MCDERMOTT INTERNATIONAL INC
Form 10-Q
August 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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	**72-0593134**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**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

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 x 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 x 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	x	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 x

The number of shares of the registrant s common stock outstanding at July 25, 2011 was 234,714,743.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(Unaudited)			
	(In thousands, except share and per share amounts)			
Revenues	$ 849,801	$ 627,144	$ 1,749,041	$ 1,132,026
Costs and Expenses:				
Cost of operations	703,805	475,839	1,451,030	855,045
Gain on asset disposals and impairments net	(71)	(226)	(296)	(2,306)
Selling, general and administrative expenses	60,412	52,674	115,781	103,812
Total costs and expenses	764,146	528,287	1,566,515	956,551
Equity in Income (Loss) of Unconsolidated Affiliates	(1,876)	(715)	1,551	(4,146)
Operating Income	83,779	98,142	184,077	171,329
Other Income (Expense):				
Interest income	292	335	741	825
Interest expense	(263)	(2,117)	(263)	(2,279)
Other income (expense) net	1,255	722	(4,148)	(728)
Total other income (expense)	1,284	(1,060)	(3,670)	(2,182)
Income from continuing operations before provision for income taxes and noncontrolling interests	85,063	97,082	180,407	169,147
Provision for Income Taxes	17,237	12,905	39,816	25,144
Income from continuing operations before noncontrolling interests	67,826	84,177	140,591	144,003
Loss on disposal of discontinued operations		(66,218)		(90,420)
Income from discontinued operations, net of tax	3,610	63,561	5,272	96,142
Total income (loss) from discontinued operations, net of tax	3,610	(2,657)	5,272	5,722
Net Income	71,436	81,520	145,863	149,725
Less: Net Income Attributable to Noncontrolling Interests	4,108	5,486	8,115	13,750
Net Income Attributable to McDermott International, Inc.	$ 67,328	$ 76,034	$ 137,748	$ 135,975

Earnings per Common Share:				
Basic:				
Income from continuing operations, less noncontrolling interests	0.27	0.34	0.57	0.56
Income (loss) from discontinued operations, net of tax	0.02	(0.01)	0.02	0.02
Net income attributable to McDermott International, Inc.	0.29	0.33	0.59	0.59
Diluted:				
Income from continuing operations, less noncontrolling interests	0.27	0.34	0.56	0.56
Income (loss) from discontinued operations, net of tax	0.02	(0.01)	0.02	0.02
Net income attributable to McDermott International, Inc.	0.28	0.32	0.58	0.58
Shares used in the computation of earnings per share (Note 8):				
Basic	234,573,031	231,847,145	234,207,053	231,335,723
Diluted	237,544,674	234,423,546	237,145,126	234,588,291

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Unaudited)			
	(In thousands)			
Net Income	$ 71,436	$ 81,520	$ 145,863	$ 149,725
Other comprehensive income (loss), net of tax:				
Amortization of benefit plan costs[1]	5,093	14,755	10,056	29,493
Unrealized gain on benefit plan revaluation	9,883		9,883	
Unrealized gain (loss) on investments	(63)	150	636	1,065
Realized loss on investments	12	24	20	162
Translation adjustments	1,268	(11,154)	4,031	(7,655)
Unrealized gain (loss) on derivatives	3,311	(9,311)	11,378	(13,317)
Realized loss on derivatives	77	3,928	(146)	4,799
Other comprehensive income (loss), net of tax	19,581	(1,608)	35,858	14,547
Total Comprehensive Income	$ 91,017	$ 79,912	$ 181,721	$ 164,272
Less: Comprehensive Income Attributable to Noncontrolling Interests	4,499	5,461	9,625	13,741
Comprehensive Income Attributable to McDermott International, Inc.	$ 86,518	$ 74,451	$ 172,096	$ 150,531

(1) Amortization of benefit plan costs for the three-month and six-month periods ended June 30, 2010 is shown net of tax of $8.1 million and $16.2 million, respectively.

