MCDERMOTT INTERNATIONAL INC
Form 10-Q
November 01, 2017

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 September 30, 2017

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.)
4424 West Sam Houston Parkway North	
HOUSTON, TEXAS	77041

(Address of Principal Executive Offices) (Zip Code)

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

757 N. Eldridge Pkwy Houston, Texas 77079

(Former Address of Principal Executive Offices)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth 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
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 30, 2017 was 284,008,760.

McDERMOTT INTERNATIONAL, INC.

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PART I—FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In thousands, except share and per share amounts)			
Revenues	$958,531	$558,543	$2,266,635	$1,994,202
Costs and Expenses:				
Cost of operations	773,910	455,430	1,852,949	1,666,775
Research and development expenses	1,657	69	2,958	199
Selling, general and administrative expenses	55,671	46,983	142,280	137,386
Other operating (income) expenses, net	221	13,006	(1,808)	53,806
Total costs and expenses	831,459	515,488	1,996,379	1,858,166
Operating income	127,072	43,055	270,256	136,036
Other expense:				
Interest expense, net	(11,976)	(17,431)	(50,886)	(41,324)
Other non-operating income (expense), net	803	5,237	(1,074)	(1,005)
Total other expense, net	(11,173)	(12,194)	(51,960)	(42,329)
Income before provision for income taxes	115,899	30,861	218,296	93,707
Provision for income taxes	19,532	15,976	53,221	55,110
Income before income (loss) from Investments in Unconsolidated Affiliates	96,367	14,885	165,075	38,597
Income (loss) from Investments in Unconsolidated Affiliates	(3,441)	1,507	(11,495)	(2,844)
Net income	92,926	16,392	153,580	35,753
Less: Net income (loss) attributable to noncontrolling interest	(1,775)	284	550	1,160
Net income attributable to McDermott International, Inc.	$94,701	$16,108	$153,030	$34,593

Net income per share attributable to McDermott International, Inc.:				
Basic	$0.33	$0.07	$0.57	$0.14
Diluted	$0.33	$0.06	$0.54	$0.12
Shares used in the computation of net income per share:				
Basic	283,991,161	240,899,888	269,720,153	240,093,169
Diluted	285,774,621	283,907,353	284,859,710	283,132,920

See accompanying Notes to the Consolidated Financial Statements.

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McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net income	$92,926	$16,392	$153,580	$35,753
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investments	38	(3)	77	14
Gain on derivatives	9,266	3,566	19,905	38,978
Foreign currency translation	(6,717)	(5,031)	(6,709)	(12,401)
Other comprehensive income (loss), net of tax	2,587	(1,468)	13,273	26,591
Total comprehensive income	95,513	14,924	166,853	62,344
Less: Comprehensive income (loss) attributable to noncontrolling interests	(1,811)	273	532	1,128
Comprehensive income attributable to McDermott International, Inc.	$97,324	$14,651	$166,321	$61,216

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2017	December 31, 2016
	(In thousands, except share and per share amounts)	
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$416,352	$595,921
Restricted cash and cash equivalents	18,221	16,412
Accounts receivable—trade, net	263,119	334,384
Accounts receivable—other	47,237	36,929
Contracts in progress	855,531	319,138
Other current assets	38,049	29,599
Total current assets	1,638,509	1,332,383
Property, plant and equipment	2,630,228	2,586,179
Less accumulated depreciation	(965,819)	(898,878)
Property, plant and equipment, net	1,664,409	1,687,301
Accounts receivable—long-term retainages	75,615	127,193
Investments in Unconsolidated Affiliates	10,226	17,023
Deferred income taxes	14,439	21,116
Other assets	58,237	37,214
Total assets	$3,461,435	$3,222,230
Liabilities and Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	$19,035	$48,125
Accounts payable	511,092	173,203
Accrued liabilities	358,586	277,584
Advance billings on contracts	42,793	192,486
Income taxes payable	31,346	17,945
Total current liabilities	962,852	709,343
Long-term debt	521,642	704,395
Self-insurance	18,014	16,980
Pension liabilities	18,870	19,471
Non-current income taxes	60,626	60,870
Other liabilities	119,506	115,703
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $1.00 per share, authorized 400,000,000 shares; issued 292,502,927 and 249,690,281 shares, respectively	292,503	249,690
Capital in excess of par value	1,660,114	1,695,119
Accumulated deficit	(73,737)	(226,767)

Accumulated other comprehensive loss	(53,604)	(66,895)
Treasury stock, at cost: 8,494,167 and 8,302,004 shares, respectively	(96,245)	(94,957)
Stockholders' Equity—McDermott International, Inc.	1,729,031	1,556,190
Noncontrolling interest	30,894	39,278
Total equity	1,759,925	1,595,468
Total liabilities and equity	$3,461,435	$3,222,230

