

CHICAGO BRIDGE & IRON CO N V
Form 10-Q
July 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____
Commission File Number 1-12815

CHICAGO BRIDGE & IRON COMPANY N.V.
Incorporated in The Netherlands IRS Identification Number: Not Applicable

Oostduinlaan 75
2596 JJ The Hague
The Netherlands
31-70-3732010

(Address and telephone number 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

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

The number of shares outstanding of the registrant's common stock as of July 15, 2013 – 107,313,308

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CHICAGO BRIDGE & IRON COMPANY N.V.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
Revenue	\$2,850,791	\$1,299,529	\$5,102,220	\$2,500,796
Cost of revenue	2,553,700	1,140,644	4,558,985	2,188,647
Gross profit	297,091	158,885	543,235	312,149
Selling and administrative expense	92,897	52,392	186,865	115,624
Intangibles amortization	16,083	6,037	25,271	12,129
Equity earnings	(5,918	) (4,010	) (10,403	) (5,810
Other operating income, net	(1,367	) (173	) (1,664	) (238
Acquisition-related costs	9,964	1,500	71,220	1,500
Income from operations	185,432	103,139	271,946	188,944
Interest expense	(20,757	) (2,831	) (43,503	) (4,943
Interest income	1,998	2,288	3,869	4,475
Income before taxes	166,673	102,596	232,312	188,476
Income tax expense	(46,973	) (29,752	) (69,740	) (54,658
Net income	119,700	72,844	162,572	133,818
Less: Net income attributable to noncontrolling interests	(13,657	) (524	) (22,921	) (2,011
Net income attributable to CB&I	\$106,043	\$72,320	\$139,651	\$131,807
Net income attributable to CB&I per share:				
Basic	\$0.99	\$0.75	\$1.34	\$1.36
Diluted	\$0.98	\$0.74	\$1.32	\$1.34
Weighted average shares outstanding:				
Basic	107,056	96,401	104,444	96,829
Diluted	108,392	97,632	105,963	98,442
Cash dividends on shares:				
Amount	\$5,363	\$4,832	\$10,708	\$9,717
Per share	\$0.05	\$0.05	\$0.10	\$0.10

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Unaudited)			
Net income	\$119,700	\$72,844	\$162,572	\$133,818
Other comprehensive (loss) income, net of tax:				
Change in cumulative translation adjustment	(19,039	) (12,231	) (32,082	) (4,796
Change in unrealized fair value of cash flow hedges	7,038	(222	) 5,307	689
Change in unrecognized prior service pension credits/costs	(120	) (235	) (312	) (323
Change in unrecognized actuarial pension gains/losses	387	2,474	5,284	1,860
Comprehensive income	107,966	62,630	140,769	131,248
Less: Net income attributable to noncontrolling interests	(13,657	) (524	) (22,921	) (2,011
Less: Change in cumulative translation adjustment attributable to noncontrolling interests	2,387	(1	) 1,504	(525
Comprehensive income attributable to CB&I	\$96,696	\$62,105	\$119,352	\$128,712

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents (\$208,819 and \$142,285 related to variable interest entities (“VIEs”))	\$426,609	\$643,395
Restricted cash (related to the Shaw Acquisition)	—	800,000
Accounts receivable, net (\$167,206 and \$63,649 related to VIEs)	1,354,152	752,985
Inventory	318,220	32,319
Costs and estimated earnings in excess of billings (\$105,669 and \$38,967 related to VIEs)	781,323	303,540
Deferred income taxes	410,695	88,681
Other current assets	293,836	100,635
Total current assets	3,584,835	2,721,555
Equity investments	96,042	97,267
Property and equipment, net (\$24,627 and \$0 related to VIEs)	801,889	285,871
Deferred income taxes	63,072	73,201
Goodwill	3,365,880	926,711
Other intangibles, net	613,341	166,308
Other non-current assets (\$25,513 and \$0 related to VIEs)	153,652	58,762
Total assets	\$8,678,711	\$4,329,675
Liabilities		
Revolving facility debt	\$269,000	\$—
Current maturities of long-term debt	87,500	—
Accounts payable (\$247,434 and \$87,301 related to VIEs)	1,092,637	654,504
Accrued liabilities	693,383	354,700
Billings in excess of costs and estimated earnings (\$47,550 and \$39,105 related to VIEs)	2,136,814	758,938
Deferred income taxes	7,423	4,380
Total current liabilities	4,286,757	1,772,522
Long-term debt	1,675,000	800,000
Other non-current liabilities	372,614	272,443
Deferred income taxes	257,418	88,400
Total liabilities	6,591,789	2,933,365
Shareholders’ Equity		
Common stock, Euro .01 par value; shares authorized: 250,000; shares issued: 107,857 and 101,522; shares outstanding: 107,261 and 96,835	1,275	1,190
Additional paid-in capital	735,511	363,417
Retained earnings	1,429,685	1,300,742
Stock held in trust	(5,245	) (3,031
Treasury stock, at cost: 596 and 4,688 shares	(30,455	) (193,533
Accumulated other comprehensive loss	(121,331	) (101,032
Total CB&I shareholders’ equity	2,009,440	1,367,753
Noncontrolling interests	77,482	28,557
Total shareholders’ equity	2,086,922	1,396,310

