

MCDERMOTT INTERNATIONAL INC

Form 10-K

March 03, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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 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)
757 N. ELDRIDGE PKWY.

72-0593134
(I.R.S. Employer
Identification No.)

HOUSTON, TEXAS
(Address of Principal Executive Offices)
(281) 870-5000

77079
(Zip Code)

Registrant's Telephone Number, Including Area Code:

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

Title of each class	Name of each Exchange on which registered
Common Stock, \$1.00 par value	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer 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 aggregate market value of the registrant's common stock held by nonaffiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 28, 2013) was approximately \$1.9 billion.

The number of shares of the registrant's common stock outstanding at February 17, 2014 was 237,146,619.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the registrant's 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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*Statements we make in this Annual Report on Form 10-K which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks, uncertainties and assumptions, including those to which we refer under the headings *Cautionary Statement Concerning Forward-Looking Statements* and *Risk Factors* in Items 1 and 1A of Part I of this report.*

PART I

Item 1. BUSINESS

General

McDermott International, Inc. (*MII*), a corporation incorporated under the laws of the Republic of Panama in 1959, is a leading engineering, procurement, construction and installation (*EPCI*) company focused on designing and executing complex offshore oil and gas projects worldwide. We are one of the largest U.S.-based engineering and construction (*E&C*) companies principally focused on the upstream offshore oil and gas sector. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Our customers include national, major integrated and other oil and gas companies. Operating in approximately 20 countries across the Atlantic, Middle East and Asia Pacific, our integrated resources include approximately 14,000 employees and a diversified fleet of marine vessels, fabrication facilities and engineering offices. We support our activities with comprehensive project management and procurement services. We have fully integrated capabilities in both shallow water and deepwater construction. We believe we are among the few offshore construction contractors globally capable of providing this wide range of services in many of the larger offshore oil and gas producing regions in 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 this annual report on Form 10-K, unless the context otherwise indicates, *we*, *us* and *our* mean *MII* and its consolidated subsidiaries. *MII*'s common stock is listed on the New York Stock Exchange under the trading symbol *MDR*.

Business Segments

Our operating segments consist of Asia Pacific, the Atlantic, Caspian and the Middle East. The Caspian and Middle East operating segments are aggregated into the Middle East reporting segment due to the proximity of regions and similarities in the nature of services provided, economic characteristics and oversight responsibilities. We also report certain corporate and other non-operating activities under the heading *Corporate and Other*. *Corporate and Other* primarily reflects corporate personnel and activities, incentive compensation programs and other costs, which are generally fully allocated to our operating segments. Accordingly, we report our financial results under reporting segments consisting of Asia Pacific, Atlantic and the Middle East. For financial information about our segments, see Note 11 to our consolidated financial statements included in this annual report.

Asia Pacific Segment

Through our Asia Pacific segment, we serve the needs of customers primarily in Australia, Indonesia, Vietnam, Malaysia and Thailand. Project focus in this segment includes the fabrication and installation of fixed and floating structures and the installation of pipelines and subsea systems. The majority of our projects in this segment are performed on an EPCI basis. Engineering and procurement services are provided by our Singapore office and are supported by additional resources located in Chennai, India. The primary fabrication facility for this segment is

located on Batam Island, Indonesia. Additionally, through our equity ownership interest in two separate joint ventures, we have access to fabrication capacity in China and Malaysia. At December 31, 2013 and 2012, our Asia Pacific segment employed approximately 5,100 and 5,300 employees, respectively.

Table of Contents***Atlantic Segment***

Through our Atlantic segment, we serve the needs of customers primarily in the United States, Brazil, Mexico, Trinidad and Africa. Project focus in this segment includes the fabrication and installation of fixed and floating structures and the installation of pipelines and subsea systems. Engineering and procurement services are supported by engineering resources in Dubai and Chennai. The primary fabrication facility for this segment is located in Altamira, Mexico. We are in the process of preparing for the discontinued utilization of the Morgan City fabrication facility, as further discussed below under the caption Atlantic and Corporate Restructuring. Our Atlantic segment employed approximately 2,200 and 1,700 employees at December 31, 2013 and 2012, respectively.

