MCDERMOTT INTERNATIONAL INC
Form 10-K
March 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

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)	72-0593134 (I.R.S. Employer Identification No.)
757 N. ELDRIDGE PKWY.	
HOUSTON, TEXAS (Address of Principal Executive Offices)	77079 (Zip Code)

(281) 870-5000

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 þ 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 þ

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 þ 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 þ 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. þ

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	þ	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 þ

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 30, 2014) was approximately $2.0 billion.

The number of shares of the registrant's common stock outstanding at February 20, 2015 was 237,810,325.

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 2015 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 an engineering, procurement, construction and installation ("EPCI") company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Operating in approximately 20 countries across the Americas, Middle East, Asia Pacific, the North Sea and Africa, our integrated resources include approximately 13,400 employees and 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 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

In March 2014, we changed our organizational structure to orient around our offshore and subsea business activities through four primary geographic regions. The four geographic regions, which we consider to be our operating segments, consist of Asia Pacific, Americas (previously Atlantic), Middle East and North Sea and Africa. The Caspian region is no longer considered an operating segment and is aggregated into the Middle East reporting segment. The North Sea and Africa operating segment is also aggregated into the Middle East reporting segment due to the proximity of regions and similarities in the nature of services provided, long-term economic characteristics and oversight responsibilities. Accordingly, we report financial results under three reporting segments consisting of Asia Pacific, Americas and the Middle East. We also report certain corporate and other non-operating activities under the heading "Corporate and other," which primarily reflects corporate personnel and activities, incentive compensation programs and other costs that are generally fully allocated to our operating segments. The only corporate costs currently not being allocated to our operating segments are the restructuring costs associated with our corporate reorganization. See Note 11 to our audited consolidated financial statements included in this annual report for summarized financial information on our segments.

Asia Pacific Segment

Through our Asia Pacific segment, we serve the needs of customers primarily in Australia, Indonesia, Vietnam, Malaysia, Thailand and India. 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 interests in joint ventures, we have access to fabrication capacity in China and engineering and fabrication capacity in Malaysia. At December 31, 2014 and 2013, our Asia Pacific segment employed approximately 4,800 and 5,100 employees, respectively.

Americas Segment

Through our Americas 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 have substantially completed the discontinued utilization of the Morgan City facility, as further discussed below under the caption “Restructuring.” Our Americas segment employed approximately 3,000 and 2,200 employees at December 31, 2014 and 2013, respectively.

Middle East Segment

Through our Middle East segment, which includes our North Sea and Africa operations, we serve the needs of customers primarily in Saudi Arabia, Qatar, the United Arab Emirates (U.A.E.), Kuwait, India, Azerbaijan, Russia, the North Sea and Africa. 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, 2014 and 2013, our Middle East segment employed approximately 5,600 and 6,700 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.

Restructuring

We commenced a restructuring of our Americas operations during the quarter ended June 30, 2013, which involved our Morgan City, Louisiana, Houston, Texas, New Orleans, Louisiana and Brazil locations. The restructuring involved, among other things, reductions of management, administrative, fabrication and engineering personnel, and discontinued utilization of the Morgan City facility. With the completion of all remaining project activities from the Morgan City facility during the last quarter of 2014, the restructuring was substantially complete by December 31, 2014. Future fabrication operations in the Americas segment are expected to be executed using the Altamira, Mexico facility. In addition, we exited our joint venture operation in Brazil in 2014. Costs associated with our Americas restructuring activities primarily included 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.

We have completed a major review of our cost structure, and we are implementing a plan to increase our profitability and flexibility of the Company through reduced fixed and variable costs. The plan includes headcount reductions, as well as the centralization of procurement and operational activities. We expect to incur $25.0 million to $30.0 million in restructuring costs in 2015, as a result of the review.

In October 2013, we announced certain executive management changes that became effective during the fourth quarter of 2013. In March 2014, we changed our organizational structure to orient around offshore and subsea business activities through four primary geographic regions. Costs associated with our corporate reorganization activities have included severance, relocation and other personnel-related costs and costs for advisors.

Dispositions and Other Items

2014

During the quarter ended September 30, 2014, we committed to a plan to sell vessel equipment, including dynamic positioning thrusters and a deepwater pipelay winch system. These items of equipment were part of upgrades to one of our marine vessels. We cancelled those upgrades in December 2013.

During the year ended December 31, 2014, we completed the sale of the DB16 and the DLB KP1 for aggregate cash proceeds of approximately $24.5 million.

In April 2014, we completed the sale of our Harbor Island facility near Corpus Christi, Texas for proceeds of approximately $31.7 million.

In June 2014, as part of our plan to discontinue utilization of our Morgan City facility, we disposed of several assets, including various items of equipment, for aggregate cash proceeds of approximately $13.6 million.

2013

During the year ended December 31, 2013, we completed the sale of the Bold Endurance and the DB 26 for aggregate cash proceeds of approximately $32.0 million.

2012

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.

Acquisitions

In December 2014, J. Ray McDermott, S.A. ("JRMSA"), a wholly owned subsidiary of MII, exercised its option to purchase Oceanteam ASA's 50% ownership interest in the entities that own the North Ocean 102 (the "NO 102") subsea construction vessel. We have consolidated these entities since acquiring a 50% ownership interest in 2009. The cash consideration paid was approximately $32.9 million.

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 entered into joint ventures with TH Heavy Engineering Berhad ("THHE"), whereby we acquired a 30% interest in a subsidiary of THHE, THHE Fabricators Sdn. Bhd., and THHE acquired a 30% interest in our Malaysian subsidiary, Berlian McDermott Sdn. Bhd.

We had no significant acquisitions during the year ended December 31, 2012.

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, 2014, it is possible that we may incur liabilities for liquidated damages aggregating to approximately $118.5 million, of which approximately $28.0 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 July 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 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. Currency risk associated with backlog contracts that is not 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 a measure not 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 we expect 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 $277.0 million, of which approximately $75.0 million was included in backlog at December 31, 2014. As of December 31, 2013, 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. 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.

We include claims in backlog only 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 we expect to recover or associated costs incurred. Total claims revenue included in backlog at December 31, 2014 and December 31, 2013 was approximately $6.5 million and $17.2 million, respectively. See Note 1 for a discussion of claims revenue included in our estimates at completion as of December 31, 2014.

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, among other things, changes in productivity, actual downtime and the resolution of change orders and claims with the customers.

Of the December 31, 2014 backlog amount of $3.6 billion, approximately $401.2 million relates to five active projects that are in a loss position, whereby future revenues are expected to equal costs when recognized. Included in this amount is $146.4 million of backlog associated with an EPCI project in Altamira, which is expected to be completed in the fourth quarter of 2015, $102.2 million of backlog pertaining to a five-year charter of the Agile in Brazil, which began in early 2012, and $50.1 million of backlog relating to a charter project in Brazil scheduled for completion during the second quarter of 2015, all of which are in our Americas segment. The amount also includes $92.9 million of backlog relating to an EPCI project in Saudi Arabia which is expected to be completed by the third quarter of 2016 and $9.6 million of backlog relating to a hook-up project in Saudi Arabia scheduled for completion by the second quarter of 2015, both of which are in our Middle East segment. These five projects represent 100% 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, 2013	$4,802,223
Bookings from new awards	474,185
Additions and reductions on existing contracts	625,480
Less: Amounts recognized in revenues	2,300,889
Backlog at December 31, 2014	$3,600,999

Our backlog at December 31, 2014 and 2013 was as follows:

	December 31, 2014		December 31, 2013	
	(Dollars in approximate millions)			
Asia Pacific	$2,013	56 %	$2,365	49 %
Americas	426	12 %	784	16 %
Middle East	1,162	32 %	1,653	35 %
Total Backlog	$3,601	100 %	$4,802	100 %

Of the December 31, 2014 backlog, we expect to recognize revenues as follows:

	2015	2016	Thereafter
	(In approximate millions)		
Total Backlog(1)	$2,999	$517	$ 85

(1) Backlog revenue expected to be recognized on loss projects is approximately $261.8 million and $134.6 million for 2015 and 2016, 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.; China Offshore Oil Engineering Co. Ltd. (COOEC); Daewoo Shipbuilding and Marine Engineering Co. Ltd.; EMAS AMC; Heerema Group; Hyundai Heavy Industrial Co. Ltd.; Larsen and Toubro Ltd (India); Malaysia Marine and Heavy Engineering Holdings Berhad; Nippon Steel Corporation; Saipem S.P.A.; Samsung Heavy Industries Co., Ltd.; Sapura Kencana Petroleum & TL Offshore; Sembcorp Marine Offshore Engineering (SMOE); Subsea 7 S.A. / SapuraAcergy; Swiber Holdings Ltd.; 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.

Americas

Our Americas's segment's key competitors include: Allseas Marine Contractors S.A.; Dragados Offshore Mexico, S.A.; Gulf Island Fabrication Inc.; Heerema Group; EMAS AMC; KBR, Inc.; Kiewit Corporation; Saipem S.P.A.; Subsea 7 S.A.; Ceona; Seaway Heavy Lifting; and Technip S.A.

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 year 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 Shoaibi 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.

Americas

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.

Customers

Our five largest customers, as a percentage of our total consolidated revenues, during the years ended December 31, 2014, 2013 and 2012 were as follows:

Year Ended December 31, 2014:	
Saudi Aramco	27%
Inpex Operations Australia Pty Ltd.	25%
Petrobras	*
Chevron Corporation	*
Azerbaijan International Oil Company.	*
Year Ended December 31, 2013:	

Saudi Aramco	25%
Azerbaijan International Oil Company	13%
Murphy Oil Company	*
Exxon Mobil Corporation	*
Inpex Operations Australia Pty Ltd.	*
Year Ended December 31, 2012:	
Exxon Mobil Corporation	24%
Saudi Aramco	22%
BHP Billiton Petroleum Pty Ltd	10%
Al Khafji Joint Operations	*
Azerbaijan International Oil Company	*

*Less than 10% of consolidated revenues

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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 13,800 and 14,000 persons worldwide at December 31, 2014 and 2013, respectively. Approximately 5,535 of our current employees were members of labor unions at December 31, 2014, compared with approximately 4,400 at December 31, 2013. 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 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 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 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.

As of December 31, 2014 we had total environmental reserves of $3.7 million, all which was included in current liabilities. At December 31, 2013, we had total environmental reserves of $6.3 million. Our environmental reserves are primarily reserves related to our Morgan City facility, which we established in connection with our plan to discontinue the utilization of this facility. Inherent in our estimates of environmental reserves are our expectations regarding the levels of contamination and remediation costs, 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 we have provided for in our consolidated financial statements.

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 convey th of 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, cash flows, 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, and the ability of projects to generate sufficient revenues to cover our fixed costs;
- estimates of percentage of completion and contract profits or losses;
- anticipated levels of demand for our products and services;
- global demand for oil and gas and fundamentals of the oil and gas industry;
- expectations regarding trends towards offshore development of oil and gas;
- market outlook for the EPCI market;
- expectations regarding backlog;
- future levels of capital, environmental or maintenance expenditures;
- the success or timing of completion of ongoing or anticipated capital or maintenance projects;
- the adequacy of our sources of liquidity and capital resources;
- interest expense;
- the effectiveness of our derivative contracts in mitigating foreign currency risk;
- results of our capital investment program;
- expectations regarding the acquisition or divestiture of assets;
- the ability to dispose of assets held for sale in a timely manner or for a price at or above net realizable value;
- the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows;
- the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation; and
- the results and cost of our review of our cost structure and plan to increase profitability and flexibility.

These forward-looking statements speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

- general economic and business conditions and industry trends;
- general developments in the industries in which we are involved;
- decisions about offshore developments to be made by oil and gas companies;
- the volatility of oil and gas prices;
- the highly competitive nature of our industry;
- our ability to appropriately bid, estimate and effectively perform projects on time, in accordance with the schedules established by the applicable contracts with customers;
- changes in project design or schedule;
- changes in scope or timing of work to be completed under contracts;
- cancellations of contracts, change orders and other modifications and related adjustments to backlog and the resulting impact from using backlog as an indicator of future revenues or earnings;
- the collectability of amounts reflected in change orders and claims relating to work previously performed on contracts;

- the capital investment required to construct new-build vessels and maintain and/or upgrade our existing fleet of vessels;
- the ability of our suppliers and subcontractors to deliver raw materials in sufficient quantities and/or perform in a timely manner;
- volatility and uncertainty of the credit markets;
- our ability to comply with covenants in our credit agreement, indentures and other debt instruments and availability, terms and deployment of capital;
- the unfunded liabilities of our pension plans, which may negatively impact our liquidity and, depending upon future operations, may impact our ability to fund our pension obligations;
- the continued availability of qualified personnel;
- the operating risks normally incident to our lines of business, including the potential impact of liquidated damages;
- natural or man-caused disruptive events that could damage our facilities, equipment or our work-in-progress and cause us to incur losses and/or liabilities;
- equipment failure;
- changes in, or our failure or inability to comply with, government regulations;
- adverse outcomes from legal and regulatory proceedings;
- impact of potential regional, national and/or global requirements to significantly limit or reduce greenhouse gas and other emissions in the future;
- changes in, and liabilities relating to, existing or future environmental regulatory matters;
- changes in tax laws;
- rapid technological changes;
- the consequences of significant changes in interest rates and currency exchange rates;
- difficulties we may encounter in obtaining regulatory or other necessary approvals of any strategic transactions;
- the risks associated with integrating acquired businesses;
- the risk we may not be successful in updating and replacing current information technology;
- social, political and economic situations in countries where we do business;
- the risks associated with our international operations, including local content requirements;
- interference from adverse weather or sea conditions;
- the possibilities of war, other armed conflicts or terrorist attacks;
- the effects of asserted and unasserted claims and the extent of available insurance coverages;
- our ability to obtain surety bonds, letters of credit and financing;
- our ability to maintain builder's risk, liability, property and other insurance in amounts and on terms we consider adequate and at rates that we consider economical;
- the aggregated risks retained in our captive insurance subsidiary; and
- the impact of the loss of insurance rights as part of the Chapter 11 Bankruptcy settlement concluded in 2006 involving several of our former subsidiaries.

We believe the items we have outlined above are important factors that could cause estimates in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this annual report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this annual report. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this annual report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our security holders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

Available Information

Our website address is www.mcdermott.com. We make available through the Investors section of this website under “SEC Filings,” free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of beneficial ownership of securities on Forms 3, 4 and 5 and amendments to those reports as soon as reasonably practicable after we electronically file those materials with, or furnish those materials to, the Securities and Exchange Commission (the “SEC”). You may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We have also posted on our website our: Corporate Governance Guidelines; Code of Ethics for our Chief Executive Officer and Senior Financial Officers; Board of Directors Conflicts of Interest Policies and Procedures; Officers, Board Members and Contact Information; Amended and Restated Articles of Incorporation; By-laws; and charters for the Audit, Governance, Compensation and Finance Committees of our Board.

Item 1A. RISK FACTORS

You should carefully consider each of the following risks and all of the other information contained in this annual report. If any of these risks develop into actual events, our business, financial condition, results of operations or cash flows could be materially adversely affected, and, as a result, the trading price of our common stock could decline.

Risk Factors Relating to our Business Operations

We derive substantially all of our revenues from companies in the oil and gas exploration and production industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and gas prices.

The demand for our EPCI services has traditionally been cyclical, depending primarily on the capital expenditures of oil and gas companies for construction of development projects. These capital expenditures are influenced by such factors as:

- prevailing oil and gas prices;
- expectations about future prices;
- the cost of exploring for, producing and delivering oil and gas;
- the sale and expiration dates of available offshore leases;
- the discovery rate of new oil and gas reserves, including in offshore areas;
- the rate of decline of existing oil and gas reserves;
- laws and regulations related to environmental matters, including those addressing alternative energy sources and the risks of global climate change;
- the development and exploitation of alternative fuels or energy sources;
- domestic and international political, military, regulatory and economic conditions;
- technological advances; and
- the ability of oil and gas companies to generate funds for capital expenditures.

Prices for oil and gas have historically been, and we anticipate they will continue to be, extremely volatile and react to changes in the supply of and demand for oil and natural gas (including changes resulting from the ability of the Organization of Petroleum Exporting Countries to establish and maintain production quotas), domestic and worldwide economic conditions and political instability in oil producing countries. Recent material declines in oil and natural gas prices will likely affect the demand for and pricing of our EPCI services. Since the start of the recent, substantial decline in the price of oil, many oil and gas companies have announced that they are making significant reductions in their capital expenditure budgets for 2015. The continued depression of oil or natural gas prices or activities over a sustained period of time could materially adversely affect the demand for our services and, therefore, our financial condition, results of operations and cash flows.

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 additional losses.

We are engaged in a highly competitive industry, and we have contracted for a substantial number of projects on a fixed-price basis. In many cases, these projects involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management and other activities conducted over extended time periods, sometimes in remote locations. Our actual costs related to these projects could exceed our projections. We attempt to cover the increased costs of anticipated changes in labor, material and service costs of long-term contracts, either through estimates of cost increases, which are reflected in the original contract price, or through price escalation clauses. Despite these attempts, however, the cost and gross profit we realize on a fixed-price contract could vary materially from the estimated amounts because of supplier, contractor and subcontractor performance, our own performance, changes in job conditions, unanticipated weather conditions, variations in labor and equipment productivity and increases in the cost of raw materials, particularly steel, over the term of the contract. Several of these factors contributed to the substantial operating losses we incurred in recent periods. In the future, these factors and other risks generally inherent in the industry in which we operate may result in actual revenues or costs being different from those we originally estimated and may result in reduced profitability or losses on projects. Some of these risks include:

- Our engineering, procurement and construction projects may encounter difficulties related to the procurement of materials, or due to schedule disruptions, equipment performance failures or other factors that may result in additional costs to us, reductions in revenue, claims or disputes.
- We may not be able to obtain compensation for additional work we perform or expenses we incur as a result of customer change orders or our customers providing deficient design or engineering information or equipment or materials.
- We may be required to pay significant amounts of liquidated damages upon our failure to meet schedule or performance requirements of our contracts.
- Difficulties in engaging third-party subcontractors, equipment manufacturers or materials suppliers or failures by third-party subcontractors, equipment manufacturers or materials suppliers to perform could result in project delays and cause us to incur additional costs.

Performance problems relating to any significant existing or future contract arising as a result of any of these or other risks could cause our actual results of operations to differ materially from those we anticipate at the time we enter into the contract and could cause us to suffer damage to our reputation within our industry and our customer base.

Our use of percentage-of-completion method of accounting could result in volatility in our results of operations.

We recognize revenues and profits from our long-term contracts using the percentage-of-completion basis of accounting. Accordingly, we review contract price and cost estimates periodically as the work progresses and reflect adjustments proportionate to the percentage of completion in income in the period when we revise those estimates. To the extent these adjustments result in a reduction or an elimination of previously reported profits with respect to a project, we would recognize a charge against current earnings, which could be material. Our current estimates of our contract costs and the profitability of our long-term projects, although reasonably reliable when made, could change as a result of the uncertainties associated with these types of contracts, and if adjustments to overall contract costs are significant, the reductions or reversals of previously recorded revenues and profits could be material in future periods. In addition, change orders, which are a normal and recurring part of our business, can increase (and sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits that otherwise would be recognized to date. Additionally, to the extent that claims included in backlog, including those which arise from change orders which are under dispute or which have been previously rejected by the customer, are not resolved in our favor, there could be reductions in, or reversals of previously reported amounts of, revenues and profits, and charges against current earnings, which could be material.

Our backlog is subject to unexpected adjustments and cancellations.

The revenues projected in our backlog may not be realized or, if realized, may not result in profits. Because of project cancellations or changes in project scope and schedule, we cannot predict with certainty when or if backlog will be performed. In addition, even where a project proceeds as scheduled, it is possible that contracted parties may default and fail to pay amounts owed to us or poor project performance could increase the cost associated with a project. Delays, suspensions, cancellations, payment defaults, scope changes and poor project execution could materially reduce the revenues and reduce or eliminate profits that we actually realize from projects in backlog.

Reductions in our backlog due to cancellation or modification by a customer or for other reasons may adversely affect, potentially to a material extent, the revenues and earnings we actually receive from contracts included in our backlog. Many of the contracts in our backlog provide for cancellation fees in the event customers cancel projects. These cancellation fees usually provide for reimbursement of our out-of-pocket costs, revenues for work performed prior to cancellation and a varying percentage of the profits we would have realized had the contract been completed. However, we typically have no contractual right upon cancellation to the total revenues reflected in our backlog. Projects may remain in our backlog for extended periods of time. If we experience significant project terminations, suspensions or scope adjustments to contracts reflected in our backlog, our financial condition, results of operations and cash flows may be adversely impacted.

We have a substantial investment in our marine fleet. At times, a vessel or several vessels may require increased levels of maintenance and capital expenditures, may be less efficient than competitors' vessels for certain projects, and may experience mechanical failure with the inability to economically return to service. If we are unable to manage our fleet efficiently and find profitable market opportunities for our vessels, our results of operations may deteriorate and our financial position and cash flows could be adversely affected.

We operate a fleet of construction and multi-service vessels of varying ages. Some of our competitors' fleets and competing vessels in those fleets may be substantially newer than ours and more technologically advanced. Our vessels may not be capable of serving all markets and may require additional maintenance and capital expenditures, due to age or other factors, creating periods of downtime. In addition, customer requirements and laws of various jurisdictions may limit the use of older vessels or a foreign-flagged vessel, unless we are able to obtain an exception to such requirements and laws, which may not be available. Our ability to continue to upgrade our fleet depends on our ability to economically commission the construction of new vessels, as well as the availability to purchase in the secondary market newer, more technologically advanced vessels with the capabilities that may be required by our customers. If we are unable to manage our fleet efficiently and find profitable market opportunities for our vessels, our results of operations may deteriorate and our financial position and cash flows could be adversely affected.

Vessel construction, upgrade, refurbishment and repair projects are subject to risks, including delays and cost overruns, which could have an adverse impact on our available cash resources and results of operations.

We expect to make significant new construction and/or upgrade, refurbishment and repair expenditures for our vessel fleet from time to time, particularly in light of the aging nature of our vessels and requests for upgraded equipment from our customers. Some of these expenditures may be unplanned. Vessel construction, upgrade, refurbishment and repair projects may be subject to the risks of delay or cost overruns, including delays or cost overruns resulting from any one or more of the following:

- unexpectedly long delivery times for, or shortages of, key equipment, parts or materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- shipyard delays and performance issues;
- failures or delays of third-party equipment vendors or service providers;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- work stoppages and other labor disputes;
- unanticipated actual or purported change orders;
- disputes with shipyards and suppliers;
- design and engineering problems;
- latent damages or deterioration to equipment and machinery in excess of engineering estimates and assumptions;
- financial or other difficulties at shipyards;
- interference from adverse weather conditions;
- difficulties in obtaining necessary permits or in meeting permit conditions; and
- customer acceptance delays.

Significant cost overruns or delays could materially affect our financial condition and results of operations. Additionally, capital expenditures for vessel upgrade, refurbishment and repair projects could materially exceed our planned capital expenditures. The failure to complete such a project on time, or the inability to complete it in accordance with its design specifications, may, in some circumstances, result in loss of revenues, penalties, or delay, renegotiation or cancellation of a contract. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as favorable terms. Moreover, our vessels undergoing upgrade, refurbishment and repair activities may not earn revenue during periods when they are out of service.

A change in tax laws could have a material adverse effect on us by substantially increasing our corporate income taxes and, consequently, decreasing our future net income and increasing our future cash outlays for taxes.

As a result of a reorganization completed in 1982, MII is a corporation organized under the laws of the Republic of Panama. Tax legislative proposals intending to eliminate some perceived tax advantages of companies that have legal domiciles outside the U.S. but operate in the U.S. through one or more subsidiaries have been introduced in the U.S. Congress in recent years. Recent examples include, but are not limited to, legislative proposals that would broaden the circumstances in which a non-U.S. company would be considered a U.S. resident for U.S. tax purposes. In addition, Panama enacted a law in 2013 that would have introduced a worldwide income tax on Panamanian tax residents, such as MII. The law was subsequently repealed with retroactive effect. Nonetheless, Panama could introduce similar legislation in the future. It is possible that, if legislation were to be enacted in these areas, we could be subject to a substantial increase in our corporate income taxes and, consequently, a decrease in our future net income and an increase in our future cash outlays for taxes. We are unable to predict the form in which any proposed legislation might become law or the nature of regulations that may be promulgated under any such future legislative enactments.

Our operations are subject to operating risks and limits on insurance coverage, which could expose us to potentially significant liabilities and costs.

We are subject to a number of risks inherent in our operations, including:

- accidents resulting in injury or the loss of life or property;
- environmental or toxic tort claims, including delayed manifestation claims for personal injury or loss of life;
- pollution or other environmental mishaps;
- hurricanes, tropical storms and other adverse weather conditions;
- mechanical failures;
- collisions;
- property losses;
- business interruption due to political action in foreign countries or other reasons; and
- labor stoppages.

We have been, and in the future we may be, named as defendants in lawsuits asserting large claims as a result of litigation arising from events such as these. Insurance against some of the risks inherent in our operations is either unavailable or available only at rates that we consider uneconomical. Also, catastrophic events customarily result in decreased coverage limits, more limited coverage, additional exclusions in coverage, increased premium costs and increased deductibles and self-insured retentions. 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 confiscation or seizure of property (including by act of piracy), pollution liability, liabilities related to occupational health exposures (including asbestos), professional liability/errors and omissions coverage, coverage for costs incurred for investigations related to breaches of laws or regulations, the failure, misuse or unavailability of our information systems 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. Depending on competitive conditions and other factors, we endeavor to obtain contractual protection against certain uninsured risks from our customers. When obtained, such contractual indemnification protection may not be as broad as we desire or may not be supported by adequate insurance maintained by the customer. Such insurance or contractual indemnity protection may not be sufficient or effective under all circumstances or against all hazards to which we may be subject. A successful claim for which we are not insured, for which we are underinsured or for which our contractual indemnity is insufficient could have a material adverse effect on us.

We have a captive insurance company subsidiary which provides us with various insurance coverages. Claims could adversely impact the ability of our captive insurance company 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 subsidiaries of our former subsidiary B&W, most of our subsidiaries contributed substantial insurance rights providing coverage for, among other things, asbestos and other personal injury claims, to the asbestos personal injury trust. With the contribution of these 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 these coverages had the insurance rights not been contributed to the asbestos personal injury trust.

Our failure to successfully defend against claims made against us by customers, suppliers or subcontractors, or our failure to recover adequately on claims made by us against customers, suppliers or subcontractors, could materially adversely affect our business, financial condition, results of operations and cash flows.

Our projects generally involve complex design and engineering, significant procurement of equipment and supplies and construction management. We may encounter difficulties in design or engineering, equipment or supply delivery, schedule changes and other factors, some of which are beyond our control, that affect our ability to complete projects in accordance with the original delivery schedules or to meet other contractual performance obligations. We occasionally bring claims against customers for additional costs exceeding contract prices or for amounts not included in original contract prices. These types of claims may arise due to matters such as customer-caused delays or changes from the initial project scope, which may result in additional costs, both direct and indirect. From time to time, claims are the subject of lengthy and expensive arbitration or litigation proceedings, and it is often difficult to accurately predict when those claims will be fully resolved. When these types of events occur and unresolved claims are pending, we may invest significant working capital in projects to cover cost overruns pending the resolution of the claims. In addition, claims may be brought against us by customers in connection with our contracts. Claims brought against us may include back charges for alleged defective or incomplete work, breaches of warranty and/or late completion of the work and claims for cancelled projects. The claims can involve actual damages, as well as contractually agreed-upon liquidated sums. Claims among us and our suppliers and subcontractors include claims similar to those described above. These claims, if not resolved through negotiation, may also become subject to lengthy and expensive arbitration or litigation proceedings. Claims among us, our customers, suppliers and subcontractors could materially adversely affect our business, financial condition, results of operations and cash flows.

We depend on a relatively small number of customers.

We derive a significant amount of our revenues and profits from a relatively small number of customers in a given year. Our significant customers include major integrated and national oil and gas companies. A considerable percentage of revenue is generated from transactions with Saudi Aramco. Revenue from Saudi Aramco in the years ended December 31, 2014, 2013 and 2012 represented 27%, 25% and 22%, respectively, of our total consolidated revenue. At the request of a significant customer, we are in the process of terminating some of our local representative and other relationships in our Middle East segment. If we experience delays in terminating those relationships, our ability to obtain future contract awards from this customer could be adversely impacted, at least during the period of any such delay. Our inability to continue to perform services for our large existing customers (whether due to our failure to satisfy their bid tender requirements or otherwise), if not offset by contracts with other customers, or delays in collecting receivables from these customers, could have a material adverse effect on our business and operations.