Total liabilities and shareholders' equity	\$8,678,711	\$4,329,675
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The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)

	Six Months Ended June 30,	
	2013	2012
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	\$ 162,572	\$ 133,818
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	79,170	33,403
Deferred taxes	141,427	30,491
Stock-based compensation expense	44,580	28,439
Equity earnings	(10,403	) (5,810
Gain on property and equipment transactions	(1,664	) (238
Unrealized loss on foreign currency hedge ineffectiveness	132	1,124
Excess tax benefits from stock-based compensation	(537	) (18,045
Change in operating assets and liabilities:		
Increase in receivables, net	(205,458	) (127,796
Change in contracts in progress, net	(221,071	) (66,746
Increase in inventory	(13,709	) (7,106
(Decrease) increase in accounts payable	(97,355	) 33,159
(Increase) decrease in other current and non-current assets	(48,685	) 1,730
Decrease in accrued and other non-current liabilities	(154,251	) (31,765
Decrease in equity investments	18,244	20,000
Change in other, net	6,266	4,136
Net cash (used in) provided by operating activities	(300,742	) 28,794
Cash Flows from Investing Activities		
Shaw Acquisition, net of unrestricted cash acquired of \$1,137,927	(1,713,333) —
Other acquisitions	(53,000) —
Capital expenditures	(40,867	) (34,187
Proceeds from sale of property and equipment	5,928	1,137
Equity investments	(1,050) —
Cash deposited into restricted cash and cash equivalents, net	(40,921) —
Proceeds from sale of restricted short-term investments	16,268	—
Net cash used in investing activities	(1,826,975	) (33,050
Cash Flows from Financing Activities		
Revolving facility borrowings, net	269,000	—
Term loan borrowings	1,000,000	—
Cash withdrawn from restricted cash and cash equivalents (Senior Notes)	800,000	—
Cash withdrawn from restricted cash and cash equivalents (Westinghouse-related debt)	1,309,022	—
Repayment of Westinghouse-related debt	(1,353,694) —
Repayments on term loan	(37,500) —
Excess tax benefits from stock-based compensation	537	18,045
Purchase of treasury stock	(24,030	) (123,255
Issuance of stock	23,234	6,676
Dividends paid	(10,708) (9,717
Distributions to noncontrolling interests	(9,157) (3,562

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Revolving facility and deferred financing costs	(26,987) —	
Net cash provided by (used in) financing activities	1,939,717	(111,813)
Effect of exchange rate changes on cash and cash equivalents	(28,786	) (2,914)
Decrease in cash and cash equivalents	(216,786	) (118,983)
Cash and cash equivalents, beginning of the year	643,395	671,811	
Cash and cash equivalents, end of the period	\$426,609	\$552,828	

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except per share data)

	Common Stock		Additional Paid-In	Retained	Stock Held in Trust		Treasury Stock		Accumulated Other Comprehens (Loss) Income (Note 13)	Non-controlling Interests	Total Shareh Equity
	Shares	Amount	Capital	Earnings (Unaudited)	Shares	Amount	Shares	Amount			
Balance at December 31, 2012	96,835	\$1,190	\$363,417	\$1,300,742	316	\$(3,031)	4,688	\$(193,533)	\$(101,032)	\$28,557	\$1,396,000
Net income	—	—	—	139,651	—	—	—	—	—	22,921	162,572
Change in cumulative translation adjustment, net	—	—	—	—	—	—	—	—	(30,578)	(1,504)	(32,082)
Change in unrealized fair value of cash flow hedges, net	—	—	—	—	—	—	—	—	5,307	—	5,307
Change in unrecognized prior service pension credits/costs, net	—	—	—	—	—	—	—	—	(312)	—	(312)
Change in unrecognized actuarial pension gains/losses, net	—	—	—	—	—	—	—	—	5,284	—	5,284
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(9,157)	(9,157)
Dividends paid (\$0.10 per share)	—	—	—	(10,708)	—	—	—	—	—	—	(10,708)
Stock-based compensation expense	—	—	44,580	—	—	—	—	—	—	—	44,580
Acquisition of The Shaw Group Inc.	8,893	85	388,600	—	—	—	(2,559)	100,125	—	36,665	525,476