Middle East Segment

Through our Middle East segment, which includes the Caspian region, we serve the needs of customers primarily in Saudi Arabia, Qatar, the United Arab Emirates (U.A.E.), Kuwait, India, Azerbaijan, Russia, and the North Sea. Project focus in this segment relates primarily to the fabrication and offshore installation of fixed and floating structures and the installation of pipelines and subsea systems. The majority of our projects in this segment are performed on an EPCI basis. Engineering and procurement services are provided by our Dubai, U.A.E., Chennai, India, Al Khobar, Saudi Arabia and United Kingdom offices and are supported by additional resources from our Houston and Baku, Azerbaijan offices. The primary fabrication facility for this segment is located in Dubai, U.A.E. At December 31, 2013 and 2012, our Middle East segment employed approximately 6,700 and 7,000 employees, respectively.

The above-mentioned fabrication facilities in each segment are equipped with a wide variety of heavy-duty construction and fabrication equipment, including cranes, welding equipment, machine tools and robotic and other automated equipment. Project installation is performed by major construction vessels, which we own or lease and are stationed throughout the various regions and provide structural lifting/lowering and pipelay services. These major construction vessels are supported by our multi-function vessels and chartered vessels from third parties to perform a wide array of installation activities that include anchor handling, pipelay, cable/umbilical lay, dive support and hookup/commissioning. See Properties in Item 2 of this annual report.

Atlantic and Corporate Restructuring

We commenced a restructuring of our Atlantic operations during the quarter ended June 30, 2013, which involves our Morgan City, Louisiana, Houston, Texas, New Orleans, Louisiana and Brazil locations. Our Morgan City, Louisiana location was one of our principal fabrication facilities prior to the restructuring. The restructuring involves, among other things, reductions of management, administrative, fabrication and engineering personnel, and a plan to discontinue utilization of the Morgan City facility (after the completion of existing backlog projects, which are currently forecasted to be completed in the third quarter of 2014). Future fabrication operations in the Atlantic segment are expected to be executed using the Altamira, Mexico facility for the foreseeable future. In addition, we have reached an agreement to exit our joint venture operation in Brazil. Costs associated with our Atlantic restructuring activities primarily include severance and other personnel-related costs, costs associated with exiting the joint venture in Brazil, asset impairment and relocation costs, environmental reserves and future unutilized lease costs. The total costs are expected to range between \$55 million to \$60 million in the aggregate. Of the total anticipated costs, we incurred approximately \$14.6 million during the quarter ended December 31, 2013 and had incurred an aggregate of \$34.1 million as of December 31, 2013.

In October 2013, we announced certain executive management changes that became effective during the fourth quarter of 2013. We also expect to implement changes to our organizational structure during the first half of 2014. These structure-related changes are expected to orient the Company around offshore and subsea business lines

supported by four geographic regions. We are also reevaluating and deferring capital expenditures, reducing our fixed-cost structure and seeking to divest certain non-core assets. Costs associated with our

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corporate reorganization activities will primarily include severance, relocation and other personnel-related costs and costs for advisors. The total of these costs is expected to range between \$35 million to \$40 million and to be incurred during 2014 and early 2015. Of the total anticipated costs, we incurred approximately \$1.6 million during the quarter ended December 31, 2013.

Dispositions and Other Items

2013

Assets Held for Sale

We previously committed to a plan to sell four of our multi-function marine vessels, specifically the *Bold Endurance*, *DB 16*, *DB 26* and the *DLB KP1*. Assets classified as held for sale are no longer depreciated. During the quarter ended March 31, 2013, we completed the sale of the *Bold Endurance* and the *DB 26* for aggregate cash proceeds of approximately \$32.0 million, resulting in an aggregate gain of approximately \$12.5 million. We remain in active discussions with interested parties to sell the *DB 16* and *DLB KP1*.