We may not be able to compete successfully against current and future competitors.

The industry in which we operate is highly competitive. Some of our competitors or potential competitors have greater financial or other resources than we have. Our operations may be adversely affected if our current competitors or new market entrants introduce new facility designs or improvements to engineering, construction or installation services.

We face risks associated with investing in foreign subsidiaries and joint ventures, including the risks that the joint venture may not be able to effectively or efficiently manage its operations and that we may be restricted in our ability to access the cash flows or assets of these entities.

We conduct some operations through foreign subsidiaries and joint ventures. We do not manage all of our joint ventures. Even in those joint ventures that we manage, we may be required to consider the interests of the other joint venture participants in connection with decisions concerning the operations of the joint ventures, which in our belief may not be as efficient or effective as in our wholly owned subsidiaries. We may experience difficulties relating to the assimilation of personnel, services and systems in the joint venture operations. Any failure to efficiently and effectively operate with our joint venture partners may cause us to fail to realize the anticipated benefits of entering into the joint venture and could adversely affect our operating results for the joint venture. Additionally, our foreign subsidiaries and joint ventures sometimes face governmentally imposed restrictions on their ability to transfer funds to us. As a result, arrangements involving foreign subsidiaries and joint ventures may restrict us from gaining access to the cash flows or assets of these entities.

Our international operations are subject to political, economic and other uncertainties.

We derive a significant portion of our revenues from international operations. Our international operations are subject to political, economic and other uncertainties. These include:

- risks of war, terrorism, piracy and civil unrest;
- expropriation, confiscation or nationalization of our assets;
- renegotiation or nullification of our existing contracts;
- changing political conditions and changing laws and policies affecting trade and investment;
- overlap of different tax structures;
- risk of changes in currency exchange rates; and
- risks associated with the assertion of national sovereignty over areas in which our operations are conducted.

We also may be particularly susceptible to regional conditions that may adversely affect our operations. Our major marine construction vessels typically require relatively long periods of time to mobilize over long distances, which could affect our ability to withdraw them from areas of conflict. Additionally, certain of our fabrication facilities are located in regions where conflicts may occur and limit or disrupt our operations. Recent events in the Middle East highlight the risk that conflicts could have a material adverse impact on both the markets we serve and our operating capabilities in this region. Similar or more significant events could also take place in these and other regions in which we operate and could limit or disrupt our markets and operations, including disruption from evacuation of personnel, cancellation of contracts or the loss of personnel or assets. Certain of our insurance coverages could also be cancelled by our insurers. The impacts of these risks are very difficult to cost effectively mitigate or insure against and, in the event of a significant event impacting the operations of one or more of our fabrication facilities, we will very likely not be able to timely replicate the fabrication capacity needed to meet existing contractual commitments, given the time and cost involved in doing so. Any failure by us to meet our material contractual commitments could give rise to loss of revenues, claims by customers, loss of future business opportunities and other issues, which could materially adversely affect our financial condition, results of operations and cash flows.

Various foreign jurisdictions have laws limiting the right and ability of foreign subsidiaries and joint ventures to pay dividends and remit earnings to affiliated companies. Our international operations sometimes face the additional risks of fluctuating currency values, hard currency shortages and controls of foreign currency exchange.

Employee, agent or partner misconduct or our overall failure to comply with laws or regulations could weaken our ability to win contracts, lead to the suspension of our operations and result in reduced revenues and profits.

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities or detrimental business practices by one or more of our employees, agents or partners could have a significant negative impact on our business and reputation, even if unrelated to the conduct of our business and otherwise unrelated to us. Such misconduct could include the failure to comply with regulations on lobbying or similar activities, regulations pertaining to the internal control over financial reporting and various other applicable laws or regulations. The precautions we take to prevent and detect fraud, misconduct or failures to comply with applicable laws and regulations may not be effective. Our or our employees', agents' or partners' failure to comply with applicable laws or regulations or acts of fraud or misconduct or other improper activities or detrimental business practices, even if unrelated to the conduct of our business and otherwise unrelated to us, could subject us to fines and penalties, lead to the suspension of operations and/or result in reduced revenues and profits, and could have a material adverse effect on us.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, U.K. Bribery Act, other applicable worldwide anti-corruption laws or our 1976 Consent Decree.

The U.S. Foreign Corrupt Practices Act ("FCPA") and other applicable worldwide anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. These laws include the U.K. Bribery Act, which is broader in scope than the FCPA, as it contains no facilitating payments exception. Additionally, in 1976 we entered into a consent decree with the U.S. Securities and Exchange Commission which, among other things, forbids us from making payments in the nature of a commercial bribe to any customer or supplier to induce the purchase or sale of goods, services or supplies. We operate in some countries that international corruption monitoring groups have identified as having high levels of corruption. Our activities create the risk of unauthorized payments or offers of payments by one of our employees or agents that could be in violation of the FCPA or other applicable anti-corruption laws. Our training program and policies mandate compliance with applicable anti-corruption laws and the 1976 consent decree. Although we have policies, procedures and internal controls in place to monitor internal and external compliance, we cannot assure that our policies and procedures will protect us from governmental investigations or inquiries surrounding actions of our employees or agents. If we are found to be liable for violations of the FCPA or other applicable anti-corruption laws or of the 1976 consent decree (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others), we could suffer from civil and criminal penalties or other sanctions, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Environmental laws and regulations and civil liability for contamination of the environment or related personal injuries may result in increases in our operating costs and capital expenditures and decreases in our earnings and cash flow.

Governmental requirements relating to the protection of the environment, including those requirements relating to solid waste management, air quality, water quality and cleanup of contaminated sites, have had a substantial impact on our operations. These requirements are complex and subject to frequent change as well as new restrictions. For example, because of concerns that carbon dioxide, methane and certain other so-called “greenhouse gases” in the Earth’s atmosphere may produce climate changes that have significant adverse impacts on public health and the environment, various governmental authorities have considered and are continuing to consider the adoption of regulatory strategies and controls designed to reduce the emission of greenhouse gases resulting from regulated activities, which adoption in areas where we conduct business could require us or our customers to incur added costs to comply, may result in delays in pursuit of regulated activities and could adversely affect demand for the oil and natural gas that our customers produce, thereby potentially limiting the demand for our services. Failure to comply with these requirements may result in the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations or the issuance of orders enjoining performance of some or all of our operations. In some cases, they can impose liability for the entire cost of cleanup on any responsible party without regard to negligence or fault and impose liability on us for the conduct of others or conditions others have caused, or for our acts that complied with all applicable requirements when we performed them. Our compliance with amended, new or more stringent requirements, stricter interpretations of existing requirements or the future discovery of contamination may require us to make material expenditures or subject us to liabilities that we currently do not anticipate. Such expenditures and liabilities may adversely affect our business, financial condition, results of operations and cash flows. See “Governmental Regulations and Environmental Matters—Environmental” in Item 1 above for further information.

Our businesses require us to obtain, and to comply with, government permits, licenses and approvals.

Our businesses are required to obtain, and to comply with, government permits, licenses and approvals. Any of these permits, licenses or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits, licenses or approvals may adversely affect our operations by temporarily suspending our activities or curtailing our work and may subject us to penalties and other sanctions. Although existing permits and licenses are routinely renewed by various regulators, renewal could be denied or jeopardized by various factors, including:

- failure to provide adequate financial assurance for closure;
- failure to comply with environmental and safety laws and regulations or permit conditions;
- local community, political or other opposition;
- executive action; and
- legislative action.

In addition, if new environmental legislation or regulations are enacted or implemented, or existing laws or regulations are amended or are interpreted or enforced differently, we may be required to obtain additional operating permits, licenses or approvals. Our inability to obtain, and to comply with, the permits, licenses and approvals required for our businesses could have a material adverse effect on us.

We are subject to government regulations that may adversely affect our future operations.

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 of production platforms and other offshore facilities;
- marine vessel safety;
- the operation of foreign-flagged vessels in the coastal trade;
- currency conversions and repatriation;
- oil exploration and development;
- clean air and other environmental protection legislation;
- taxation of foreign earnings and earnings of expatriate personnel;
- required use of local employees and suppliers by foreign contractors; and
- requirements relating to local ownership.

In addition, we depend on the demand for our services from the oil and gas industry and, therefore, we are generally affected by changing taxes and price controls, as well as new or amendments to existing laws, regulations, or other government controls imposed on the oil and gas industry generally, whether due to a particular incident or because of shifts in political decision making. The adoption of laws and regulations curtailing offshore exploration and development drilling for oil and gas for economic and other policy reasons would adversely affect our operations by limiting the demand for our services. In the U.S. Gulf of Mexico, there have been a series of recent regulatory initiatives developed and implemented at the federal level, imposing more stringent safety, permitting and certification requirements on oil and gas companies pursuing exploration, development and production activities, which have resulted in increased compliance costs, added delays in drilling and a more aggressive enforcement regimen by regulators.

Additionally, certain ancillary activities related to the offshore construction industry, including the transportation of personnel and equipment between U.S. ports and the field of work in U.S. waters, may constitute “coastwise trade” within the meaning of certain U.S. federal laws and regulations. Under these laws and regulations, including the cabotage law generally referred to as the “Jones Act,” only vessels (1) owned by a certain percentage of U.S. citizens that are built and registered under the laws of the U.S. or (2) which are subject to an exception or exemption may engage in such “coastwise trade.” When we operate our foreign-flagged vessels in the U.S. Gulf of Mexico, we operate within the current interpretation of the Jones Act with respect to permitted activities for foreign-flagged vessels. Significant changes to the interpretation of the Jones Act and ruling letters regarding the Jones Act could affect our ability to operate, or competitively operate, our foreign-flagged vessels in the U.S. Gulf of Mexico or other U.S. waters. We are also subject to the risk of the enactment or amendment of cabotage laws in other jurisdictions in which we operate, which could negatively impact our operations in those jurisdictions.

We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

Recently adopted regulations related to “conflict minerals” could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo and adjoining countries (collectively, the “Covered Countries”). The term “conflict minerals” encompasses tantalum, tin, tungsten (and their ores) and gold.

In August 2012, pursuant to the Dodd-Frank Act, the SEC adopted new annual disclosure and reporting requirements applicable to any company that files periodic public reports with the SEC, if any conflicts minerals are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by that company. These new annual reporting requirements require companies to describe reasonable country of origin inquiries, due diligence measures, the results of those activities and related determinations.

Because we have a highly complex, multi-layered supply chain, we may incur significant costs to comply with these new disclosures. In addition, the implementation of procedures to comply with these requirements could adversely affect the sourcing, supply and pricing of materials, including components, used in our products. Our suppliers (or suppliers to our suppliers) may not be able or willing to provide all requested information or to take other steps necessary to ensure that no conflict minerals financing or benefiting armed groups are included in materials or components supplied to us for our manufacturing purposes. We may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals necessary to the functionality or production of our products through the procedures we may implement. Also, we may encounter challenges to satisfy customers that may require all of the components of products purchased by them to be certified as conflict free. If we are not able to meet customer certification requirements, customers may choose to disqualify us as a supplier. In addition, since the applicability of the conflict minerals requirements is limited to companies that file periodic reports with the SEC, not all of our competitors will need to comply with these requirements unless they are imposed by customers. As a result, those competitors may have cost and other advantages over us.

The loss of the services of one or more of our key personnel, or our failure to attract, assimilate and retain trained personnel at a competitive cost, or decreased productivity of such personnel could disrupt our operations and result in loss of revenues.

Our success depends on the continued active participation of our executive officers and key operating personnel. The unexpected loss of the services of any one of these persons could adversely affect our operations. We implemented changes to our organizational structure during 2014 and as a part of our ongoing profitability initiative, have made and expect to make further refinements to our organizational structure in 2015. If we are unable to implement these changes as expected, it may significantly affect our business and results of operations in the future.

Our operations require the services of employees having the technical training and experience necessary to obtain the proper operational results. As such, our operations depend, to a considerable extent, on the continuing availability and productivity of such personnel. If we should suffer any material loss of personnel to competitors, have decreased labor productivity of employed personnel for any reason, or be unable to employ additional or replacement personnel with the requisite level of training and experience to adequately operate our businesses, our operations could be adversely affected. In addition, changes in personnel resulting from our ongoing profitability initiative could also adversely affect our business. A significant increase in the wages paid by other employers could result in a reduction in our workforce, increases in wage rates, or both. Our industry has historically experienced high demand for the services of employees and escalating wage rates. If any of these events occurred for a significant period of time, our financial condition, results of operations and cash flows could be adversely impacted.

We rely on intellectual property law and confidentiality agreements to protect our intellectual property. We also rely on intellectual property we license from third parties. Our failure to protect our intellectual property rights, or our inability to obtain or renew licenses to use intellectual property of third parties, could adversely affect our business.

Our success depends, in part, on our ability to protect our proprietary information and other intellectual property. Our intellectual property could be challenged, invalidated, circumvented or rendered unenforceable. In addition, effective intellectual property protection may be limited or unavailable in some foreign countries where we operate.

Our failure to protect our intellectual property rights may result in the loss of valuable technologies or adversely affect our competitive business position. We rely significantly on proprietary technology, information, processes and know-how that are not subject to patent or copyright protection. We seek to protect this information through trade secret or confidentiality agreements with our employees, consultants, subcontractors or other parties, as well as through other security measures. These agreements and security measures may be inadequate to deter or prevent misappropriation of our confidential information. In the event of an infringement of our intellectual property rights, a breach of a confidentiality agreement or divulgence of proprietary information, we may not have adequate legal remedies to protect our intellectual property. Litigation to determine the scope of intellectual property rights, even if ultimately successful, could be costly and could divert management's attention away from other aspects of our business. In addition, our trade secrets may otherwise become known or be independently developed by competitors.

In some instances, we have augmented our technology base by licensing the proprietary intellectual property of third parties. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms.

Systems and information technology interruption could adversely impact our ability to operate.

We continue to evaluate potential replacements of existing key financial and human resources legacy systems with new enterprise systems. This potential implementation subjects us to inherent costs and risks associated with replacing and changing these systems, including potential disruption of our internal control structure, substantial capital expenditures, demands on management time and other risks of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. Our possible systems implementations may not result in productivity improvements at the levels anticipated, or at all. In addition, the implementation of new technology systems may cause disruptions in our business operations. This disruption and any other information technology system disruptions and our ability to mitigate those disruptions, if not anticipated and appropriately mitigated, could have a material adverse effect on us.

Our operations are also subject to the risk of cyber attacks and security breaches. As a result of a breach or failure of our computer systems or networks, or those of our customers, vendors or others with whom we do business, or a failure of any of those systems to protect against cybersecurity risks, our business operations could be materially interrupted. In addition, any such breach or failure could result in the alteration, loss, theft or corruption of data or unauthorized release of confidential, proprietary or sensitive data concerning our company, business activities, employees, customers or vendors, as well as increased costs to prevent, respond to, or mitigate cybersecurity attacks. These risks could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

Our business strategy includes acquisitions and ventures with other parties to continue our growth. Acquisitions of other businesses ad ventures can create certain risks and uncertainties.

We intend to pursue growth through ventures with other parties as well as the acquisition of businesses or assets that we believe will enable us to strengthen or broaden the types of projects we execute and also expand into new industries and regions. We may be unable to continue this growth strategy if we cannot identify suitable partners, businesses or assets, reach agreement on acceptable terms or for other reasons. We may also be limited in our ability to pursue acquisitions or ventures by the terms and conditions of our current financing arrangements. Moreover, ventures and acquisitions of businesses and assets involve certain risks, including:

- difficulties relating to the assimilation of personnel, services and systems of an acquired business and the assimilation of marketing and other operational capabilities;
- challenges resulting from unanticipated changes in customer relationships subsequent to an acquisition;
- additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;
-

assumption of liabilities of an acquired business, including liabilities that were unknown at the time the acquisition transaction was negotiated;
- diversion of management's attention from day-to-day operations;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements;
- potentially substantial transaction costs associated with business combinations; and
- potential impairment of goodwill or other intangible assets resulting from the overpayment for an acquisition.

Acquisitions and ventures may be funded by the issuance of additional equity or new debt financing, which may not be available on attractive terms, particularly given our recent operating losses. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in goodwill, it will reduce our tangible net worth, which might have an adverse effect on potential credit and bonding capacity.

Additionally, an acquisition or venture may bring us into businesses we have not previously conducted and expose us to additional business risks that are different than those we have historically experienced.

Our results of operations could be affected by natural disasters in locations in which we and our customers and suppliers operate.

Our customers and suppliers have operations in locations that are subject to natural disasters, such as flooding, hurricanes, tsunamis, earthquakes, volcanic eruptions or nuclear or other disasters, or a combination of such disasters, such as the events experienced in Japan in 2011. The occurrence of any of these events and the impacts of such events could disrupt and adversely affect the operations of our customers and suppliers as well as our operations in the areas in which these types of events occur.

War, other armed conflicts or terrorist attacks could have a material adverse effect on our business.

War, terrorist attacks and unrest have caused and may continue to cause instability in the world’s financial and commercial markets, have significantly increased political and economic instability in some of the geographic areas in which we operate and have contributed to high levels of volatility in prices for oil and gas. Instability and unrest in the Middle East and Afghanistan, as well as threats of war or other armed conflict elsewhere, may cause further disruption to financial and commercial markets and contribute to even higher levels of volatility in prices for oil and gas. In addition, unrest in the Middle East and Afghanistan could lead to acts of terrorism in the United States or elsewhere, and acts of terrorism could be directed against companies such as ours. Also, acts of terrorism and threats of armed conflicts in or around various areas in which we operate, such as the Middle East and Indonesia, could limit or disrupt our markets and operations, including disruptions from evacuation of personnel, cancellation of contracts or the loss of personnel or assets. Armed conflicts, terrorism and their effects on us or our markets may significantly affect our business and results of operations in the future.

Risk Factors Relating to Our Financial Condition and Markets

Volatility and uncertainty of the financial markets may negatively impact us.

We intend to finance our existing operations and initiatives, primarily with cash and cash equivalents (including proceeds from our outstanding term loan and senior secured notes), investments and cash flows from operations. We also enter into various financial derivative contracts, including foreign currency forward contracts with banks and institutions represented in our revolving credit facility, to manage our foreign exchange rate risk. In addition, we maintain our cash balances and short-term investments in accounts held by major banks and financial institutions located primarily in North America, Europe and Asia, and some of those accounts hold deposits that exceed available insurance. During the global economic downturn that began in 2007, the financial markets and the financial services industry experienced a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the U.S. government. If national and international economic conditions deteriorate, it is possible that we may not be able to refinance our outstanding indebtedness when it becomes due, and we may not be able to obtain alternative financing on favorable terms. It is possible that one or more of the financial institutions in which we hold our cash and investments could become subject to bankruptcy, receivership or similar proceedings. As a result, we could be at risk of not being able to access material amounts of our cash, which could result in a temporary liquidity crisis that could impede our ability to fund operations. A deterioration in the credit markets could adversely affect the ability of many of our customers to pursue new projects requiring our services or to pay us on time and the ability of many of our suppliers to meet our needs on a competitive basis. Our financial derivative contracts involve credit risk associated with our hedging counterparties, and a deterioration in the financial markets, including the markets with respect to any particular currencies, such as the Euro, could adversely affect our hedging counterparties and their abilities to fulfill their obligations to us.

Our debt and funded debt levels have increased significantly as a result of our recently completed refinancing transactions.

Our debt and funded debt obligations have increased significantly as a result of our recently completed financing transactions. Our significant debt and funded debt levels and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flow from operations to the payment of principal, interest and other amounts payable on our debt, which would reduce the funds we have available for other purposes, such as working capital, capital expenditures and acquisitions;
- making it more difficult or expensive for us to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing our flexibility in planning for or reacting to changes in our industry and market conditions;
- making us more vulnerable in the event of a downturn in our business; and
- exposing us to increased interest rate risk given that a portion of our debt obligations are at variable interest rates.

Maintaining adequate letter of credit capacity is necessary for us to successfully bid on and win various contracts.

In line with industry practice, we are often required to post standby letters of credit to customers. These letters of credit generally indemnify customers should we fail to perform our obligations under the applicable contracts. If a letter of credit is required for a particular project and we are unable to obtain it due to insufficient liquidity or other reasons, we may not be able to pursue that project. We have limited capacity for letters of credit. Moreover, due to events that affect the credit markets generally, letters of credit may be more difficult to obtain in the future or may only be available at significant additional cost. Letters of credit may not continue to be available to us on reasonable terms. Our inability to obtain adequate letters of credit and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations.

Foreign exchange risks and fluctuations may affect our profitability on certain projects.

We operate on a worldwide basis with substantial operations outside the U.S. that subject us to currency exchange risks. In order to manage some of the risks associated with foreign currency exchange rates, we enter into foreign currency derivative (hedging) instruments, especially when there is currency risk exposure that is not naturally mitigated via our contracts. However, these actions may not always eliminate all currency risk exposure, in particular for our long-term contracts. A disruption in the foreign currency markets, including the markets with respect to any particular currencies, such as the Euro, could adversely affect our hedging instruments and subject us to additional currency risk exposure. We do not enter into derivative instruments for trading or other speculative purposes. Our operational cash flows and cash balances, though predominately held in U.S. dollars, may consist of different currencies at various points in time in order to execute our project contracts globally and meet transactional requirements. Non-U.S. asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in U.S. dollars.

Pension expenses associated with our retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets and legislative or other regulatory actions.

A substantial portion of our current and retired employee population is covered by pension and post-retirement benefit plans, the costs and funding requirements of which depend on our various assumptions, including estimates of rates of return on benefit-related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. Variances from these estimates could have a material adverse effect on us. In addition, funding requirements for benefit obligations of our pension and post-retirement benefit plans are subject to legislative and other government regulatory actions.

Risk Factors Relating to our Common Stock

Provisions in our corporate documents and Panamanian law could delay or prevent a change in control of our company, even if that change may be considered beneficial by some stockholders.

The existence of some provisions of our articles of incorporation and by-laws and Panamanian law could discourage, delay or prevent a change in control of our company that a stockholder may consider favorable. These include provisions:

- providing that our board of directors fixes the number of members of the board;
- limiting who may call special meetings of stockholders;
- restricting the ability of stockholders to take action by written consent, rather than at a meeting of the stockholders;
- establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings;
- establishing supermajority vote requirements for certain amendments to our articles of incorporation and by-laws;
-

authorizing a large number of shares of common stock that are not yet issued, which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us; and

- authorizing the issuance of "blank check" preferred stock, which could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt.

In addition, we are registered with the Panamanian National Securities Commission (the "PNSC") and, as a result, we are subject to Decree No. 45 of December 5, 1977, of the Republic of Panama, as amended (the "Decree"). The Decree imposes certain restrictions on offers to acquire voting securities of a company registered with the PNSC if, following such an acquisition, the acquiror would own directly or indirectly more than 5% of the outstanding voting securities (or securities convertible into voting securities) of such company, with a market value of at least five million Balboas (approximately $5.0 million). Under the Decree, any such offeror would be required to provide McDermott with a declaration stating, among other things, the identity and background of the offeror, the source and amount of funds to be used in the proposed transaction and the offeror's plans with respect to McDermott. In that event, the PNSC may, at our request, hold a public hearing as to the adequacy of the disclosure provided by the offeror. Following such a hearing, the PNSC would either determine that full and fair disclosure had been provided and that the offeror had complied with the Decree or prohibit the offeror from proceeding with the offer until it has furnished the required information and fully complied with the Decree. Under the Decree, such a proposed transaction cannot be consummated until 45 days after the delivery of the required declaration prepared or supplemented in a complete and accurate manner, and our board of directors may, in its discretion, within 15 days of receiving a complete and accurate declaration, elect to submit the transaction to a vote of our stockholders. In that case, the transaction could not proceed until approved by the holders of at least two-thirds of the voting power of the shares entitled to vote at a meeting held within 30 days of the date it is called. If such a vote is obtained, the shares held by the offeror would be required to be voted in the same proportion as all other shares that are voted in favor of or against the offer. If the stockholders approved the transaction, it would have to be consummated within 60 days following the date of that approval. The Decree provides for a civil right of action by stockholders against an offeror who does not comply with the provisions of the Decree. It also provides that certain persons, including brokers and other intermediaries who participate with the offeror in a transaction that violates the Decree, may be jointly and severally liable with the offeror for damages that arise from a violation of the Decree. We have a long-standing practice of not requiring a declaration under the Decree from passive investors who do not express any intent to exercise influence or control over our company and who remain as passive investors, so long as they timely file appropriate information on Schedule 13D or Schedule 13G under the Securities Exchange Act of 1934. This practice is consistent with advice we have received from our Panamanian counsel to the effect that our Board of Directors may waive the protection afforded by the Decree and not require declarations from passive investors who invest in our common stock with no intent to exercise influence or control over our company.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our stockholders.

We may issue preferred stock that could dilute the voting power or reduce the value of our common stock.

Our articles of incorporation authorize us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over our common stock respecting dividends and distributions, as our board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, we could grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table provides the segment name, location, and principal use of each of our significant properties at December 31, 2014 that we own or lease:

Business Segment and Location	Principal Use	Owned/Leased
ASIA PACIFIC		
Singapore, Singapore	Operations/engineering/administrative office	Leased
Batam Island, Indonesia	Fabrication facility	Leased
Perth, Australia	Operations/administrative	Leased
Kuala Lumpur, Malaysia	Operations	Leased
MIDDLE EAST		
Dubai (Jebel Ali), U.A.E.	Operations/engineering/fabrication/administrative office	Leased
Chennai, India	Engineering office	Leased
Al Khobar, Saudi Arabia	Operations/engineering office	Leased
Dammam, Saudi Arabia	Fabrication facility	Leased
Baku, Azerbaijan	Operations/administrative office	Leased
London, United Kingdom	Engineering/administrative office	Leased
AMERICAS		
Altamira, Mexico	Fabrication facility	Owned/Leased
Mexico City, Mexico	Administrative/engineering office	Leased
Houston, Texas	Operations/engineering/administrative office	Leased
Rio de Janeiro, Brazil	Operations/administrative	Leased
CORPORATE		
Houston, Texas	Administrative office	Leased

We also lease a number of sales, administrative and field construction offices, warehouses and equipment maintenance centers strategically located throughout the world. We consider each of our significant properties to be suitable and adequate for its intended use.

We operate a fleet of construction and multi-service vessels. Our pipelay and derrick vessels are equipped with revolving cranes, auxiliary cranes, welding equipment, pile-driving hammers, anchor winches and a variety of additional equipment. Our multi-service vessels have capabilities which include subsea construction, pipelay, cable lay and dive support. Seven of our owned and/or operated major construction and multi-service vessels are self-propelled. We also have a substantial inventory of specialized support equipment for intermediate water and deepwater construction and pipelay. In addition, we own or lease a substantial number of other vessels, such as tugboats, utility boats, launch barges and cargo barges, to support the operations of our major marine construction vessels.

The following table sets forth certain information with respect to the major construction and multi-service vessels currently utilized to conduct our operations, including the reporting segments in which they were operating as of December 31, 2014:

Location and Vessel Name	Vessel Type	Year Entered Service/ Upgraded	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
ASIA PACIFIC				
DB 101(2)	Pipelay/Derrick	1978/1984	3,500	—
DB 30 (3)(4)	Pipelay/Derrick	1975/1999	3,080	60
Emerald Sea(1) (2)	Multi-Service Vessel	1996/2007	100	—
Intermac 650(2)	Launch/Cargo Barge	1980/2006	—	—
DLV 2000(1) (3)	Pipelay/Derrick	Under Construction		
MIDDLE EAST				
DB 27(2)	Pipelay/Derrick	1974/1984	2,400	60
DB 32(2)	Pipelay/Derrick	2010/2013	1,650	60
Thebaud Sea(1)(2)	Multi-Service Vessel	1999/2010	100	—
CSV 108(1) (2) (5)	Multi-Service Vessel	Under Construction		
AMERICAS				
Agile(1)(2)	Multi-Service Vessel	1978/2011	100	—
DB 50(1)(2)	Pipelay/Derrick	1988/2012	4,400	20
NO 102(1)(2)	Multi-Service Vessel	2009	275	—
NO 105(1)(3)(4)	Multi-Service Vessel	2012	440	16
Intermac 600(2)	Launch/Cargo Barge	1973	—	—

(1) Vessel with dynamic positioning capability.
(2) Vessels subject to mortgages securing indebtedness under our credit agreement and senior secured notes.
(3) Vessels not subject to mortgages securing indebtedness under our credit agreement and senior secured notes.
(4) Vessels owned through joint ventures. Our ownership percentages are DB 30 (70%) and North Ocean 105 (75%). The NO 105 is currently subject to a mortgage securing indebtedness of the joint venture that owns that vessel.
(5) CSV 108 entered service in February 2015.