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011	December 31, 2010
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 301,895	$ 403,463
Restricted cash and cash equivalents (Note 1)	157,911	197,861
Investments	173,469	209,463
Accounts receivable trade, net (Note 1)	357,242	323,497
Accounts receivable other	52,291	28,447
Contracts in progress	165,603	65,853
Deferred income taxes	20,170	10,323
Assets held for sale (Note 2)	13,875	10,161
Other current assets	42,889	36,570
Total Current Assets	1,285,345	1,285,638
Property, Plant and Equipment	1,863,865	1,720,040
Less accumulated depreciation	(842,930)	(804,471)
Net Property, Plant and Equipment	1,020,935	915,569
Assets Held for Sale (Note 2)	78,110	77,150
Investments	65,151	75,742
Goodwill	41,202	41,202
Investments in Unconsolidated Affiliates	46,524	45,016
Other Assets	170,030	158,371
Total Assets	$ 2,707,297	$ 2,598,688
Liabilities and Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	$ 7,357	$ 8,547
Accounts payable	280,450	252,974
Accrued liabilities	287,983	286,831
Advance billings on contracts	92,422	250,053
Deferred income taxes	3,479	12,849
Income taxes payable	56,591	32,851
Liabilities associated with assets held for sale (Note 2)	22,912	20,902
Total Current Liabilities	751,194	865,007
Long-Term Debt	74,505	46,748

Self-Insurance	37,590	35,655
Pension Liability	44,495	52,831
Other Liabilities	102,445	86,180
Commitments and Contingencies (Note 9)		
Stockholders Equity:		
Common stock, par value $1.00 per share, authorized 400,000,000 shares; issued 242,152,460 and 240,791,473 shares at June 30, 2011 and December 31, 2010, respectively	242,152	240,791
Capital in excess of par value	1,368,570	1,357,316
Retained earnings	238,121	100,373
Treasury stock, at cost, 7,185,432 and 6,906,262 shares at June 30, 2011 and December 31, 2010, respectively	(92,770)	(85,735)
Accumulated other comprehensive loss	(129,369)	(163,717)
Stockholders Equity McDermott International, Inc.	1,626,704	1,449,028
Noncontrolling Interests	70,364	63,239
Total Equity	1,697,068	1,512,267
Total Liabilities and Equity	$ 2,707,297	$ 2,598,688

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2011	2010
	(Unaudited) (In thousands)	
Cash Flows From Operating Activities:		
Net income	$ 145,863	$ 149,725
Less: Income from discontinued operations, net of tax	5,272	5,722
Income from continuing operations	$ 140,591	$ 144,003
Non-cash items included in net income:		
Depreciation and amortization	40,099	37,823
Equity in (income) loss of unconsolidated affiliates	(1,551)	4,146
Gain on asset disposals and impairments net	(296)	(2,306)
Provision (benefit) from deferred taxes	(11,648)	29,667
Pension costs	11,588	13,301
Other non-cash items	10,369	26,379
Changes in assets and liabilities:		
Accounts receivable	(54,481)	69,764
Net contracts in progress and advance billings on contracts	(257,381)	88,602
Accounts payable	27,589	(25,870)
Accrued and other current liabilities	40,505	9,265
Pension liability and accrued postretirement and employee benefits	(42,067)	(146,916)
Other	24,907	(108,250)
Net Cash Provided By (Used In) Operating Activities Continuing Operations	(71,776)	139,608
Cash Flows From Investing Activities:		
Purchases of property, plant and equipment	(141,682)	(97,616)
(Increase) decrease in restricted cash and cash equivalents	39,950	(76,504)
Net decrease in available-for-sale securities	47,434	60,671
Other investing activities, net	303	2,985
Net Cash Used In Investing Activities Continuing Operations	(53,995)	(110,464)
Cash Flows From Financing Activities:		
Payment of debt	(4,288)	(4,317)
Debt issuance costs	(261)	(12,851)
Increase in debt	30,745	
Dividend received from B&W		100,000
Other financing activities, net	(2,100)	290
Net Cash Provided By Financing Activities Continuing Operations	24,096	83,122
Effects of exchange rate changes on cash and cash equivalents	107	20
Net increase (decrease) in cash and cash equivalents	(101,568)	112,286
Cash and cash equivalents at beginning of period	403,463	428,298

