CHICAGO BRIDGE & IRON CO N V
Form 10-Q
October 26, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010
OR

o **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. þ Yes o 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). þ Yes o 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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant s common stock as of October 15, 2010 99,199,640

CHICAGO BRIDGE & IRON COMPANY N.V.
Table of Contents

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Revenue	$ 909,099	$ 1,010,401	$ 2,694,467	$ 3,518,490
Cost of revenue	789,231	892,866	2,332,016	3,123,927
Gross profit	119,868	117,535	362,451	394,563
Selling and administrative expenses	43,365	48,292	140,955	158,778
Intangibles amortization	5,832	6,080	17,592	17,553
Other operating (income) expense, net	(708)	(1,461)	144	9,875
Equity earnings	(6,687)	(9,852)	(13,729)	(28,776)
Income from operations	78,066	74,476	217,489	237,133
Interest expense	(5,739)	(4,916)	(12,538)	(16,019)
Interest income	1,272	398	3,563	1,190
Income before taxes	73,599	69,958	208,514	222,304
Income tax expense	(19,918)	(28,070)	(61,044)	(85,311)
Net income	53,681	41,888	147,470	136,993
Less: Net income attributable to noncontrolling interests	(1,837)	(1,065)	(6,108)	(3,934)
Net income attributable to CB&I	$ 51,844	$ 40,823	$ 141,362	$ 133,059
Net income attributable to CB&I per share:				
Basic	$ 0.53	$ 0.43	$ 1.44	$ 1.40
Diluted	$ 0.52	$ 0.42	$ 1.41	$ 1.38
Weighted average shares outstanding:				
Basic	97,675	95,727	98,448	95,205
Diluted	99,756	97,489	100,445	96,318

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

Table of Contents

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

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	$ 360,871	$ 326,000
Accounts receivable, net	410,658	477,844
Costs and estimated earnings in excess of billings	125,055	221,569
Deferred income taxes	99,825	85,224
Other current assets	105,488	84,941
Total current assets	1,101,897	1,195,578
Equity investments	117,170	132,258
Property and equipment, net	282,856	316,112
Non-current contract retentions	3,305	7,146
Deferred income taxes	76,173	102,538
Goodwill	943,928	962,690
Other intangibles, net	199,445	216,910
Other non-current assets	101,174	83,535
Total assets	$ 2,825,948	$ 3,016,767
Liabilities		
Notes payable	$ 526	$ 709
Current maturity of long-term debt	40,000	40,000
Accounts payable	352,501	467,944
Accrued liabilities	240,700	235,242
Billings in excess of costs and estimated earnings	738,365	920,732
Income taxes payable		15,248
Total current liabilities	1,372,092	1,679,875
Long-term debt	80,000	80,000
Other non-current liabilities	243,450	258,517
Deferred income taxes	102,764	101,085
Total liabilities	1,798,306	2,119,477
Shareholders Equity		
Common stock, Euro .01 par value; shares authorized: 250,000,000 in 2010 and 2009; shares issued: 101,522,318 in 2010 and 2009; shares outstanding: 99,104,819 in 2010 and 100,203,855 in 2009	1,190	1,190
Additional paid-in capital	348,797	359,283

Retained earnings	719,974	578,612
Stock held in Trust	(20,364)	(33,576)
Treasury stock, at cost: 2,417,499 shares in 2010 and 1,318,463 shares in 2009	(45,227)	(30,872)
Accumulated other comprehensive loss	(4,553)	(817)
Total CB&I shareholders equity	999,817	873,820
Noncontrolling interests	27,825	23,470
Total equity	1,027,642	897,290
Total liabilities and shareholders equity	$ 2,825,948	$ 3,016,767

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

4

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income	$ 53,681	$ 41,888	$ 147,470	$ 136,993
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	35,154	25,471	(5,185)	41,210
Change in unrealized fair value of cash flow hedges	3,262	(1,083)	1,609	7,028
Change in unrecognized net prior service pension credits	(127)	(40)	(104)	(119)
Change in unrecognized net actuarial pension losses	1,554	49	163	148
Comprehensive income	93,524	66,285	143,953	185,260
Less: Comprehensive income attributable to noncontrolling interests	(2,090)	(1,100)	(6,327)	(3,739)
Comprehensive income attributable to CB&I	$ 91,434	$ 65,185	$ 137,626	$ 181,521