The estimated aggregate fair market value of mortgaged vessels securing our new credit agreement and senior secured notes is approximately $939.7 million, based on independent third-party appraisals obtained during January 2015. The estimated aggregate fair market value of vessels which are not subject to mortgages securing that indebtedness is approximately $441.5 million (net of the portion of value attributable to minority ownership interests), based on independent third-party appraisals obtained during January 2015 and costs incurred through December 31, 2014. As security for the indebtedness under our credit agreement and senior secured notes, we have pledged all of the capital stock of our subsidiaries that own the vessels that are mortgaged to secure that indebtedness.

Governmental regulations, our insurance policies and some of our financing arrangements require us to maintain our vessels in accordance with standards of seaworthiness and safety set by applicable governmental authorities or classification societies, such as American Bureau of Shipping, Den Norske Veritas, Lloyd’s Register of Shipping and other world-recognized classification societies.

Item 3. LEGAL PROCEEDINGS

The information set forth under the heading “Investigations and Litigation” in Note 12, “Commitments and Contingencies,” to our consolidated financial statements included in this annual report is incorporated by reference into this Item 3.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol MDR. We filed certifications of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 32.1 and 32.2, respectively, included as exhibits to this report.

High and low stock prices by quarter for the years ended December 31, 2014 and 2013:

YEAR ENDED DECEMBER 31, 2014

	STOCK PRICE	
QUARTER ENDED	HIGH	LOW
March 31, 2014	$9.18	$7.37
June 30, 2014	$8.35	$6.73
September 30, 2014	$7.98	$5.72
December 31, 2014	$5.55	$2.25

YEAR ENDED DECEMBER 31, 2013

	STOCK PRICE	
QUARTER ENDED	HIGH	LOW
March 31, 2013	$13.47	$10.50
June 30, 2013	$11.03	$8.18
September 30, 2013	$8.93	$6.73
December 31, 2013	$9.16	$6.93

We have not paid cash dividends on MII's common stock since the second quarter of 2000 and do not currently have plans to reinstate a cash dividend at this time. Our Board of Directors will evaluate our cash dividend policy from time to time.

As of February 20, 2015, there were approximately 2,358 record holders of our common stock.

The following table provides information on our equity compensation plans as of December 31, 2014:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights	Weighted-average exercise price of outstanding options and rights	Number of securities remaining available for future issuance

Equity compensation plans approved by security holders	3,290,791	$ 12.18	7,141,399

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The following graph provides a comparison of our five-year, cumulative total shareholder return[(1)] from December 2009 through December 2014 to the return of S&P 500 and our peer group.

(1) Total shareholder return assuming $100 invested on December 31, 2009 and reinvestment of dividends on daily basis, as adjusted for the July 30, 2010 spin-off of B&W.

The peer group used for the five-year comparison was comprised of the following companies:

Cameron International Corporation	Jacobs Engineering Group Inc.
Chicago Bridge & Iron Company N.V.	KBR, Inc.
Dresser-Rand Group, Inc.	Noble Corporation
Exterran Holdings, Inc.	Oceaneering International, Inc.
FMC Technologies, Inc.	Oil States International, Inc.
Foster Wheeler AG	Superior Energy Services, Inc.
Helix Energy Solutions Group, Inc.	Tidewater Inc.

The companies listed above comprise the peer group utilized for compensation benchmarking purposes in 2014 (the "Peer Group"). In November 2013, McDermott revised the composition of the then-existing peer group (the "2013 Peer Group") to remove certain of the largest and smallest component companies and added two additional companies that are similar in operations and size to McDermott. Accordingly, the Peer Group does not include the following companies that were included in the 2013 Peer Group: Baker Hughes Incorporated, Cal Dive International, Inc., Halliburton Company or National Oilwell Varco. Additionally, the Peer Group includes Exterran Holdings, Inc. and Superior Energy Services, Inc., which were not included in the 2013 Peer Group.

Item 6.SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except for per share amounts)				
Statement of Operations Data[(1)(2)]:					
Revenues	$2,300,889	$2,658,932	$3,641,624	$3,445,110	$2,403,743
Operating Income (Loss)	8,554	(456,745)	307,139	314,089	314,626
Income (loss) from continuing operations before discontinued operations and noncontrolling interests	(65,394)	(489,910)	201,738	227,532	262,335
Income (Loss) from Discontinued Operations			3,497	(12,812)	(34,900)
Less: net income attributable to noncontrolling interest	10,600	18,958	10,770	12,625	26,046
Net Income (Loss) Attributable to McDermott International, Inc.	(75,994)	(508,868)	194,465	202,095	201,389
Basic Earnings per Common Share:					
Income (Loss) from Continuing Operations	(0.32)	(2.15)	0.81	0.92	1.02
Income (Loss) from Discontinued Operations	—	—	0.01	(0.05)	(0.15)
Diluted Earnings per Common Share:					
Income (Loss) from Continuing Operations	(0.32)	(2.15)	0.80	0.91	1.00
Income (Loss) from Discontinued Operations	—	—	0.01	(0.05)	(0.15)
Balance Sheet Data[(3)]:					
Total Assets	$3,443,957	$2,807,371	$3,333,627	$2,992,814	$2,598,688
Current Maturities of Long-Term Debt	27,026	39,543	14,146	8,941	8,547
Long-Term Debt	864,521	49,019	88,562	84,794	46,748
Total Equity	1,539,114	1,440,344	1,952,105	1,733,712	1,512,267

(1) Statement of operations data for periods prior to December 31, 2014 has been restated to reflect the retrospective change in accounting method of recognizing actuarial gain and losses related to pension and postretirement benefit plans. In the fourth quarter of 2014, we elected to change our accounting method of recognizing actuarial gain and losses for our pension and other postretirement benefit plans. Under the new accounting method, we immediately recognize actuarial gains and losses into earnings in the fourth quarter of each year as a component of net periodic benefit cost. This change has been reported through retrospective application of the new accounting method to all periods presented. See Note 4 to our consolidated financial statements included in this annual report for information on our pension and postretirement benefit plans and Notes 13 and 14 for disclosures relating to the effect of this change in our accounting method.

(2) Statement of operations data prior to December 31, 2010 have been restated to reflect the discontinuance of our charter fleet business and the July 30, 2010 spin-off of B&W.

(3) Balance sheet data presented prior to December 31, 2011 includes the historical information of the charter fleet business and B&W.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements we make in the following discussion which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance or achievements, or industry results, could differ materially from those we express in the following discussion as a result of a variety of factors, including the risks and uncertainties we have referred to under the headings "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors" in Items 1 and 1A of Part I of this annual report.

General

Our company is a leading EPCI company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Operating in approximately 20 countries across the Americas, Middle East, Asia Pacific, the North Sea and Africa, our integrated resources include approximately 13,400 employees and 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.

In March 2014, we changed our organizational structure to orient around our offshore and subsea business activities through four primary geographic regions. The four geographic regions, which we consider to be our operating segments, consist of Asia Pacific, Americas (previously Atlantic), Middle East and North Sea and Africa. The Caspian region is no longer considered an operating segment and is aggregated into the Middle East reporting segment. The North Sea and Africa operating segment is also 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. Accordingly, we report financial results under three reporting segments consisting of Asia Pacific, Americas and the Middle East.

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. See Note 11 to our consolidated financial statements included in this annual report for summarized financial information on our segments.

Our business activity depends mainly on capital expenditures for offshore construction services of major integrated oil and gas companies and national oil companies for the construction of development projects in the regions in which we operate. Our operations are generally capital intensive and rely on large contracts, which can account for a substantial amount of our revenues.

The results of operations for the year ended December 31, 2012 reflect the historical operations of the charter fleet business as discontinued operations. The discussions of our business and results of operations in this annual report are presented on the basis of continuing operations, unless otherwise stated.

Recent Developments

In January 2015, we and GE Oil & Gas formed new joint venture entities focused on the front-end engineering and design (FEED) phases of projects in the offshore market. The entities, which are owned 50 percent each by McDermott and GE Oil & Gas, are operating under the name io Oil & Gas™.

Overview of Operating Results

2014

The financial results for the year ended December 31, 2014 included operating income of $8.6 million. Included in this operating income are net contract improvements of $111.0 million and $117.0 million of gross profit recognition from progress achieved. Also included was $55.0 million associated with the sale of non-core assets and an improvement to the cancellation cost estimate included in vessel related impairment charges recognized during the year ended December 31, 2013 as discussed further in Notes 1 and 2 to our consolidated financial statements included in this annual report and $18 million associated with our ongoing restructuring programs, as discussed further in Note 2 to our consolidated financial statements included in this annual report.

Of the $111.0 million net of contract improvements, approximately $101.0 million was due to increased recovery of costs from certain of our projects as a result of successful renegotiation with our customers during the year ended

December 31, 2014. Approximately $120 million of contract changes resulted from the recognition of profit on approved change orders and settlements during the year ended December 31, 2014. These improvements were partially offset by increased cost estimates of $110.0 million, primarily due to marine equipment downtime driven by adverse weather conditions, mechanical issues and standby delays.

2013

Financial results for the year ended December 31, 2013 included an operating loss of $456.7 million. The operating loss was a result of a combination of operational matters and commercial issues with customers that impacted, among other things, our estimates of our costs at completion for various projects. These operational matters and commercial issues included the following:

Of the $317.9 million fourth quarter 2013 operating loss, approximately $134.0 million was related to commercial issues, approximately $81.9 million was related to operational matters, approximately $86.0 million was related to impairment of balance sheet assets and approximately $16.0 million was related to restructuring charges in the Americas segment and corporate reorganization.

Of the approximate $134.0 million of fourth quarter 2013 operating losses related to commercial issues, key drivers included changes to recovery estimates on projects with unapproved change orders or claims outstanding with customers. Specifically, we recorded approximately $91.0 million of losses related to unapproved claims on two projects.

Of the approximate $81.9 million of fourth quarter 2013 operating losses related to projects with operational matters, approximately $50.0 million related to our typical selling, general and administrative costs. In addition, a key driver was a $28.0 million loss related to a subsea project in Malaysia due primarily to mechanical downtime on the North Ocean 105. The vessel has since resumed work and the project was completed in June 2014.

Business Outlook

The demand for our services is affected by the capital expenditure decisions of oil and gas producers. Many of our customers make their capital expenditure decisions based on their long-term view of oil and gas prices and the economics of specific projects. We operate in most major oil and gas producing regions of the world, work on both new and existing field developments, and provide services that require a varying amount of technical complexity. As a result, the economics of specific projects that we provide services for varies considerably.

The recent reduction in oil and gas prices from the higher supply of oil raises short-term uncertainty around the economics of certain potential projects that have not yet been approved by our customers and, therefore, are not included in our backlog. We do not currently have any reason to expect cancellation of existing projects in our backlog.

While some of our customers may defer or delay certain capital projects, we expect others, including national oil companies, to continue as they are economic or necessary in a variety of oil and gas price environments. We expect that deferral or delays of certain projects, combined with the natural decline rates of existing production, may ultimately contribute to further investment by oil and gas producers in the long-term.

In the current environment, we are focused on the things we can control, which include the execution of our current backlog and the restructuring and resizing of our business to meet our projected activity levels. Some of the restructuring activities are described in Note 2 to our audited consolidated financial statements included in this annual report. Furthermore, we expect, that with the restructuring and resizing, the amount of projects that are economic or necessary in the current environment will generate sufficient revenues to cover a substantial portion of our fixed costs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements and accompanying notes are presented in U.S. Dollars and prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The amounts we report in our consolidated financial statements and accompanying notes reflect the application of our accounting policies and management’s estimates and assumptions. We believe the following are our most critical accounting policies applied in the preparation of our consolidated financial statements. These policies require our most difficult, subjective and complex judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

Pension Accounting Change.

In the fourth quarter of 2014, we elected to change our accounting method for recognizing actuarial gains and losses for our pension and other post-retirement benefit plans. Historically, these gains and losses were recognized as a component of accumulated other comprehensive income (loss) on our consolidated balance sheets and amortized into our consolidated statements of operations and comprehensive income (loss) over the average future service period or the average remaining life expectancy of the plan participants. Under the new accounting method, we immediately recognize actuarial gains and losses into earnings in the fourth quarter each year as a component of net periodic benefit cost. We believe the new accounting method is preferable as it accelerates recognition of gains and losses into net income to be closer to when events resulting in gains and losses occur, such as plan investment performance, changes in discount rates, interest rate movements, mortality expectations and changes in other actuarial assumptions. This change has been reported through retrospective application of the new accounting method to all periods presented. See Note 4 to our audited consolidated financial statements included in this annual report for a further discussion of our pension and postretirement benefits and Notes 13 and 14 for disclosures relating to the effect of this change in our accounting method. Also see "— Accumulated Other Comprehensive Loss" and Note 9 for certain tax restated disclosures relating to pension accounting change.

Revenue Recognition. We determine the appropriate accounting method for each of our long-term contracts before work on the project begins. We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the activity involved. We include the amount of accumulated contract costs and estimated earnings that exceed billings to customers in contracts in progress. We include billings to customers that exceed accumulated contract costs and estimated earnings in advance billings on contracts. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. Certain costs are generally excluded from the cost-to-cost method of measuring progress, such as significant costs for materials and third-party subcontractors. Costs incurred prior to a project award are generally expensed during the period in which they are incurred. Total estimated project costs, and resulting contract income, are affected by changes in the expected cost of materials and labor, productivity, vessel costs, scheduling and other factors. Additionally, external factors such as weather, customer requirements and other factors outside of our control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of revenue and income recognition. In addition, change orders, which are a normal and recurring part of our business, can increase (sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period when those estimates are revised. Revenue from unapproved change orders is generally recognized to the extent of the lesser of amounts we expect to recover or costs incurred. Additionally, to the extent that claims included in backlog, including those which arise from change orders which are under dispute or which have been previously rejected by the customer, are not resolved in our favor, there could be reductions in, or reversals of previously reported amounts of, revenues and profits, and charges against current earnings, which could be material.

As of December 31, 2014, the total unapproved change orders included in our estimates at completion aggregated approximately $277.0 million, of which approximately $75.0 million was included in backlog. As of December 31, 2013, 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. Unapproved change orders that are disputed by the customer are treated as claims.

Claims Revenue. Claims revenue may relate to various factors, including the procurement of materials, equipment performance failures, change order disputes or schedule disruptions and other delays, including those associated with weather or sea conditions. Claims revenue, when recorded, is only recorded to the extent of the lesser of the amounts management expects to recover or the associated costs incurred in our consolidated financial statements. We include certain unapproved claims in the applicable contract values when we have a legal basis to do so, consider collection to be probable and believe we can reliably estimate the ultimate value. Amounts attributable to unapproved change orders are not included in claims. 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. Claims are generally negotiated over the course of the respective projects and many of our projects are long-term in nature. None of the claims included in our estimates at completion at December 31, 2014 were the subject of any litigation proceedings.

The amount of revenues and costs included in our estimates at completion (i.e., contract values) associated with such claims was $6.5 million and $17.2 million as of December 31, 2014 and December 31, 2013, respectively. All of those claim amounts at December 31, 2014 and 2013 were related to 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. There were no costs in our consolidated financial statements for the year ended December 31, 2014 pertaining to claims. For the year ended December 31, 2013, $11.7 million of revenues and costs are included in our consolidated financial statements pertaining to claims, all of which were related to the Middle East segment. Our unconsolidated joint ventures did not include any claims revenue or associated costs in their financial results for the years ended December 31, 2014 and 2013.

We continue to actively engage in negotiations with our applicable customers with respect to 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.

Deferred Profit Recognition. For contracts as to which we are unable to estimate the final profitability due to their uncommon nature, including first-of-a-kind projects, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these contracts, we only recognize gross margin when reliably estimable and the level of uncertainty has been significantly reduced, which we generally determine to be when the contract is at least 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical as deferred profit recognition contracts. If, while being accounted for under our deferred profit recognition policy, a current estimate of total contract costs indicates a loss, the projected loss is recognized in full and the project is accounted for under our normal revenue recognition guidelines. Prior to the fourth quarter of 2013, we accounted for an Americas segment project under our deferred profit recognition policy. The project was completed during the year ended December 31, 2014, and currently there are no projects accounted for under the deferred profit recognition policy.

Completed Contract Method. Under the completed contract method, revenue and gross profit is recognized only when a contract is completed or substantially complete. We generally do not enter into fixed-price contracts without an estimate of cost to complete that we believe to be accurate. However, it is possible that in the time between contract award and the commencement of work on a project, we could lose the ability to forecast costs to complete adequately, based on intervening events, including, but not limited to, experience on similar projects, civil unrest, strikes and volatility in our expected costs. In such a situation, we would use the completed contract method of accounting for that project. We did not enter into any contracts that we accounted for under the completed contract method during 2014, 2013 or 2012.

Loss Recognition. A risk associated with fixed-priced contracts is that revenue from customers may not cover increases in our costs. It is possible that current estimates could materially change for various reasons, including, but not limited to, fluctuations in forecasted labor and vessel productivity, vessel repair requirements, weather downtime, subcontractor or supplier performance, pipeline lay rates or steel and other raw material prices. Increases in costs associated with our fixed-price contracts could have a material adverse impact on our consolidated financial condition, results of operations and cash flows. Alternatively, reductions in overall contract costs at completion could materially improve our consolidated financial condition, results of operations and cash flows.

As of December 31, 2014, we have provided for our estimated costs to complete on all of our ongoing contracts. 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 all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

Of the December 31, 2014 backlog amount of $3.6 billion, approximately $401.2 million relates to five active projects that are in a loss position, whereby future revenues are expected to equal costs when recognized. Included in this amount are $146.4 million of backlog associated with an EPCI project in Altamira which is expected to be completed in the fourth quarter of 2015, $102.2 million of backlog pertaining to a five-year charter of the Agile in Brazil, which began in early 2012, and $50.1 million of backlog relating to a charter project in Brazil scheduled for completion during the second quarter of 2015, all of which are being conducted by our Americas segment. The amount also includes $92.9 million of backlog relating to an EPCI project in Saudi Arabia which is expected to be completed by the third quarter of 2016 and $9.6 million of backlog relating to a hook-up project in Saudi Arabia scheduled for completion by the second quarter of 2015, both being conducted in our Middle East segment. 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.

Use of Estimates. We use estimates and assumptions to prepare our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts we report in our financial statements and accompanying notes. Our actual results could differ from these estimates, and variances could materially affect our financial condition and results of operations in future periods. Changes in project estimates generally exclude change orders and changes in scope, but may include, without limitation, unexpected changes in weather conditions, productivity, unanticipated vessel repair requirements, customer, subcontractor and supplier delays and other costs. We generally expect to experience a variety of unanticipated events, and some of these events can result in significant cost increases above cost amounts we previously estimated. As of December 31, 2014, we have provided for our estimated costs to complete on all of our ongoing contracts. 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.

The following is a discussion of our most significant changes in estimates, which impacted operating income in each of our segments for the years ended December 31, 2014 and 2013.

Year ended December 31, 2014

Operating income for the year ended December 31, 2014 was impacted by changes in estimates relating to projects in each of our segments.

The Asia Pacific segment experienced net favorable changes aggregating approximately $51.6 million, primarily attributable to changes in estimates on seven projects. Changes in estimates on a recently completed subsea project in Malaysia resulted in an improvement of approximately $34.3 million during the year ended December 31, 2014, primarily related to productivity improvements on our marine vessels and offshore support activities, as well as the favorable resolution of cost contingencies relating to offshore performance risks. On a recently completed marine installation project in Brunei, a reduction in estimated cost to complete from productivity improvements on marine vessels and offshore support activities resulted in a favorable change of approximately $11.8 million. On two previously completed projects, insurance claim collection and final project close-out adjustments resulted in a combined additional recovery of approximately $10.3 million during the year ended December 31, 2014. In addition, completion of two projects resulted in project close-out savings of approximately $6.3 million. These positive changes were partially offset by a negative change in estimate of $11.0 million on an EPCI project in Australia, primarily due to lower than expected fabrication productivity, increase in procurement costs as well as an increase in marine costs primarily due to changes in marine asset utilization.

The Middle East segment was negatively impacted by net unfavorable changes aggregating approximately $4.4 million, primarily attributable to changes in four projects. On one EPCI project in Saudi Arabia, we increased our estimated cost at completion by approximately $22.5 million (which may be recoverable from the customer, but which were not recognizable at December 31, 2014), primarily as a result of vessel downtime due to weather and standby delays amounting to $43.0 million, partially offset by increased cost recovery estimates of approximately $20.5 million based on positive discussions with the customer during the fourth quarter of 2014. On another EPCI project in Saudi Arabia, we increased our estimated cost to complete by $19.2 million, primarily as a result of increased cost estimates to complete the onshore scope. Although the project recognized a loss in the year ended December 31, 2013, it remains in an overall profitable position and is expected to be fully closed out by the quarter ending June 2015. On a third EPCI project in Saudi Arabia, we increased our estimated costs to complete by approximately $12.2 million, to reflect cost overruns related to (1) the onshore work, which was substantially completed in July 2014, and (2) delays in completing the offshore work, due to delayed access to the project site, resulting in a revised execution plan. The revised execution plan included the costs of an incremental mobilization and reflected inefficiencies of executing out-of-sequence work. This project remains profitable and is expected to be completed by March 2015. These negative changes were partially offset by approximately $53.5 million of increased cost recovery estimates on a recently completed pipelay project in the Caspian based on positive negotiations with the customer during the year ended December 31, 2014 in connection with the ongoing project close-out process. We expect final settlement on this process during early 2015, which could result in further changes to be recognized in 2015.

The Americas segment was negatively impacted by net unfavorable changes in estimates aggregating $37.2 million associated with five projects. On an EPCI project in Altamira, we increased our estimated cost to complete by approximately $68.9 million, due to liquidated damages and extended project management costs arising from unexpected project delays and projected fabrication cost increases reflecting reduced productivity and execution plan changes to mitigate further project delays, as well as procurement and marine installation cost increases. This project is in a loss position and is estimated to be completed in the fourth quarter of 2015. On a subsea project in the U. S. Gulf of Mexico, we increased our estimated cost to complete by approximately $5.5 million, primarily due to increased costs from equipment downtime issues on the North Ocean 102 (the "NO 102"), our primary vessel working on the project, partially offset by project close-out savings on marine spread costs and increased cost recovery estimates based on positive developments from the ongoing negotiations with the customer. This project, which was in a loss position, was completed during the year ended December 31, 2014. On a fabrication project in Morgan City completed during 2013, we reduced our cost recovery estimates by approximately $7.8 million, mainly based on an agreement in principle with the customer during the year ended December 31, 2014, which resulted in lower-than-anticipated recoveries. These negative impacts were partially offset by $39.8 million of project close-out improvements on an EPCI project in Brazil, which resulted from marine cost reductions upon completion of activities and increased recoveries due to successful developments from the ongoing approval process for additional weather-related compensation. We also recognized $5.2 million of cost reductions on a marine installation project in the U. S. Gulf of Mexico, mainly due to project close-out improvements.

Year ended December 31, 2013

For the year ended December 31, 2013, we recognized net project losses of approximately $315.1 million due to changes in estimates across all three of our operating segments.

The Asia Pacific segment was negatively impacted by net losses of approximately $62.2 million due to changes in estimates on four projects. On the subsea project in Malaysia discussed above, we increased our estimated cost at completion by approximately $126.9 million primarily due to downtime on the NO 105 resulting from mechanical and offshore productivity issues. This project was completed in June 2014 with subsequent improvements of approximately $34.3 million in 2014, as discussed above. On an EPCI project in Australia we completed a settlement with the customer which resulted in lower-than-expected recoveries. This project was completed in the first quarter of 2013 and the settlement documents were executed on February 5, 2014. These deteriorations were partially offset by improvements on two projects. On another EPCI project in Australia, we reduced estimated costs to complete the project by approximately $64.1 million as a result of efficiencies and productivity improvements related to offshore hookup activities. This project was completed in early 2013. On a fabrication project in Australia, we increased our change order recovery and bonuses recognized by approximately $14.7 million resulting from settlements and achieved milestones. This project was completed in March 2014.

The Middle East segment was negatively impacted by losses of $174.4 million due to changes in estimates on four projects. On the pipelay project in the Caspian Sea, we reduced the estimate of cost recovery as a result of ongoing negotiations with the customer. This project was completed in June 2014 with subsequent improvements of approximately $53.5 million in 2014, as discussed above. On an EPCI project in Saudi Arabia, we increased our estimated cost at completion by approximately $62.5 million, primarily as a result of revisions to the project’s execution plans, increases in our estimated cost to complete due to an extended offshore hookup campaign requiring multiple vessel mobilizations and delays in completion of onshore activities. On another EPCI project in Saudi

Arabia, we increased our estimated cost to complete by approximately $16.5 million, primarily due to weather downtime and revisions to our estimated cost to complete the hookup campaign. On a third EPCI project in Saudi Arabia, we increased our estimated cost to complete by approximately $16.4 million due to procurement and design issues which were settled on less favorable terms than previously expected. This project is currently in a loss position and is expected to be completed during the third quarter of 2016.

The Americas segment was negatively impacted by changes in estimates on six projects resulting in approximately $78.5 million of project losses. In Morgan City, we incurred additional costs of approximately $9.3 million to complete a fabrication project, primarily due to poor labor productivity. That project was completed during the fourth quarter of 2013. On a marine project in Mexico completed during 2012, we reversed previously recognized claim revenue by approximately $10.0 million due to unsuccessful claim resolution efforts. On the five-year charter of the Agile in Brazil, we increased the estimated cost to complete the project by approximately $8.6 million. The completion of this charter is expected during the first quarter of 2017. On two EPCI projects in Altamira, we increased our estimated costs at completion by approximately $40.9 million, primarily due to higher procurement costs, reduced labor productivity, and reduced utilization of the fabrication facility. Both of these projects are in a loss position. One was completed during the year ended December 31, 2014 and the other is expected to be completed by the fourth quarter of 2015. On a subsea project in the U.S. Gulf of Mexico, we recognized a loss of approximately $9.7 million, primarily driven by the recognition of liquidated damages due to the anticipated late arrival of vessels currently engaged on projects in Brazil and Malaysia. This project was completed during the year ended December 31, 2014.

Derivative Financial Instruments. Our worldwide operations give rise to exposure to changes in certain market conditions, which may adversely impact our financial performance. When we deem it appropriate, we use derivatives as a risk management tool to mitigate the potential impacts of certain market risks. The primary market risk we manage through the use of derivative instruments is movement in foreign currency exchange rates. We use foreign currency derivative contracts to reduce the impact of changes in foreign currency exchange rates on our operating results. We use these instruments to hedge our exposure associated with revenues and/or costs on our long-term contracts and other cash flow exposures that are denominated in currencies other than our operating entities’ functional currencies. We do not hold or issue financial instruments for trading or other speculative purposes.

In certain cases, contracts with our customers may contain provisions under which payments from our customers are denominated in U.S. Dollars and in a foreign currency. The payments denominated in a foreign currency are designed to compensate us for costs that we expect to incur in such foreign currency. In these cases, we may use derivative instruments to reduce the risks associated with foreign currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows.

Property, Plant and Equipment. We carry our property, plant and equipment at depreciated cost. Except for major marine vessels, we depreciate our property, plant and equipment using the straight-line method, over estimated economic useful lives of eight to 33 years for buildings and three to 28 years for machinery and equipment. We do not depreciate property, plant and equipment classified as held for sale.