Cash and cash equivalents at end of period Continuing Operations	$ 301,895	$ 540,584
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Income taxes (net of refunds)	$ 25,534	$ 33,037
Cash Flows From Discontinued Operations:		
Net Cash Provided By (Used In) Operating Activities	$ 604	$ (68,030)
Net Cash Used In Investing Activities		(62,126)
Net Cash Used In Financing Activities		(102,094)
Effects of exchange rate changes on cash	(62)	(1,752)
Net increase (decrease) in cash and cash equivalents	542	(234,002)
Cash and cash equivalents at beginning of period	1,426	470,972
Cash and cash equivalents at end of period Discontinued Operations	$ 1,968	$ 236,970

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock Shares	Common Stock Par Value	Capital In Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity	Non-Controlling Interests	Total Equity
				(Unaudited) (In thousands, except share amounts)					
Balance December 31, 2009	236,919,404	$ 236,919	$ 1,300,998	$ 951,647	$ (69,370)	$ (612,997)	$ 1,807,197	$ 25,903	$ 1,833,100
Net income				135,975			135,975	13,750	149,725
Other comprehensive income, net of tax						14,556	14,556	(9)	14,547
Exercise of stock options	323,619	324	669		(650)		343		343
Excess tax benefits on stock options			2,127				2,127		2,127
Contributions to thrift plan	282,022	282	6,641				6,923		6,923
Share vesting	1,738,734	1,739	(1,739)						
Purchase of treasury shares					(13,264)		(13,264)		(13,264)
Stock-based compensation charges, net of tax			35,091				35,091		35,091
Distributions to noncontrolling interests and other								7	7
Acquisition of noncontrolling interests								2,682	2,682
Balance June 30, 2010	239,263,779	$ 239,264	$ 1,343,787	$ 1,087,622	$ (83,284)	$ (598,441)	$ 1,988,948	$ 42,333	$ 2,031,281
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				137,748			137,748	8,115	145,863
Other comprehensive income, net of tax						34,348	34,348	1,510	35,858
Exercise of stock options	399,239	399	1,692				2,091		2,091
Share vesting	961,748	962	(962)						
Purchase of treasury shares					(7,035)		(7,035)		(7,035)
Stock-based compensation charges			10,524				10,524		10,524
								(2,500)	(2,500)

Distributions to noncontrolling interests									
Balance June 30, 2011	242,152,460	$ 242,152	$ 1,368,570	$ 238,121	$ (92,770)	$ (129,369)	$ 1,626,704	$ 70,364	$ 1,697,068

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011

(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 and major 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, 2010.

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 July 30, 2010, we completed the spin-off of our previously reported Government Operations and Power Generation Systems segments into an independent publicly traded company named The Babcock & Wilcox Company (B&W). Additionally, during the quarter ended September 30, 2010, we committed to a plan to sell our charter fleet business which operates 10 of the 14 vessels acquired in our 2007 acquisition of substantially all of the assets of Secunda International Limited. The condensed consolidated balance sheets reflect the charter fleet business as held for sale. The condensed consolidated statements of income and the condensed consolidated statements of cash flows reflect the historical operations of B&W for 2010 and the charter fleet business for all periods presented as discontinued operations. The 2010 condensed consolidated statement of equity and the condensed consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2010 contain amounts attributable to the spun-off B&W operations. We have presented the notes to our condensed consolidated financial statements on the basis of continuing operations.

Business Segments

See Note 7 for summarized financial information on our segments. We have the following reporting segments:

- Asia Pacific

- Atlantic

Middle East

Corporate

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 revenues and related costs recorded, plus accumulated contract costs that exceed amounts invoiced to customers under the terms of the contracts, in contracts in progress. We include in advance billings on contracts, billings that exceed accumulated contract costs and revenues and costs recognized under the percentage-of-completion method. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. Certain costs are excluded from the cost-to-cost method of measuring progress, such as significant costs for materials and major third-party subcontractors, if it appears that such exclusion would result in a more meaningful measurement of actual contract progress and resulting periodic allocation of income. 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 percentage-of-completion in the period when those estimates are revised.