2012

Charter Fleet Business

On March 19, 2012, we completed the sale of our former charter fleet business, which operated 10 of the 14 vessels acquired in our 2007 acquisition of substantially all of the assets of Secunda International Limited (the Secunda Acquisition). The cash proceeds from the charter fleet sale were approximately \$61.0 million, resulting in a gain on the sale of approximately \$0.3 million.

Assets Held for Sale

During the quarter ended September 30, 2012, we committed to a plan to sell three of our multi-function marine vessels, specifically the *Bold Endurance*, *DB 16* and *DB 26*. At December 31, 2012, we classified approximately \$30.0 million as assets held for sale in our consolidated balance sheet. On December 18, 2012, we entered into an agreement to sell the *Bold Endurance* for cash proceeds of approximately \$2.0 million. The sale was completed in January 2013.

2011

Vessel Sale

On August 26, 2011, we completed the sale of the *DB 23* marine vessel. Cash consideration received from the vessel sale was approximately \$8.0 million, resulting in a pre-tax gain of \$7.7 million that is included in our consolidated statement of operations for the year ended December 31, 2011 for the Atlantic segment.

Our results of operations for the periods presented in this annual report reflect the operations of the charter fleet business as discontinued operations.

Acquisitions

During the year ended December 31, 2013, we acquired all of the issued and outstanding shares of capital stock of Deepsea Group Limited, a United Kingdom-based company that provides subsea and other engineering services to international energy companies, primarily through offices in the United Kingdom and the United States. The total consideration we paid for the acquisition was approximately \$9.0 million, which includes cash (\$6.0 million) and the delivery of 313,580 restricted shares of MII common stock (out of treasury).

During the year ended December 31, 2013, we formalized two joint ventures with TH Heavy Engineering Berhad (THHE), whereby we acquired a 30% interest in a subsidiary of THHE, THHE Fabricators Sdn. Bhd.,

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and THHE acquired a 30% interest in our Malaysian subsidiary, Berlian McDermott Sdn. Bhd. See the discussion below under the caption **Joint Ventures** for more information regarding these joint ventures.

We had no significant acquisitions during the years ended December 31, 2012 or 2011.

Contracts

We execute our contracts through a variety of methods, including fixed-price, cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods, with fixed-price being the most prevalent. Contracts are usually awarded through a competitive bid process. Factors that customers may consider include price, facility or equipment availability, technical capabilities of equipment and personnel, efficiency, safety record and reputation.

Fixed-price contracts are for a fixed amount to cover costs and any profit element for a defined scope of work. Fixed-price contracts entail more risk to us because they require us to predetermine both the quantities of work to be performed and the costs associated with executing the work. See **Risk Factors** We are subject to risks associated with contractual pricing in our industry, including the risk that, if our actual costs exceed the costs we estimate on our fixed-price contracts, our profitability will decline, and we may suffer losses in Item 1A of this annual report.

We have contracts that extend beyond one year. Most of our long-term contracts have provisions for progress payments. We attempt to cover anticipated increases in labor, material and service costs of our long-term contracts either through an estimate of such charges, which is reflected in the original price, or through risk-sharing mechanisms, such as escalation or price adjustments for items such as labor and commodity prices.

We generally recognize our contract revenues and related costs on a percentage-of-completion basis. Accordingly, for each contract, we regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit proportionate to the percentage of completion of the related project in the period when we revise those estimates. To the extent that these adjustments result in a reduction or elimination of previously reported profits with respect to a project, we would recognize a charge against current earnings, which could be material.

Our arrangements with customers frequently require us to provide letters of credit, bid and performance bonds or guarantees to secure bids or performance under contracts. While these letters of credit, bonds and guarantees may involve significant dollar amounts, historically, there have been no material payments to our customers under these arrangements.

Some of our contracts contain provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under those provisions. Those contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. As of December 31, 2013, it is possible that we may incur liabilities for liquidated damages aggregating to approximately \$103.0 million, of which approximately \$19.2 million has been recorded in our financial statements, based on our actual or projected failure to meet certain specified contractual milestone dates. The dates for which these potential liquidated damages could arise extend to June 2015. We believe we will be successful in obtaining schedule extensions or other customer-agreed changes that should resolve the potential for additional liquidated damages. Accordingly, we believe that no amounts for these potential liquidated damages in excess of the amounts currently reflected in our financial statements are probable of being paid by us. However, we may not achieve relief on some or all of the issues involved and, as a result, could be subject to higher damage amounts.