Marine Vessels. We depreciate major marine vessels using the units-of-production method based on the utilization of each vessel. Our units-of-production method of depreciation involves the calculation of depreciation expense on each vessel based on the product of actual utilization for the vessel for the period and the applicable daily depreciation value (which is based on vessel book value, standard utilization and vessel life) for the vessel. Our actual utilization is determined based on the actual days that the vessel was working or otherwise actively engaged (other than in transit between regions) under a contract, as determined by daily vessel operating reports prepared by the crew of the vessel. Our standard utilization is determined by vessel at least annually based on recent actual utilization combined with an expectation of future utilization, both of which allow for idle time. We ensure that a minimum amount of accumulated depreciation of at least 50% of equivalent life-to-date straight-line depreciation is recorded. Additionally, in periods of very low utilization, a minimum amount of depreciation expense of at least 25% of an equivalent straight-line depreciation expense (which is based on an initial 25-year life) is recorded.

We capitalize drydocking costs in other assets when incurred and amortize the costs over the period of time between drydockings, which is generally three to five years.

We expense the costs of other maintenance, repairs and renewals, which do not materially prolong the useful life of an asset, as we incur them. These amounts are generally not significant to our consolidated financial statements.

Insurance and Self-Insurance. We have a wholly owned "captive" insurance subsidiary that provides coverage for our retentions under employer's liability, general and products liability, automobile 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 the insurance claims, our past experience with similar claims, 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 self-insurance retentions for the coverages discussed above. These accruals are based on assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted as required based upon actual claim settlements and reported claims. Claims as a result of our operations could adversely impact the ability of our insurance subsidiary to respond to all claims presented. We reduced our self-insurance accruals, primarily due to fewer and less severe Workers' Compensation claims, by $8.0 million, $7.2 million and $6.8 million during the years ended December 31, 2014, 2013 and 2012, respectively, and recognized these reductions in cost of operations in our consolidated statements of operations.

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.

Pension Plans and Postretirement Benefits. We estimate income or expense related to our pension and postretirement benefit plans based on actuarial assumptions, including assumptions regarding discount rates and expected returns on plan assets adjusted for the current period actuarial gains and losses. We determine our discount rate based on a review of published financial data and discussions with our actuary regarding rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of our pension obligations. Based on historical data and discussions with our investment consultant, we determine our expected return on plan assets based on the expected long-term rate of return on our plan assets and the market value of our plan assets. The expected long-term rate of return is based on the expected return of the various asset classes held in the plan, weighted by the target allocation of the plan's assets. Changes in these assumptions can result in significant changes in our estimated pension income or expense and our consolidated financial condition. We revise our assumptions on an annual basis based upon changes in current interest rates, return on plan assets and the underlying demographics of our workforce. These assumptions are reasonably likely to change in future periods and may have a material impact on future earnings. See Note 4 to our consolidated financial statements included in this annual report for information on our pension plans.

Loss Contingencies. We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed the recorded provision or if such loss is not reasonably estimable. We are currently involved in litigation and other proceedings, as discussed in Note 12 to our consolidated financial statements included in this annual report. We have accrued our estimates of the probable losses associated with these matters, and associated legal costs are generally recognized in selling, general and administrative expenses as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

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 these provisions. These 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.

Impairment Review

We review goodwill for impairment on an annual basis or more frequently if circumstances indicate that impairment may exist. The annual impairment review involves comparing the fair value to the net book value of each applicable reporting unit and, therefore, is significantly impacted by estimates and judgments.

Based on the goodwill impairment tests done during the year ended December 31, 2013, we recorded an impairment charge of approximately $46.7 million in the fourth quarter of 2013 in our consolidated statements of operations. This amount represented the total amount of our goodwill, which was primarily related to a 2007 acquisition.

We review our tangible and intangible long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation is required, the fair value of each applicable asset is compared to its carrying value. Factors that impact our determination of potential impairment include forecasted utilization of equipment and estimates of forecasted cash flows from projects expected to be performed in future periods. Our estimates of cash flow may differ from actual cash flow due to, among other things, economic conditions or changes in operating performance. Any changes in such factors may negatively affect our business segments and result in future asset impairments. During the year ended December 31, 2014, we determined that certain of our intangible assets were fully impaired and recorded an impairment charge of approximately $1.7 million in the quarter ended December 31, 2014.

In June 2014, we cancelled a pipelay system originally intended for the Construction Support Vessel 108 (the "CSV 108"), which resulted in a $10.7 million improvement to the cancellation cost estimate included in the $37.8 million of vessel-impairment charges recognized during the year ended December 31, 2013 discussed below.

Based on market conditions and expected future utilization of our entire marine fleet, we recognized impairment charges totaling approximately $37.8 million during the year ended December 31, 2013 in our consolidated statements of operations related to the cancellation of in-progress upgrades to one of our existing marine vessels and the deferral of a portion of the scope of work relating to one of our marine vessels under construction. We used appraised values and discounted future cash flows associated with the assets to determine the impairment amounts. Appraised values and discounted cash flows involve significant management judgments.

We did not recognize any impairment for the year ended December 31, 2012.

Deferred Taxes. We believe that our deferred tax assets recorded as of December 31, 2014 are realizable through carrybacks, future reversals of existing taxable temporary differences and future taxable income. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. If we subsequently determine that we will be able to realize deferred tax assets in the future in excess of our net recorded amount, the resulting adjustment would increase earnings for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Any changes to our estimated valuation allowance could be material to our consolidated financial condition and results of operations. See Note 9 to our consolidated financial statements included in this annual report for information on our deferred taxes.

Stock-Based Compensation. Equity instruments are measured at fair value on the grant date. Stock-based compensation expense is generally recognized on a straight-line basis over the requisite service periods of the awards. We use a Black-Scholes model to determine the fair value of certain share-based awards, such as stock options. Additionally, we use a Monte Carlo model to determine the fair value of certain share-based awards that contain market and performance-based conditions. The use of these models requires highly subjective assumptions, such as assumptions about the expected life of the award, vesting probability, expected dividend yield and the volatility of our stock price.

For discussion of recently adopted accounting standards and updates, see Note 1 to our consolidated financial statements included in this annual report.

Segment Operations

Our segment revenues, net of intersegment revenues, as well as the approximate percentages of our total consolidated revenues, and operating income (loss) for each of the last three years were as follows (dollars in thousands):

	Revenues		Operating Income (Loss)
	Amount	Percent of Consolidated Revenues	Amount
December 31, 2014:			
Asia Pacific	$937,615	41 %	$55,412
Middle East	798,860	35 %	(7,634)
Americas	564,414	24 %	(30,282)
Corporate	—	—	(8,942)
Consolidated	$2,300,889	100 %	$8,554
December 31, 2013:			
Asia Pacific	$953,838	36 %	$(72,159)
Middle East	1,170,663	44 %	(209,080)
Americas	534,431	20 %	(175,506)
Consolidated	$2,658,932	100 %	$(456,745)
December 31, 2012:			
Asia Pacific	$1,575,682	43 %	$236,874
Middle East	1,591,881	44 %	138,733
Americas	474,061	13 %	(68,468)
Consolidated	$3,641,624	100 %	$307,139

For additional information on the geographic distribution of our revenues, see Note 11 to our consolidated financial statements included in this annual report.

YEAR ENDED DECEMBER 31, 2014 COMPARED TO YEAR ENDED DECEMBER 31, 2013

Revenues

Revenues decreased approximately 15%, or $0.4 billion, to $2.3 billion in the year ended December 31, 2014 compared to $2.7 billion for the year ended December 31, 2013. The decline in revenues was primarily attributable to the decrease in our Middle East segment discussed below.

Revenues in the Asia Pacific segment decreased by approximately 2%, or $16.2 million, to $937.6 million in the year ended December 31, 2014, compared to $953.8 million in the year ended December 31, 2013. The decline was largely due to the completion in 2013 of two of our EPCI projects in Australia and a marine installation project in Malaysia that had significant marine activity during the year ended December 31, 2013. Also contributing to the revenue decrease was approximately $50 million of successful project close-out negotiations and resolution of pending change orders with our customer on one of the EPCI projects in Australia, which occurred in 2013. In addition, the completion of activities on a subsea project in Malaysia, a fabrication project in Australia and an EPCI project in Malaysia, each of which had significant activity during 2013 also led to decreased revenue during 2014. These decreases were partially offset by an increase in revenues associated with increased fabrication activity on an ongoing EPCI project in Australia and increased marine activity on a recently completed marine installation project in Brunei.

Revenues in the Middle East segment decreased by approximately 32%, or $372.4 million, to $798.9 million in the year ended December 31, 2014, compared to $1.2 billion in the year ended December 31, 2013. The decrease was primarily due to the completion of activities on a pipelay project in the Caspian Sea, an EPCI project in India and marine activity on an EPCI project in Saudi Arabia, each of which had higher activity during the year ended December 31, 2013 as compared to the year ended December 31, 2014. These declines were partially offset by increased activity on an EPCI project in Saudi Arabia.

The revenue declines in our Asia Pacific and Middle East segments were partially offset by improvements in our Americas segment, where revenues increased by approximately 6%, or $30.4 million, to $564.4 million in the year ended December 31, 2014 compared to $534.0 million in the year ended December 31, 2013. The increase was primarily due to higher marine activity on multiple projects in the U. S. Gulf of Mexico and Brazil during the year ended December 31, 2014, as compared to 2013 partially offset by completion of activities on projects that were being executed from our Morgan City fabrication facility during the year ended December 31, 2013.

Revenues relating to projects in a loss position were approximately $139.4 million during the year ended December 31, 2014, as compared to approximately $776.1 million during the year ended December 31, 2013.

Cost of Operations

Cost of operations decreased approximately 25%, or $688.4 million, to $2.1 billion in the year ended December 31, 2014 compared to $2.8 billion for the year ended December 31, 2013, primarily driven by reduced activity in our Middle East segment.

Cost of operations in our Asia Pacific segment decreased by approximately 12%, or $109.4 million, to $795.4 million in the year ended December 31, 2014, compared to $904.8 million in the year ended December 31, 2013. The decline was primarily due to the completion in 2013 of two EPCI projects in Australia and a marine installation project in Malaysia that had significant activity during the year ended December 31, 2013. The decrease was also due to the completion of marine activity on a subsea project in Malaysia during the first half of the year ended December 31, 2014. This project, which was in a loss position, was significantly impacted by project charges associated with changes in estimates related to the availability of marine vessels during the year ended December 31, 2013, as discussed above under the caption "Critical Accounting Policies and Estimates —Use of Estimates." Further, two projects, a fabrication project in Australia and an EPCI project in Malaysia, were also substantially completed during the year ended December 31, 2013, which led to a decline in the cost of operations during the year ended December 31, 2014 as compared to 2013. These decreases were partially offset by increased costs associated with marine activity on a recently completed marine installation project in Brunei and fabrication activity on an existing EPCI project in Australia during the year ended December 31, 2014.

Cost of operations in our Middle East segment decreased by approximately 42%, or $537.4 million, to $733.7 million in the year ended December 31, 2014, compared to approximately $1.3 billion in the year ended December 31, 2013. This decrease was primarily due to the substantial completion of a pipelay project in the Caspian Sea, an EPCI project in India and marine activity on an EPCI project in Saudi Arabia, each of which had higher activity in 2013. The EPCI project in Saudi Arabia was significantly influenced by an increase in cost estimates of approximately $62.5 million during the year ended December 31, 2013, largely due to an extended offshore hookup campaign as discussed above, under the caption "Critical Accounting Policies and Estimates —Use of Estimates." These declines were partially offset by increased activity on an ongoing EPCI project in Saudi Arabia.

Cost of operations in the Americas segment decreased by 7%, or $41.6 million, to $583.9 million in the year ended December 31, 2014, compared to $625.5 million in the year ended December 31, 2013. The decrease was primarily due to the completion of activities on multiple projects that were being executed from our Morgan City fabrication facility during the year ended December 31, 2013 and the completion of activities on a fabrication project in our Altamira facility. The Altamira project was impacted by changes in estimates related to higher procurement costs and reduced labor productivity during the year ended December 31, 2013, as discussed above under the caption "Critical accounting Policies and Estimates —Use of Estimates." The decrease was partially offset by increased costs associated with higher marine activity on multiple projects in the U. S. Gulf of Mexico and Brazil during the year ended December 31, 2014 as compared to 2013. Further, cost of operations on an EPCI project in Altamira increased by approximately $59.6 million, primarily due to changes in cost estimates recorded during the year ended December 31, 2014.

Operating Income (Loss)

Operating results improved $465.3 million to an operating income of $8.6 million in the year ended December 31, 2014 from an operating loss of $456.7 million in the year ended December 31, 2013, attributable to improvements experienced in each of our segments.

Our Asia Pacific segment reported an operating income of $55.4 million in the year ended December 31, 2014, as compared to operating loss of $72.2 million in the year ended December 31, 2013. The improvement was primarily driven by an improvement of $166.6 million in a subsea project in Malaysia during the year ended December 31, 2014 as compared to 2013. This project was significantly impacted by project charges associated with net changes in estimates of approximately $126.9 million related to the availability of marine vessels during the year ended December 31, 2013, as discussed above under the caption “Critical Accounting Policies and Estimates —Use of Estimates.” During the year ended December 31, 2014, this project experienced positive changes in cost estimates of approximately $34.3 million, mainly due to productivity improvements on our marine vessels and offshore support activities and project close out-savings. An improvement of $16.9 million resulted primarily from additional recovery during the year ended December 31, 2014 on an EPCI project in Australia that was completed in 2013. This project was impacted by project charges associated with changes in estimates related to negotiations with the customer during the year ended December 31, 2013. In addition, increased fabrication activity on an ongoing EPCI project in Australia and increased marine activity on a recently completed marine installation project in Brunei resulted in a combined improvement of $54.0 million during the year ended December 31, 2014 as compared to 2013. The improvement was partially offset by an approximately $107.1 million decline in operating income from an EPCI project in Australia that was completed during the year ended December 31, 2013, which had significant marine activity in the year ended December 31, 2013, including approximately $50 million relating to successful project close-out negotiations and the resolution of pending change orders with our customer. In addition, completion of a fabrication project in Australia, an EPCI project in Malaysia and a marine installation project in Malaysia, each of which had higher activity in 2013, resulted in a decrease in operating income of approximately $36.3 million during the year ended December 31, 2014.

Our Middle East segment reported an operating loss of $7.6 million in the year ended December 31, 2014 as compared to an operating loss of $209.1 million in the year ended December 31, 2013. The improvement was primarily attributable to a pipelay project in the Caspian Sea, where the results improved by approximately $123.7 million during the year ended December 31, 2014, primarily due to increased revenue and reduced cost estimates of approximately $53.5 million from the recently concluded project closeout process with the customer. This project was significantly impacted by project charges associated with changes in estimates related to cost recovery estimates during the year ended December 31, 2013, as discussed above under the caption “Critical accounting Policies and Estimates —Use of Estimates.” In addition, on one of our EPCI projects in Saudi Arabia, our operating results improved by approximately $35.7 million during the year ended December 31, 2014 as compared to 2013. This project was impacted by project charges of approximately $62.5 million associated with changes in estimates during the year ended December 31, 2013, as discussed in Note 1 to our consolidated financial statements, under the caption, “Critical Accounting Policies and Estimates —Use of Estimates.” During the year ended December 31, 2014, we increased our estimated cost to complete on this project by $19.2 million, primarily due to increased cost estimates to complete the onshore scope. Although the project suffered negative cost estimate changes during the years ended December 31, 2013 and 2014, it remains in an overall profitable position and is expected to be completed by June 2015.

The operating loss recognized in our Americas segment improved by $145.2 million, resulting in an operating loss of $30.3 million for the year ended December 31, 2014, compared to an operating loss of $175.4 million in the year ended December 31, 2013. On an EPCI project in Brazil, operating income increased by $40.2 million, mainly due to $39.8 million of project close-out improvements from marine cost reductions upon completion of activities and increased recoveries due to successful developments from the ongoing approval process for additional weather-related compensation. On a subsea project in the U. S. Gulf of Mexico, operating income increased by $18.9 million mainly due to increased revenue resulting from positive developments from the ongoing settlement negotiations with the customer, partially offset by adverse changes in estimates primarily due to increased costs from marine equipment downtime issues, as above under the caption “Critical Accounting Policies and Estimates —Use of Estimates.” An improvement of $15.8 million resulted from the completion of activities on a fabrication project in Altamira during the year ended December 31, 2014. This project was impacted by changes in estimates related to higher procurement costs and reduced labor productivity during the year ended December 31, 2013, as discussed above under the caption “Critical Accounting Policies and Estimates —Use of Estimates.” In addition, increased marine activity in the U.S. Gulf of Mexico and Brazil during the year ended December 31, 2014, as compared to 2013, resulted in a net improvement of $17.1 million. These improvements were partially offset by a $47.2 million decrease in operating income from an EPCI project in Altamira, primarily due to an increase in cost estimates of extended project management costs arising from expected project delays, projected fabrication cost increases reflecting reduced productivity and execution plan changes to mitigate further project delays, as well as procurement and marine installation cost increases and the recognition of corresponding liquidated damages. This project is estimated to be completed in the fourth quarter of 2015.

Operating Margins

Operating income is frequently influenced by the resolution of change orders, project close-outs and settlements. Although we expect change orders, close-outs and settlements to continue as part of our normal business activities, the period in which they are recognized is largely driven by the finalization of agreements with customers and suppliers and, as a result, is difficult to predict. Additionally, the future margin increases or decreases associated with these items are difficult to predict, due to, among other items, the difficulty of predicting the timing of recognition of change orders, close-outs and settlements and the timing of new project awards.

Other Items in Operating Income

Selling, general and administrative expenses increased by $15.5 million to $208.6 million for the year ended December 31, 2014 as compared to $193.1 million in 2013, primarily due to higher bonus expense and higher administrative expense in the North Sea and Africa regions.

Loss on asset impairments decreased by $93.5 million during the year ended December 31, 2014 as compared to 2013. In June 2014, we cancelled a pipelay system originally intended for the CSV 108, which resulted in a $10.7 million improvement to the cancellation cost estimate included in the $37.8 million of vessel-impairment charges recognized during the year ended December 31, 2013 (discussed below). This was partially offset by a charge of $1.7 million recorded during the year ended December 31, 2014 related to the full impairment of certain of our intangible assets. During the year ended December 31, 2013, we recorded a goodwill impairment of $46.7 million, which represented the total amount of our goodwill, primarily related to a 2007 acquisition. Based on market conditions and expected future utilization of our entire marine fleet, we had also recognized impairment charges totaling approximately $37.8 million during the year ended December 31, 2013 related to the cancellation of in-progress upgrades to one of our existing marine vessels and the deferral of a portion of the scope of work relating to one of our marine vessels under construction.

Gain on asset sales increased by approximately $31.0 million primarily due to a gain of approximately $25.1 million from the sale of our Harbor Island facility near Corpus Christi, Texas.

Restructuring costs decreased by $17.6 million to $18.1 million during the year ended December 31, 2014 as compared to $35.7 million during the year ended December 31, 2013, primarily due to lower expense relating to Americas restructuring during the year ended December 31, 2014.

Equity in loss of unconsolidated affiliates decreased by $8.3 million to $7.8 million for the year ended December 31, 2014, compared to $16.1 million in 2013, primarily due to improved results generated by our FloaTEC joint venture.

Other Items

Results for the year ended December 31, 2014 were significantly impacted by increased interest expense related to our term loan and senior secured notes. Net interest expense for the year ended December 31, 2014 was $60.9 million as compared to net interest income of $1.4 million for the year ended December 31, 2013.

Gain (loss) on foreign currency – net decreased by $9.7 million to income of $7.2 million in the year ended December 31, 2014 from income of $16.9 million in the year ended December 31, 2013, primarily due to lower gains related to derivative instruments and hedging activities of approximately $6.9 million recognized during the year ended December 31, 2014, as compared to gains related to derivative instruments and hedging activities of approximately $13.3 million recognized during the year ended December 31, 2013. The foreign currency exchange gains were $0.3 million for the year ended December 31, 2014 as compared to foreign currency exchange gains of $3.6 million for the year ended December 31, 2013.

At December 31, 2014, our derivative financial instruments consisted of foreign currency forward contracts. Our derivative activity substantially increased in 2012 related to the hedging program required for a large EPCI project award at the beginning of 2012. While we currently believe that our currency forward contracts will be effective in mitigating the associated currency exchange risks, it is possible that changes in the EPCI project may cause reduced effectiveness of these derivative contracts. Therefore we may continue to experience large gains or losses on foreign currency movements due to the ineffective portion or the portion excluded from the assessment of effectiveness of these and other derivative contracts. The notional value of our outstanding derivative contracts totaled $844.3 million at December 31, 2014, with maturities extending through 2017. Of this amount, $534.4 million is associated with various foreign currency expenditures we expect to incur on this EPCI project.

Other expense—net decreased by $2.1 million to expense of $0.2 million in the year ended December 31, 2014 compared to expense of $2.3 million in the year ended December 31, 2013, largely due to lower losses on securities.

Provision for Income Taxes

For the year ended December 31, 2014, we recognized a loss before provision for income taxes of $45.3 million, compared to a loss before provision for income taxes of $440.9 million for the year ended December 31, 2013. In the aggregate, the provision for income taxes was $20.1 million and $49.1 million for the years ended December 31, 2014 and 2013, respectively. We were able to utilize past losses in certain jurisdictions which were previously un-benefited to offset our improving income (primarily Kuwait and Singapore). In addition, our provision for incomes taxes decreased as a result of changes in tax positions taken in prior periods, primarily related to expiring statute of limitations in certain foreign tax jurisdictions.

Noncontrolling Interests

Net income attributable to noncontrolling interests decreased by $8.4 million to $10.6 million in the year ended December 31, 2014 from $19.0 million for the year ended December 31, 2013, primarily due to decreased activity and lower net income at two of our consolidated affiliates during 2014.

YEAR ENDED DECEMBER 31, 2013 COMPARED TO YEAR ENDED DECEMBER 31, 2012

Revenues

Revenues decreased approximately 28%, or $1.0 billion, to $2.7 billion in the year ended December 31, 2013 compared to $3.6 billion for the year ended December 31, 2012. The decline in revenues was attributable to our Asia Pacific and Middle East segments.

Revenues in the Asia Pacific segment decreased by approximately 39%, or $621.9 million, to $953.8 million in the year ended December 31, 2013, compared to $1.6 billion in the year ended December 31, 2012. The decline in revenues in the Asia Pacific segment was primarily due to lower marine activity on two of our EPCI projects in Australia that had significantly higher marine activity during the year ended December 31, 2012 and were near completion at the beginning of 2013. Those decreases were partially offset by increased revenues associated with fabrication and marine activities on existing projects in Indonesia, Australia and Malaysia.

Revenues in the Middle East segment decreased by approximately 26%, or $421.2 million, to $1.2 billion in the year ended December 31, 2013, compared to $1.6 billion in the year ended December 31, 2012. This decline was driven primarily by lower activity on an EPCI project in Saudi Arabia that had significant marine and fabrication activity during the year ended December 31, 2012 but was near completion at the beginning of 2013.

The revenue declines in our Asia Pacific and Middle East segments were partially offset by improvements in our Atlantic segment, where revenues increased by approximately 13%, or $60.3 million, to $534.4 million in the year ended December 31, 2013 compared to $474.1 million in the year ended December 31, 2012, primarily due to increased fabrication activity in Mexico and increased marine activity in Brazil, partially offset by lower Morgan City fabrication activity on projects that were near completion at the beginning of 2013 and lower marine activity in Mexico on a project completed in 2012.

Revenues relating to projects in a loss position were approximately $776.1 million during the year ended December 31, 2013 as compared to approximately $314.4 million during the year ended December 31, 2012.

Cost of Operations

Cost of operations decreased approximately 10%, or $298.6 million, to $2.8 billion in the year ended December 31, 2013 compared to $3.1 billion for the year ended December 31, 2012, primarily driven by reduced activity in our Asia Pacific segment.

Cost of operations in our Asia Pacific segment decreased by approximately 26%, or $317.2 million, to $904.8 million in the year ended December 31, 2013, compared to $1.2 billion in the year ended December 31, 2012. The cost of operations decline was primarily influenced by lower marine activity on two of our EPCI projects in Australia that had significantly higher marine activity during the year ended December 31, 2012 and were near completion at the beginning of 2013. Partially offsetting those cost reductions were the recognition of a loss and related marine activity on a subsea project in Malaysia and increased activity on projects in Indonesia and Australia.

Cost of operations in our Middle East segment decreased by approximately 8%, or $103.0 million, to $1.3 billion in the year ended December 31, 2013, compared to approximately $1.4 billion in the year ended December 31, 2012. This decline was driven primarily by lower activity on an EPCI project in Saudi Arabia that had significant marine and fabrication activity during the year ended December 31, 2012 but was near completion at the beginning of 2013. Partially offsetting those cost reductions were the recognition of losses on three EPCI projects in Saudi Arabia due to the increased at-completion cost estimates discussed above under "– Critical Accounting Policies and Estimates – Use of Estimates – Year Ended December 31, 2013" and increased activity on recently commenced projects.

Cost of operations in the Americas segment increased 24%, or $122.3 million, to $625.5 million in the year ended December 31, 2013, compared to $503.2 million in the year ended December 31, 2012, partially offsetting the cost of operations decreases in our Asia Pacific and Middle East segments. The main drivers of higher cost of operations in the Atlantic segment were increased marine activity in Brazil, increased fabrication activity at our Altamira facility, and the recognition of losses on two EPCI projects in Altamira, partially offset by reduced fabrication activity at our Morgan City facility and no marine activity in Mexico.

Operating Income (Loss)

Operating results decreased $763.9 million to an operating loss of $456.7 million in the year ended December 31, 2013 from operating income of $307.2 million in the year ended December 31, 2012, attributable to declines experienced in each segment.

Our Asia Pacific segment reported an operating loss of $72.2 million in the year ended December 31, 2013, as compared to operating income of $236.9 million in the year ended December 31, 2012. The decline was primarily due to an approximate $254.2 million decline in operating income from one of our EPCI projects in Australia, which had significantly higher marine activity in the year ended December 31, 2012 and was near completion at the beginning of 2013. In addition, we experienced $127.0 million of net losses on a project in Malaysia, primarily due to mechanical downtime on the NO 105 and offshore productivity issues. The project was in a loss position and was completed in June 2014. Asset impairment charges of approximately $40.8 million resulting from the impairment of segment goodwill and carrying cost of vessel upgrades under construction also had a negative impact. The declines in our Asia Pacific segment were partially offset by increased activity on projects in Indonesia, Australia and Malaysia.

Our Middle East segment reported an operating loss of $209.1 million in the year ended December 31, 2013 as compared to operating income of $138.7 million in the year ended December 31, 2012. The decrease was primarily attributable to an approximate $230.2 million decline in operating income from two EPCI projects in Saudi Arabia due to significantly lower marine and fabrication activity as compared to the year ended December 31, 2012 and increased estimates of costs to complete driven by execution plan changes, extended offshore hookup campaigns and delays in the completion of onshore activities during the year ended December 31, 2013. For further discussion of these increases in estimates of costs to complete, see "– Critical Accounting Policies and Estimates – Use of Estimates – Year Ended December 31, 2013". On another EPCI project in Saudi Arabia, we increased our estimated cost to complete by approximately $16.4 million due to procurement and design issues, which were settled on less favorable terms than previously expected. This project is currently in a loss position and is expected to be completed during the third quarter of 2016. Although we believe we have substantial basis for our claims, reduced estimate of cost recoveries related to a pipelay project that was completed during the second quarter of 2014, had a negative impact. Asset impairment charges of approximately $21.4 million, resulting from the impairment of segment goodwill, also had a negative impact. These declines in our Middle East segment were partially offset by increased activity on certain newly awarded and recently commenced projects.

The operating loss recognized in our Americas segment increased by $106.9 million, resulting in an operating loss of $175.4 million for the year ended December 31, 2013, compared to an operating loss of $68.5 million in the year ended December 31, 2012. In Morgan City, we incurred additional losses of approximately $9.3 million to complete the last fabrication project at the facility due to poor labor productivity. The five-year Agile charter in Brazil generated an additional loss of $8.6 million during the year ended December 31, 2013 due to increased cost estimates to complete the project. All of the previously estimated losses on that project were recognized in the year ended December 31, 2011. On a marine project in Mexico completed during 2012, we recognized a loss of approximately $10.0 million due to unsuccessful claim resolution efforts. On a subsea project in the U.S. Gulf of Mexico, we recognized a loss reserve of approximately $9.5 million, primarily driven by the recognition of liquidated damages due to the late arrival of vessels which were engaged on projects in Brazil and Malaysia. This project was completed during the year ended December 31, 2014.