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In thousands)	
Cash flows from operating activities:		
Net income	$153,580	$35,753
Non-cash items included in net income:		
Depreciation and amortization	78,032	76,755
Impairment loss	-	44,069
Stock-based compensation charges	19,543	14,011
Loss from investments in Unconsolidated Affiliates	11,495	2,844
Other non-cash items	17,525	7,782
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	119,623	(29,661)
Contracts in progress, net of Advance billings on contracts	(673,420)	53,608
Accounts payable	338,906	(110,196)
Accrued and other current liabilities	79,866	(13,426)
Other assets and liabilities, net	(9,648)	44,060
Total cash provided by operating activities	135,502	125,599
Cash flows from investing activities:		
Purchases of property, plant and equipment	(97,106)	(197,393)
Proceeds from asset dispositions	55,391	1,123
Investments in Unconsolidated Affiliates	(2,769)	(4,105)
Total cash used in investing activities	(44,484)	(200,375)
Cash flows from financing activities:		
Repayment of debt	(230,715)	(93,755)
Payment of debt issuance cost	(20,564)	(8,256)
Acquisition of Noncontrolling interest	(10,652)	-
Repurchase of common stock	(7,126)	(3,909)
Total cash used in financing activities	(269,057)	(105,920)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	279	(861)
Net decrease in cash, cash equivalents and restricted cash	(177,760)	(181,557)
Cash, cash equivalents and restricted cash at beginning of period	612,333	781,645
Cash, cash equivalents and restricted cash at end of period	$434,573	$600,088

See accompanying Notes to the Consolidated Financial Statements.

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McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss ("AOCI")	Treasury Stock	Stockholders' Equity	Noncontrolling Interest ("NCI")	Total Equity
	(in thousands)							
Balance at January 1, 2017	$249,690	$1,695,119	$(226,767)	$(66,895)	$(94,957)	$1,556,190	$39,278	$1,595,468
Net income	-	-	153,030	-	-	153,030	550	153,580
Other comprehensive income (loss), net of tax	-	-	-	13,291	-	13,291	(18)	13,273
Common stock issued	43,635	(43,635)	-	-	-	-	-	-
Stock-based compensation charges	-	13,046	-	-	-	13,046	-	13,046
Purchase of treasury shares	-	-	-	-	(7,126)	(7,126)	-	(7,126)
Retirement of common stock	(822)	(5,016)	-	-	5,838	-	-	-
Acquisition of NCI	-	2,121	-	-	-	2,121	(8,896)	(6,775)
Other	-	(1,521)	-	-	-	(1,521)	(20)	(1,541)
Balance at September 30, 2017	$292,503	$1,660,114	$(73,737)	$(53,604)	$(96,245)	$1,729,031	$30,894	$1,759,925

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. ("MDR"), a corporation incorporated under the laws of the Republic of Panama in 1959, is a leading provider of integrated engineering, procurement, construction and installation ("EPCI"), front-end engineering and design ("FEED") and module fabrication services for upstream field developments worldwide. We deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning for complex offshore and subsea oil and gas projects. Operating in approximately 20 countries across the Americas, Europe, Africa, Asia and Australia, our integrated resources include a diversified fleet of marine vessels, fabrication facilities and engineering offices. 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 Consolidated Financial Statements, unless the context otherwise indicates, "we," "us" and "our" mean MDR 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 our Current Report on Form 8-K filed with the SEC on April 25, 2017 (the "April 25 Form 8-K").

Classification

Certain prior year amounts have been reclassified for consistency with the current year presentation. Previously reported Consolidated Financial Statements have been adjusted to reflect those changes.

In addition, in the first quarter of 2017, we implemented certain changes to our financial reporting structure. Corporate expenses, certain centrally managed initiatives (such as restructuring charges), impairments, year-end mark-to-market pension actuarial gains and losses, costs not attributable to a particular reportable segment, and unallocated direct operating expenses associated with the underutilization of vessels, fabrication facilities and engineering resources, are no longer apportioned to our reportable segments. Those expenses are reported under "Corporate and Other." Previously reported segment financial information has been adjusted to reflect this change, see Note 16, Segment Reporting.

Accounting Guidance Issued But Not Adopted as of September 30, 2017

Derivatives—In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. This guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This ASU is effective prospectively for annual periods beginning on or after December 15, 2018. Early adoption is permitted. We intend to adopt this guidance on January 1, 2019. We plan to apply this ASU to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach if an adjustment is required (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date). The adoption of this guidance is not expected to have a material impact on our future Consolidated Financial Statements or related disclosures.

Stock Compensation—In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. The general model for modifications of share-based payment awards is to record the incremental value arising from a change as additional compensation cost. This guidance clarifies situations in which the existing award is not probable of vesting, and a modification gives rise to a new measurement date; no change in the total compensation cost recognized for an existing award will be required if there is no change to the fair value, vesting conditions and classification of the award. This ASU is effective prospectively for annual periods beginning on or after December 15, 2017. Early adoption is permitted. The application of this amendment is not expected to have a material impact on our future Consolidated Financial Statements or related disclosures.

Pension and Postretirement Benefits—In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit. This ASU requires bifurcation of certain components of net pension and postretirement benefit cost ("benefit costs") in the Consolidated Statements of Operations. The service cost components are required to be presented in operating income and the remaining components are required to be presented outside of operating income. This ASU is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. Upon future adoption of this guidance, benefit costs, excluding service costs component, will be included in Other non-operating income (expense), net in our Consolidated Statements of Operations. Currently, all components of benefit costs are reported in Selling, general and administrative expenses in our Consolidated Statements of Operations.

Income Taxes—In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The application of this amendment is not expected to have a material impact on our future Consolidated Financial Statements and related disclosures.

Financial Instruments—In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU will require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. A valuation account, allowance for credit losses, will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. This ASU is effective for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact of this guidance on our future Consolidated Financial Statements and related disclosures.

Leases—In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU will require entities that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. This ASU is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. We are currently assessing the impact of this ASU on our future Consolidated Financial Statements and related disclosures.

Revenue from Contracts with Customers (Topic 606)—In May 2014, the FASB issued a new standard related to revenue recognition which supersedes 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.

