

MCDERMOTT INTERNATIONAL INC

Form 10-K

February 29, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2011

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)

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**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:**

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 30, 2011) was approximately \$4.7 billion.

The number of shares of the registrant's common stock outstanding at February 10, 2012 was 235,056,441.

**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 2012 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 Panamanian corporation, is a leading engineering, procurement, construction and installation ( EPCI ) company focused on designing and executing complex offshore oil and gas projects worldwide. We are one of the largest U.S.-based engineering and construction ( E&C ) companies exclusively focused on the upstream offshore oil and gas sector. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Operating in more than 20 countries across the Atlantic, Middle East and Asia Pacific, our integrated resources include approximately 13,500 employees and a diversified fleet of marine vessels, fabrication facilities and engineering offices. We support our activities with comprehensive project management and procurement services. We have fully integrated capabilities in both shallow water and deepwater construction. We believe we are among the few offshore construction contractors globally capable of providing this wide range of services in many of the larger offshore oil and gas producing regions in the world. We execute our contracts through a variety of methods, principally fixed-price, but also including cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods. In this annual report on Form 10-K, unless the context otherwise indicates, we, us and our mean MII and its consolidated subsidiaries. MII s common stock is listed on the New York Stock Exchange under the trading symbol MDR.

**Business Segments**

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

***Asia Pacific Segment***

Through our Asia Pacific segment, we serve the needs of national, major integrated and other oil and gas companies primarily in Australia, Indonesia, Vietnam, Malaysia and Thailand. Project focus in this segment includes the fabrication and installation of fixed and floating structures and the installation of pipelines and subsea systems. The majority of our projects in this segment are performed on an EPCI basis. Engineering and procurement services are provided by our Singapore office and are supported by additional resources located in Chennai, India and Houston, Texas. The primary fabrication facility for this segment is located on Batam Island, Indonesia. Additionally, through our equity ownership interest in a joint venture, we have developed a fabrication facility located in China. At December 31, 2011 and 2010, our Asia Pacific segment employed approximately 5,600 and 7,800 employees, respectively.

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### ***Atlantic Segment***

Through our Atlantic segment, we serve the needs of national, major integrated and other oil and gas companies, primarily in the United States, Brazil, Mexico, Trinidad and West 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 provided by our Houston office, and our New Orleans office provides specialized marine engineering capabilities to support our global marine activities. The primary fabrication facilities for this segment are located in Morgan City, Louisiana and Altamira, Mexico. Our Atlantic segment employed approximately 1,600 and 1,300 employees at December 31, 2011 and 2010, respectively.

### ***Middle East Segment***

Through our Middle East segment, which includes the Caspian region, we serve the needs of national, major integrated and other oil and gas companies primarily in Saudi Arabia, Qatar, the United Arab Emirates (U.A.E.), Kuwait, India, Azerbaijan, Russia and Turkmenistan. 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 and Al Khobar, Saudi Arabia 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, 2011 and 2010, our Middle East segment employed approximately 6,300 and 5,900 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 operate 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.

Our business activity depends mainly on capital expenditures for offshore construction services of oil and gas companies and foreign governments for 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. A number of factors influence our activities, including:

oil and gas prices, along with expectations about future prices;

the cost of exploring for, producing and delivering oil and gas;

the terms and conditions of offshore leases;

the discovery rates of new oil and gas reserves in offshore areas;

the ability of businesses in the oil and gas industry to raise capital;

local and international political and economic conditions; and

the cost of potential future litigation.

### **Discontinued Operations and Other Items**

### ***Charter Fleet Business***

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During 2010, we committed to a plan to sell our charter fleet business, which operates 10 of the 14 vessels acquired in our 2007 acquisition of substantially all of the assets of Secunda International Limited (the Secunda



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Acquisition ). Based on information obtained through recent discussions with interested parties and external advisors, in December 2011 we recognized an approximate \$22 million write-down of the carrying value of the assets held for sale to reflect their estimated net realizable value.

### ***Spin-Off of B&W***

On July 30, 2010, we completed the spin-off of The Babcock & Wilcox Company ( B&W ) to our stockholders through a distribution of all of the outstanding common stock of B&W. B&W's assets and businesses primarily consisted of those that we previously reported as our Government Operations and Power Generation Systems segments. Prior to the completion of the spin-off, B&W made a cash distribution to us totaling \$100 million.