On two EPCI projects at Altamira, we increased our aggregate estimated costs at completion by approximately $40.9 million, primarily due to higher procurement costs, labor productivity and reduced utilization of the fabrication facility. Both of these projects are in loss positions. One was completed during the year ended December 31, 2014 and the other is expected to be completed by the fourth quarter of 2015. On two fabrication projects at Altamira, we recognized aggregate losses of approximately $7.1 million due to write-downs of unpaid customer receivables, placing both projects in a loss position with no further work planned for either project. Other negative impacts included are asset impairment charges of $22.3 million resulting from the carrying costs of vessel upgrades under construction and approximately $35.7 million of restructuring charges in the year ended December 31, 2013.

Operating Margins

Operating income is frequently influenced by the resolution of change orders, project close-outs and settlements. Although we expect change orders, close-outs and settlements to continue as part of our normal business activities, the period in which they are recognized is largely driven by the finalization of agreements with customers and suppliers and, as a result, is difficult to predict. Additionally, the future margin increases or decreases associated with these items are difficult to predict, due to, among other items, the difficulty of predicting the timing of recognition of change orders, close-outs and settlements and the timing of new project awards.

Other Items in Operating Income

Selling, general and administrative expenses decreased by $25.1 million to $193.1 million for the year ended December 31, 2013 as compared to $218.2 million in 2012, primarily due to lower pension, equity compensation and other general corporate costs, partially offset by increased employee benefit costs.

Equity in loss of unconsolidated affiliates increased by $0.6 million to $16.1 million for the year ended December 31, 2013, compared to $16.7 million in 2012, primarily attributable to decreased losses in our FloaTEC joint venture.

Other Items

Interest income was $1.4 million and $4.7 million for the years ended December 31, 2013 and 2012, respectively, primarily as a result of lower cash and cash equivalents balances in interest-bearing accounts. Results for the years ended December 31, 2013 and 2012 were not significantly impacted by interest expense.

Gain (loss) on foreign currency – net decreased by $3.2 million to income of $16.9 million in the year ended December 31, 2013 from income of $20.1 million in the year ended December 31, 2012, primarily due to lower gains related to derivative instruments and hedging activities of approximately $13.3 million recognized during the year ended December 31, 2013, as compared to gains related to derivative instruments and hedging activities of approximately $23.1 million recognized during the year ended December 31, 2012. The foreign currency exchange gains were $3.6 million for the year ended December 31, 2013 as compared to foreign currency exchange losses of $3.0 million for the year ended December 31, 2012.

At December 31, 2013, our derivative financial instruments consisted of foreign currency forward contracts. Our derivative activity substantially increased in 2012 related to the hedging program required for a large EPCI project award at the beginning of 2012. While we currently believe that our currency forward contracts will be effective in mitigating the associated currency exchange risks, it is possible that changes in the EPCI project may cause reduced effectiveness of these derivative contracts. Therefore we may continue to experience large gains or losses on foreign currency movements due to the ineffective portion or the portion excluded from the assessment of effectiveness of these and other derivative contracts. The notional value of our outstanding derivative contracts totaled $1.1 billion at December 31, 2013, with maturities extending through 2017. Of this amount, $660.4 million is associated with various foreign currency expenditures we expect to incur on this EPCI project.

Other expense—net increased by $1.3 million to expense of $2.3 million in the year ended December 31, 2013 compared to expense of $1.0 million in the year ended December 31, 2012.

Provision for Income Taxes

For the year ended December 31, 2013, we recognized a loss before provision for income taxes of $440.9 million, compared to income before provision for income taxes of $330.9 million for the year ended December 31, 2012. In the aggregate, the provision for income taxes was $49.1 million and $129.2 million for the years ended December 31, 2013 and 2012, respectively. The decline in the provision for income taxes was principally driven by lower taxable income, which was partially offset by losses in certain tax jurisdictions where we do not expect to receive a tax benefit (primarily the United States, Mexico, Malaysia and Singapore). As a result of losses with no corresponding tax benefit, our effective tax rate for the year ended December 31, 2013 was negative, as compared to 39.0% for the year ended December 31, 2012.

Discontinued Operations and Noncontrolling Interests

On March 19, 2012, we completed the sale of our former charter fleet business for cash consideration of approximately $61.0 million, resulting in a gain on the sale of approximately $0.3 million. Total income from discontinued operations, net of tax was $3.5 million for the year ended December 31, 2012.

Net income attributable to noncontrolling interests increased by $8.2 million to $19.0 million in the year ended December 31, 2013 from $10.8 million for the year ended December 31, 2012, primarily due to increased activity and higher net income at a joint venture during 2013.

INFLATION AND CHANGING PRICES

Our financial statements are prepared in accordance with GAAP, generally using historical U.S. dollar accounting (“historical cost”). Statements based on historical cost, however, do not adequately reflect the cumulative effect of increasing costs and changes in the purchasing power of the dollar, especially during times of significant and continued inflation.

In order to minimize the negative impact of inflation on our operations, we attempt to cover the increased cost of anticipated changes in labor, material and service costs either through an estimate of those changes, which we reflect in the original price, or through price escalation clauses in our contracts.

LIQUIDITY AND CAPITAL RESOURCES

During April 2014, we refinanced our existing obligations, and replaced in its entirety our then existing $950.0 million credit agreement (the "Former Credit Agreement") with a new credit agreement (the "New Credit Agreement"), which provides for:

- a $400.0 million first-lien, first-out three-year letter of credit facility (the "LC Facility"); and
- a $300.0 million first-lien, second-out five-year term loan (the "Term Loan").

Additionally, during April 2014, we completed the following new financing transactions:

- the issuance of $500.0 million of second-lien seven-year senior secured notes.

- the issuance of $287.5 million of tangible equity units composed of (1) three-year amortizing, senior unsecured notes, in an aggregate principal amount of $47.5 million, and (2) prepaid common stock purchase contracts.

With the completion of these financing transactions in April 2014, we terminated the bridge loan commitment we had obtained from an affiliate of Goldman, Sachs, & Co. ("Goldman Sachs"). As a result of the termination of the bridge loan commitment, the fee we previously paid to Goldman Sachs to obtain the bridge loan commitment was recognized as interest expense in the first half of 2014. Due to the replacement of the Former Credit Agreement, the unamortized issuance fees related to the Former Credit Agreement were also recognized as interest expense in the first half of 2014. The total additional interest expense related to these items was approximately $28.0 million.

The Former Credit Agreement provided for revolving credit borrowings and issuances of letters of credit in an aggregate outstanding amount of up to $950.0 million. Proceeds from borrowings under the Former Credit Agreement were available for working capital needs and other general corporate purposes. At December 31, 2013, there were no borrowings outstanding, and letters of credit issued under the Former Credit Agreement totaled $214.3 million. At December 31, 2013, there was $735.7 million available for borrowings or to meet letter of credit requirements under the Former Credit Agreement. In addition, at December 31, 2013, we had $96.9 million in outstanding unsecured bilateral letters of credit.

New Credit Facilities

The indebtedness and other obligations under the New Credit Agreement are unconditionally guaranteed on a senior secured basis by substantially all of our wholly owned subsidiaries, other than our captive insurance subsidiary (collectively, the "Guarantors"). In connection with the New Credit Agreement, we paid certain fees to the lenders thereunder, as well as certain arrangement fees to the arrangers and agents for the New Credit Agreement, which we have capitalized and are amortizing to interest expense over the respective terms of the LC Facility and the Term Loan. We also paid certain fees to the initial purchasers of the senior secured notes and to the underwriter of the tangible equity units referred to below, which we have capitalized and are amortizing to interest expense over the respective terms of the related indebtedness.

LC Facility and Cash-Collateralized Bilateral Letters of Credit

The LC Facility provides for an initial letter of credit capacity of $400.0 million and allows for uncommitted increases in capacity of $100.0 million through December 31, 2014 and an additional $100.0 million thereafter, potentially increasing the total capacity to $600.0 million through the term of the LC Facility. Letters of credit issuable under the LC Facility support the obligations of McDermott and its affiliates and joint ventures. Financial letters of credit do not support ordinary course of business performance obligations or bids. The aggregate amount of the LC Facility available for financial letters of credit is capped at 25% of the total LC Facility. As of December 31, 2014, the aggregate face amount of letters of credit issued under the LC Facility was $195.8 million. There were no financial letters of credit issued under the LC facility as of December 31, 2014.

In addition, the LC Facility permits us to deposit up to $300.0 million with letter of credit issuers to cash collateralize letters of credit issued on a bilateral basis outside the credit facility. As of December 31, 2014, we had an aggregate face amount of approximately $88.8 million of such letters of credit outstanding supported by cash collateral, including financial letters of credit of $19.7 million. We have included the supporting cash collateral in restricted cash and cash equivalents in the accompanying consolidated balance sheet as of December 31, 2014.

The LC Facility is secured on a first-lien, first-out basis (with relative priority over the Term Loan) by pledges of the capital stock of all the Guarantors and mortgages on, or other security interests in, substantially all the tangible and intangible assets of our company and the Guarantors, subject to specific exceptions.

The LC Facility contains various customary affirmative covenants, as well as specific affirmative covenants, including specific reporting requirements and a requirement for ongoing periodic financial reviews by a financial advisor. The LC Facility also requires compliance with various negative covenants, including limitations with respect to the incurrence of other indebtedness and liens, restrictions on acquisitions, capital expenditures and other investments, restrictions on sale/leaseback transactions and restrictions on prepayments of other indebtedness.

The LC Facility requires us to generate consolidated earnings before interest, taxes, depreciation and amortization, as adjusted ("Covenant EBITDA") of at least specified minimum amounts over the term of the facility. Covenant EBITDA is a non-GAAP measure, with a specific definition under the terms of the LC Facility. The definition includes a provision for increasing the Covenant EBITDA calculation results by an amount up to $40.0 million on a trailing twelve month (TTM) basis, less the aggregate amount of all adjustments for prior periods. As of December 31, 2014, we had utilized approximately $12.0 million from this adjustment provision. A comparison of the Covenant EBITDA covenant and current compliance is as follows:

	Twelve months ended December 31, 2014	Nine months ended September 30, 2014	Six months ended June 30, 2014	Three months ended March 31, 2014
	(In millions)			
Calculated EBITDA (TTM) [(1)]	$130.9	$ 58.0	$ 33.5	$ (6.5)
Provision utilized (TTM) [(1)]	$12.0	$ 12.0	$ 6.5	$ 6.5
Actual Covenant EBITDA (TTM) [(1)]	$142.9	$ 70.0	$ 40.0	$ —
Required Covenant EBITDA (TTM) [(1)]	$127.0	$ 70.0	$ 37.0	$ —

[(1)] TTM starts from January 2014

Covenant EBITDA is presented above for the purpose of disclosing our compliance with the covenants in the Credit Agreement. Covenant EBITDA is not a substitute for or superior to, operating income, net income, operating cash flow and other measures of financial performance prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The GAAP measure most directly comparable to Covenant EBITDA is net income. Covenant EBITDA may differ in the method of calculation from similarly titled measures used by other companies. The following is a reconciliation of Covenant EBITDA to net income for the periods presented:

	Quarter ended December 31, 2014	Quarter ended September 30, 2014	Quarter ended June 30, 2014	Quarter ended March 31, 2014
	(In millions)			
Net Income (loss)	$8.2	$ (30.3)	$ (7.4)	$ (46.5)
Adjustments:				
Interest Expense (including interest capitalized)	18.9	18.7	44.5	3.3
Tax expense (benefit)	10.3	1.5	4.8	3.5
Depreciation, drydock and amortization (excluding attributable to Nonguarantors)	26.1	25.4	21.9	29.0
Other items:				
Equity (income) loss	2.2	3.4	3.3	(1.1)
(Gain) loss on assets disposal	0.1	(4.8)	(35.1)	(6.4)

Restructuring expense	6.0	4.7	1.3	6.1
Others	1.1	5.9	6.7	5.6
Total adjustments	$64.7	$ 54.8	$47.4	$40.0
Calculated EBITDA - Period	$72.9	$ 24.5	$40.0	$(6.5)
Calculated EBITDA - Cumulative/TTM[1]	$130.9	$ 58.0	$33.5	$(6.5)

[1] TTM starts from January 2014

The LC Facility also requires us to maintain a ratio of fair market value of vessel collateral to the sum of (1) the outstanding principal amount of the Term Loan, (2) the aggregate amount of undrawn financial letters of credit outstanding under the LC Facility, (3) all drawn but unreimbursed letters of credit under the LC Facility, and (4) mark-to-market foreign exchange exposure that is not cash secured of at least 1.2:1.0. As of December 31, 2014, the actual ratio was 2.6 to 1.0.

The LC Facility also specifies maximum capital expenditures over the term of the facility and requires us to maintain at least $200.0 million of minimum available cash at the end of each quarter. We have remained in compliance with the covenants under the LC Facility through December 31, 2014.

The LC Facility provides for a commitment fee of 0.50% per year on the unused portion of the LC Facility and letter of credit fees at an annual rate of 2.25% for performance letters of credit and 4.50% for financial letters of credit, as well as customary issuance fees and other fees and expenses.

Term Loan

The Term Loan is secured on a first-lien, second-out basis (with the LC Facility having relative priority over the Term Loan) by pledges of the capital stock of all the Guarantors and mortgages on, or other security interests in, substantially all tangible and intangible assets of our company and the Guarantors, subject to specific exceptions. As of December 31, 2014, we had $298.5 million in borrowings outstanding under the Term Loan, of which $3.0 million was classified as current notes payable.

The Term Loan requires mandatory prepayments from: (1) the proceeds from the sale of assets, as well as insurance proceeds, in each case subject to certain exceptions, to the extent such proceeds are not reinvested in our business within 365 days of receipt; (2) net cash proceeds from the incurrence of indebtedness not otherwise permitted under the New Credit Agreement; and (3) 50% of amounts deemed to be “excess cash flow,” subject to specified adjustments. The Term Loan also requires quarterly amortization payments equal to $750,000. The Term Loan also provides for a prepayment premium if we prepay or re-price the Term Loan prior to April 16, 2015.

The Term Loan requires compliance with various customary affirmative and negative covenants. We must also maintain a ratio of “ownership adjusted fair market value” of marine vessels to the sum of (1) the outstanding principal amount of the Term Loan and (2) the aggregate principal amount of unreimbursed drawings and advances under the LC Facility of at least 1.75:1.0. As of December 31, 2014, the actual ratio was 4.6 to 1.0.

The Term Loan was incurred with 25 basis points of original issue discount and bears interest at a floating rate, which can be, at our option, either: (1) a LIBOR rate for a specified interest period (subject to a LIBOR “floor” of 1.00%) plus an applicable margin of 4.25%; or (2) an alternate base rate (subject to a base rate “floor” of 2.00%) plus an applicable margin of 3.25%.

Senior Notes

During April 2014 we issued $500.0 million in aggregate principal amount of 8.000% 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, at an annual rate of 8%. The Notes are scheduled to mature on May 1, 2021. As of December 31, 2014, there was $500.0 million principal amount of Senior Notes outstanding.

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.

At any time, or from time to time, on or after May 1, 2017, at our option, we may redeem the Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount of the Notes to be redeemed) set forth below, together with accrued and unpaid interest to the redemption date, if redeemed during the 12-month period beginning May 1 of the years indicated:

Year	Percentage	
2017	104	%
2018	102	%
2019 and thereafter	100	%

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.

Tangible Equity Units

During April 2014, we issued 11,500,000 6.25% tangible equity units (“Units”), each with a stated amount of $25.00. Each Unit consists of (1) a prepaid common stock purchase contract and (2) a senior amortizing note due April 1, 2017 (each an “Amortizing Note”) that has an initial principal amount of $4.1266 per Amortizing Note, bears interest at a rate of 7.75% per annum and has a final scheduled installment payment date of April 1, 2017.

The prepaid common stock purchase contracts were accounted for as additional paid-in capital totaling $240.0 million. As of December 31, 2014, the Amortizing Notes were recorded as long-term debt totaling $40.5 million, of which $15.3 million was classified as current notes payable.

Each prepaid common stock purchase contract will automatically settle on April 1, 2017, unless settled earlier: (1) at the holder’s option, upon which we will deliver shares of our common stock, based on the applicable settlement rate and applicable market value of our stock as determined under the purchase contract; or (2) at our option, upon which we will deliver shares of our common stock, based upon the stated maximum settlement rate of 3.5562 shares per Unit, subject to adjustment. Potential dilutive common shares that may be issued for the settlement of the common stock purchase contracts totaled 40.9 million at December 31, 2014, based on the maximum number of shares issuable per Unit. The potential minimum number of shares issuable is 33.4 million, which represents 2.9030 per Unit. The maximum and minimum settlement rates for the Units are subject to adjustment for certain dilutive events.

North Ocean Financing

NO 105

On September 30, 2010, MII, as guarantor, and North Ocean 105 AS, in which we have a 75% ownership interest, as borrower, entered into a financing agreement to finance a portion of the construction costs of the NO 105. The agreement provides for borrowings of up to $69.4 million, bearing interest at 2.76% per year, and requires principal repayment in 17 consecutive semi-annual installments, which commenced on October 1, 2012. 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. MII unconditionally guaranteed all amounts to be borrowed under the agreement. As of December 31, 2014 and December 31, 2013, there was $49.0 million and $57.2 million, respectively, in borrowings outstanding under this agreement, of which (as of each date) approximately $8.2 million was classified as current notes payable.

NO 102

In December 2009, JRMSA entered into a vessel-owning joint venture transaction with Oceanteam ASA and, as a result, we have included notes payable of these entities on our consolidated balance sheets. JRMSA had guaranteed approximately 50% of this debt based on its ownership percentages in the vessel-owning companies. The outstanding debt bore interest at a rate equal to the three-month LIBOR (which was subject to reset every three months) plus a margin of 3.315%. JRMSA exercised its option to purchase Oceanteam ASA’s 50% ownership interest in the vessel-owing companies in December 2014 for $32.9 million. As of December 31, 2013, we reported consolidated notes payable of $31.4 million on our consolidated balance sheet, all of which was classified as current notes payable and paid in full in early 2014.

Unsecured Bilateral Letters of Credit and Bank Guarantees

In 2012, McDermott Middle East, Inc. and MII executed a general reimbursement agreement in favor of a bank located in the UAE relating to issuances of bank guarantees in support of contracting activities in the Middle East and

India. As of December 31, 2014 and December 31, 2013, bank guarantees issued under these arrangements totaled $56.2 million and $55.8 million, respectively. In 2007 and in 2012, JRMSA and MII executed general unsecured reimbursement agreements in favor of three institutions that were lenders under the Former Credit Agreement relating to issuances of letters of credit in support of contracting activities, primarily in Asia and the Middle East. Letters of credit issued under two of these arrangements have either been replaced by letters of credit under the LC Facility or cash collateralized. The letters of credit issued under these arrangements totaled $39.8 million as of December 31, 2013. There were no letters of credit issued under these arrangements as of December 31, 2014.

On April 20, 2012, McDermott and one of its wholly owned subsidiaries, McDermott Australia Pty. Ltd. ("McDermott Australia"), entered into a secured Letter of Credit Reimbursement Agreement (the "Reimbursement Agreement") with Australia and New Zealand Banking Group Limited ("ANZ"). In accordance with the terms of the Reimbursement Agreement, ANZ issued letters of credit in the aggregate amount of approximately $109.0 million to support McDermott Australia's performance obligations under contractual arrangements relating to a field development project. The obligations of McDermott and McDermott Australia under the Reimbursement Agreement are secured by McDermott Australia's interest in the contractual arrangements and certain related assets.

During the year ended December 31, 2014, we replaced these letters of credit with letters of credit and cash collateralized letters of credit under the LC Facility.

Surety Bonds

In 2012 and 2011, MII executed general agreements of indemnity in favor of surety underwriters based in Mexico relating to surety bonds issued in support of contracting activities of J. Ray McDermott de Mèxico, S.A. de C.V. and McDermott, Inc., both subsidiaries of MII. As of December 31, 2014 and December 31, 2013, bonds issued under these arrangements totaled $52.5 million and $43.5 million, respectively. In October 2013, MII executed general agreements of indemnity in favor of surety underwriters relating to surety bonds in support of vessels operating in Brazil. The project requiring these bonds was completed during the year ended December 31, 2014, allowing us to cancel the outstanding bonds. Accordingly, as of December 31, 2014, there were no bonds issued under these arrangements. As of December 31, 2013, the bonds issued under these arrangements totaled $106.3 million.

Cash, Cash Equivalents and Investments

In the aggregate, our cash, cash equivalents, restricted cash and investments increased by $700.9 million to $856.8 million at December 31, 2014 from $155.9 million at December 31, 2013, primarily due to the financing transactions in 2014 discussed above.

At February 27, 2015, our cash, cash equivalents and restricted cash and investments totaled approximately $792.0 million.

At December 31, 2014, we had restricted cash and cash equivalents totaling $187.6 million compared to $23.7 million as of December 31, 2013. The amount as of December 31, 2014 includes $154.2 million of cash collateral for letters of credit which generally may be replaced with letters of credit under the LC Facility.

At December 31, 2014, we had investments with a fair value of $3.9 million, $1.7 million of which were classified as short-term and were included in other current assets in the consolidated balance sheet. Our investment portfolio consists primarily of investments in mutual funds and commercial paper. Our investments are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of tax, reported as a component of other comprehensive income (loss). During the year ended December 31, 2013, we recognized an other than temporary impairment of $1.6 million on the asset-backed securities and collateralized mortgage obligations. Our net unrealized gain (loss) on investments was a gain of $0.2 million as of December 31, 2014 and December 31, 2013. As of December 31, 2013, the major components of our investments in an unrealized loss position were asset-backed and mortgage-backed obligations. In February 2014, we sold all of our asset-backed and mortgage-backed obligations for approximately the same amount as the aggregate carrying value for those obligations.

Our current assets, less current liabilities, excluding cash, cash equivalents, restricted cash and short-term investments, declined by $24.3 million to a negative $207.4 million at December 31, 2014 from a negative $183.1 million at December 31, 2013, primarily due to decreases in accounts receivable.

Cash Flow Activities

Operating activities. Our net cash provided by operating activities was $7.0 million in the year ended December 31, 2014, compared to net cash used in operating activities of $256.6 million in the year ended December 31, 2013. This change was primarily due to the lower operating loss in the year ended December 31, 2014 as compared to the operating loss in the year ended December 31, 2013.

Our net cash used in operating activities was $256.6 million in the year ended December 31, 2013, compared to net cash provided by operating activities of $209.8 million in the year ended December 31, 2012. This change was primarily due to the operating loss in the year ended December 31, 2013 as compared to the operating income in the year ended December 31, 2012.

At the request of one of our customers, we are in the process of terminating some of our local representative and other relationships in our Middle East segment. This process is expected to result in the acceleration of various payments, which we otherwise would have made in future periods, to the first half of 2015.

Investing activities. Our net cash used in investing activities was $409.0 million in the year ended December 31, 2014, compared to net cash used in investing activities of $231.2 million in the year ended December 31, 2013. The change in net cash used in investing activities was primarily due to higher capital expenditures and an increase in restricted cash and cash equivalents attributable to the proceeds from the financing transactions in 2014 discussed above.

Our net cash used in investing activities was $231.2 million in the year ended December 31, 2013, compared to net cash used in investing activities of $188.9 million in the year ended December 31, 2012. The change in net cash used in investing activities was primarily due to lower net sales and maturities of available-for-sale securities.

Financing activities. Our net cash provided by financing activities was $950.6 million in the year ended December 31, 2014, compared to net cash used in financing activities of $33.8 million in 2013. The change was primarily attributable to the financing transactions discussed above.

Our net cash used in financing activities was $33.8 million in the year ended December 31, 2013, compared to net cash used in financing activities of $13.8 million in 2012, primarily due to increased debt repayments in 2013 and increased debt issuance costs.

Capital Expenditures

As part of our strategic growth program, our management regularly evaluates our marine vessel fleet and our fabrication yard construction capacity to ensure our fleet and construction capabilities are adequately aligned with our overall growth strategy. These assessments may result in capital expenditures to upgrade, acquire or operate vessels or upgrade fabrication yards that would enhance or grow our technical capabilities, or may involve engaging in discussions to dispose of certain marine vessels or fabrication yards.

Capital expenditures for the years ended December 31, 2014, 2013 and 2012 were $321.2 million, $284.0 million and $286.3 million, respectively. Capital expenditures for the year ended December 31, 2014 were primarily attributable to the construction of the CSV 108, Deepwater Lay Vessel 2000 ("DLV 2000") and the continued development of our Altamira, Mexico fabrication facility, as well as costs associated with upgrading the capabilities of other marine vessels. Capital expenditures for years ended December 31, 2013 and 2012 were primarily attributable to construction of the NO 105 and CSV 108 vessels, upgrading the capabilities of the DB 50 and NO 102 vessels and certain upgrades and equipment expenditures associated with other vessels in our marine fleet. The construction of the CSV 108 was substantially complete at December 31, 2014, and the vessel was put to service in February 2015. Remaining obligations on the CSV 108 and DLV 2000 amounted to $253.8 million, all due to be paid in 2015.

On December 5, 2012, we modified our existing vessel operating agreement for the NO 102, with our joint venture partner, Oceanteam Shipping ASA, to allow us greater flexibility to operate and modify this vessel to meet the demands of the offshore market and our customers. In addition, this modification effectively converted our partner's economic benefits (our costs) into a fixed commercial arrangement, while retaining our option to purchase our partner's interest in the NO 102 in 2014. In December 2014, we exercised our option to purchase Oceanteam's interest in the NO 102 vessel-owning entities at a net cost of approximately $32.9 million.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CONTRACTUAL OBLIGATIONS

Our cash requirements as of December 31, 2014 under current contractual obligations were as follows:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years

	(In thousands)				
Long-term debt principal	$891,547	$27,026	$48,832	$307,519	$508,170
Operating leases	$209,856	$25,051	$33,686	$23,746	$127,373
CSV 108 and DLV 2000	$253,769	$253,769	$—	$—	$—
Vessel charters	$1,748	$1,748	$—	$—	$—

We have interest payments on our long-term debt obligations as follows:

Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
(In thousands)				
$345,935	$ 59,391	$119,736	$106,636	$ 60,172

These obligations are based on the debt outstanding at December 31, 2014 and the stated interest rates.

Our contingent commitments under letters of credit, bank guarantees and surety bonds currently outstanding expire as follows:

Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
(In thousands)				
$393,330	$83,190	$139,169	$54,948	$116,023

We have recorded a $49.2 million liability as of December 31, 2014 for unrecognized tax positions and the payment of related interest and penalties. Due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority will occur.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our results of operations are exposed to certain market risks, primarily associated with fluctuations in currency exchange rates and interest rate risk. Our exposure to market risk from changes in interest rates relates primarily to our cash equivalents and our investment portfolio, which primarily consists of investments in commercial paper and other highly liquid money market instruments denominated in U.S. dollars. We are averse to principal loss and seek to ensure the safety and preservation of our invested funds by limiting default risk, market risk and reinvestment risk. All of our investments in debt securities are classified as available-for-sale.

We also have exposure to changes in interest rates relating to interest on borrowings and letter of credit fees under the New Credit Agreement (see Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources"). As of December 31, 2014, we had no material future earnings or cash flow exposures from changes in interest rates on our other outstanding debt obligations, as substantially all of those obligations had fixed interest rates.

We have operations in many locations around the world, and, as a result, our financial results could be significantly affected by factors such as changes in currency exchange rates or weak economic conditions in foreign markets. In order to manage the risks associated with currency exchange rate fluctuations, we attempt to hedge those risks with foreign currency derivative instruments. Historically, we have hedged those risks with foreign currency forward contracts. In certain cases, contracts with our customers may contain provisions under which payments from our customers are denominated in U.S. Dollars and in a foreign currency. The payments denominated in a foreign currency are designed to compensate us for costs that we expect to incur in such foreign currency. In these cases, we may use derivative instruments to reduce the risks associated with currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows. Our operational cash flows and cash balances, though predominately held in U.S. dollars, may consist of different currencies at various points in time in order to execute our project contracts globally. Non-U.S. denominated asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in U.S. dollars.

Our operational cash flows and cash balances, though predominately held in U.S. dollars, may consist of different currencies at various points in time in order to execute our project contracts globally. Non-U.S. denominated asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in U.S. dollars.

Interest Rate Sensitivity

The following tables provide information about our financial instruments that are sensitive to changes in interest rates. The tables present principal cash flows and related weighted-average interest rates by expected maturity dates.