Change orders, which are a normal and recurring part of our business, can increase (sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial

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in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period when those estimates are revised. Revenue from unapproved change orders is recognized to the extent of amounts management expects to recover or costs incurred. Unapproved change orders that are disputed by the customer are treated as claims.

In the event of a contract deferral or cancellation, we generally would be entitled to recover costs incurred, settlement expenses and profit on work completed prior to deferral or termination. Significant or numerous cancellations could adversely affect our business, financial condition, results of operations and cash flows.

Backlog

Backlog represents the dollar amount of revenues we expect to recognize in the future from contracts awarded and those that are in progress. These amounts are presented in U.S. dollars and are based on rates that we have contractually agreed to with our customers. Currency risk associated with backlog contracts that is not naturally mitigated within the contract is generally mitigated with the use of foreign currency derivative (hedging) instruments, when deemed significant. However, these actions may not eliminate all currency risk exposure included within our long-term contracts. Backlog is not a measure defined by generally accepted accounting principles and is not a measure of contract profitability. Our methodology for determining backlog may not be comparable to methodologies used by other companies in determining their backlog amounts. The backlog values we disclose include anticipated revenues associated with: (1) the original contract amounts; (2) change orders for which we have received written confirmations from the applicable customers; (3) change orders for which we expect to receive confirmations in the ordinary course of business; and (4) claims that we have made against our customers. We do not include expected revenues of contracts related to unconsolidated joint ventures in our backlog, except to the extent of any contract awards we may receive from those joint ventures.

We include unapproved change orders for which we expect to receive confirmations in the ordinary course of business in backlog, generally to the extent of the lesser of the amounts management expects to recover or the associated costs incurred. Any revenue that would represent profit associated with unapproved change orders is generally excluded from backlog until written confirmation is obtained from the applicable customer. However, consideration is given to our history with the customer as well as the contractual basis under which we may be operating. Accordingly, in certain cases based on our historical experience in resolving unapproved change orders with a customer, the associated profit may be included in backlog. The total unapproved change orders included in our estimates at completion aggregated approximately \$514.2 million, of which approximately \$112.3 million was included in backlog at December 31, 2013. If an unapproved change order is under dispute or has been previously rejected by the customer, the associated amount of revenue is treated as a claim.

For amounts included in backlog that are attributable to claims, we include those claims in backlog when we have a legal basis to do so, consider collection to be probable and believe we can reliably estimate the ultimate value. Claims revenue is included in backlog to the extent of the lesser of the amounts management expects to recover or associated costs incurred. Total claims revenue included in backlog at December 31, 2013 and December 31, 2012 was approximately \$17.2 million and \$187.6 million, respectively. See Note 1 for a discussion of claims revenue included in our estimates at completion as of December 31, 2013.

Backlog may not be indicative of future operating results, and projects in our backlog may be cancelled, modified or otherwise altered by customers. We can provide no assurance as to the profitability of our contracts reflected in backlog. It is possible that our estimates of profit could increase or decrease based on changes in productivity, actual downtime and the resolution of change orders and claims with the customers.

Of the December 31, 2013 backlog amount of \$4.8 billion, approximately \$712.4 million relates to nine active projects that are in loss positions, whereby future revenues are expected to equal costs when recognized.