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 profit 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 one active contract being accounted for under our deferred profit recognition policy.

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 did not enter into any significant contracts that we have accounted for under the completed contract method during the quarters ended June 30, 2011 and June 30, 2010.

Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. We include claims for extra work or changes in scope of work, to the extent of costs incurred, in contract revenues when we believe collection is probable. For all contracts, if a current estimate of total contract costs 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.

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, which is performed as of December 31, involves comparing the fair value of each applicable operating segment with its net book value 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 estimated undiscounted future cash flows associated with an asset are compared to the carrying value of the asset to determine if impairment exists, in which case an impairment is recognized for the difference between the recorded and fair value of the asset.

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 some significant litigation and other proceedings, as discussed in Note 9. We have accrued our estimates of the probable losses associated with these matters. 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.

We record cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes. At June 30, 2011, we had restricted cash and cash equivalents of $158.9 million in the aggregate, of which $157.7 million was held in restricted foreign-entity accounts, $0.2 million was held to meet reinsurance reserve requirements of our captive insurance subsidiary and $1.0 million was classified as non-current and is included in other assets in the accompanying condensed consolidated balance sheet. As further discussed in Note 10, subsequent to the quarter ended June 30, 2011, we restructured certain consolidated subsidiaries, which account for approximately $147.0 million of our restricted cash balance at June 30, 2011,

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resulting in the removal of the restrictions on the available funds. As a result, we expect to reclassify the $147.0 million to cash and cash equivalents in the quarter ending September 30, 2011.

Investments

At June 30, 2011, we had investments with a fair value of $238.6 million. For the six-month period ended June 30, 2011, we had $424.4 million and $377.0 million of sales and maturities and purchases, respectively. Our investment portfolio consists primarily of investments in government and agency obligations and commercial paper. Our investments are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of tax, reported as a component of other comprehensive income (loss). Our net unrealized loss on investments was $3.7 million and $4.3 million at June 30, 2011 and December 31, 2010, respectively. The major components of our investments in an unrealized loss position are asset-backed and mortgage-backed obligations. Based on our analysis of these investments, we believe that none of our available-for-sale securities were other than temporarily impaired at June 30, 2011.

Accounts Receivable Trade, Net

A summary of contract receivables is as follows:

	June 30, 2011 (Unaudited)	December 31, 2010
	(In thousands)	
Contract receivables:		
Contracts in progress	$ 227,816	$ 191,216
Completed contracts	121,787	85,587
Retainages	38,286	63,558
Unbilled	250	12,697
Less allowances	(30,897)	(29,561)
Accounts receivable trade, net	$ 357,242	$ 323,497

We expect to invoice our unbilled receivables after 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:

	June 30, 2011 (Unaudited)	December 31, 2010
	(In thousands)	
Retainages expected to be collected within one year	$ 38,286	$ 63,558
Retainages expected to be collected after one year	95,305	83,143
Total retainages	$ 133,591	$ 146,701

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.

Comprehensive Loss

The components of accumulated other comprehensive loss included in stockholders equity are as follows:

	June 30, 2011 (Unaudited)	December 31, 2010
	(In thousands)	
Foreign currency translation adjustments	$ (2,857)	$ (6,888)
Net loss on investments	(3,674)	(4,330)
Net gain (loss) on derivative financial instruments	8,867	(855)
Unrecognized losses on benefit obligations	(131,705)	(151,644)
Accumulated other comprehensive loss	$ (129,369)	$ (163,717)

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Recently Adopted Accounting Standards

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. We do not expect the adoption of this update to have a material impact on our condensed consolidated financial statements.

In January 2010, the FASB issued a revision to the topic *Fair Value Measurements and Disclosures.* This revision sets forth new rules on providing enhanced information for Level 3 measurements. We adopted the disclosure provisions required by this revision on January 1, 2011, for both interim and annual disclosures, which did not have a material impact on our condensed consolidated financial statements.