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

Table of Contents

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

	Nine Months Ended September 30, 2010	2009
Cash Flows from Operating Activities		
Net income	$ 147,470	$ 136,993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,734	59,941
Deferred taxes	21,185	8,913
Stock-based compensation expense	25,987	23,358
Equity earnings, net	(11,765)	(27,875)
Loss (gain) on sale of property and equipment and equity investments	5,417	(5,388)
Unrealized gain on foreign currency hedge ineffectiveness	(422)	(3,056)
Excess tax benefits from stock-based compensation	(6,765)	(47)
Change in operating assets and liabilities (see below)	(149,622)	(89,398)
Net cash provided by operating activities	87,219	103,441
Cash Flows from Investing Activities		
Cost of business acquisitions, net of cash acquired	(4,000)	
Capital expenditures	(16,386)	(36,133)
Proceeds from sale of property and equipment and equity investments	6,186	19,256
Net cash used in investing activities	(14,200)	(16,877)
Cash Flows from Financing Activities		
(Decrease) increase in notes payable	(183)	1,803
Excess tax benefits from stock-based compensation	6,765	47
Purchase of treasury stock	(51,264)	(646)
Issuance of common stock associated with stock plans		24,221
Issuance of treasury stock associated with stock plans	7,904	7,419
Revolving facility costs and other	(11,776)	
Net cash (used in) provided by financing activities	(48,554)	32,844
Effect of exchange rate changes on cash	10,406	4,404
Increase in cash and cash equivalents	34,871	123,812
Cash and cash equivalents, beginning of the year	326,000	88,221
Cash and cash equivalents, end of the period	$ 360,871	$ 212,033

Change in Operating Assets and Liabilities

Decrease in receivables, net	$ 67,186	$ 64,838
Change in contracts in progress, net	(85,853)	(51,173)
Decrease (increase) in non-current contract retentions	3,841	(3,438)
Decrease in accounts payable	(115,443)	(160,403)
(Increase) decrease in other current and non-current assets	(25,736)	17,832
Decrease in income taxes payable	(15,248)	(17,063)
(Decrease) increase in accrued and other non-current liabilities	(9,795)	21,404
Decrease in equity investments	26,853	18,219
Decrease in other	4,573	20,386
Total	$ (149,622)	$ (89,398)

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

CHICAGO BRIDGE & IRON COMPANY N.V.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
($ values in thousands, except per share data)
(Unaudited)

1. Significant Accounting Policies

Basis of Presentation The accompanying unaudited interim Condensed Consolidated Financial Statements (financial statements) for Chicago Bridge & Iron Company N.V. (CB&I or the Company) have been prepared pursuant to the rules and regulations of the United States (U.S.) Securities and Exchange Commission (the SEC). In the opinion of management, these financial statements include all adjustments, which are of a normal recurring nature, that are necessary for a fair presentation of our financial position as of September 30, 2010, and our results of operations and cash flows for each of the three-month and nine-month periods ended September 30, 2010 and 2009. The December 31, 2009 condensed consolidated balance sheet is derived from our December 31, 2009 audited Consolidated Financial Statements.

Management believes the disclosures in these financial statements are adequate to make the information presented not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to the rules and regulations of the SEC for interim reporting periods. The results of operations and cash flows for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying financial statements should be read in conjunction with our Consolidated Financial Statements and notes thereto included in our 2009 Annual Report on Form 10-K.

Revenue Recognition Our contracts are awarded on a competitive bid and negotiated basis. We offer our customers a range of contracting options, including fixed-price, cost reimbursable and hybrid approaches. We follow the guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Revenue Recognition Topic 605-35 for accounting policies relating to our use of the percentage-of-completion (POC) method, estimating costs and revenue recognition, including the recognition of profit incentives, unapproved change orders and claims, and combining and segmenting contracts. Our contract revenue is primarily recognized using the POC method, based on the percentage that actual costs-to-date bear to total estimated costs to complete each contract. We utilize this cost-to-cost approach, the most widely recognized method used for POC accounting, as we believe this method is less subjective than relying on assessments of physical progress. Under the cost-to-cost approach, the use of estimated cost to complete each contract is a significant variable in the process of determining recognized revenue and is a significant factor in the accounting for contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates.

Contract revenue reflects the original contract price adjusted for approved change orders and estimated minimum recoveries of unapproved change orders and claims. We recognize revenue associated with unapproved change orders and claims to the extent that related costs have been incurred, recovery is probable and the value can be reliably estimated. At September 30, 2010 and December 31, 2009, we had no material unapproved change orders or claims recognized in revenue.

Losses expected to be incurred on contracts in progress are charged to earnings in the period such losses become known. Net losses recognized during the three and nine-month periods ended September 30, 2010 were not significant for active projects in a loss position. Net losses recognized during the comparable three and nine-month periods of 2009 totaled approximately $25,500 and $66,500, respectively.

Table of Contents

Cumulative costs and estimated earnings recognized to date in excess of cumulative billings is reported on the balance sheet as costs and estimated earnings in excess of billings. Cumulative billings in excess of cumulative costs and estimated earnings recognized to date is reported on the balance sheet as billings in excess of costs and estimated earnings. Any billed revenue that has not been collected is reported as accounts receivable. The timing of when we bill our customers is generally dependent upon advance billing terms or completion of certain phases of the work. Accounts receivable at September 30, 2010 and December 31, 2009 included contract retentions expected to be collected within one year totaling $28,100 and $23,200, respectively. Contract retentions collectible beyond one year are included in non-current contract retentions. Cost of revenue includes direct contract costs, such as material and construction labor, and indirect costs that are attributable to contract activity.