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Included in this amount are \$204.0 million associated with a recently commenced EPCI project in Altamira which is expected to be completed in the third quarter of 2015, \$156.3 million pertaining to a five-year charter of the *Agile* in Brazil, which began in early 2012, and \$67.7 million relating to a subsea project in the U.S. Gulf of Mexico scheduled for completion during 2014, all of which are being conducted by our Atlantic segment. The amount also includes \$91.6 million relating to an EPCI project in Saudi Arabia which is expected to be completed by mid-2015 and \$53.4 million relating to a pipelay project in the Middle East segment scheduled for completion by mid-2014. These five projects represent 80% of the backlog amount in a loss position. 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. The following table summarizes changes to our backlog:

(In thousands)

Backlog at December 31, 2012	\$ 5,067,164
Bookings from new awards	1,781,204
Additions and reductions on existing contracts	612,787
Less: Amounts recognized in revenues	2,658,932
Backlog at December 31, 2013	\$ 4,802,223

Our backlog at December 31, 2013 and 2012 was as follows:

	December 31, 2013		December 31, 2012	
	(Dollars in approximate millions)			
Asia Pacific	\$ 2,365	49%	\$ 3,003	59%
Atlantic	784	16%	979	20%
Middle East	1,653	35%	1,085	21%
Total Backlog	\$ 4,802	100%	\$ 5,067	100%

Of the December 31, 2013 backlog, we expect to recognize revenues as follows:

	2014	2015	Thereafter
	(In approximate millions)		
Total Backlog⁽¹⁾	\$ 2,572	\$ 1,991	\$ 239

(1) Backlog revenue expected to be recognized on loss projects is approximately \$394.6 million and \$261.4 million for 2014 and 2015, respectively.

Competition

We believe we are among the few offshore construction contractors capable of providing a wide range of services in major offshore oil and gas producing regions of the world. We believe that the substantial capital costs and specialized

capabilities involved in becoming a full-service offshore EPCI contractor create a significant barrier to entry into the market as a global, fully-integrated competitor. We do, however, face substantial competition from regional competitors and less integrated providers of offshore construction services, such as engineering firms, fabrication facilities, pipelaying companies and shipbuilders. A number of companies compete with us in each of the separate EPCI phases in various parts of the world. Our competitors by segment are discussed below.

Asia Pacific

Our Asia Pacific segment's key competitors include: Allseas Marine Contractors S.A.; Daewoo Engineering & Construction Co., Ltd.; EMAS Offshore Pte Ltd.; Heerema Group; Hyundai Heavy Industrial Co.,

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Ltd.; Nippon Steel Corporation; Saipem S.P.A.; Samsung Heavy Industries Co., Ltd.; Sapura Kencana Petroleum; Subsea 7 S.A.; Swiber Holdings Ltd.; and Technip S.A.

Atlantic

Our Atlantic segment's key competitors include: Allseas Marine Contractors S.A.; Dragados Offshore Mexico, S.A.; Gulf Island Fabrication Inc.; Heerema Group; EMAS Offshore Pte Ltd.; KBR, Inc.; Kiewit Corporation; Saipem S.P.A.; Subsea 7 S.A.; and Technip S.A.

Middle East

Our Middle East segment's key competitors include: Hyundai Heavy Industrial Co. Ltd.; Larsen and Toubro Ltd (India); National Petroleum Construction Company (Abu Dhabi); Saipem S.P.A.; Technip S.A.; Valentine Maritime (Gulf) L.L.C. and Petrofac International Ltd.

Joint Ventures

We participate in the ownership of entities with third parties, primarily through corporations, limited liability companies and partnerships, which we sometimes refer to as joint ventures or, when we refer to only those that are not consolidated, as unconsolidated affiliates. We generally account for our investments in joint ventures under the equity method of accounting. Our more substantial unconsolidated joint ventures are described below.

Asia Pacific

Qingdao McDermott Wuchang Offshore Engineering Company Ltd. We co-own this entity with Qingdao Wuchang Heavy Industry Co. Ltd., a leading shipbuilder in China. This joint venture provides procurement and construction services to the oil and gas industry, including floating, production, storage, off-loading (FPSO) vessel construction and integration.

THHE Fabricators Sdn. Bhd. We acquired a 30% interest in this entity from THHE during the quarter ended December 2013. This joint venture will specifically focus on meeting the increasing needs of energy clients in Malaysia for EPCI services.

Middle East

McDermott Engineering L.L.C. and Khalid Suhail Al Shoabi for Engineering Consultancy. We co-own this entity with Mr. Khalid Suhail Al Shoabi, a Saudi Arabian citizen. This joint venture provides various engineering services to the oil and gas industry in Saudi Arabia.