The FASB has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property, identifying performance obligations, reporting gross versus net revenue and narrow-scope improvements and practical expedients.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented ("full retrospective method"), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application ("modified retrospective application").

We are currently assessing the impact of this ASU and the amendments on our future Consolidated Financial Statements and related disclosures. Adoption may affect the manner in which the company determines the unit of account for its projects and estimates revenue associated with unapproved change orders and claims. We intend to adopt the new standard on January 1, 2018 (the "initial application" date):

- using the modified retrospective application, with no restatement of the comparative periods presented and a cumulative effect adjustment as of the date of adoption;
- applying the new standard only to those contracts that are not substantially complete at the date of initial application; and
- disclosing the impact of the new standard on our 2018 Consolidated Financial Statements.

This standard could have a significant impact on our 2018 Consolidated Financial Statements and related disclosures.

NOTE 2—REVENUE RECOGNITION

Unapproved Change Orders

As of September 30, 2017, total unapproved change orders included in our estimates at completion aggregated approximately $98 million, of which approximately $9 million was included in backlog. As of September 30, 2016, total unapproved change orders included in our estimates at completion aggregated approximately $139 million, of which approximately $21 million was included in backlog.

Claims Revenue

The amount of revenues included in our estimates at completion (i.e., contract values) associated with claims was $10 million and $16 million as of September 30, 2017 and 2016, respectively, all in our Middle East segment. These amounts are determined based on various factors, including our analysis of the underlying contractual language and our experience in making and resolving claims. Our unconsolidated joint ventures did not include any material claims revenue or associated costs in their financial results for the three and nine months ended September 30, 2017 and 2016.

None of the claims included in our estimates at completion at September 30, 2017 were the subject of any litigation proceedings. We continue to actively engage in negotiations with our customers on our outstanding claims. 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.

Loss Recognition

For all ongoing contracts, we have provided for estimated costs to complete. If a current estimate of total contract cost indicates a loss, the projected loss is recognized in full immediately and reflected in cost of operations in the Consolidated Statements of Operations. 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 loss projects, 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. In our Consolidated

Balance Sheets, the provision for estimated losses on all active uncompleted projects is included in “Advance billings on contracts.”

KJO Hout, an EPCI project in our Middle East segment, is the only active project in a significant loss position as of September 30, 2017. The estimated overall loss on KJO Hout was $9 million. The project is substantially complete.

As of September 30, 2017 and December 31, 2016, the remaining provision for estimated losses to be recognized on all active uncompleted projects in our Consolidated Balance Sheets was not material.

NOTE 3—USE OF ESTIMATES

The following is a discussion of our most significant changes in estimates that impacted segment operating income for the three and nine months ended September 30, 2017 and 2016.

Three months ended September 30, 2017

Segment operating income for the three months ended September 30, 2017 was positively impacted by net favorable changes in estimates totaling approximately $36 million.

Americas, Europe and Africa Segment ("AEA")—This segment was impacted by net unfavorable changes in estimates aggregating approximately $4 million on multiple projects, none of which individually were material.

Middle East Segment ("MEA")—This segment was positively impacted by net favorable changes in estimates aggregating approximately $36 million, primarily due to:

- cost savings associated with marine campaigns and changes in estimate at completion on multiple Saudi Aramco projects;
- marine campaign cost savings and benefits from favorable weather conditions, which were partially offset by higher fabrication costs and marine equipment downtime on a lump-sum EPCI project under the second Saudi Aramco Long-Term Agreement ("LTA II");
- favorable changes in estimated costs at completion on various other projects, which individually were not material.

Those net favorable changes in estimates were partially offset by higher marine campaign costs for the Berri platform, a Saudi Aramco EPCI project, and increases in costs on a project in the Neutral Zone.

Asia Segment ("ASA")—This segment was positively impacted by net favorable changes in estimates aggregating approximately $4 million, primarily due to change in estimates associated with efficient project execution and productivity improvements on multiple active projects which were individually not material.

Those favorable changes in estimates were partially offset by higher marine campaign costs associated with the transportation and installation of pipelines under the multi-year Brunei Shell Petroleum ("BSP") offshore installation contract.

As of September 30, 2017, the diving work to replace the failed supplier-provided subsea-pipe connector component on the Ichthys project in Australia was substantially complete. The costs to replace the supplier-provided subsea-pipe connector component, at the completion of the project, are expected to be less than our December 31, 2016 estimate of $34 million. The project remains in an overall profitable position.

Nine months ended September 30, 2017

Segment operating income for the nine months ended September 30, 2017 was positively impacted by net favorable changes in estimates totaling approximately $115 million, primarily in our MEA and ASA segments.

AEA—This segment was impacted by net unfavorable changes in estimates aggregating approximately $3 million on multiple projects, none of which individually were material.

MEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately $72 million, primarily due to:

- productivity improvements and associated cost savings during the marine hookup campaign and reduction in estimated costs to complete two projects in the Middle East, including a Saudi Aramco project;
- marine campaign cost savings associated with productivity improvements and favorable weather conditions, which were partially offset by higher fabrication costs on lump-sum EPCI projects under the LTA II;
- productivity improvements and associated cost savings during the installation phase on the Saudi Aramco Marjan power system replacement project;
- close-out improvements associated with the first phase of a large pipeline repair project in the Middle East, which was completed in 2016, and a change in estimate to complete the next phase of this project; and

- cost savings associated with productivity improvements on multiple projects in the Middle East, none of which were individually material.