At December 31, 2014:	Principal Amount by Expected Maturity (in thousands)							
	Years Ending December 31,							Fair Value at December 31, 2014
	2015	2016	2017	2018	2019	Thereafter	Total	
Investments	$1,699	—	—	—	—	$2,216	$3,915	$ 3,915
Average Interest Rate	0.21 %							
Long-term Debt — fixed rate	$24,026	$25,274	$17,558	$8,616	$ 9,403	$508,170	$593,047	$ 448,993
Average Interest Rate	7.58 %	7.64 %	7.72 %	7.79 %	7.87 %	7.97 %		
Long-term Debt — floating rate	$3,000	$3,000	$3,000	$3,000	$286,500	$—	$298,500	$ 288,987
Average Interest Rate	5.25 %	5.86 %	6.53 %	6.72 %	6.86 %			

At December 31, 2013:	Principal Amount by Expected Maturity (in thousands)							
	Years Ended or Ending December 31,							Fair Value at December 31, 2013
	2014	2015	2016	2017	2018	Thereafter	Total	
Investments	—	—	—	—	—	$14,908	$14,908	$ 13,511
Average Interest Rate						1.02 %		
Long-term Debt — fixed rate	$8,170	$8,170	$8,170	$8,170	$8,170	$16,339	$57,189	$ 58,368
Average Interest Rate	2.76 %	2.76 %	2.76 %	2.76 %	2.76 %	2.76 %		
Long-term Debt — floating rate	$31,373	—	—	—	—	—	$31,373	$ 31,637
Average Interest Rate	2.98 %							

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Currency Exchange Rate Sensitivity

The following table provides information about our foreign currency forward contracts outstanding at December 31, 2014 and presents such information in U.S. dollar equivalents. The table presents notional amounts and related weighted-average exchange rates by expected (contractual) maturity dates and constitutes a forward-looking statement. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. The average contractual exchange rates are expressed using market convention, which is dependent on the currencies being bought and sold under the forward contract.

Forward Contracts to Purchase or Sell Foreign Currencies in U.S. Dollars (in thousands)

Foreign Currency	Year Ending December 31, 2015	Fair Value at December 31, 2014	Average Contractual Exchange Rate
Australian Dollar	$205,361	$(16,613)	0.8866
Danish Krone	$72,445	$(2,321)	5.9328
Euros	$94,651	$(2,342)	1.2448
Pound Sterling	$13,364	$(105)	1.5832
Indian Rupee	$7,612	$(239)	63.0591
Mexican Peso	$87,819	$(85)	14.7890
Norwegian Kroner	$117,598	$(4,024)	7.1447
Singapore Dollar	$126,304	$(5,743)	1.2666

Foreign Currency	Year Ending December 31, 2016	Fair Value at December 31, 2014	Average Contractual Exchange Rate
Australian Dollar	$77,104	$(11,157)	0.9349
Danish Krone	$6,654	$(537)	5.6143
Pound Sterling	$861	$(14)	1.6431
Norwegian Kroner	$14,930	$(1,284)	6.8450

Foreign Currency	Year Ending December 31, 2017	Fair Value at December 31, 2014	Average Contractual Exchange Rate
Australian Dollar	$19,632	$(2,448)	0.9062

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
To the Board of Directors and Stockholders of McDermott International, Inc.

Houston, Texas

We have audited the accompanying consolidated balance sheets of McDermott International, Inc. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows, and equity for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of McDermott International, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company has elected to change its method of accounting for recognizing actuarial gains and losses for its pension and postretirement benefit plans from an amortization method to immediate recognition. Such change is reflected in the accompanying consolidated balance sheets as of December 31, 2014 and 2013, and the related statements of consolidated income, comprehensive income, cash flows, and equity for each of the three years in the period ended December 31, 2014.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 2, 2015

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McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2014	2013	2012
	(In thousands, except share and per share amounts)		
Revenues	$2,300,889	$2,658,932	$3,641,624
Costs and Expenses:			
Cost of operations	2,113,013	2,801,426	3,100,009
Selling, general and administrative expenses	208,564	193,126	218,162
Asset impairments	(9,002)	84,482	—
Gains on asset disposals	(46,201)	(15,200)	(405)
Restructuring expenses	18,113	35,727	—
Total costs and expenses	2,284,487	3,099,561	3,317,766
Equity in Losses of Unconsolidated Affiliates	(7,848)	(16,116)	(16,719)
Operating Income (Loss)	8,554	(456,745)	307,139
Other Income (Expense):			
Interest income (expense) - net	(60,877)	1,353	4,656
Gain (loss) on foreign currency-net	7,234	16,872	20,142
Other income (expense) - net	(232)	(2,339)	(995)
Total other income (expense)	(53,875)	15,886	23,803
Income (loss) from continuing operations before provision for income taxes, discontinued operations and noncontrolling interests	(45,321)	(440,859)	330,942
Provision for Income Taxes	20,073	49,051	129,204
Income (loss) from continuing operations before discontinued operations and noncontrolling interests	(65,394)	(489,910)	201,738
Gain on disposal of discontinued operation	—	—	257
Income from discontinued operation, net of tax	—	—	3,240
Total income from discontinued operations, net of tax	—	—	3,497
Net income (loss)	(65,394)	(489,910)	205,235
Less: net income attributable to noncontrolling interest	10,600	18,958	10,770
Net income (loss) attributable to McDermott International, Inc.	$(75,994)	$(508,868)	$194,465

Basic earnings (loss) per share			
Income (loss) from continuing operations less noncontrolling interest	(0.32)	(2.15)	0.81
Income (loss) from discontinued operations, net of tax			0.01
Net income (loss) attributable to McDermott International, Inc.	(0.32)	(2.15)	0.83
Diluted earnings (loss) per share:			
Income (loss) from continuing operations less noncontrolling interest	(0.32)	(2.15)	0.80
Income (loss) from discontinued operations, net of tax			0.01
Net income (loss) attributable to McDermott International, Inc.	(0.32)	(2.15)	0.82

Shares used in the computation of earnings per share:			
Basic:	237,229,086	236,514,584	235,638,422
Diluted:	237,229,086	236,514,584	237,619,688

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Net Income (Loss)	$(65,394)	$(489,910)	$205,235
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on investments	3	2,554	2,087
Foreign currency translation	(12,653)	804	9,072
Gain (loss) on derivatives	(37,537)	(57,176)	8,711
Other comprehensive income (loss), net of tax	(50,187)	(53,818)	19,870
Total Comprehensive Income (Loss)	$(115,581)	$(543,728)	$225,105
Less: Comprehensive Income Attributable to Non-controlling Interests	10,511	18,903	10,835
Comprehensive Income (Loss) Attributable to McDermott International, Inc.	$(126,092)	$(562,631)	$214,270

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents	$665,309	$118,702
Restricted cash and cash equivalents	187,585	23,652
Accounts receivable – trade, net	143,370	381,858
Accounts receivable – other	81,088	89,273
Contracts in progress	357,617	425,986
Deferred income taxes	7,514	7,091
Assets held for sale	14,253	1,396
Other current assets	51,378	32,242
Total Current Assets	1,508,114	1,080,200
Property, Plant and Equipment	2,473,563	2,367,686
Less accumulated depreciation	(830,467)	(889,009)
Net Property, Plant and Equipment	1,643,096	1,478,677
Accounts Receivable – Long-Term Retainages	137,468	65,365
Investments in Unconsolidated Affiliates	38,186	50,536
Deferred Income Taxes	17,313	16,766
Assets Held for Sale	—	12,243
Investments	2,216	13,511
Other Assets	97,564	90,073
Total Assets	$3,443,957	$2,807,371
Liabilities and Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	$27,026	$39,543
Accounts payable	251,924	398,739
Accrued liabilities	337,209	365,224
Advance billings on contracts	199,865	278,929
Deferred income taxes	19,753	17,892
Income taxes payable	25,165	20,657
Total Current Liabilities	860,942	1,120,984
Long-Term Debt	864,521	49,019
Self-Insurance	17,026	20,531
Pension Liability	18,403	15,681
Non-current Income Taxes	49,229	56,042
Other Liabilities	94,722	104,770

Commitments and Contingencies (Note 12)		
Stockholders' Equity:		
Common stock, par value $1.00 per share, authorized 400,000,000 shares; issued 245,209,850 and 244,271,365 shares at December 31, 2014 and December 31, 2013, respectively	245,210	244,271
Capital in excess of par value (including prepaid common stock purchase contracts)	1,676,815	1,414,457
Accumulated Deficit	(239,572)	(163,578)
Treasury stock, at cost: 7,400,027 and 7,130,294 shares at at December 31, 2014 and December 31, 2013, respectively	(96,441)	(97,926)
Accumulated other comprehensive loss	(97,808)	(47,710)
Stockholders' Equity - McDermott International, Inc.	1,488,204	1,349,514
Noncontrolling interest	50,910	90,830
Total Equity	1,539,114	1,440,344
Total Liabilities and Equity	$3,443,957	$2,807,371

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014	2013	2012
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	$(65,394)	$(489,910)	$205,235
(Income) loss from discontinued operations, net of tax	-	-	(3,497)
Income (loss) from continuing operations	(65,394)	(489,910)	201,738
Non-cash items included in net loss:			
Depreciation and amortization	93,185	84,580	86,440
Drydock amortization	19,719	18,467	25,545
Loss on asset impairments	(9,002)	84,482	-
Stock-based compensation charges	18,565	21,100	15,369
Equity in losses of unconsolidated affiliates	7,848	16,116	16,719
Gain on foreign currency-net	(10,310)	(13,247)	(23,116)
Restructuring activity	(2,310)	18,044	-
Gain on asset disposals	(46,201)	(15,200)	(405)
Deferred taxes	891	(5,359)	3,847
Other non-cash items	(3,605)	(6,029)	6,837
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable	166,385	30,156	(5,920)
Net contracts in progress and advance billings on contracts	(10,695)	171,397	(351,604)
Accounts payable	(154,439)	(17,493)	84,430
Accrued and other current liabilities	(2,801)	(22,155)	36,922
Pension liability and accrued postretirement and employee benefits	(1,861)	(30,828)	34,847
Income taxes	(4,668)	(54,431)	22,832
Other assets and liabilities	11,653	(46,301)	55,303
TOTAL CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES - CONTINUING OPERATIONS	6,960	(256,611)	209,784
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(321,187)	(283,962)	(286,310)
(Increase) decrease in restricted cash and cash equivalents	(163,933)	(5,536)	3,846
Purchases of available-for-sale securities	(3,695)	(10,535)	(95,964)
Sales and maturities of available-for-sale securities	12,978	43,959	191,298
Investments in unconsolidated affiliates	(2,420)	(9,354)	(5,084)
Proceeds from asset dispositions	71,961	37,386	3,291
Other investing activities	(2,706)	(3,113)	0
NET CASH USED IN INVESTING ACTIVITIES - CONTINUING OPERATIONS	(409,002)	(231,155)	(188,923)
NET CASH PROVIDED BY INVESTING ACTIVITIES - DISCONTINUED OPERATIONS	-	-	60,671

TOTAL CASH USED IN INVESTING ACTIVITIES	(409,002)	(231,155)	(128,252)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt	1,328,875	296,000	19,034
Payment of debt	(298,534)	(310,146)	(10,061)
Issuance of common stock	327	68	215
Purchase of treasury stock	(1,707)	(1,106)	(2,898)
Debt issuance costs	(39,112)	(4,905)	52
Distributions to noncontrolling interests	(6,352)	(13,743)	(20,135)
Acquisition of noncontrolling interest	(32,943)	-	-
TOTAL CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	950,554	(33,832)	(13,793)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(1,905)	153	1,554
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	546,607	(521,445)	69,293
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	118,702	640,147	570,854
CASH AND CASH EQUIVALENTS AT END OF YEAR	$665,309	$118,702	$640,147
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Income taxes (net of refunds)	$26,661	$105,444	89,451
Interest expense (net of amount capitalized)	$28,390	-	-

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock		Capital in Excess of Par	Retained	Accumulated Other Comprehensive	Treasury	Stockholders'	Noncontrolling Interest	Total
	Shares	Par Value	Value	Earnings	Loss	Stock	Equity	("NCI")	Equity
	(In thousands, except for share amounts)								
Balance January 1, 2012	242,416,424	$242,416	$1,375,976	$150,825	$(13,752)	$(95,827)	$1,659,638	$74,074	$1,733,712
Net Income	—	—	—	194,465	—	—	194,465	10,770	205,235
Other comprehensive income, net of tax	—	—	—	—	19,805	—	19,805	65	19,870
Exercise of stock options	214,946	215	737	—	—	—	952	—	952
Share vesting	810,786	811	(811)	—	—	—	—	—	—
Stock-based compensation charges	—	—	15,369	—	—	—	15,369	—	15,369
Purchase of treasury shares	—	—	—	—	—	(2,898)	(2,898)	—	(2,898)
Distributions to NCI	—	—	—	—	—	—	—	(20,135)	(20,135)
Balance at December 31, 2012	243,442,156	$243,442	$1,391,271	$345,290	$6,053	$(98,725)	$1,887,331	$64,774	$1,952,105
Net Income (loss)	—	—	—	(508,868)	—	—	(508,868)	18,958	(489,910)
Other comprehensive loss, net of tax	—	—	—	—	(53,763)	—	(53,763)	(55)	(53,818)
Exercise of stock options	68,285	68	139	—	—		207	—	207
Share vesting	460,923	461	(461)	—	—		—	—	—
Stock-based compensation charges	—	—	18,936	—	—	2,164	21,100	—	21,100
Purchase of treasury shares	—	—	—	—	—	(1,106)	(1,106)	—	(1,106)
Sales of subsidiary shares to NCI	—	—	4,613				4,613	20,896	25,509
	—	—		—	—	—	—	(13,743)	(13,743)

Distributions to NCI									
Other	300,001	300	(41)	—	—	(259)	—	—	—
Balance at December 31, 2013	244,271,365	$244,271	$1,414,457	$(163,578)	$(47,710)	$(97,926)	$1,349,514	$90,830	$1,440,344
Net loss	—	—	—	(75,994)	—	—	(75,994)	10,600	(65,394)
Other comprehensive loss, net of tax	—	—	—		(50,098)	—	(50,098)	(89)	(50,187)
Exercise of stock options	169,322	170	157	—	—	—	327	—	327
Share vesting	769,163	769	(769)	—	—	—	0	—	—
Stock-based compensation charges	—	—	13,324	—	—	3,192	16,516	—	16,516
Acquisition of NCI	—	—	11,136	—	—	—	11,136	(44,079)	(32,943)
Issuance of tangible equity units	—	—	240,044	—	—	—	240,044	—	240,044
Purchase of treasury shares	—	—	—	—	—	(1,707)	(1,707)	—	(1,707)
Sales of subsidiary shares to NCI	—	—	(1,534)	—	—	—	(1,534)	—	(1,534)
Distributions to NCI	—	—	—	—	—	—	—	(6,352)	(6,352)
Balance at December 31, 2014	245,209,850	$245,210	$1,676,815	$(239,572)	$(97,808)	$(96,441)	$1,488,204	$50,910	$1,539,114

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 1—BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

McDermott International, Inc. (“MII”), a corporation incorporated under the laws of the Republic of Panama in 1959, is a engineering, procurement, construction and installation (“EPCI”) company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Operating in approximately 20 countries across the Americas, Middle East, Asia Pacific, the North Sea and Africa, our integrated resources include approximately 13,400 employees and 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 MII and its consolidated subsidiaries.

Basis of Presentation

We have presented our consolidated financial statements in U.S. Dollars in accordance with accounting principles generally accepted in the United States (“GAAP”). These consolidated financial statements include the accounts of McDermott International, Inc., its consolidated subsidiaries and controlled entities. We use the equity method to account for investments in entities that we do not control, but over which we have significant influence. We generally refer to these entities as “joint ventures” or “unconsolidated affiliates.” We have eliminated all intercompany transactions and accounts.

We report financial results under reporting segments consisting of Asia Pacific, Americas and the Middle East. 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. For financial information about our segments, see Note 11—“Segment Reporting”.

Consolidated statements of cash flows for the years ended December 31, 2013 and 2012 include amounts of gain on foreign currency of $13.2 million and $23.1 million, respectively, that have been reclassified to conform to 2014 presentation. Certain 2013 amounts in consolidated balance sheet have been reclassified to conform to 2014 presentation.

Business Segments

In March 2014, we changed our organizational structure to orient around our offshore and subsea business activities through four primary geographic regions. The four geographic regions, which we consider to be our operating segments, consist of Asia Pacific, Americas (previously Atlantic), Middle East and North Sea and Africa. The Caspian region is no longer considered an operating segment and is aggregated into the Middle East reporting segment. The North Sea and Africa operating segment is also 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. Accordingly, we report financial results under three reporting segments consisting of Asia Pacific, Americas and the Middle East. We also report certain corporate and other non-operating activities under the heading "Corporate and other," which primarily reflects corporate personnel and activities, incentive compensation programs and other costs that are generally fully allocated to our operating segments. The only corporate costs currently not being allocated to our operating segments are the restructuring costs associated with our corporate reorganization. See Note 11 for summarized financial information on our segments.

Pension Accounting Change

In the fourth quarter of 2014, we elected to change our accounting method for recognizing actuarial gains and losses for our pension and other post-retirement benefit plans. Historically, these gains and losses were recognized as a component of accumulated other comprehensive income (loss) on our consolidated balance sheets and amortized into our consolidated statements of operations and comprehensive income (loss) over the average future service period or the average remaining life expectancy of the plan participants. Under the new accounting method, we immediately recognize actuarial gains and losses into earnings in the fourth quarter each year as a component of net periodic benefit cost. We believe the new accounting method is preferable as it accelerates recognition of gains and losses into net income to be closer to when events resulting in gains and losses occur, such as plan investment performance, changes in discount rates, interest rate movements, mortality expectations and changes in other actuarial assumptions. This change has been reported through retrospective application of the new accounting method to all periods presented. See Note 4 to our audited consolidated financial statements included in this annual report for a further discussion of our pension and postretirement benefits and Notes 13 and 14 for disclosures relating to the effect of this change in our accounting method. Also see "— Accumulated Other Comprehensive Loss" and Note 9 for certain tax restated disclosures relating to pension accounting change.

Revenue Recognition

We determine the appropriate accounting method for each of our long-term contracts before work on the project begins. We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the activity involved. We include the amount of accumulated contract costs and estimated earnings that exceed billings to customers in contracts in progress. We include billings to customers that exceed accumulated contract costs and estimated earnings in advance billings on contracts. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. Certain costs are generally excluded from the cost-to-cost method of measuring progress, such as significant costs for materials and third-party subcontractors. Costs incurred prior to a project award are generally expensed during the period in which they are incurred. Total estimated project costs, and resulting contract income, are affected by changes in the expected cost of materials and labor, productivity, vessel costs, scheduling and other factors. Additionally, external factors such as weather, customer requirements and other factors outside of our control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of revenue and income recognition. In addition, change orders, which are a normal and recurring part of our business, can increase (sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period when those estimates are revised. Revenue from unapproved change orders is generally recognized to the extent of the lesser of amounts we expect to recover or costs incurred. Additionally, to the extent that claims included in backlog, including those which arise from change orders which are under dispute or which have been previously rejected by the customer, are not resolved in our favor, there could be reductions in, or reversals of previously reported amounts of, revenues and profits, and charges against current earnings, which could be material.

Claims Revenue

Claims revenue may relate to various factors, including the procurement of materials, equipment performance failures, change order disputes or schedule disruptions and other delays, including those associated with weather or sea conditions. Claims revenue, when recorded, is only recorded to the extent of the lesser of the amounts management expects to recover or the associated costs incurred in our consolidated financial statements. We include certain unapproved claims in the applicable contract values when we have a legal basis to do so, consider collection to be probable and believe we can reliably estimate the ultimate value. Amounts attributable to unapproved change orders are not included in claims. 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. Claims are generally negotiated over the course of the respective projects and many of our projects are long-term in nature. None of the claims included in our estimates at completion at December 31, 2014 were the subject of any litigation proceedings.

The amount of revenues and costs included in our estimates at completion (i.e., contract values) associated with such claims was $6.5 million and $17.2 million as of December 31, 2014 and December 31, 2013, respectively. All of those claim amounts at December 31, 2014 and 2013 were related to 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. There were no costs in the year ended December 31, 2014 in our consolidated financial statements pertaining to claims. For the year ended December 31, 2013, $11.7 million of revenues and costs are included in our consolidated financial statements pertaining to claims, all of which were related to the Middle East segment. Our unconsolidated joint ventures did not include any claims revenue or associated costs in their financial results for the year ended December 31, 2014 and 2013.

We continue to actively engage in negotiations with our applicable customers with respect to 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.

Deferred Profit Recognition

For contracts as to which we are unable to estimate the final profitability due to their uncommon nature, including first-of-a-kind projects, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these contracts, we only recognize gross margin when reliably estimable and the level of uncertainty has been significantly reduced, which we generally determine to be when the contract is at least 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical, as deferred profit recognition contracts If, while being accounted for under our deferred profit recognition policy, a current estimate of total contract costs indicates a loss, the projected loss is recognized in full and the project is accounted for under our normal revenue recognition guidelines. Prior to the fourth quarter of 2013, we accounted for an Americas segment project under our deferred profit recognition policy. The project was completed during the year ended December 31, 2014. Currently, we are not accounting for any projects under our deferred profit recognition policy.

Completed Contract Method

Under the completed contract method, revenue and gross profit is recognized only when a contract is completed or substantially complete. We generally do not enter into fixed-price contracts without an estimate of cost to complete that we believe to be accurate. However, it is possible that in the time between contract award and the commencement of work on a project, we could lose the ability to forecast costs to complete adequately, based on intervening events, including, but not limited to, experience on similar projects, civil unrest, strikes and volatility in our expected costs. In such a situation, we would use the completed contract method of accounting for that project. We did not enter into any contracts that we accounted for under the completed contract method during 2014, 2013 or 2012.

Loss Recognition

A risk associated with fixed-priced contracts is that revenue from customers may not cover increases in our costs. It is possible that current estimates could materially change for various reasons, including, but not limited to, fluctuations in forecasted labor and vessel productivity, vessel repair requirements, weather downtime, subcontractor or supplier performance, pipeline lay rates or steel and other raw material prices. Increases in costs associated with our fixed-price contracts could have a material adverse impact on our consolidated financial condition, results of operations and cash flows. Alternatively, reductions in overall contract costs at completion could materially improve our consolidated financial condition, results of operations and cash flows.

As of December 31, 2014, we have provided for our estimated costs to complete on all of our ongoing contracts. 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 all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

Of the December 31, 2014 backlog, approximately $401.2 million relates to five active projects that are in a loss position, whereby future revenues are expected to equal costs when recognized. Included in this amount are $146.4 million of backlog associated with an EPCI project in Altamira which is expected to be completed in the fourth quarter of 2015, $102.2 million of backlog pertaining to a five-year charter of the Agile in Brazil, which began in early 2012, and $50.1 million of backlog relating to a charter project in Brazil scheduled for completion during the second quarter of 2015, all of which are being conducted by our Americas segment. The amount also includes $92.9 million of backlog relating to an EPCI project in Saudi Arabia which is expected to be completed by the third quarter of 2016 and $9.6 million of backlog relating to a hook-up project in Saudi Arabia scheduled for completion by the second quarter of 2015, both being conducted in our Middle East segment. 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.

Use of Estimates

We use estimates and assumptions to prepare our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts we report in our financial statements and accompanying notes. Our actual results could differ from these estimates, and variances could materially affect our financial condition and results of operations in future periods. Changes in project estimates generally exclude change orders and changes in scope, but may include, without limitation, changes in cost recovery estimates, unexpected changes in weather conditions, productivity, unidentified required vessel repairs, customer and vendor delays and other costs. We generally expect to experience a reasonable amount of unanticipated events, and some of these events can result in significant cost increases above cost amounts we previously estimated. As of December 31, 2014, we have provided for our estimated costs to complete on all of our ongoing contracts. 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 all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

The following is a discussion of our most significant changes in estimates, which impacted operating income for the years ended December 31, 2014, 2013 and 2012.

Year ended December 31, 2014

Operating income for the year ended December 31, 2014 was impacted by changes in estimates relating to projects in each of our segments.

The Asia Pacific segment experienced net favorable changes aggregating approximately $51.6 million, primarily attributable to changes in estimates on seven projects. Changes in estimates on a recently completed subsea project in Malaysia resulted in an improvement of approximately $34.3 million during the year ended December 31, 2014, primarily related to productivity improvements on our marine vessels and offshore support activities, as well as the favorable resolution of cost contingencies relating to offshore performance risks. On a recently completed marine installation project in Brunei, a reduction in estimated cost to complete from productivity improvements on marine vessels and offshore support activities resulted in a favorable change of approximately $11.8 million. On two previously completed projects, insurance claim collection and final project close-out adjustments resulted in a combined additional recovery of approximately $10.3 million during the year ended December 31, 2014. In addition, completion of two projects resulted in project close-out savings of approximately $6.3 million. These positive changes were partially offset by a negative change in estimate of $11.0 million on an EPCI project in Australia, primarily due to lower than expected fabrication productivity, increase in procurement costs as well as an increase in marine costs primarily due to changes in marine asset utilization.

The Middle East segment was negatively impacted by net unfavorable changes aggregating approximately $4.4 million, primarily attributable to changes in four projects. On one EPCI project in Saudi Arabia, we increased our estimated cost at completion by approximately $22.5 million (which may be recoverable from the customer, but which were not recognizable at December 31, 2014), primarily as a result of vessel downtime due to weather and standby delays amounting to $43.0 million, partially offset by increased cost recovery estimates of approximately $20.5 million based on positive discussions with the customer during the fourth quarter of 2014. On another EPCI project in Saudi Arabia, we increased our estimated cost to complete by $19.2 million, primarily as a result of increased cost estimates to complete the onshore scope. Although the project recognized a loss in the year ended December 31, 2013, it remains in an overall profitable position and is expected to be fully closed out by the quarter ending June 2015. On a third EPCI project in Saudi Arabia, we increased our estimated costs to complete by approximately $12.2 million, to reflect cost overruns related to (1) the onshore work, which was substantially completed in July 2014, and (2) delays in completing the offshore work, due to delayed access to the project site, resulting in a revised execution plan. The revised execution plan included the costs of an incremental mobilization and reflected inefficiencies of executing out-of-sequence work. This project remains profitable and is expected to be completed by March 2015. These negative changes were partially offset by approximately $53.5 million of increased cost recovery estimates on a recently completed pipelay project in the Caspian based on positive negotiations with the customer during the year ended December 31, 2014 in connection with the ongoing project close-out process. We expect final settlement on this process during early 2015, which could result in further changes to be recognized in 2015.

The Americas segment was negatively impacted by net unfavorable changes in estimates aggregating $37.2 million associated with five projects. On an EPCI project in Altamira, we increased our estimated cost to complete by approximately $68.9 million, due to liquidated damages and extended project management costs arising from unexpected project delays and projected fabrication cost increases reflecting reduced productivity and execution plan changes to mitigate further project delays, as well as procurement and marine installation cost increases. This project is in a loss position and is estimated to be completed in the fourth quarter of 2015. On a subsea project in the U. S. Gulf of Mexico, we increased our estimated cost to complete by approximately $5.5 million, primarily due to increased costs from equipment downtime issues on the North Ocean 102 (the “NO 102”), our primary vessel working on the project, partially offset by project close-out savings on marine spread costs and increased cost recovery estimates based on positive developments from the ongoing negotiations with the customer. This project, which was in a loss position, was completed during the year ended December 31, 2014. On a fabrication project in Morgan City completed during 2013, we reduced our cost recovery estimates by approximately $7.8 million, mainly based on an agreement in principle with the customer during the year ended December 31, 2014, which resulted in lower-than-anticipated recoveries. These negative impacts were partially offset by $39.8 million of project close-out improvements on an EPCI project in Brazil, which resulted from marine cost reductions upon completion of activities and increased recoveries due to successful developments from the ongoing approval process for additional weather-related compensation. We also recognized $5.2 million of cost reductions on a marine installation project in the U. S. Gulf of Mexico, mainly due to project close-out improvements.

Year ended December 31, 2013

For the year ended December 31, 2013, we recognized net project losses of approximately $315.1 million due to changes in estimates across all three of our operating segments.