Atlantic

Deepwater Marine Technology LLC. We co-own this entity with Keppel FELS Ltd. This joint venture expands our services related to solutions involving tension leg platforms (TLPs). A TLP is a vertically moored floating structure normally used for the offshore production of oil and gas and is particularly suited for water depth greater than 1,000 feet.

FloaTEC LLC. We co-own this entity with Keppel FELS Ltd. This joint venture designs, markets, procures and contracts floating production systems to the deepwater oil and gas industry. The deepwater solutions provided include

TLPs, spars and production semi-submersibles. A significant part of this entity's strategy is to build on the established presence, reputation and resources of its two owners and to contract activity back to its owners.

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Our five largest customers, as a percentage of our total consolidated revenues, during the years ended December 31, 2013, 2012 and 2011 were as follows:

<i>Year Ended December 31, 2013:</i>	
Saudi Aramco	25%
Azerbaijan International Oil Company	13%
Murphy Oil Company	*
Exxon Mobil Corporation	*
Inpex Operations Australia Pty Ltd.	*
<i>Year Ended December 31, 2012:</i>	
Exxon Mobil Corporation	24%
Saudi Aramco	22%
BHP Billiton Petroleum Pty Ltd	10%
Al Khafji Joint Operations	*
Azerbaijan International Oil Company	*
<i>Year Ended December 31, 2011:</i>	
Exxon Mobil Corporation	36%
Saudi Aramco	24%
Chevron Corporation	10%
Abu Dhabi Marine Operating Company	*
Al Khafji Joint Operations	*

* Less than 10% of consolidated revenues

Customers that account for a significant portion of revenues in one year may represent an immaterial portion of revenues in other years.

Financial Information About Geographic Areas

See Note 11 Segment Reporting for financial information about our revenues and assets.

Raw Materials and Suppliers

Our operations use raw materials, such as carbon and alloy steels in various forms and components for assembly. We generally purchase these raw materials and components as needed for individual contracts. We do not depend on a single source of supply for any significant raw materials.

Employees

We employed approximately 14,000 persons worldwide at December 31, 2013 and 2012. Approximately 4,400 of our current employees were members of labor unions at December 31, 2013, compared with approximately 3,800 at December 31, 2012. Some of our operations are subject to union contracts, which we customarily renew periodically.

We consider our relationships with our employees and the applicable labor unions to be satisfactory.

Patents and Licenses

We currently hold a number of U.S. and foreign patents and also have certain patent applications pending. We also acquire patents and grant licenses to others when we consider it advantageous for us to do so. Although

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in the aggregate our patents and licenses are important to us, we do not regard any single patent or license or group of related patents or licenses as critical or essential to our business as a whole. In general, we depend on our technological capabilities, skilled personnel, construction and management systems, and the application of know-how, rather than patents and licenses, in the conduct of our business.

Hazard Risks and Insurance

Our operations present risks of injury to or death of people, loss of or damage to property and damage to the environment. We conduct difficult and frequently precise operations in very challenging and dynamic locations. We have created loss control systems to assist us in the identification and treatment of the hazard risks presented by our operations, and we endeavor to make sure these systems are effective.

As loss control measures will not always be successful, we seek to establish various means of funding losses and liability related to incidents or occurrences. We primarily seek to do this through contractual protections, including waivers of consequential damages, indemnities, caps on liability, liquidated damage provisions and access to the insurance of other parties. We also procure insurance, operate our own captive insurance company and/or establish funded or unfunded reserves. However, there can be no assurance that these methods will adequately address all risks.

Depending on competitive conditions, the nature of the work, industry custom and other factors, we may not be successful in obtaining adequate contractual protection from our customers and other parties against losses and liabilities arising out of or related to the performance of our work. The scope of the protection may be limited, may be subject to conditions and may not be supported by adequate insurance or other means of financing. In addition, we sometimes have difficulty enforcing our contractual rights with others following a material loss.