ASA—This segment was positively impacted by net favorable changes in estimates aggregating approximately $46 million, primarily due to changes in estimates driven by productivity improvements and associated cost savings and changes in estimated costs at completion on active and completed projects.

Those net favorable changes in estimates were partially offset by vessel and marine equipment downtime on our Vashishta EPCI project in India.

In addition, as of December 31, 2016, on the Ichthys project in Australia, we reported a $34 million increase in our estimated costs at completion due to a failure identified in a supplier-provided subsea-pipe connector component that we had previously installed, and we identified possible additional increases of up to $10 million, due to potential need for alternative installation methods. We investigated the cause of the failure and developed a remediation plan in conjunction with the customer. We commenced offshore replacement in June 2017 through a diving intervention method. As of September 30, 2017, the remediation work was substantially complete. The costs to replace the supplier-provided subsea-pipe connector component are expected to be less than our December 31, 2016 estimate of $34 million. The project remains in an overall profitable position.

Three months ended September 30, 2016

Segment operating income for the three months ended September 30, 2016 was positively impacted by net favorable changes in estimates totaling approximately $34 million across all segments.

AEA—This segment was positively impacted by net favorable changes in estimates, aggregating approximately $6 million, none of which individually were material.

MEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately $12 million, primarily due to:

- productivity improvements and associated cost savings related to a Saudi Aramco project; and
- other miscellaneous projects, which individually were not material.

ASA—This segment was positively impacted by net favorable changes in estimates aggregating approximately $16 million, primarily due to:

- cost savings associated with our vessel productivity improvements; and
- favorable changes in estimates at completion on several active projects.

Those net favorable changes in estimates were partially offset by net unfavorable changes on an active project, which was not material.

Nine months ended September 30, 2016

Segment operating income for the nine months ended September 30, 2016 was positively impacted by net favorable changes in estimates totaling approximately $101 million across all segments.

AEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately $29 million, primarily due to:

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- successful execution and close-out improvements on two significant projects, PB Litoral and Exxon Julia Subsea Tieback;
- productivity improvements and associated cost savings related to our DB 50 and NO 102 vessels' marine campaigns undertaken in the Gulf of Mexico; and
- a reversal of a $7 million provision for liquidated damages, due to an agreed additional extension of the PB Litoral project completion date.

Those net favorable changes in estimates were partially offset by net unfavorable changes on multiple projects, none of which were individually material.

MEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately $29 million, primarily due to productivity improvements and associated cost savings related to the DB 27 and the Intermac 406 vessels, both associated with Saudi Aramco projects, due to improved execution. Those favorable changes in estimates were partially offset by marine equipment downtime due to weather on a project in Qatar.

ASA—This segment was positively impacted by net favorable changes in estimates aggregating approximately $43 million, primarily due to:

- cost savings associated with productivity improvements on our LV 108 vessel activities; and
- favorable agreement on outstanding change orders on active and completed projects during the 2016 period.

Those net favorable changes in estimates were partially offset by net unfavorable changes on multiple projects, none of which were individually material.

NOTE 4—RESTRUCTURING

Restructuring initiatives are driven and managed by our corporate management. These costs are not allocated to our reportable segments and are reported under Corporate and Other.

Restructuring expenses are reported as a component of Other operating (income) expenses, net in our Consolidated Statements of Operations. Previously, restructuring expenses were presented separately in our Consolidated Statements of Operations.

No restructuring costs were incurred in 2017. The restructuring costs incurred in 2016 and from inception to September 30, 2017, by major cost type is presented below.

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	From Inception to September 30, 2017
	(in thousands)		
Americas Restructuring	$-	$(1,500)	$ 44,194
McDermott Profitability Initiative			
Severance and other personnel-related costs	1,165	2,590	17,807
Asset impairment and disposal	-	-	7,471
Legal and other advisor fees	-	222	11,639
Other	-	2,436	10,045
	1,165	5,248	46,962
Additional Overhead Reduction			
Severance and other personnel-related costs	556	4,600	5,012
Legal and other advisor fees	-	1,968	2,768
Other	115	371	385

	671	6,939	8,165
Total	$1,836	$10,687	$ 99,321

NOTE 5—CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets that sum to the totals of such amounts shown in the Consolidated Statements of Cash Flows.

	September 30, 2017	December 31, 2016
	(in thousands)	
Cash and cash equivalents	$416,352	$595,921
Restricted cash and cash equivalents	18,221	16,412
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	$434,573	$612,333

A majority of our restricted cash balances serve as collateral for letters of credit, discussed in Note 9, Debt.

NOTE 6—ACCOUNTS RECEIVABLE

Accounts Receivable—Trade, Net A summary of contract receivables is as follows:

	September 30, 2017	December 31, 2016
	(in thousands)	
Contract receivables:		
Contracts in progress	$171,587	$ 245,604
Completed contracts	18,289	40,345
Retainages	86,153	58,431
Unbilled[1]	4,303	4,303
Less allowances	(17,213)	(14,299)
Accounts receivable—trade, net	$263,119	$ 334,384

[1] This amount relates to a project milestone billing for which we are awaiting the customer's final acceptance certificate. We expect to receive the final acceptance certificate during 2017.