Income Taxes Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The final realization of deferred tax assets depends upon our ability to generate sufficient future taxable income of the appropriate character and in the appropriate jurisdictions.

We provide income tax reserves in situations where we have and have not received tax assessments. Tax reserves are provided in those instances where we consider it more likely than not that additional taxes will be due in excess of amounts reflected in income tax returns filed worldwide. As a matter of standard policy, we continually review our exposure to additional income tax obligations and as further information is known or events occur, increases or decreases, as appropriate, may be recorded.

Foreign Currency The nature of our business activities involves the management of various financial and market risks, including those related to changes in currency exchange rates. The effects of translating financial statements of foreign operations into our reporting currency are recognized as a cumulative translation adjustment in accumulated other comprehensive (loss) income (AOCI). These balances are net of tax, which includes tax credits associated with the translation adjustment, where applicable. Foreign currency exchange gains (losses) are included within cost of revenue.

Financial Instruments We utilize derivative instruments in certain circumstances to mitigate the effects of changes in foreign currency exchange rates and interest rates, as described below:

> *Foreign Currency Exchange Rate Derivatives* We do not engage in currency speculation; however, we do utilize foreign currency derivatives on an on-going basis to mitigate certain foreign currency-related operating exposures and to hedge intercompany loans utilized to finance our non-U.S. subsidiaries. We generally seek hedge accounting treatment for contracts used to hedge operating exposures and designate them as cash flow hedges. Therefore, gains and losses exclusive of credit risk and forward points (which represent the time-value component of the fair value of our derivative positions) are included in AOCI until the associated underlying operating exposure impacts our earnings.
>
> Changes in the fair value of forward points, gains and losses associated with instruments deemed ineffective during the period and instruments that we do not designate as cash flow hedges, including those instruments used to hedge intercompany loans, are recognized within cost of revenue.
>
> *Interest Rate Derivatives* Our interest rate derivatives are limited to a swap arrangement in place to hedge against interest rate variability associated with our term loan with JPMorgan Chase Bank, N.A. (the Term Loan). The swap arrangement is designated as a cash flow hedge, as its critical terms matched those of the Term Loan at inception and as of September 30, 2010. Therefore, changes in the fair value of the hedge are included in AOCI.

Table of Contents

For those contracts designated as cash flow hedges, we formally document all relationships between the hedging instruments and associated hedged items, as well as our risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives to either specific firm commitments or highly-probable forecasted transactions.

We continually assess, at inception and on an on-going basis, the effectiveness of hedging instruments in offsetting changes in the cash flows of the designated hedged items. Hedge accounting designation is discontinued when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the cash flows of the hedged item, including firm commitments or forecasted transactions, (2) the derivative is sold, terminated, exercised, or expires, (3) it is no longer probable that the forecasted transaction will occur, or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

For additional disclosures associated with our financial instruments, see Note 4 to our financial statements.

New Accounting Standards In the first quarter of 2010, certain disclosure provisions of the FASB Accounting Standards Update 2010-06 became effective for the Company. This standard clarified existing fair value requirements under the FASB ASC s Fair Value Measurements and Disclosures Topic 820, including the level of disaggregation required for fair value disclosures and disclosure of the valuation techniques and inputs used in estimating level 2 and level 3 fair value measurements. Our adoption of this standard did not have a material impact on our financial position, results of operations or cash flows. For specific disclosures under this standard, see Note 4 to our financial statements.

Per Share Computations Basic earnings per share (EPS) is calculated by dividing net income attributable to CB&I by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of dilutive securities, consisting of employee stock options, restricted shares, performance shares (where performance criteria have been met) and directors deferred-fee shares.

A reconciliation of weighted average basic shares outstanding to diluted shares outstanding and the computation of basic and diluted EPS are as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income attributable to CB&I	$ 51,844	$ 40,823	$ 141,362	$ 133,059
Weighted average shares outstanding basic	97,675	95,727	98,448	95,205
Effect of stock options/restricted shares/performance shares [(1)]	2,012	1,694	1,928	1,046
Effect of directors deferred-fee shares [(1)]	69	68	69	67
Weighted average shares outstanding diluted	99,756	97,489	100,445	96,318

(Note: Shares and net income values in the table above are presented in 000 s.)