Similarly, insurance for certain potential losses or liabilities may not be available or may only be available at a cost or on terms we consider not to be economical. Insurers frequently react to market losses by ceasing to write or severely limiting coverage for certain exposures. Risks that we have frequently found difficult to cost-effectively insure against include, but are not limited to, business interruption (including from the loss of or damage to a vessel), property losses from wind, flood and earthquake events, war and political risks, confiscation or seizure of property (including by act of piracy), pollution liability, liabilities related to occupational health exposures (including asbestos), losses or liability related to acts of terrorism, professional liability/errors and omissions coverage, the failure, misuse or unavailability of our information systems or controls or security measures related to those systems, and liability related to risk of loss of our work in progress and customer-owned materials in our care, custody and control. In cases where we place insurance, we are subject to the credit worthiness of the relevant insurer(s), the available limits of the coverage, our retention under the relevant policy, exclusions in the policy and gaps in coverage.

Our wholly owned captive insurance subsidiary provides coverage for our retentions under employer's liability, general and products liability, automotive liability and workers' compensation insurance and, from time to time, builder's risk and marine hull insurance within certain limits. We may also have business reasons in the future to arrange for our insurance subsidiary to insure other risks which we cannot or do not wish to transfer to outside insurance companies. Premiums charged and reserves related to these insurance programs are based on the facts and circumstances specific to historic losses, loss factors and the performance of the outside insurance market for the type of risk at issue. The actual outcome of insured claims could differ significantly from estimated amounts. We maintain actuarially determined accruals in our consolidated balance sheets to cover losses in our captive insurance programs. These accruals are based on certain assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted as required based upon reported claims, actual claim payments and settlements and claim reserves. These loss estimates and accruals recorded in our financial statements for claims have historically been reasonable. Claims as a result of

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our operations could adversely impact the ability of our captive insurance subsidiary to respond to all claims presented.

Additionally, upon the February 22, 2006 effectiveness of the settlement relating to the Chapter 11 proceedings involving several B&W subsidiaries, most of our subsidiaries contributed substantial insurance rights to the asbestos personal injury trust. Those insurance rights provided coverage for, among other things, asbestos and other personal injury claims, subject to the terms and conditions of the policies. With the contribution of those insurance rights to the asbestos personal injury trust, we may have underinsured or uninsured exposure for non-derivative asbestos claims or other personal injury or other claims that would have been insured under those coverages had the insurance rights not been contributed to the asbestos personal injury trust.

Governmental Regulations and Environmental Matters

General

Many aspects of our operations and properties are affected by political developments and are subject to both domestic and foreign governmental regulations, including those relating to:

constructing and equipping offshore production platforms and other offshore facilities;

marine vessel safety;

the operation of foreign-flagged vessels in the coastal trade;

workplace health and safety;

the Foreign Corrupt Practices Act and similar anti-corruption laws;

currency conversions and repatriation;

taxation of foreign earnings and earnings of expatriate personnel; and

protecting the environment.

In addition, we depend on the demand for our offshore construction services from the oil and gas industry and, therefore, are affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry generally. The adoption of laws and regulations curtailing offshore exploration and development drilling for oil and gas for environmental, economic and other policy reasons would adversely affect our operations by limiting demand for our services.

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations.

The exploration and development of oil and gas properties on the continental shelf of the United States is regulated primarily under the U.S. Outer Continental Shelf Lands Act and related regulations. These laws require the construction, operation and removal of offshore production facilities located on the outer continental shelf of the United States to meet stringent engineering and construction specifications. Similar regulations govern the plugging and abandoning of wells located on the outer continental shelf of the United States and the removal of all production facilities. Violations of regulations issued pursuant to the U.S. Outer Continental Shelf Lands Act and related laws can result in substantial civil and criminal penalties, as well as injunctions curtailing operations.

We cannot determine the extent to which new legislation, new regulations or changes in existing laws or regulations may affect our future operations.

Environmental

Our operations and properties are subject to a wide variety of increasingly complex and stringent foreign, federal, state and local environmental laws and regulations, including those governing discharges into the air and

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water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Some environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, companies may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Such laws and regulations may also expose us to liability for the conduct of or conditions caused by others or for our acts that were in compliance with all applicable laws at the time such acts were performed.