Retainages—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:

	September 30, 2017	December 31, 2016
	(in thousands)	
Retainages expected to be collected within one year	$86,153	$58,431
Retainages expected to be collected after one year	75,615	127,193
Total retainages	$161,768	$185,624

NOTE 7—CONTRACTS IN PROGRESS AND ADVANCE BILLINGS ON CONTRACTS

A detail of the components of contracts in progress and advance billings on contracts is as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Costs incurred less costs of revenue recognized	$108,149	$119,688
Revenues recognized less billings to customers	747,382	199,450
Contracts in Progress	$855,531	$319,138
Billings to customers less revenue recognized	73,765	42,637

Costs incurred less costs of revenue recognized	(30,972)	149,849
Advance Billings on Contracts	$42,793	$192,486

NOTE 8—SALE LEASEBACK

In January 2017, we purchased the pipelay and construction vessel, the Amazon, for a total cash consideration of approximately $52 million. Following the purchase, we sold the Amazon to an unrelated third party for total cash consideration of $52 million and simultaneously entered into an 11-year bareboat charter agreement with the purchaser. The bareboat charter agreement provides us with options (exercisable periodically over the charter term) to purchase the Amazon, at a predetermined value. We accounted for the transaction as a sale leaseback and are treating the bareboat charter agreement as an operating lease. As the proceeds from the sale equaled the carrying value of the vessel, no gain or loss was recognized. The annual charter obligation is $3 million through 2018, when it will increase to $8 million annually for the remainder of the charter term.

NOTE 9—DEBT

The carrying values of our long-term debt obligations, net of unamortized debt issuance costs of $5 million and $14 million as of September 30, 2017 and December 31, 2016, respectively, are as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Senior Notes	$494,615	$493,461
North Ocean 105 construction financing	28,595	31,877
Vendor equipment financing	15,686	-
Term Loan	-	212,070
Amortizing Notes	-	7,932
Other	1,781	7,180
	540,677	752,520
Less: Amounts due within one year	19,035	48,125
Total long-term debt	$521,642	$704,395

Amended and Restated Credit Agreement

On June 30, 2017, we repaid all outstanding term loans, with an outstanding principal amount of approximately $217 million, under our credit agreement dated April 16, 2014 (the “Prior Credit Agreement”), and we amended and restated the Prior Credit Agreement by entering into an Amended and Restated Credit Agreement (the “Credit Agreement”) with a syndicate of lenders and letter of credit issuers, and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent. All letters of credit outstanding under the Prior Credit Agreement were deemed issued under the Credit Agreement.

The Credit Agreement includes $810 million of commitments from the lenders, the full amount of which is available for the issuance of letters of credit, and $300 million of which is available for revolving loans. The senior secured credit facility established by the Credit Agreement is scheduled to mature in June 2022, unless we do not repay in full, by December 1, 2020, our $500 million second-lien notes due in April 2021, in which case the Credit Agreement will mature on December 1, 2020.

The Credit Agreement includes procedures for additional financial institutions to become lenders, or for any existing lender to increase its commitment thereunder, subject to an aggregate maximum of $1 billion for all commitments under the Credit Agreement. Any such increase in the commitments will not increase the $300 million sublimit for revolving loans.

The indebtedness and other obligations under the Credit Agreement are unconditionally guaranteed on a senior secured basis by substantially all of our wholly owned subsidiaries, other than our captive insurance subsidiary and certain other designated subsidiaries (collectively, the “Guarantors”). The obligations under the Credit Agreement are secured by first-priority liens on substantially all of our and the Guarantors’ assets, including certain vessels and bank accounts.

Other than mandatory commitment reductions and prepayments in connection with certain asset sales, casualty events, and incurrences of debt not permitted by the Credit Agreement, the Credit Agreement requires only periodic interest payments until maturity. We may prepay all revolving loans under the Credit Agreement at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements.

Revolving loans under the Credit Agreement bear interest at our option at either the Eurodollar rate plus a margin ranging from 3.75% to 4.25% per year or the base rate (the highest of the Federal Funds rate plus 0.50%, the 30-day Eurodollar rate plus 1.0%, or the administrative agent's prime rate) plus a margin ranging from 2.75% to 3.25% per year. The applicable margin varies depending on our leverage ratio (as defined in the Credit Agreement). We are charged a commitment fee of 0.50% per year on the daily amount of the unused portions of the commitments under the Credit Agreement. Additionally, with respect to all letters of credit outstanding under the Credit Agreement, we are charged a fronting fee of 0.25% per year and a participation fee of (i) between 3.75% to 4.25% per year in respect of financial letters of credit and (ii) between 1.875% to 2.125% per year in respect of performance letters of credit, in each case depending on our leverage ratio. We also pay customary issuance fees and other fees and expenses in connection with the issuance of letters of credit under the Credit Agreement.

As of September 30, 2017, the applicable margin for revolving loans was 4.0% for Eurodollar-rate loans and 3.0% for base-rate loans, and the letter of credit fees were 4.0% for financial letters of credit and 2.0% for performance letters of credit, respectively.

The Credit Agreement includes the following financial covenants, defined in the Credit Agreement, which will be tested on a quarterly basis and, in respect of the collateral coverage ratio described below, on both a quarterly basis and on any date that a mortgaged vessel is sold:

- the maximum permitted leverage ratio is (1) 3.50 to 1.00 for each fiscal quarter ending on or before December 31, 2019, and (2) 3.25 to 1.00 for each fiscal quarter ending after December 31, 2019;
- the minimum fixed charge coverage ratio is 1.15 to 1.00;
- the minimum liquidity is $100 million;
- the minimum collateral coverage ratio is 1.20 to 1.0; and
- the principal amount of revolving loans outstanding under the Credit Agreement cannot exceed the sum of 75% of our net trade accounts receivable plus the amount of our cash and cash equivalents subject to the control of the collateral agent under the Credit Agreement (this is also a condition to each revolving loan borrowing).

