McDermott International, Inc.'s consolidated financial statements and independent accountants' reports thereon.

NOTE 2 - CONTINGENCIES

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McDermott International, Inc. is contingently liable under standby letters of credit totaling \$22,854,000 at December 31, 2002, all of which were issued in the normal course of business. In addition, at the time of The Babcock & Wilcox Company ("B&W") bankruptcy filing, McDermott International, Inc. was a maker or guarantor of outstanding letters of credit aggregating approximately \$146,500,000 (\$9,400,000 at December 31, 2002) which were issued in connection with the business operations of B&W and its subsidiaries. Although new letters of credit have been issued under B&W's Debtor in Possession ("DIP") Credit Facility to backstop or replace these preexisting letters of credit, McDermott International, Inc. has agreed to indemnify and reimburse B&W and its filing subsidiaries for any customer draw on any letter of credit issued under the DIP Credit Facility to backstop or replace any such preexisting letter of credit for which B&W has exposure and for the associated letter of credit fees paid under the facility. As of December 31, 2002, approximately \$51,400,000 in letters of credit have been issued under the DIP Credit Facility to replace or backstop these preexisting letters of credit. McDermott International, Inc. has guaranteed a \$2,500,000 line of credit, of which \$5,000 is outstanding at December 31, 2002, to a certain unconsolidated joint venture.

McDermott International, Inc. has agreed to indemnify our two surety companies for obligations of various of its subsidiaries, including B&W and several of its subsidiaries, under surety bonds issued to meet bid bond and performance bond requirements imposed by their customers. As of December 31, 2002, the aggregate outstanding amount of surety bonds that were guaranteed by McDermott International, Inc. and issued in connection with the business operations of its subsidiaries was approximately \$121,000,000, of which \$107,700,000 related to the business operations of B&W and its subsidiaries.

Also, McDermott International, Inc. has guaranteed the performance of certain of its subsidiaries for construction projects in the ordinary course of business. These guarantees totaled \$146,400,000 at December 31, 2002.

NOTE 3 - DIVIDENDS RECEIVED

McDermott International, Inc. received dividends from its consolidated subsidiaries of \$100,000,000, \$26,900,000 and \$487,562,000 for the years ended December 31, 2002, 2001 and 2000, respectively. Also during the year ended December 31, 2000, McDermott International, Inc. received a capital contribution from one of its consolidated subsidiaries of \$445,373,000.

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Schedule II

MCDERMOTT INTERNATIONAL, INC. VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Additions | | Deductions (3) |
|-------------|--------------------------------------|--|---------------------------------|----------------|
| | | Charged to Costs and Expense (2) | Charged to Other Accounts | |
| | | | | (In thousands) |

Estimated Drydock Liability (1):

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| | | | | |
|---|-------------|-------------|--------------|-------------|
| Year Ended December 31, 2002 | \$ 36,171 | \$ 10,378 | \$ -- | \$ (14,675) |
| Year Ended December 31, 2001 | \$ 26,016 | \$ 14,178 | \$ -- | \$ (4,023) |
| Year Ended December 31, 2000 | \$ 21,753 | \$ 12,173 | \$ -- | \$ (7,910) |
| Valuation Allowance for Deferred Tax Assets (4): | | | | |
| Year Ended December 31, 2002 | \$ (12,840) | \$ (43,866) | \$ (158,121) | \$ -- |
| Year Ended December 31, 2001 | \$ (15,478) | \$ 2,638 | \$ -- | \$ -- |
| Year Ended December 31, 2000 | \$ (34,794) | \$ 19,316 | \$ -- | \$ -- |

- (1) Estimated drydock liability is reported within accrued liabilities-other and other liabilities on the balance sheet.
- (2) Net of reductions and other adjustments, all of which are charged to costs and expenses.
- (3) Reductions in the estimates to actual costs incurred.
- (4) Charged to Other Comprehensive Income (Minimum Pension Liability).

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SIGNATURE OF THE REGISTRANT

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

MCDERMOTT INTERNATIONAL, INC.

/s/ Francis S. Kalman

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

April 28, 2003

EXHIBIT INDEX

Exhibit
Number

| | |
|------|--|
| 23.1 | Consent of Independent Accountants |
| 99 | Supplementary Financial Information on Panamanian Securities Regulations |