These laws and regulations include the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA), the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and similar laws that provide for responses to, and liability for, releases of hazardous substances into the environment. These laws and regulations also include similar foreign, state or local counterparts to these federal laws, which regulate air emissions, water discharges and hazardous substances and waste management and disposal, and require public disclosure related to the use of various hazardous substances. Our operations are also governed by laws and regulations relating to workplace safety and worker health, including, in the United States, the Occupational Safety and Health Act and regulations promulgated thereunder.

We are currently in the process of investigating and remediating some of our former operating sites. Although we have recorded reserves in connection with certain of these matters, due to the uncertainties associated with environmental remediation, there can be no assurance that the actual costs resulting from these remediation matters will not exceed the recorded reserves.

In addition, offshore construction and drilling in some areas have been opposed by environmental groups and, in some areas, have been restricted. To the extent laws are enacted or other governmental actions are taken that prohibit or restrict offshore construction and drilling or impose environmental protection requirements that result in increased costs to the oil and gas industry in general and the offshore construction industry in particular, our business and prospects could be adversely affected.

We have been identified as a potentially responsible party at various cleanup sites under CERCLA. CERCLA and other environmental laws can impose liability for the entire cost of cleanup on any of the potentially responsible parties, regardless of fault or the lawfulness of the original conduct. Generally, however, where there are multiple responsible parties, a final allocation of costs is made based on the amount and type of wastes disposed of by each party and the number of financially viable parties, although this may not be the case with respect to any particular site. We have not been determined to be a major contributor of wastes to any of these sites. On the basis of our relative contribution of waste to each site, we expect our share of the ultimate liability for the various sites will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows in any given year.

At December 31, 2013 and 2012, we had total environmental reserves of \$6.3 million and \$0.6 million, respectively. Of our total environmental reserves at December 31, 2013, \$6.3 million was included in noncurrent liabilities. We established an environmental reserve of \$5.9 million in connection with our plan to discontinue the utilization of the Morgan City fabrication facility. Of our total environmental reserves at December 31, 2012 and 2011, \$0.6 million and \$1.3 million, respectively, were included in current liabilities. Inherent in our estimates of those reserves and recoveries are our expectations regarding the levels of contamination, remediation costs and recoverability from other parties, which may vary significantly as remediation activities progress. Accordingly, changes in estimates could result in material adjustments to our operating results, and the ultimate loss may differ materially from the amounts that we have provided for in our consolidated financial statements.

During the year ended December 31, 2011, we recovered \$2.0 million of environmental reserves associated with the April 2006 sale of our former Mexican subsidiary, Talleres Navales del Golfo, S.A. de C.V. (TNG). TNG was reported as a discontinued operation in our consolidated financial statements for the year ended

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December 31, 2006 and, accordingly, the recovery of this reserve is included in income from discontinued operations, net of tax for the year ended December 31, 2011.

Cautionary Statement Concerning Forward-Looking Statements

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the "safe harbor" protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential security holders about our company. These statements may include projections and estimates concerning the scope, execution, timing and success of specific projects and our future backlog, revenues, income and capital spending. Forward-looking statements are generally accompanied by words such as estimate, project, predict, forecast, believe, expect, anticipate, plan, seek, goal, could, may, or should or other words that call attention to the fact that they relate to future events or outcomes. Sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

In addition, various statements in this annual report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. Those forward-looking statements appear in Item 1 "Business" and Item 3 "Legal Proceedings" in Part I of this report and in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in the notes to our consolidated financial statements in Item 8 of Part II of this report and elsewhere in this report.

These forward-looking statements include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to:

future levels of revenues, operating margins, income from operations, net income or earnings per share;

outcome of project awards and scope, execution and timing of specific projects, including timing to complete and cost to complete these projects;

future project activities, including the commencement and subsequent timing of marine or installation campaigns on specific projects;

estimates of percentage of completion and contract profits or losses;

anticipated levels of demand for our products and services;

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