Net income attributable to CB&I per share:				
Basic	$ 0.53	$ 0.43	$ 1.44	$ 1.40
Diluted	$ 0.52	$ 0.42	$ 1.41	$ 1.38

(1) For both the three and nine-month periods ended

September 30, 2010, we excluded approximately 500 thousand shares from our diluted EPS calculations, as such shares were considered antidilutive. For the comparable three and nine-month periods ended September 30, 2009, we excluded approximately 400 thousand and 500 thousand shares, respectively, from our diluted EPS calculations, as such shares were considered antidilutive.

Concentrations of Credit Risk Our billed and unbilled revenue is generated from clients around the world, the majority of which are in the natural gas, petroleum and petrochemical industries. Most contracts require payments as projects progress or, in certain cases, advance payments. We generally do not require collateral, but in most cases can place liens against the property or equipment constructed or terminate the contract if a material default occurs. We maintain reserves for potential credit losses, and as of September 30, 2010 and December 31, 2009, allowances for doubtful accounts totaled $5,100 and $3,900, respectively.

2. Stock-Based Compensation Plans

During the three-month periods ended September 30, 2010 and 2009, we recognized $4,591 and $3,935 of stock-based compensation expense, respectively, and during the nine-month periods ended September 30, 2010 and 2009, we recognized $25,987 and $23,358 of stock-based compensation expense, respectively.

During the nine-month period ended September 30, 2010, we granted 88,112 stock options with a weighted-average fair value per share of $14.16 and a weighted-average exercise price per share of $22.19. Using the Black-Scholes option-pricing model, the grant date fair value of each option grant was estimated based upon the following weighted-average assumptions: risk-free interest rate of 3.24%, no expected dividend yield, expected volatility of 68.71% and an expected life of 6 years. The risk-free interest rate is based on the U.S. Treasury yield curve on the grant date, expected volatility is based on the historical volatility of our stock, and the expected life of options granted represents the period of time that they are expected to be outstanding. We also use historical information to estimate option exercises and forfeitures.

During the nine-month period ended September 30, 2010, we granted 620,299 restricted shares and 447,069 performance shares, with weighted-average grant-date fair values per share of $22.04 and $22.10, respectively. Additionally, we distributed 895,652 performance shares in 2010 upon vesting and achievement of certain performance goals.

Changes in common stock, additional paid-in capital, stock held in trust and treasury stock since December 31, 2009 primarily relate to activity associated with our stock-based compensation and share repurchase programs. For additional information related to our stock-based compensation program, see Note 13 to our Consolidated Financial Statements in our 2009 Annual Report on Form 10-K. For additional information related to our share repurchase program, see Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, contained in our Form 10-Q for the period ended June 30, 2010.

3. Goodwill and Other Intangibles

Goodwill

General At September 30, 2010 and December 31, 2009, our goodwill balances were $943,928 and $962,690, respectively, attributable to the excess of the purchase price over the fair value of net assets acquired as part of previous acquisitions. The decrease in goodwill for the nine-month period ended September 30, 2010 was as follows:

Balance at December 31, 2009	$ 962,690
Foreign currency translation and other	(17,130)
Tax goodwill in excess of book goodwill	(1,632)
Balance at September 30, 2010	$ 943,928

Impairment Testing Goodwill and indefinite-lived intangible assets are not amortized to earnings, but instead are reviewed for impairment at least annually via a two-phase process, absent any indicators of impairment. The first phase screens for impairment, while the second phase, if necessary, measures impairment. We have elected to perform our annual analysis of goodwill during the fourth quarter of each year based upon balances as of the beginning of that year s fourth quarter. Impairment testing of goodwill is accomplished by comparing an estimate of discounted future cash flows to the net book value of each applicable reporting unit. No indicators of goodwill impairment have been identified during 2010. There can be no assurance that future goodwill impairment tests will not result in charges to earnings.

Table of Contents

Other Intangibles

The following table provides a summary of our finite-lived intangible asset balances at September 30, 2010 and December 31, 2009, including weighted-average useful lives for each major intangible asset class and in total:

	September 30, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets (weighted average life)				
Technology (15 years)	$ 208,158	$ (39,726)	$ 207,518	$ (29,864)
Tradenames (9 years)	38,693	(18,292)	39,170	(13,763)
Backlog (5 years)	10,860	(6,167)	10,954	(4,592)
Lease agreements (6 years)	7,657	(3,546)	8,043	(2,759)
Non-compete agreements (7 years)	2,995	(1,187)	3,098	(895)
Total amortizable intangible assets (13 years)	$ 268,363	$ (68,918)	$ 268,783	$ (51,873)

The decrease in other intangibles for the nine-month period ended September 30, 2010 relates to amortization expense and the impact of foreign currency translation, partly offset by a Lummus Technology investment. Amortization expense for the nine-month period ended September 30, 2010 totaled $17,592.

4. Financial Instruments

Foreign Currency Exchange Rate Derivatives

Operating Exposures As of September 30, 2010, the outstanding notional value of our outstanding forward contracts to he