The Asia Pacific segment was negatively impacted by net losses of approximately $62.2 million due to changes in estimates on four projects. On the subsea project in Malaysia discussed above, we increased our estimated cost at completion by approximately $126.9 million primarily due to downtime on the NO 105 resulting from mechanical and offshore productivity issues. This project was completed in June 2014 with subsequent improvements of approximately $34.3 million in 2014, as discussed above. On an EPCI project in Australia we completed a settlement with the customer which resulted in lower-than-expected recoveries. This project was completed in the first quarter of 2013 and the settlement documents were executed on February 5, 2014. These deteriorations were partially offset by improvements on two projects. On another EPCI project in Australia, we reduced estimated costs to complete the project by approximately $64.1 million as a result of efficiencies and productivity improvements related to offshore hookup activities. This project was completed in early 2013. On a fabrication project in Australia, we increased our change order recovery and bonuses recognized by approximately $14.7 million resulting from settlements and achieved milestones. This project was completed in March 2014.

The Middle East segment was negatively impacted by losses of $174.4 million due to changes in estimates on four projects. On the pipelay project in the Caspian Sea, we reduced the estimate of cost recovery as a result of ongoing negotiations with the customer. This project was completed in June 2014 with subsequent improvements of approximately $53.5 million in 2014, as discussed above. On an EPCI project in Saudi Arabia, we increased our estimated cost at completion by approximately $62.5 million, primarily as a result of revisions to the project's execution plans, increases in our estimated cost to complete due to an extended offshore hookup campaign requiring multiple vessel mobilizations and delays in completion of onshore activities. On another EPCI project in Saudi Arabia, we increased our estimated cost to complete by approximately $16.5 million, primarily due to weather downtime and revisions to our estimated cost to complete the hookup campaign. On a third EPCI project in Saudi Arabia, we increased our estimated cost to complete by approximately $16.4 million due to procurement and design issues which were settled on less favorable terms than previously expected. This project is currently in a loss position and is expected to be completed during the third quarter of 2016.

The Americas segment was negatively impacted by changes in estimates on six projects resulting in approximately $78.5 million of project losses. In Morgan City, we incurred additional costs of approximately $9.3 million to complete a fabrication project, primarily due to poor labor productivity. That project was completed during the fourth quarter of 2013. On a marine project in Mexico completed during 2012, we reversed previously recognized claim revenue by approximately $10.0 million due to unsuccessful claim resolution efforts. On the five-year charter of the Agile in Brazil, we increased the estimated cost to complete the project by approximately $8.6 million. The completion of this charter is expected during the first quarter of 2017. On two EPCI projects in Altamira, we increased our estimated costs at completion by approximately $40.9 million, primarily due to higher procurement costs, reduced labor productivity, and reduced utilization of the fabrication facility. Both of these projects are in a loss position. One was completed during the year ended December 31, 2014 and the other is expected to be completed by the fourth quarter of 2015. On a subsea project in the U.S. Gulf of Mexico, we recognized a loss of approximately $9.7 million, primarily driven by the recognition of liquidated damages due to the anticipated late arrival of vessels currently engaged on projects in Brazil and Malaysia. This project was completed during the year ended December 31, 2014.

Year ended December 31, 2012

Operating income for the year ended December 31, 2012 in our Asia Pacific segment benefited significantly from certain changes in estimates, which resulted in a reduction of remaining costs as a result of efficiencies and productivity improvements related to offshore hook-up activities on one of our EPCI projects, which was completed in early 2013. Excluding those cost savings, our costs increased by approximately 8% for the year ended December 31, 2012. These benefits were partially offset by certain project charges of approximately $23.0 million associated with anticipated productivity changes and project delays on one of our subsea projects, which was completed in 2014. In addition, our Americas segment was impacted by project charges of approximately $16.0 million relating to two projects, which were completed in 2013 primarily due to lower than expected fabrication productivity. In our Middle East segment, we experienced project charges of approximately $13.0 million associated with increased cost estimates resulting from fabrication productivity and, to a lesser extent, higher than expected marine costs on a project, which was completed in early 2013.

Loss Contingencies

We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed the recorded provision or if such loss is not reasonably estimable. We are currently involved in litigation and other proceedings, as discussed in Note 12. We have accrued our estimates of the probable losses associated with these matters and associated legal costs are generally recognized in selling, general and administrative expenses as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

Cash and Cash Equivalents

Our cash and cash equivalents are highly liquid investments with maturities of three months or less when we purchase them. We record cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes. A majority of our restricted cash and cash equivalents serves as collateral for outstanding letters of credit, as further discussed in Note 3.

Investments

We classify investments available for current operations as current assets in the accompanying balance sheet, and we classify investments held for long-term purposes as noncurrent assets. We adjust the amortized cost of debt securities for amortization of premiums and accretion of discounts to maturity. That amortization is included in interest income. We include realized gains and losses on our investments in other income (expense)—net. The cost of securities sold is based on the specific identification method. We include interest earned on securities in interest income.

Investments in Unconsolidated Affiliates

We generally use the equity method of accounting for affiliates in which our investment ownership ranges from 20% to 50% and over which we exercise significant influence. Currently, all of our significant investments in affiliates that are not consolidated are recorded using the equity method.

Accounts Receivable

Accounts Receivable—Trade, Net

A summary of contract receivables is as follows:

We expect to invoice our unbilled receivables once certain milestones or other metrics are reached, and we expect to collect all unbilled amounts. We believe that our provision for losses on uncollectible accounts receivable is adequate for our credit loss exposure.

	December 31, 2014	December 31, 2013
	(in thousands)	
Contract receivables:		
Contracts in progress	$106,174	$192,745
Completed contracts	34,698	77,248
Retainages	28,586	127,698
Unbilled	4,303	14,571
Less allowances	(30,391)	(30,404)
Accounts receivable—trade, net	$143,370	$381,858

The following amounts represent retainages on contracts:

	December 31, 2014	December 31, 2013

	(in thousands)	
Retainages expected to be collected within one year	$28,586	$127,698
Retainages expected to be collected after one year	137,468	65,365
Total retainages	$166,054	$193,063

We have included in accounts receivable—trade, net, retainages expected to be collected in 2015. Retainages expected to be collected after one year are included in other assets. Of the long-term retainages at December 31, 2014, we expect to collect $86.0 million in 2016 and $51.5 million in 2017.

Accounts Receivable—Other

A summary of accounts receivable—other is as follows:

	December 31, 2014	December 31, 2013
	(In thousands)	
Other taxes receivable	$31,392	$ 14,934
Receivables from unconsolidated affiliates	20,061	36,181
Accrued unbilled revenue	15,442	15,696
Intercompany unbilled cost	3,978	5,373
Employee receivables	4,336	4,532
Foreign currency forward contracts	1,173	11,641
Other	4,706	916
Accounts receivable-other	$81,088	$ 89,273

Employee receivables are expected to be collected within 12 months, and any allowance for doubtful accounts on our accounts receivable—other is based on our estimate of the amount of probable losses due to the inability to collect these amounts (based on historical collection experience and other available information). As of December 31, 2014 and December 31, 2013, no such allowance for doubtful accounts was recorded.

Contracts in Progress and Advance Billings on Contracts

Contracts in progress were $357.6 million and $426.0 million at December 31, 2014 and December 31, 2013, respectively. Advance billings on contracts were $199.9 million and $278.9 million at December 31, 2014 and December 31, 2013, respectively. A detail of the components of contracts in progress and advance billings on contracts is as follows:

	December 31, 2014	December 31, 2013
	(In thousands)	
Costs incurred less costs of revenue recognized	$90,191	$65,113
Revenues recognized less billings to customers	267,426	360,873
Contracts in Progress	$357,617	$425,986
Billings to customers less revenue recognized	$578,896	$466,205
Costs incurred less costs of revenue recognized	(379,031)	(187,276)
Advance Billings on Contracts	$199,865	$278,929

Other Non-Current Assets

We have included debt issuance costs in other non-current assets. The current portion of debt-issuance costs has been included in other current assets. We amortize debt issuance costs as interest expense on a straight-line basis over the life of the related debt. The following summarizes the changes in the carrying amount of these assets:

	Year ended December 31, 2014	Year ended December 31, 2013
	(In thousands)	
Balance at beginning of period	$14,951	$ 13,761
Debt issuance costs	47,737	4,905
Former Credit Agreement debt issuance cost write off	(11,913)	—
Amortization of interest expense	(10,999)	(3,715)
	39,776	14,951
Less: Current portion	(12,936)	—
Noncurrent portion	$26,840	$ 14,951

Also included in other non-current assets are long-term deferred drydock expenses, long-term prepaid rent and other prepaid expenses.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. An established hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability.

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1—inputs are based on quoted prices for identical instruments traded in active markets.
- Level 2—inputs are based on quoted prices for similar instruments in active markets, quoted prices for similar or identical instruments in inactive markets and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar valuation techniques.

The carrying amounts that we have reported for financial instruments, including cash and cash equivalents, accounts receivables and accounts payable approximate their fair values. See Note 7 for additional information regarding fair value measurements.

Derivative Financial Instruments

Our worldwide operations give rise to exposure to changes in certain market conditions, which may adversely impact our financial performance. When we deem it appropriate, we use derivatives as a risk management tool to mitigate the potential impacts of certain market risks. The primary market risk we manage through the use of derivative instruments is movement in foreign currency exchange rates. We use foreign currency derivative contracts to reduce the impact of changes in foreign currency exchange rates on our operating results. We use these instruments to hedge our exposure associated with revenues and/or costs on our long-term contracts and other cash flow exposures that are denominated in currencies other than our operating entities' functional currencies. We do not hold or issue financial instruments for trading or other speculative purposes.

In certain cases, contracts with our customers contain provisions under which some payments from our customers are denominated in U.S. Dollars and other payments are denominated in a foreign currency. In general, the payments denominated in a foreign currency are designed to compensate us for costs that we expect to incur in such foreign currency. In these cases, we may use derivative instruments to reduce the risks associated with foreign currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows. We recognize all derivatives at fair value on the balance sheet. Derivatives that are not accounted for as hedges under ASC 815 - Derivatives and Hedging, are adjusted to fair value and such changes are reflected through the results of operations. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. See Note 5 for additional information regarding derivative financial instruments.

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 gain (loss) on foreign currency-net in our consolidated statements of operations.

Concentration of Credit Risk

Our principal customers are businesses in the offshore oil and gas industry. This concentration of customers may impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic or other conditions. In addition, we and many of our customers operate worldwide and are therefore exposed to risks associated with the economic and political forces of various countries and geographic areas. We generally do not obtain any collateral for our receivables. See Note 11 for additional information about our operations in different geographic areas.

Foreign Currency Translation

We translate assets and liabilities of our foreign operations, other than operations in highly inflationary economies, into U.S. Dollars at year-end exchange rates, and we translate income statement items at average exchange rates for the periods presented. We record adjustments resulting from the translation of foreign currency financial statements as a component of other comprehensive income (loss), net of tax.

Capitalization of Interest Cost

We incurred interest of $85.4 million and capitalized, primarily on the vessels under construction, $23.9 million of interest in the year ended December 31, 2014. We incurred and capitalized $8.9 million and $8.6 million of interest in the years ended December 31, 2013 and 2012, respectively.

Earnings per Share

We have computed earnings per common share on the basis of the weighted average number of common shares, and, where dilutive, common share equivalents, outstanding during the indicated periods. See Note 10 for our earnings per share computations.

Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive income (loss) (“AOCI”) have been restated to reflect the retrospective change in accounting method for recognizing actuarial gain and losses related to pension and postretirement benefit plans.

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

	December 31, 2014	December 31, 2013
	(In thousands)	
Foreign currency translation adjustments	$(15,212)	$(2,562)
Net gain on investments	241	238
Net loss on derivative financial instruments	(82,837)	(45,386)
Accumulated other comprehensive loss	$(97,808)	$(47,710)

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The following tables present the components of AOCI and the amounts that were reclassified during the period:

	Foreign currency translation gain (loss)	Unrealized holding gain (loss) on investments	Deferred gain (loss) on derivatives[1]	TOTAL
	(in thousands)			
Balance, January 1, 2013	$(3,366)	$ (2,316)	$ 11,735	$6,053
Other comprehensive income (loss) before reclassification	804	920	(52,781)	(51,057)
Amounts reclassified from AOCI	—	1,634	(4,340)(2)	(2,706)
Net current period other comprehensive income (loss)	804	2,554	(57,121)	(53,763)
Balance, December 31, 2013	$(2,562)	$ 238	$ (45,386)	$(47,710)
Other comprehensive income (loss) before reclassification	(9,250)	3	(65,503)	(74,750)
Amounts reclassified from AOCI	(3,400)	—	28,052 (2)	24,652
Net current period other comprehensive income (loss)	(12,650)	3	(37,451)	(50,098)
Balance, December 31, 2014	$(15,212)	$ 241	$ (82,837)	$(97,808)

(1) Refer to Note 6 for additional details
(2) Reclassified to cost of operations and gain on foreign currency, net

Stock-Based Compensation

Equity instruments are measured at fair value on the grant date. Stock-based compensation expense is generally recognized on a straight-line basis over the requisite service periods of the awards. We use a Black-Scholes model to determine the fair value of certain share-based awards, such as stock options. Additionally, we use a Monte Carlo model to determine the fair value of certain share-based awards that contain market and performance-based conditions. The use of these models requires highly subjective assumptions, such as assumptions about the expected life of the award, vesting probability, expected dividend yield and the volatility of our stock price.

Property, Plant and Equipment

We carry our property, plant and equipment at depreciated cost. Except for major marine vessels, we depreciate our property, plant and equipment using the straight-line method, over estimated economic useful lives of eight to 33 years for buildings and three to 28 years for machinery and equipment. We do not depreciate property, plant and equipment classified as held for sale.

We depreciate major marine vessels using the units-of-production method based on the utilization of each vessel. Our units-of-production method of depreciation involves the calculation of depreciation expense on each vessel based on the product of actual utilization for the vessel for the period and the applicable daily depreciation value (which is based on vessel book value, standard utilization and vessel life) for the vessel. Our actual utilization is determined based on the actual days that the vessel was working or otherwise actively engaged (other than in transit between regions) under a contract, as determined by daily vessel operating reports prepared by the crew of the vessel. Our standard utilization is determined by vessel at least annually based on recent actual utilization combined with an expectation of future utilization, both of which allow for idle time. We ensure that a minimum amount of accumulated depreciation of at least 50% of equivalent life-to-date straight-line depreciation is recorded. Additionally, in periods of very low utilization, a minimum amount of depreciation expense of at least 25% of an equivalent straight-line depreciation expense (which is based on an initial 25-year life) is recorded.

Our depreciation expense was $93.2 million, $84.6 million and $86.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

A summary of property, plant and equipment by asset category is as follows:

	Year Ended December 31,	
	2014	2013
	(In thousands)	
Marine Vessels	$1,241,105	$1,089,121
Construction Equipment	496,557	576,855
Construction in Progress	435,447	408,705
Buildings	159,623	161,407
All other	140,831	131,598
Total Cost	$2,473,563	$2,367,686
Accumulated Depreciation	(830,467)	(889,009)
Net Book Value	$1,643,096	$1,478,677

We capitalize drydocking costs in other assets when incurred and amortize the costs over the period of time between drydockings, which is generally three to five years. We expense the costs of other maintenance, repairs and renewals, which do not materially prolong the useful life of an asset, as we incur them.

Impairment Review

We review goodwill for impairment on an annual basis or more frequently if circumstances indicate that impairment may exist. The annual impairment review involves comparing the fair value to the net book value of each applicable reporting unit and, therefore, is significantly impacted by estimates and judgments.

We recorded a goodwill impairment charge of approximately $46.7 million in the fourth quarter of 2013 in our consolidated statements of operations. This amount represented the total amount of our goodwill, which was primarily related to a 2007 acquisition.

We review our tangible and intangible long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation is required, the fair value of each applicable asset is compared to its carrying value. Factors that impact our determination of potential impairment include forecasted utilization of equipment and estimates of forecasted cash flows from projects expected to be performed in future periods. Our estimates of cash flow may differ from actual cash flow due to, among other things, economic conditions or changes in operating performance. Any changes in such factors may negatively affect our business segments and result in future asset impairments. During the year ended December 31, 2014, we determined that certain of our intangible assets were fully impaired and recorded an impairment charge of approximately $1.7 million in the quarter ended December 31, 2014.

In June 2014, we cancelled a pipelay system originally intended for the CSV 108, which resulted in a $10.7 million improvement to the cancellation cost estimate included in the $37.8 million of vessel-impairment charges recognized during the year ended December 31, 2013.

Based on market conditions and expected future utilization of our entire marine fleet, we recognized impairment charges totaling approximately $37.8 million during the year ended December 31, 2013 in our consolidated statements of operations related to the cancellation of in-progress upgrades to one of our existing marine vessels and the deferral of a portion of the scope of work relating to one of our marine vessels under construction. We used appraised values and discounted future cash flows associated with the assets to determine the impairment amounts. Appraised values and discounted cash flows involve significant management judgments.

We did not recognize any impairment for the year ended December 31, 2012.

Income Taxes

We provide for income taxes based on the tax laws and rates in the countries in which we conduct our operations. MII is a Panamanian corporation that earns all of its income outside of Panama. As a result, we are not subject to income tax in Panama. We operate in various taxing jurisdictions around the world. Each of these jurisdictions has a regime of taxation that varies, not only with respect to nominal rates, but also with respect to the basis on which these rates are applied. These variations, along with changes in our mix of income or loss from these jurisdictions, may contribute to shifts, sometimes significant, in our effective tax rate.

We believe that our deferred tax assets recorded as of December 31, 2014 are realizable through carrybacks, future reversals of existing taxable temporary differences and future taxable income. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. If we subsequently determine that we will be able to realize deferred tax assets in the future in excess of our net recorded amount, the resulting adjustment would increase earnings for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Any changes to our estimated valuation allowance could be material to our consolidated financial condition and results of operations. See Note 9 for additional disclosures relating to income taxes.

Insurance and Self-Insurance

Our wholly owned "captive" insurance subsidiary provides coverage for our retentions under employer's liability, general and products liability, automobile 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 the insurance claims, our past experience with similar claims, 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 self-insurance retentions for the coverages discussed above. These accruals are based on various assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted as required based upon actual claim settlements and reported claims. We reduced our self-insurance accruals, primarily due to fewer and less severe Workers' Compensation claims, by $8.0 million, $7.2 million and $6.8 million during the years ended December 31, 2014, 2013 and 2012, respectively, and recognized these reductions in cost of operations in our consolidated statements of operations.

Recently Issued Accounting Standards

In August 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). Currently, there is no guidance in effect under U.S. GAAP regarding management's responsibility to assess whether there is substantial doubt about an entity's ability to continue as a going concern. Under ASU 2014-15, we will be required to assess our ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about our ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter with early adoption permitted. We are currently assessing the impact of the adoption of ASU 2014-15 on our future financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". This ASU will supersede 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. ASU No. 2014-09 will be effective for us for annual and interim reporting periods beginning after December 15, 2016, with early application not permitted. We have the choice to apply it either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying it at the date of initial application (January 1, 2017) and not adjusting comparative information. We are currently evaluating the requirements of this ASU and have not yet determined its impact on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which amends the definition of a discontinued operation by raising the threshold for a disposal to qualify as discontinued operations. ASU 2014-08 will also require entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The pronouncement is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. We have assessed the impact of the adoption of ASU 2014-08 and have determined that it has no impact on the presented financial statements and related disclosures.

NOTE 2—ACQUISITIONS, DISPOSITIONS AND RESTRUCTURING

Acquisitions

In December 2014, J. Ray McDermott, S.A. ("JRMSA"), a wholly owned subsidiary of MII, exercised its option to purchase Oceanteam ASA's 50% ownership interest in the entities, which own the NO 102. We have consolidated these entities since acquiring a 50% ownership interest in 2009. The cash consideration paid was approximately $32.9 million, and we recorded a corresponding decrease in noncontrolling interest of approximately $44.0 million, and an increase in capital in excess of par value of approximately $11.1 million.

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). The transaction was accounted for using the acquisition method and, accordingly, assets acquired and liabilities assumed were recorded at their respective fair values.

During the year ended December 31, 2013, we entered into two joint ventures with TH Heavy Engineering Berhad (“THHE”), whereby we acquired a 30% interest in a subsidiary of THHE, THHE Fabricators Sdn. Bhd., and THHE acquired a 30% interest in our Malaysian subsidiary, Berlian McDermott Sdn. Bhd. As of December 31, 2013, we recorded an equity method investment of approximately $25.5 million, a non-controlling interest of approximately $20.9 million and an increase in capital in excess of par value of approximately $4.6 million arising from these transactions. During year ended December 31, 2014, we finalized our accounting for these transactions and recorded a decrease in an equity method investment of approximately $4.5 million and a decrease in capital in excess of par value of approximately $1.5 million. As a result of these adjustments in 2014, as of December 31, 2014, we had recorded an equity method investment of approximately $21.0 million, a non-controlling interest of approximately $20.9 million, and an increase in capital in excess of par value of approximately $3.1 million.

Non-Core Asset Sales

During the quarter ended September 30, 2014, we committed to a plan to sell vessel equipment, including dynamic positioning thrusters and a deepwater pipelay winch system. These items of equipment were part of upgrades to one of our marine vessels. We cancelled those upgrades in December 2013. These assets were classified as held for sale and are no longer being depreciated.

We previously committed to a plan to sell four of our multi-function marine vessels, specifically the Bold Endurance, DB 26, DB 16 and the DLB KP1. During the year ended December 31, 2014, we completed the sale of the DB16 and the DLB KP1 for aggregate cash proceeds of approximately $24.5 million, resulting in an aggregate gain of approximately $11.1 million. During the year ended December 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.

In April 2014, we completed the sale of our Harbor Island facility near Corpus Christi, Texas for proceeds of approximately $31.7 million, resulting in a gain of approximately $25.0 million, which has been recognized in our Americas segment.

In June 2014, as part of our plan to discontinue utilization of our Morgan City facility, we disposed of several assets, including various items of equipment, for aggregate cash proceeds of approximately $13.6 million, resulting in an aggregate gain of approximately $11.4 million, of which approximately $1.3 million was recorded in connection with our Americas restructuring, discussed below. This portion of the gain pertained to impairments previously recorded in the year ended December 31, 2013 in connection with the Americas restructuring.

Discontinued Operations

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

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

	Year ended December 31, 2012 (In thousands)
Revenues	$ 8,184
Gain on disposal of discontinued operations, before taxes	257
Income before provision for income taxes	3,240
	3,497
Provision for income taxes	—
Income from discontinued operations, net of tax	$ 3,497

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Restructuring

We commenced a restructuring of our Americas operations during the quarter ended June 30, 2013, which involved our Morgan City, Louisiana, Houston, Texas, New Orleans, Louisiana and Brazil locations. The restructuring involved, among other things, reductions of management, administrative, fabrication and engineering personnel, and discontinued utilization of the Morgan City facility. With the completion of all remaining project activities from the Morgan City facility during the last quarter of 2014, the restructuring was substantially complete by December 31, 2014. Future fabrication operations in the Americas segment are expected to be executed using the Altamira, Mexico facility. In addition, we exited our joint venture operation in Brazil in 2014. Costs associated with our Americas restructuring activities primarily included 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.

We have completed a major review of our cost structure, and we are implementing a plan to increase our profitability and flexibility through reduced fixed and variable costs. The plan includes headcount reductions, as well as the centralization of procurement and operational activities. We expect to incur $25.0 million to $30.0 million in restructuring costs in 2015, as a result of the review.

In October 2013, we announced certain executive management changes that became effective during the fourth quarter of 2013. In March 2014, we changed our organizational structure to orient around offshore and subsea business activities through four primary geographic regions. Costs associated with our corporate reorganization activities have included severance, relocation and other personnel-related costs and costs for advisors.

The following table presents total amounts incurred during the year ended December 31, 2014, as well as amounts incurred from the inception of our restructuring efforts up to December 31, 2014 and amounts expected to be incurred in the future by major type of cost and by segment.

	Incurred in the year ended December 31, 2014	Incurred in the year ended December 31, 2013	Incurred from restructuring inception to December 31, 2014	Estimate of remaining amounts to be incurred	Total
Americas					
Impairments and write offs	$ (1,240)	$ 14,163	$ 12,923	$ —	$ 12,923
Severance and other personnel-related costs	3,735	9,645	13,380	476	13,856
Morgan City environmental reserve	—	5,925	5,925	—	5,925
Morgan City yard-related expenses	6,675	4,175	10,850	5,252	16,102
Other	—	158	158	3,272	3,430
	$ 9,170	$ 34,066	$ 43,236	$ 9,000	$ 52,236
Corporate					
Severance and other personnel-related costs	$ 938	$ 1,661	$ 2,599	—	$ 2,599

Legal and other advisor fees	7,207	—	7,207	—	7,207
Other	798	—	798	—	798
	$ 8,943	$ 1,661	$ 10,604	—	10,604
Total	$ 18,113	$ 35,727	$ 53,840	$ 9,000	$ 62,840

The following table presents a roll forward of accrued liabilities associated with our restructuring activities:

	Morgan City environmental reserve	Severance and other personnel-related accruals	Morgan City yard-related expenses and other	Total
	(In thousands)			
Balance at January 1, 2013	$—	$ —	$ —	$—
Accruals	5,925	5,820	1,105	12,850
Payments	—	(4,893)	—	(4,893)
Balance at December 31, 2013	$5,925	$ 927	$ 1,105	$7,957
Accruals	—	2,626	183	2,809
Payments	(2,250)	(3,553)	(915)	(6,718)
Balance at December 31, 2014	$3,675	$ —	$ 373	$4,048

NOTE 3—LONG-TERM DEBT AND NOTES PAYABLE

During April 2014, we refinanced our existing obligations, and replaced in its entirety our then existing $950.0 million credit agreement (the “Former Credit Agreement”) with a new credit agreement (the “New Credit Agreement”), which provides for:

- a $400.0 million first-lien, first-out three-year letter of credit facility (the “LC Facility”); and
- a $300.0 million first-lien, second-out five-year term loan (the “Term Loan”).

Additionally, during April 2014, we completed the following new financing transactions:

- the issuance of $500.0 million of second-lien seven-year senior secured notes.
- the issuance of $287.5 million of tangible equity units composed of (1) three-year amortizing, senior unsecured notes, in an aggregate principal amount of $47.5 million, and (2) prepaid common stock purchase contracts.

With the completion of these financing transactions in April 2014, we terminated the bridge loan commitment we had obtained from an affiliate of Goldman, Sachs, & Co. (“Goldman Sachs”). As a result of the termination of the bridge loan commitment, the fee we previously paid to Goldman Sachs to obtain the bridge loan commitment was recognized as interest expense in the first half of 2014. Due to the replacement of the Former Credit Agreement, the unamortized issuance fees related to the Former Credit Agreement were also recognized as interest expense in the first half of 2014. The total additional interest expense related to these items was approximately $28.0 million.

The Former Credit Agreement provided for revolving credit borrowings and issuances of letters of credit in an aggregate outstanding amount of up to $950.0 million. Proceeds from borrowings under the Former Credit Agreement were available for working capital needs and other general corporate purposes. As of December 31, 2013, there were no borrowings outstanding, and letters of credit issued under the Former Credit Agreement totaled $214.3 million. In addition, at December 31, 2013, we had $96.9 million in outstanding unsecured bilateral letters of credit.

New Credit Facilities

The indebtedness and other obligations under the New Credit Agreement are unconditionally guaranteed on a senior secured basis by substantially all of our wholly owned subsidiaries, other than our captive insurance subsidiary (collectively, the “Guarantors”). In connection with the New Credit Agreement, we paid certain fees to the lenders thereunder, as well as certain arrangement fees to the arrangers and agents for the New Credit Agreement, which we have capitalized and are amortizing to interest expense over the respective terms of the LC Facility and the Term Loan. We also paid certain fees to the initial purchasers of the senior secured notes and to the underwriter of the tangible equity units referred to below, which we have capitalized and are amortizing to interest expense over the respective terms of the related indebtedness.

LC Facility and Cash-Collateralized Bilateral Letters of Credit

The LC Facility provides for an initial letter of credit capacity of $400.0 million and allows for uncommitted increases in capacity of $100.0 million through December 31, 2014 and an additional $100.0 million thereafter, potentially increasing the total capacity to $600.0 million through the term of the LC Facility. Letters of credit issuable under the LC Facility support the obligations of McDermott and its affiliates and joint ventures. Financial letters of credit do not support ordinary course of business performance obligations or bids. The aggregate amount of the LC Facility available for financial letters of credit is capped at 25% of the total LC Facility. As of December 31, 2014, the aggregate face amount of letters of credit issued under the LC Facility was $195.8 million. There were no financial letters of credit issued under the LC facility as of December 31, 2014.