In addition, the Credit Agreement contains various covenants that, among other restrictions, limits our ability, and the ability of each of our subsidiaries, to: (1) incur or assume indebtedness; (2) grant or assume liens; (3) make acquisitions or engage in mergers; (4) sell, transfer, assign or convey assets; (5) make investments; (6) repurchase equity and make dividends and certain other restricted payments; (7) change the nature of our business; (8) engage in transactions with affiliates; (9) enter into burdensome agreements; (10) modify organizational documents; (11) enter into sale and leaseback transactions; (12) make capital expenditures; (13) enter into speculative hedging contracts; and (14) make prepayments on certain junior debt.

The Credit Agreement contains events of default that we believe are customary for a secured credit facility. If an event of default relating to bankruptcy or other insolvency events with respect to us occurs, all obligations under the Credit Agreement will immediately become due and payable. If any other event of default exists under the Credit Agreement, the lenders may accelerate the maturity of the obligations outstanding under the Credit Agreement and exercise other rights and remedies. In addition, if any event of default exists under the Credit Agreement, the lenders may commence foreclosure or other actions against the collateral.

If any default exists under the Credit Agreement, or if we are unable to make any of the representations and warranties in the Credit Agreement at the applicable time, we will be unable to borrow funds or have letters of credit issued under the Credit Agreement.

In connection with the Credit Agreement we incurred approximately $21 million of debt issuance costs. On the Consolidated Balance Sheets, those costs are reflected as an asset.

As of September 30, 2017, under the Credit Agreement, there were no revolving loans outstanding.

As of September 30, 2017, the aggregate amount of letters of credit issued and outstanding under the Credit Agreement was $326 million, included in which were $19 million of financial letters of credit. As of December 31, 2016, under the Prior Credit Agreement, the aggregate amount of letters of credit issued and outstanding was $442 million.

The Credit Agreement permits us to deposit up to $300 million with letter of credit issuers to cash collateralize letters of credit issued on a bilateral basis outside the Credit Agreement. As of September 30, 2017, we had bilateral arrangements to issue cash collateralized letters of credit of $175 million. As of September 30, 2017 and December 31, 2016, we had an aggregate face amount of approximately $18 million and $16 million of such letters of credit outstanding supported by cash collateral, respectively. We have included the supporting cash collateral in restricted cash and cash equivalents in the accompanying Consolidated Balance Sheets. During the first nine months of 2017, the maximum amount of cash collateral used to support bilateral letters of credit was $166 million.

As of September 30, 2017, we were in compliance with all of the financial covenants set forth in the Credit Agreement.

Senior Notes

In April 2014 we issued $500 million in aggregate principal amount of 8.00% senior secured notes due 2021 (the "Notes") in a private placement in accordance with Rule 144A and Regulation S under the Securities Act of 1933, as amended. Interest on the Notes is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2014. The Notes are scheduled to mature on May 1, 2021.

The Notes are unconditionally guaranteed on a senior secured basis by the Guarantors, and the Notes are secured on a second-lien basis by pledges of capital stock of certain of our subsidiaries and mortgages and other security interests covering (1) specified marine vessels owned by certain of the Guarantors and (2) substantially all the other tangible and intangible assets of our company and the Guarantors, subject to exceptions for certain assets.

The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (1) incur or guarantee additional indebtedness or issue preferred stock; (2) make investments or certain other restricted payments; (3) pay dividends or distributions on capital stock or purchase or redeem subordinated indebtedness; (4) sell assets; (5) create restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us; (6) create certain liens; (7) sell all or substantially all of our assets or merge or consolidate with or into other companies; (8) enter into transactions with affiliates; and (9) create unrestricted subsidiaries. Many of those covenants would become suspended if the Notes were to attain an investment grade rating from both Moody’s Investors Service, Inc. and Standard and Poor’s Ratings Services and no default has occurred.

North Ocean Financing

NO 105 On September 30, 2010, McDermott International Inc., as guarantor, and North Ocean 105 AS, in which we then had a 75% ownership interest, as borrower, entered into a financing agreement to pay a portion of the construction costs of the NO 105. Borrowings under the agreement are secured by, among other things, a pledge of all of the equity of North Ocean 105 AS, a mortgage on the NO 105, and a lien on substantially all of the other assets of North Ocean 105 AS. The financing agreement requires principal repayment in 17 consecutive semiannual installments, which commenced on October 1, 2012.

In the second quarter of 2017 we exercised our option under the North Ocean 105 AS joint venture agreement and purchased the 25% ownership interest of Oceanteam ASA (“Oceanteam”) in the vessel-owning company for approximately $11 million in cash. As part of that transaction, we also assumed the right to a $5 million note payable from North Ocean 105 AS to Oceanteam (which had been issued in connection with a dividend declared by North Ocean 105 AS in 2016). For further discussion, see Note 13, Stockholders’ Equity.

The Credit Agreement eliminated the Prior Credit Agreement’s requirement for us to prepay by July 20, 2017 the North Ocean 105 borrowing and to mortgage the NO 105 vessel in favor of the lenders.