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Issuance of treasury stock to trust	98	—	896	—	98	(5,245)	(98)	4,349	—	—	—
Release of trust shares	(15)	—	(2,175)	—	(316)	3,031	15	(856)	—	—	—
Purchase of treasury stock	(451)	—	—	—	—	—	451	(24,030)	—	—	(24,030)
Issuance of stock	1,901	—	(59,807)	—	—	—	(1,901)	83,490	—	—	23,683
Balance at June 30, 2013	107,261	\$1,275	\$735,511	\$1,429,685	98	\$(5,245)	596	\$(30,455)	\$(121,331)	\$77,482	\$2,086

	Common Stock	Additional Paid-In	Retained Earnings	Stock Held in Trust	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interests	Total Shareholders' Equity			
	Shares	Amount	Capital	Earnings	Shares	Amount	Shares	Amount			
Balance at December 31, 2011	97,596	\$1,190	\$371,669	\$1,018,481	752	\$(9,788)	3,927	\$(142,666)	\$(61,152)	\$18,696	\$1,196,481
Net income	—	—	—	131,807	—	—	—	—	—	2,011	133,818
Change in cumulative translation adjustment, net	—	—	—	—	—	—	—	—	(5,321)	525	(4,796)
Change in unrealized fair value of cash flow hedges, net	—	—	—	—	—	—	—	—	689	—	689
Change in unrecognized prior service pension credits/costs, net	—	—	—	—	—	—	—	—	(323)	—	(323)
Change in unrecognized actuarial pension gains/losses, net	—	—	—	—	—	—	—	—	1,860	—	1,860
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(3,562)	(3,562)
Dividends paid (\$0.10 per share)	—	—	—	(9,717)	—	—	—	—	—	—	(9,717)
	—	—	28,439	—	—	—	—	—	—	—	28,439

Stock-based
compensation
expense

Release of trust shares	—	—	(1,712)	—	(435)	6,749	—	—	—	—	5,037
Purchase of treasury stock	(2,779)	—	—	—	—	—	2,779	(123,255)	—	—	(123,255)
Issuance of stock	1,841	—	(45,767)	—	—	—	(1,841)	65,538	—	—	19,771
Balance at June 30, 2012	96,658	\$1,190	\$352,629	\$1,140,571	317	\$(3,039)	4,865	\$(200,383)	\$(64,247)	\$17,670	\$1,244,3

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(\$ and share values in thousands, except per share data)

(Unaudited)

1. ORGANIZATION AND NATURE OF OPERATIONS

Chicago Bridge & Iron Company N.V. (“CB&I” or the “Company”) provides a wide range of services, including conceptual design, technology, engineering, procurement, fabrication, modularization, construction, commissioning, maintenance, program management and environmental services to customers in the energy infrastructure market throughout the world, and is a provider of diversified government services. Our business is aligned into four principal operating groups: (1) Engineering, Construction and Maintenance, (2) Fabrication Services, (3) Technology, and (4) Government Solutions. See Note 16 for a description of our operating groups and related financial information.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying unaudited interim Condensed Consolidated Financial Statements (“Financial Statements”) for CB&I have been prepared pursuant to the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (the “SEC”) and in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). These Financial Statements include all wholly-owned subsidiaries and those entities which we are required to consolidate. See the “Partnering Arrangements” section of this footnote for further discussion of our consolidation policy for those entities that are not wholly-owned. We believe these Financial Statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our results of operations and cash flows for the six months ended June 30, 2013 and 2012 and our financial position as of June 30, 2013. The December 31, 2012 Condensed Consolidated Balance Sheet (“Balance Sheet”) was derived from our December 31, 2012 audited Consolidated Balance Sheet. Inventory balances at December 31, 2012 have been reclassified from other current assets to conform to our