We do not expect other recently issued standards and updates to have a material impact on our condensed consolidated financial statements.

NOTE 2 DISCONTINUED OPERATIONS

The following discussion provides information pertaining to our significant discontinued operations.

Charter Fleet Business

In conjunction with classifying the charter fleet business as a discontinued operation during the quarter ended September 30, 2010, we recognized a $27.7 million write-down of the carrying value of these assets to their estimated net realizable value, based on the estimated fair value of consideration expected from the sale and estimated selling costs.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Unaudited) (In thousands)			
Revenues	$ 11,062	$ 17,921	$ 20,566	$ 32,582
Income before provision for income taxes	2,330	3,261	4,741	6,404
Provision for income taxes	720	415	1,469	1,519
Income from discontinued operations, net of tax	$ 1,610	$ 2,846	$ 3,272	$ 4,885

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:

	June 30, 2011 (Unaudited)	December 31, 2010
	(In thousands)	
Cash	$ 1,968	$ 1,426
Accounts receivable net	8,357	5,253
Other assets	3,550	3,482

Total current assets held for sale	13,875	10,161
Property, plant and equipment net	69,401	68,595
Other assets	8,709	8,555
Total long-term assets held for sale	78,110	77,150
Total assets held for sale	$ 91,985	$ 87,311
Accounts payable and accrued liabilities	$ 8,372	$ 8,748
Other liabilities	14,540	12,154
Total liabilities associated with assets held for sale	$ 22,912	$ 20,902

Spin-off of B&W

On July 30, 2010, we completed the spin-off of B&W to our stockholders through a stock distribution. B&W s assets and businesses primarily consisted of those that we previously reported as our Government Operations and Power Generation Systems segments. In connection with the spin-off, our stockholders received 100% (approximately 116 million shares) of the outstanding common stock of B&W. The distribution of B&W common stock occurred by way of a pro rata stock dividend to our stockholders. Each stockholder generally received one share of B&W common stock for every two shares of our common stock held by such stockholder on July 9, 2010, and cash in lieu of any fractional shares. Prior to the completion of the spin-off, B&W made a cash distribution to us totaling $100 million.

In order to effect the distribution and govern MII s relationship with B&W after the distribution, MII and B&W entered into a master separation agreement and several other agreements, including a tax sharing agreement and transition services agreements.

Financial Information

The following table presents selected financial information regarding the results of operations of our former B&W business for the three-month and six-month periods ended June 30, 2010. Loss on disposal of discontinued operations represents costs incurred in connection with the B&W spin-off.

	Three Months Ended June 30, 2010	**Six Months Ended June 30, 2010**
	(Unaudited)	
	(In thousands)	
Revenues	$ 688,496	$ 1,350,884
Loss on disposal of discontinued operations	(66,218)	(90,420)
Income before provision for income taxes	81,267	118,138
	15,049	27,718
Provision for income taxes	20,552	26,881
Income (loss) from discontinued operations, net of tax	$ (5,503)	$ 837

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NOTE 3 PENSION PLANS

We historically provided retirement benefits for certain U.S.-based employees through the McDermott (U.S.) Retirement Plan (the McDermott Plan) and other supplemental defined pension benefits. The McDermott Plan and the supplemental defined pension benefits are collectively referred to as the Domestic Plan. The J. Ray McDermott, S.A. Third Country National Employees Pension Plan (the TCN Plan) provides retirement benefits for certain of our foreign employees.

During the quarter ended June 30, 2011, we changed the investment strategy of the McDermott Plan to approximately 85% fixed income and approximately 15% equities, which caused us to remeasure the plan s assets and benefit obligations. In connection with the investment strategy change, we increased the expected rate of return on plan assets assumption to 6.50%, as compared to 5.75% at December 31, 2010, which is consistent with the long-term asset returns expected from the portfolio after the investment strategy change. Additionally, the discount rate assumption increased to 5.40%, as compared to 5.30% at December 31, 2010.

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

	Domestic Plan			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(Unaudited)			
	(In thousands)			