Tangible Equity Units (“TEUs”)

In April 2014, we issued 11,500,000 6.25% TEUs, each with a stated amount of $25. Each TEU consists of (1) a prepaid common stock purchase contract and (2) a senior amortizing note due April 1, 2017 (each an “Amortizing Note”) that had an initial principal amount of $4.1266 per Amortizing Note and bore interest at a rate of 7.75% per annum and had a final scheduled installment payment date of April 1, 2017, which we repaid in full.

The prepaid common stock purchase contracts were accounted for as capital in excess of par value totaling $240 million in our Consolidated Balance Sheets. Each prepaid common stock purchase contract automatically settled in April 2017. We delivered 40.8 million shares of our common stock to holders of the TEUs, based on the settlement rate of 3.5496 shares per unit.

Receivables Factoring Facility

In February 2017, J. Ray McDermott de Mexico, S.A. de C.V. (“JRM Mexico”), one of our indirectly 100% owned subsidiaries, entered into a 364 day, $50 million committed revolving receivables purchase agreement which provides for the sale, at a discount rate of LIBOR plus an applicable margin of 4.25%, of certain receivables to a designated purchaser without recourse. The facility provides for customary representations and warranties and compliance with customary covenants. JRM Mexico's obligations in connection with the receivables purchase agreement are guaranteed by McDermott International, Inc.

During the first nine months of 2017, we sold approximately $2 million of receivables under the receivables purchase agreement.

Vendor Equipment Financing

In February 2017, JRM Mexico entered into a 21-month loan agreement for equipment financing in the amount of $47 million. Borrowings under the loan agreement bear interest at a fixed rate of 5.75%. JRM Mexico's obligations in connection with this equipment financing are guaranteed by McDermott International Management, S. de RL., one of our 100% owned subsidiaries. The equipment financing agreement contains various customary affirmative covenants, as well as specific affirmative covenants, including the pledge of specific equipment. The equipment financing agreement also requires compliance with various negative covenants, including restricted use of the proceeds. At September 30, 2017, the total borrowing outstanding under this facility was approximately $16 million.

Unsecured Bilateral Lines of Credit

MDR has uncommitted lines of credit in place with Middle Eastern banks in support of our contracting activities in the Middle East. Bank guarantees issued under these agreements totaled $504 million and $359 million, as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, overall capacity under these arrangements totaled $625 million.

Surety Bonds

As of September 30, 2017 and December 31, 2016, surety bonds issued under general agreements of indemnity in favor of surety underwriters in support of contracting activities of our subsidiaries JRM Mexico and McDermott, Inc. totaled $56 million and $79 million, respectively. As of September 30, 2017, overall uncommitted capacity under these arrangements totaled $300 million.

For additional information relating to our outstanding debts, see Note 10, Debt, to the Consolidated Financial Statements included in the April 25 Form 8-K.

NOTE 10—PENSION AND POSTRETIREMENT BENEFITS

Net pension cost (benefit) recognized during each period presented relate to expected return on plan assets, net of interest costs, for our defined benefit pension plans.

Net periodic cost (benefit) for our qualified defined benefit pension plan and several of our non-qualified supplemental defined benefit pension plans (the "Domestic Plans") and our J. Ray McDermott, S.A. Third Country National Employees Pension Plan (the "TCN Plan") was as follows:

	Domestic Plans Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Interest cost	$4,991	$5,276	$14,973	$15,828
Expected return on plan assets	(4,907)	(5,002)	(14,721)	(15,006)
Net periodic (benefit) cost	$84	$274	$252	$822

	TCN Plan Three Months Ended September 30,	Nine Months Ended September 30,

	2017	2016	2017	2016
	(In thousands)			
Interest cost	$290	$338	$870	$1,014
Expected return on plan assets	(345)	(397)	(1,035)	(1,191)
Net periodic (benefit) cost	$(55)	$(59)	$(165)	$(177)

We recognize mark to market fair value adjustment on defined benefit plans in our Consolidated Statements of Operations in the fourth quarter of each year.

NOTE 11—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 Accumulated Other Comprehensive Income ("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 inception and on an ongoing basis, we assess the hedging relationship to determine its effectiveness in offsetting 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 Other non-operating income (expense), net, in our Consolidated Statements of Operations.

As of September 30, 2017, the majority of our foreign currency forward contracts were designated as cash flow hedging instruments. In addition, we deferred approximately $5 million of net losses on those derivative financial instruments in AOCI, and we expect to reclassify approximately $2 million of deferred losses out of AOCI by September 30, 2018, as hedged items are recognized. The notional value of our outstanding derivative contracts totaled $215 million at September 30, 2017, with maturities extending through March 2019. Of this amount, approximately $89 million is associated with various foreign currency expenditures we expect to incur on one of our ASA segment's EPCI projects. These instruments consist of contracts to purchase or sell foreign-denominated currencies. As of September 30, 2017, the fair value of these contracts was in a net asset position totaling approximately $3 million. The fair value of outstanding derivative instruments is determined using observable financial market inputs, such as quoted market prices, and is classified as Level 2 in nature.