In addition, the LC Facility permits us to deposit up to $300.0 million with letter of credit issuers to cash collateralize letters of credit issued on a bilateral basis outside the credit facility. As of December 31, 2014, we had an aggregate face amount of approximately $88.8 million of such letters of credit outstanding supported by cash collateral, including financial letters of credit of $19.7 million. We have included the supporting cash collateral in restricted cash and cash equivalents in the accompanying consolidated balance sheet as of December 31, 2014.

The LC Facility is secured on a first-lien, first-out basis (with relative priority over the Term Loan) by pledges of the capital stock of all the Guarantors and mortgages on, or other security interests in, substantially all the tangible and intangible assets of our company and the Guarantors, subject to specific exceptions.

The LC Facility contains various customary affirmative covenants, as well as specific affirmative covenants, including specific reporting requirements and a requirement for ongoing periodic financial reviews by a financial advisor. The LC Facility also requires compliance with various negative covenants, including limitations with respect to the incurrence of other indebtedness and liens, restrictions on acquisitions, capital expenditures and other investments, restrictions on sale/leaseback transactions and restrictions on prepayments of other indebtedness.

The LC Facility requires us to generate consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") of at least specified minimum amounts over the term of the facility. The LC Facility also requires us to maintain a ratio of fair market value of vessel collateral to the sum of (1) the outstanding principal amount of the Term Loan, (2) the aggregate amount of undrawn financial letters of credit outstanding under the LC Facility, (3) all drawn but unreimbursed letters of credit under the LC Facility, and (4) mark-to-market foreign exchange exposure that is not cash secured of at least 1.20:1.00. The LC Facility also specifies maximum capital expenditures over the term of the facility and requires us to maintain at least $200.0 million of minimum available cash, at the end of each quarter. We were in compliance with the covenants under the LC Facility as of December 31, 2014.

The LC Facility provides for a commitment fee of 0.50% per year on the unused portion of the LC Facility and letter of credit fees at an annual rate of 2.25% for performance letters of credit and 4.50% for financial letters of credit, as well as customary issuance fees and other fees and expenses.

Term Loan

The Term Loan is secured on a first-lien, second-out basis (with the LC Facility having relative priority over the Term Loan) by pledges of the capital stock of all the Guarantors and mortgages on, or other security interests in, substantially all tangible and intangible assets of our company and the Guarantors, subject to specific exceptions. As of December 31, 2014, we had $298.5 million in borrowings outstanding under the Term Loan, of which $3.0 million was classified as current notes payable.

The Term Loan requires mandatory prepayments from: (1) the proceeds from the sale of assets, as well as insurance proceeds, in each case subject to certain exceptions, to the extent such proceeds are not reinvested in our business within 365 days of receipt; (2) net cash proceeds from the incurrence of indebtedness not otherwise permitted under the New Credit Agreement; and (3) 50% of amounts deemed to be "excess cash flow," subject to specified adjustments. The Term Loan also requires quarterly amortization payments equal to $750,000. The Term Loan also provides for a prepayment premium if we prepay or re-price the Term Loan prior to April 16, 2015.

The Term Loan requires compliance with various customary affirmative and negative covenants. We must also maintain a ratio of "ownership adjusted fair market value" of marine vessels to the sum of (1) the outstanding principal amount of the Term Loan and (2) the aggregate principal amount of unreimbursed drawings and advances under the LC Facility of at least 1.75:1.00. As of December 31, 2014, we were in compliance with all of the covenants under the Term Loan.

The Term Loan was incurred with 25 basis points of original issue discount and bears interest at a floating rate, which can be, at our option, either: (1) a LIBOR rate for a specified interest period (subject to a LIBOR "floor" of 1.00%) plus an applicable margin of 4.25%; or (2) an alternate base rate (subject to a base rate "floor" of 2.00%) plus an applicable margin of 3.25%.

Senior Notes

During April 2014 we issued $500.0 million in aggregate principal amount of 8.000% 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, at an annual rate of 8%. The Notes are scheduled to mature on May 1, 2021. As of December 31, 2014, there was $500.0 million principal amount of Senior Notes outstanding.

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.

At any time, or from time to time, on or after May 1, 2017, at our option, we may redeem the Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount of the Notes to be redeemed) set forth below, together with accrued and unpaid interest to the redemption date, if redeemed during the 12-month period beginning May 1 of the years indicated:

Year	Percentage	
2017	104	%
2018	102	%
2019 and thereafter	100	%

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.

Tangible Equity Units

During April 2014, we issued 11,500,000 6.25% tangible equity units (“Units”), each with a stated amount of $25.00. Each Unit consists of (1) a prepaid common stock purchase contract and (2) a senior amortizing note due April 1, 2017 (each an “Amortizing Note”) that has an initial principal amount of $4.1266 per Amortizing Note, bears interest at a rate of 7.75% per annum and has a final scheduled installment payment date of April 1, 2017.

The prepaid common stock purchase contracts were accounted for as additional paid-in capital totaling $240.0 million. As of December 31, 2014, the Amortizing Notes were recorded as long-term debt totaling $40.5 million, of which $15.3 million was classified as current notes payable.

Each prepaid common stock purchase contract will automatically settle on April 1, 2017, unless settled earlier: (1) at the holder’s option, upon which we will deliver shares of our common stock, based on the applicable settlement rate and applicable market value of our stock as determined under the purchase contract; or (2) at our option, upon which we will deliver shares of our common stock, based upon the stated maximum settlement rate of 3.5562 shares per Unit, subject to adjustment. Potential dilutive common shares that may be issued for the settlement of the common stock purchase contracts totaled 40.9 million at December 31, 2014, based on the maximum number of shares issuable per Unit. The potential minimum number of shares issuable is 33.4 million, which represents 2.9030 per Unit. The maximum and minimum settlement rates for the Units are subject to adjustment for certain dilutive events.

North Ocean Financing

NO 105

On September 30, 2010, MII, as guarantor, and North Ocean 105 AS, in which we have a 75% ownership interest, as borrower, entered into a financing agreement to finance a portion of the construction costs of the NO105. The agreement provides for borrowings of up to $69.4 million, bearing interest at 2.76% per year, and requires principal repayment in 17 consecutive semi-annual installments, which commenced on October 1, 2012. 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. MII unconditionally guaranteed all amounts to be borrowed under the agreement. As of December 31, 2014 and December 31, 2013, there was $49.0 million and $57.2 million, respectively, in borrowings outstanding under this agreement, of which (as of each date) approximately $8.2 million was classified as current notes payable.

NO 102

In December 2009, JRMSA entered into a vessel-owning joint venture transaction with Oceanteam ASA and, as a result, we have included notes payable of these entities on our consolidated balance sheets. JRMSA had guaranteed approximately 50% of this debt based on its ownership percentages in the vessel-owning companies. The outstanding debt bore interest at a rate equal to the three-month LIBOR (which was subject to reset every three months) plus a margin of 3.315%. JRMSA exercised its option to purchase Oceanteam ASA's 50% ownership interest in the vessel-owing companies in December 2014 for $32.9 million (see Note 2). As of December 31, 2013, we reported consolidated notes payable of $31.4 million on our consolidated balance sheet, all of which was classified as current notes payable and paid in full in early 2014.

Unsecured Bilateral Letters of Credit and Bank Guarantees

In 2012, McDermott Middle East, Inc. and MII executed a general reimbursement agreement in favor of a bank located in the UAE relating to issuances of bank guarantees in support of contracting activities in the Middle East and India. As of December 31, 2014 and December 31, 2013, bank guarantees issued under these arrangements totaled $56.2 million and $55.8 million, respectively. In 2007 and in 2012, JRMSA and MII executed general unsecured reimbursement agreements in favor of three institutions that were lenders under the Former Credit Agreement relating to issuances of letters of credit in support of contracting activities, primarily in Asia and the Middle East. Letters of credit issued under two of these arrangements have either been replaced by letters of credit under the LC Facility or cash collateralized. The letters of credit issued under these arrangements totaled $39.8 million as of December 31, 2013. There were no letters of credit issued under these arrangements as of December 31, 2014. -

On April 20, 2012, McDermott and one of its wholly owned subsidiaries, McDermott Australia Pty. Ltd. ("McDermott Australia"), entered into a secured Letter of Credit Reimbursement Agreement (the "Reimbursement Agreement") with Australia and New Zealand Banking Group Limited ("ANZ"). In accordance with the terms of the Reimbursement Agreement, ANZ issued letters of credit in the aggregate amount of approximately $109.0 million to support McDermott Australia's performance obligations under contractual arrangements relating to a field development project. The obligations of McDermott and McDermott Australia under the Reimbursement Agreement are secured by McDermott Australia's interest in the contractual arrangements and certain related assets. During the year ended December 31, 2014, we replaced these letters of credit with letters of credit and cash collateralized letters of credit under the LC Facility.

Surety Bonds

In 2012 and 2011, MII executed general agreements of indemnity in favor of surety underwriters based in Mexico relating to surety bonds issued in support of contracting activities of J. Ray McDermott de Mèxico, S.A. de C.V. and McDermott, Inc., both subsidiaries of MII. As of December 31, 2014 and December 31, 2013, bonds issued under these arrangements totaled $52.5 million and $43.5 million, respectively. In October 2013, MII executed general agreements of indemnity in favor of surety underwriters relating to surety bonds in support of vessels operating in Brazil. The project requiring these bonds was completed during the year ended December 31, 2014, allowing us to cancel the outstanding bonds. Accordingly, as of December 31, 2014, there were no bonds issued under these arrangements. As of December 31, 2013, the bonds issued under these arrangements totaled $106.3 million.

Long-term debt and notes payable obligations

A summary of our long-term debt obligations are as follows:

	December 31, 2014	December 31, 2013
	(In thousands)	
Long-term debt consists of:		
Senior Notes	$500,000	$ —
Term Loan	298,500	—
NO 105 Construction Financing	49,019	57,189
Amortizing Notes	40,483	—
Capital lease obligation	2,802	—
Other financing	743	—
NO 102 Construction Financing	—	31,373
	$891,547	$ 88,562
Less: Amounts due within one year	27,026	39,543
Total long-term debt	$864,521	$ 49,019

Maturities of long-term debt during the five years subsequent to December 31, 2014 are as follows:

	(In thousands)
2015	$ 27,026
2016	28,274
2017	20,558
2018	11,616
2019	295,903
Thereafter	508,170
Total	$ 891,547

NOTE 4—PENSION PLANS AND POSTRETIREMENT BENEFITS

Although we currently provide retirement benefits for most of our U.S. employees through sponsorship of the McDermott Thrift Plan (see “Defined Contribution Plans” below), some of our longer-term U.S. employees and former employees are entitled to retirement benefits under the McDermott (U.S.) Retirement Plan, a non-contributory qualified defined benefit pension plan (the “McDermott Plan”), and several non-qualified supplemental defined benefit pension plans. The McDermott Plan and the non-qualified supplemental defined benefit pension plans are collectively referred to herein as the “Domestic Plans.” The McDermott Plan has been closed to new participants since 2006, and benefit accruals under the McDermott Plan were frozen completely in 2010.

We also sponsor a defined benefit pension plan established under the laws of the Commonwealth of the Bahamas, the J. Ray McDermott, S.A. Third Country National Employees Pension Plan (the "TCN Plan") which provides retirement benefits for certain of our current and former foreign employees. Effective August 1, 2011, new entry into the TCN Plan was closed, and effective December 31, 2011, benefit accruals under the TCN Plan were frozen. Effective January 1, 2012, we established a new global defined contribution plan to provide retirement benefits to non-U.S. expatriate employees who may have otherwise obtained benefits under the TCN Plan.

Retirement benefits under the McDermott Plan and the TCN Plan are generally based on final average compensation and years of service, subject to the applicable freeze in benefit accruals under the plans. Our funding policy is to fund the plans as recommended by the respective plan actuaries and in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or other applicable law. The Pension Protection Act of 2006 ("PPA") amended ERISA and modified the funding requirements for certain defined benefit pension plans including the McDermott Plan. Funding provisions under the PPA accelerated funding requirements are applicable to the McDermott Plan to ensure full funding of benefits accrued.

As described in Note 1, we elected to change our accounting method for recognizing actuarial gains and losses for our pension and other postretirement benefit plans. Accordingly, we have made revisions to previously disclosed amounts, specifically net periodic benefit cost and accumulated other comprehensive income (loss), where certain amounts have been reclassified to retained earnings.

	Domestic Plans Year Ended December 31,		TCN Plan Year Ended December 31,	
	2014	2013	2014	2013
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$583,421	$615,361	$40,396	$48,009
Interest cost	26,972	23,996	1,900	1,867
Actuarial loss (gain)	36,885	(25,137)	4,438	(5,860)
Terminated Vested Employees Lump Sum Settlement [1]	(54,551)	—	—	—
Curtailments and other adjustments	—	3,850	—	(621)
Benefits paid	(36,095)	(34,649)	(2,749)	(2,999)
Benefit obligation at end of year	$556,632	$583,421	$43,985	$40,396
Change in plan assets:				
Fair value of plan assets at beginning of year	567,801	605,892	43,483	39,039
Actual return on plan assets	73,114	(4,982)	1,372	6,943
Company contributions	1,552	1,540	—	500
Terminated Vested Employees Lump Sum Settlement[1]	(54,551)	—	—	—
Benefits paid	(36,095)	(34,649)	(2,749)	(2,999)
Fair value of plan assets at end of year	551,821	567,801	42,106	43,483
Funded status	$(4,811)	$(15,620)	$(1,879)	$3,087
Amounts recognized in balance sheet consist of:				
Other Assets	$12,685	$598	$—	$3,087
Accrued pension liability—current	(1,519)	(1,519)	—	—
Pension liability	(15,977)	(14,699)	(1,879)	—
Accrued benefit liability	(17,496)	(16,218)	(1,879)	—
Net (Liability)/ Asset	$(4,811)	$(15,620)	$(1,879)	$3,087

[1] During the year ended December 31, 2014 we offered our former employees with vested pension benefits under the McDermott Plan a one-time voluntary opportunity, for a six-week period, to receive the value of their pension benefit as a lump-sum payment. This program resulted in a $54.6 million release of pension liability and a corresponding decrease in plan assets.

	Domestic Plans Year Ended December 31,		TCN Plan Year Ended December 31,	
	2014	2013	2014	2013
	(In thousands)			
Supplemental information:				

Plans with accumulated benefit obligation in excess of plan assets				
Projected benefit obligation	$556,632	$583,421	$43,985	$40,396
Accumulated benefit obligation	$556,632	$583,421	$43,985	$40,396
Fair value of plan assets	$551,821	$567,801	$42,106	$43,483

Assumptions

	Domestic Plans		TCN Plan	
	2014	2013	2014	2013
Weighted average assumptions used to determine net periodic benefit obligations at December 31:				
Discount rate	4.0 %	4.8 %	3.80%	4.8 %
Rate of compensation increase	N/A	N/A	N/A	N/A

	Domestic Plans Year Ended December 31,			TCN Plan Year Ended December 31,		
	2014	2013	2012	2014	2013	2012
	(In thousands)					
Supplemental information:						
Components of periodic benefit cost:						
Interest cost	$26,972	$23,996	$26,521	$1,900	$1,867	$1,843
Expected return on plan assets	(27,501)	(38,306)	(35,809)	(2,961)	(2,602)	(2,443)
Current period (gain) loss	(8,728)	22,002	19,580	6,027	(10,822)	3,998
Net periodic benefit (gain) cost	$(9,257)	$7,692	$10,292	$4,966	$(11,557)	$3,398
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:						
Discount rate	4.80 %	4.00 %	4.80 %	4.80 %	4.00 %	4.80 %
Expected return on plan assets	5.00 %	6.50 %	6.50 %	6.90 %	6.90 %	6.90 %
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

As of December 31, 2014, we reassessed the assumptions for expected rates of return on plan assets based on current conditions and our investment strategies, resulting in a reduction of the rate of return to 5.0% for the Domestic Plans with no change to the 6.9%rate of return for the TCN Plan. The expected rate of return is determined to be the weighted average of the nominal returns based on the weightings of the asset classes within the McDermott Trust and TCN Trust investment portfolios. In setting these rates, we used a building-block approach. Historic real return trends for the various asset classes in both investment portfolios were combined with anticipated future market conditions to estimate the real rate of return for each class. These rates were then adjusted for anticipated future inflation to determine estimated nominal rates of return for each class.

Investment Goals

General

The investment goals of the McDermott Trust and the trust underlying the TCN Plan (“TCN Trust”) are generally to provide for the solvency of the respective plans and fulfillment of pension obligations over time, and to maximize long-term investment return consistent with a reasonable level of risk. Asset allocations within the McDermott Trust and TCN Trust are reviewed periodically and rebalanced, if appropriate, to ensure the continued conformance to the investment goals, objectives and strategies. Both the McDermott Trust and the TCN Trust employ a professional investment advisor and a number of professional investment managers whose individual benchmarks are, in the aggregate, consistent with the applicable trust’s overall investment objectives.

The specific goals of each investment manager are set out in the investment policy adopted by the investment committee for the respective trust, but, in general, the goals are (1) to perform in line with (in the case of passive accounts) or outperform (for actively managed accounts) the benchmark selected and agreed upon by the manager and the trust, and (2) to display an overall level of risk in its portfolio that is consistent with the risk associated with the agreed upon benchmark. The estimated allocations discussed below are periodically reviewed to assess the appropriateness of the particular funds in which they are invested, and these estimated allocations are subject to change.

The performance of each investment manager’s portfolio is periodically measured against commonly accepted benchmarks, including the individual investment manager’s benchmarks. In evaluating investment manager performance, consideration is also given to personnel, strategy, research capabilities, organizational and business matters, adherence to discipline and other qualitative factors that may impact the ability to achieve desired investment results.

The following is a summary of the asset allocations at December 31, 2014 and 2013 by asset category. The estimated allocation for 2015, by asset class, is expected to remain approximately the same as the year ended December 31, 2014.

	Domestic Plans		TCN Plan	
	2014	2013	2014	2013
Asset Category:				
Fixed Income	85 %	85 %	28 %	25 %
Equity Securities	15 %	15 %	72 %	75 %
Total	100 %	100 %	100 %	100 %

Fair Value

The following is a summary of total investments for our plans, measured at fair value at December 31, 2014 and 2013.

	12/31/2014	Level 1	Level 2	Level 3
	(In thousands)			
Pension Benefits:				
Fixed Income	$471,704	$64,575	$402,116	$5,013
Equities	$110,267	109,781	486	—
Cash and Accrued Items	$11,956	11,956	—	—
Total Investments	$593,927	$186,312	$402,602	$5,013

	12/31/2013	Level 1	Level 2	Level 3
	(In thousands)			
Pension Benefits:				
Fixed Income	$479,529	$58,556	$417,204	$3,769
Equities	$119,669	31,687	87,982	—
Cash and Accrued Items	$12,086	12,086	—	—
Total Investments	$611,284	$102,329	$505,186	$3,769

Changes in Level 3 Instrument

The following is a summary of the changes in our Level 3 fixed income instruments measured on a recurring basis for the years ended December 31, 2014 and 2013:

	December 31,	
	2014	2013
	(In thousands)	
Balance at beginning of period	$3,769	$1,576
Purchases, net	1,347	2,120

Total unrealized gains (loss)	(103)	73
Balance at end of period	$5,013	$3,769

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Cash Flows

Cash Flows

	Domestic Plans	TCN Plan
	(In thousands)	
Expected employer contributions to trusts of defined benefit plans:		
2015	—	—
Expected benefit payments:		
2015	$37,344	$2,379
2016	$37,288	$2,799
2017	$37,060	$2,690
2018	$36,887	$2,498
2019	$36,633	$2,604
2020-2024	$178,455	$11,540

Defined Contribution Plans

We provide retirement benefits for most of our U.S. employees through the McDermott Thrift Plan, a qualified defined contribution plan with a Code section 401(k) feature (the “Thrift Plan”). The Thrift Plan generally provides for matching employer contributions of 50% of participants’ contributions up to 6% of compensation and unmatched employer cash contributions equal to 3% of participants’ base pay, plus overtime pay, expatriate pay and commissions, which we refer to collectively as “thriftable earnings.” Amounts charged to expense for employer contributions under the Thrift Plan totaled approximately $3.9 million, $6.4 million and $6.8 million in the years ended December 31, 2014, 2013 and 2012, respectively.

We provide retirement benefits for some of our international employees through the McDermott Global Defined Contribution Plan (the “Global Thrift Plan”), a defined contribution plan established on January 1, 2012 and operated under Luxembourg law. The Global Thrift Plan generally provides for matching employer contributions of 50% of participants’ contributions up to 6% of base salary and unmatched employer cash contributions equal to 3% of participants’ base salary. Amounts charged to expense for employer contributions under the Global Thrift Plan totaled approximately $1.2 million, $1.6 million and $1.6 million in the years ended December 31, 2014, 2013 and 2012, respectively.

We also provide benefits under the McDermott International, Inc. Director and Executive Deferred Compensation Plan (“Deferred Compensation Plan”), which is a non-qualified defined contribution plan. Expense associated with the Deferred Compensation Plan was not material to the consolidated financial statements for the years presented.

NOTE 5—INVESTMENTS

As of December 31, 2014, we had investments with a fair value of $3.9 million. Our investment portfolio consists of investments in commercial paper and mutual funds. Our investments are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of tax, reported as a component of other comprehensive income (loss). During the year ended December 31, 2013, we recognized other than temporary impairment of $1.6 million on the asset-backed securities and collateralized mortgage obligations. Our net unrealized gain on investments was $0.2 million as of December 31, 2014 and December 31, 2013.

As of December 31, 2014, investments in commercial paper were classified as short-term and were included in other current assets in the consolidated balance sheet.

The following is a summary of our available-for-sale securities:

	Year Ended December 31, 2014		
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
	(In thousands)		
Mutual funds[1]	$1,975	$ 241	$ 2,216
Commercial paper[2]	1,699	—	$ 1,699
	$3,674	$ 241	$ 3,915

	Year Ended December 31, 2013		
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
	(In thousands)		
Mutual funds[1]	$1,975	$ 198	$ 2,173
Commercial paper[2]	3,699	—	$ 3,699
Asset-backed securities and collateralized mortgage obligations[3][4][5]	7,599	40	$ 7,639
	$13,273	$ 238	$ 13,511

(1) Various U.S. equities and other investments managed under mutual funds.
(2) Commercial paper with maturities less than one year.
(3) Included in our asset-backed securities and collateralized mortgage obligations is approximately $5.6 million of commercial paper secured by mortgage-backed securities.
(4) Asset-backed and mortgage-backed securities with maturities of up to 26 years.
(5) Asset-backed and mortgage-backed securities and collateralized mortgage obligations is net of a $1.6 million impairment that was recognized in the year ended December 31, 2013.

Proceeds, gross realized gains and gross realized losses from sales and maturities of available-for-sale securities were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
	(In thousands)		
Year Ended December 31, 2014	$12,978	$ —	$ (326)
Year Ended December 31, 2013	$43,959	$ —	$ —
Year Ended December 31, 2012	$191,298	$ —	$ —

NOTE 6—DERIVATIVE FINANCIAL INSTRUMENTS

We enter into derivative financial instruments primarily to hedge certain firm purchase or sale 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 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 gain (loss) on foreign currency-net in our consolidated statements of operations. At December 31, 2014, we had designated the majority of our foreign currency forward contracts as cash flow hedging instruments.

As of December 31, 2014, we had deferred approximately $82.8 million of net losses on these derivative financial instruments in AOCI, and we expect to reclassify approximately $61.9 million of the net deferred losses out of AOCI by December 31, 2015.

As of December 31, 2014, the majority of our derivative financial instruments consisted of foreign currency forward contracts. The notional value of our outstanding derivative contracts totaled $844.3 million at December 31, 2014, with maturities extending to October 2017. Of this amount, approximately $534.4 million is associated with various foreign currency expenditures we expect to incur on one of our Asia Pacific segment EPCI projects. These instruments consist of contracts to purchase or sell foreign-denominated currencies. As of December 31, 2014, the fair value of these contracts was in a net liability position totaling $46.9 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

	December 31, 2014	December 31, 2013
	(in thousands)	
Derivatives Designated as Hedges:		
Location:		
Accounts receivable-other	$1,173	$ 11,641
Other assets	16	1,647
Total asset derivatives	$1,189	$ 13,288
Accounts payable	$32,431	$ 20,209
Other liabilities	15,670	21,846
Total liability derivatives	$48,101	$ 42,055

The Effects of Derivative Instruments on our Financial Statements

	December 31, 2014	2013
	(in thousands)	
Derivatives Designated as Hedges:		
Amount of gain/(loss) recognized in AOCI	$(65,503)	$(52,781)
Income (loss) reclassified from AOCI into income: effective portion		
Location		
Cost of operations	$26,418	$1,715
Gain(loss) recognized in income (loss): ineffective portion and amount excluded from effectiveness testing		
Location		
Gain (loss) on foreign currency—net	$6,910	$13,247

Credit Risk

In the event of nonperformance by counterparties to our derivative financial instruments, we may be exposed to credit-related losses. However, when possible, we enter into International Swaps and Derivative Association agreements with our derivative counterparties to mitigate this risk. We also attempt to mitigate this risk by using highly-rated major financial institutions as counterparties. Our derivative counterparties have the benefit of the same collateral arrangements and covenants as described under our Credit Agreement.

NOTE 7—FAIR VALUES OF FINANCIAL INSTRUMENTS

The valuation methodologies we use to measure the fair values of our derivatives and available-for-sale securities are as follows:

Derivatives

Level 2 derivative assets and liabilities primarily include over-the-counter forward contracts, largely consisting of foreign currency derivative instruments. Where applicable, the value of these derivative assets and liabilities is computed by discounting the projected future cash flow amounts to present value using market-based observable inputs, including foreign exchange forward and spot rates, interest rates and counterparty performance risk adjustments.

At December 31, 2014, we had forward contracts outstanding to purchase or sell foreign currencies with a total notional value of $844.3 million and a total liability position fair value of $46.9 million.

Available-for-Sale Securities

The following is a summary of our available-for-sale securities measured at fair value:

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Mutual funds(1)	$2,216	$ —	$2,216	$ —
Commercial paper	1,699	—	1,699	—
Total	$3,915	$ —	$3,915	$ —

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Mutual funds(1)	$2,173	$ —	$2,173	$—
Commercial paper	3,699	—	3,699	—
Asset-backed securities and collateralized mortgage obligations(2)	7,639	—	2,082	5,557
Total	$13,511	$ —	$7,954	$5,557

(1) Various U.S. equities and other investments managed under mutual funds
(2) Asset-backed and mortgage-backed securities with maturities of up to 26 years

Our Level 2 investments consist primarily of commercial paper, asset-backed commercial paper notes backed by a pool of mortgage-backed securities and mutual funds. The fair value of our Level 2 investments was determined using a market approach which is based on quoted prices and other information for similar or identical instruments.

Our Level 3 investment consists of asset-backed commercial paper notes backed by a pool of mortgage-backed securities. The fair value of this Level 3 investment was based on the calculation of an overall weighted-average valuation, using the prices of the underlying individual securities. Individual securities in the pool were valued based on market observed prices, where available. If market prices were not available, prices of similar securities backed by similar assets were used.

Changes in Level 3 Instrument

The following is a summary of the changes in our Level 3 instrument measured on a recurring basis for the years ended December 31, 2014 and 2013:

	December 31,	
	2014	2013
	(in thousands)	
Balance at beginning of period	$5,557	$6,343
Total realized and unrealized gains (losses)	(375)	484

Sales and principal repayments	(5,182)	(1,270)
Balance at end of period	$—	$5,557

Other Financial Instruments

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

Cash and cash equivalents and restricted cash and cash equivalents. The carrying amounts that we have reported in the accompanying consolidated balance sheets for cash, cash equivalents and restricted cash and cash equivalents approximate their fair values and are classified as Level 1 within the fair value hierarchy.

Short-term and long-term debt. The fair value of debt instruments is classified as Level 2 within the fair value hierarchy and is valued using a market approach based on quoted prices for similar instruments traded in active markets. Where quoted prices are not available, the income approach is 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.

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.

The estimated fair values of certain of our financial instruments are as follows:

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Balance Sheet Instruments				
Cash and cash equivalents				