The following tables summarize our derivative financial instruments:

Asset and Liability Derivatives

	September 30, 2017	December 31, 2016
	(In thousands)	
Derivatives Designated as Hedges:		
Location:		
Accounts receivable-other	$3,718	$ 2,631
Other assets	152	-
Total derivatives asset	$3,870	$ 2,631
Accounts payable	$465	$ 9,361
Other liabilities	-	4
Total derivatives liability	$465	$ 9,365

The Effects of Derivative Instruments on our Financial Statements

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Derivatives Designated as Hedges:				
Amount of gain (loss) recognized in other comprehensive income (loss)	$4,971	$4,228	$15,183	$14,458
Loss (gain) reclassified from AOCI to Cost of operations	4,209	(679)	1,478	23,932
	(226)	1,830	(1,145)	281

Ineffective portion and amount excluded from effectiveness testing: gain (loss) recognized in Other non-operating expense

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NOTE 12—FAIR VALUE MEASUREMENTS

The following table presents the financial instruments outstanding as of September 30, 2017 and December 31, 2016 that are measured at fair value on a recurring basis and financial instruments that are not measured at fair value on a recurring basis.

	September 30, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Recurring					
Forward contracts	$3,405	$3,405	$ -	$3,405	$-
Non-recurring					
Debt	(540,677)	(563,164)	-	(516,305)	(46,859)

	December 31, 2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Recurring					
Forward contracts	$(6,734)	$(6,734)	$ -	$(6,734)	$-
Non-recurring					
Debt	(752,520)	(777,072)	-	(728,072)	(49,000)

The carrying value of all non-derivative financial instruments included in current assets (including cash, cash equivalents and restricted cash and accounts receivable) and current liabilities (including accounts payable but excluding short-term debt) approximates the applicable fair value due to the short maturity of those instruments.

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

Short-term and long-term debt—The fair value of debt instruments valued using a market approach based on quoted prices for similar instruments traded in active markets is classified as Level 2 within the fair value hierarchy.

Quoted prices were not available for the NO 105 construction financing, vendor equipment financing or capital leases. The income approach was 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 and are classified as Level 3 within the fair value hierarchy.

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 forward contracts, which discounts future cash flows based on current market expectations and credit risk.

Fair Value Disclosure of Non-financial Assets

During the third quarter of 2016, our management reevaluated our operational plans for certain underutilized marine assets. As a result, we identified certain marine assets that would not be used in a manner consistent with management's original intent. Based on that determination, we tested the carrying value of those assets for recoverability by comparing the undiscounted future cash flows to the assets' respective carrying values. As the carrying values of those assets exceeded the undiscounted future cash flows, an impairment was recorded. The impairment was calculated as the difference between the $22 million aggregate carrying value of the assets and the $10 million estimated fair value of the assets, resulting in a $12 million non-cash impairment charge. We utilized both a market approach and income approach to estimate the fair values of the assets. Inputs included market sales data for comparable assets, forecasted cash flows and discount rates believed to be consistent with those used by principal market participants. The fair value measurement was based on inputs that are not observable in the market and thus represent level 3 inputs.

During the first quarter of 2016, we impaired our Agile vessel upon termination of its then-current charter in May 2016, given the lack of opportunities for that vessel. In connection with that decision, we recognized a non-cash impairment charge of $32 million during the first quarter of 2016, which equaled the vessel's carrying value, in accordance with ASC 360-10, Property, Plant and Equipment.

These are reported as a component of Other operating (income) expenses, net in our Consolidated Statements of Operations. Previously, Impairment loss was presented separately in our Consolidated Statements of Operations.

NOTE 13—STOCKHOLDERS' EQUITY

The changes in the number of shares outstanding and treasury shares held by the Company are as follows:

	Nine Months Ended September 30,	
	2017	2016
Shares outstanding		
Beginning balance	241,388,277	239,016,924
Common stock issued	43,634,232	3,234,994
Purchase of common stock	(1,013,749)	(912,344)
Ending balance	284,008,760	241,339,574
Shares held as Treasury shares		
Beginning balance	8,302,004	7,824,204
Purchase of common stock	1,013,749	912,344
Retirement of common stock	(821,586)	(447,173)
Ending balance	8,494,167	8,289,375
Ordinary shares issued at the end of the period	292,502,927	249,628,949

During the second quarter of 2017, we delivered 40.8 million shares of our common stock to holders of the prepaid common stock purchase contracts comprising part of the TEUs, based on the settlement rate of 3.5496 shares per unit. For further discussion see Note 9, Debt.

Accumulated Other Comprehensive Income (Loss)

The components of AOCI included in stockholders' equity are as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Foreign currency translation adjustments ("CTA")	$ (48,791)	$ (42,082)
Net unrealized gain on investments	346	269
Net unrealized loss on derivative financial instruments	(5,159)	(25,082)

Accumulated other comprehensive loss	$(53,604)	$(66,895)

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The following table presents the components of AOCI and the amounts that were reclassified during the periods indicated:

For the Three Months Ended September 30, 2017	Foreign Currency Translation Adjustments (In thousands)	Unrealized Holding Gain (Loss) on Investments	Gain (Loss) on Derivative (1)	TOTAL
Balance at July 1, 2017	$(42,074)	$ 308	$ (14,425)	$(56,191)
Other comprehensive income (loss) before reclassification	(784)	38	4,971	4,225
Acquisition of NCI	-	-	-	-
Amounts reclassified from AOCI	(5,933) (3)	-	4,295 (2)	(1,638)
Net current period other comprehensive income	(6,717)	38	9,266	2,587
Balance at September 30, 2017	$(48,791)	$ 346	$ (5,159)	$(53,604)
For the Nine Months Ended September 30, 2017				
Balance at January 1, 2017	$(42,082)	$ 269	$ (25,082)	$(66,895)
Other comprehensive income before reclassification	(776)	77	15,183	14,484
Acquisition of NCI	-	-	2,284	2,284
Amounts reclassified from AOCI				