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

### ***Vessel Sale***

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

### ***Fabrication Facility***

During the quarter ended September 30, 2010, we incurred approximately \$21 million of costs to discontinue our development plans for a new fabrication yard in Kazakhstan, including estimated lease termination costs. After obtaining additional information regarding the discontinuance of our development plans, in the quarter ended December 31, 2011 we reduced our estimated closure costs by \$10 million to reflect our revised estimate.

### **Acquisitions**

We had no significant acquisitions during 2011 or 2010. We continue to evaluate accelerated growth opportunities achievable through acquisition or consolidation, in addition to pursuing organic growth strategies.

### **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, primarily based on price. However, other factors that customers may consider include 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 industries, 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-

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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, we review contract price and cost estimates periodically as the work progresses and reflect adjustments in profit proportionate to the percentage-of-completion 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 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. As of December 31, 2011, it is possible that we may incur liabilities for liquidated damages aggregating approximately \$66 million, of which approximately \$17 million has been recorded in our financial statements, based on our actual or projected failure to meet certain specified contractual milestone dates. The date range during which these potential liquidated damages could arise is from April 2011 to December 2012. Subsequent to December 31, 2011, approximately \$28 million of the \$66 million possible liquidated damages were resolved without payment. 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.

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 in progress. Not all of our expected revenues from a contract award are recorded in backlog for a variety of reasons, including projects awarded and completed within the same fiscal period. We generally include expected revenues of contracts in our backlog when we enter into a written confirmation with our customers. We do not include expected revenues of contracts related to unconsolidated joint ventures in our backlog.

Backlog is not a measure defined by generally accepted accounting principles, and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog amounts. 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.

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Our backlog at December 31, 2011 and 2010 was as follows:

	<b>December 31, 2011</b>		<b>December 31, 2010</b>	
	<b>(Dollars in approximate millions)</b>			
Asia Pacific	\$ 1,523	39%	\$ 2,176	43%
Atlantic	711	18%	315	6%
Middle East	1,647	43%	2,548	51%
<b>Total Backlog</b>	<b>\$ 3,881</b>	<b>100%</b>	<b>\$ 5,039</b>	<b>100%</b>

Of the December 31, 2011 backlog, we expect to recognize revenues as follows:

	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>
	<b>(In approximate millions)</b>		
<b>Total Backlog</b>	<b>\$ 3,226</b>	<b>\$ 445</b>	<b>\$ 210</b>

Of the December 31, 2011 backlog, approximately \$347 million is from projects currently in a loss position whereby future revenues are expected to equal costs when recognized. It is possible that our estimates of gross profit could increase or decrease based on improved productivity, actual downtime and the resolution of change orders and claims with our customers. Additionally, we have one project that we are accounting for under our deferred profit recognition policy, representing approximately \$144 million of the December 31, 2011 backlog.

**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 skill-sets involved in becoming a full-service offshore construction 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 marine installation and construction and fabrication phases in various parts of the world. Our competitors by segment are discussed below.

**Asia Pacific**

A number of companies compete with us in the Asia Pacific segment. These competitors include: Allseas Marine Contractors S.A.; Daewoo Engineering & Construction Co., Ltd.; EMAS Offshore Pte Ltd.; Heerema Group; Hyundai Heavy Industrial Co., Ltd.; Nippon Steel Corporation; Saipem S.p.A.; Samsung Heavy Industries Co., Ltd.; Sapura Kencana Petroleum; Subsea 7 S.A.; Swiber Holdings Ltd.; and Technip S.A.

**Atlantic**

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

**Middle East**

Our Middle East segment's competitors include: Hyundai Heavy Industrial Co. Ltd.; Keppel Corporation; Larsen and Toubro Ltd (India); National Petroleum Construction Company (Abu Dhabi); Saipem S.p.A.; Technip S.A.; and Valentine and Swiber Holdings Ltd.

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### **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 joint ventures are described below.

#### *Asia Pacific*

**Qingdao McDermott Wuchuan Offshore Engineering Company Ltd.** We co-own this entity with Qingdao Wuchuan Heavy Industry Co. Ltd., a leading shipbuilder in China. This joint venture, which commenced in 2009, plans to provide procurement and construction services to the oil and gas industry, including floating, production, storage, off-loading ( FPSO ) vessel construction and integration.

#### *Atlantic*

**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 tension leg platforms ( 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.

**Deepwater Marine Technology LLC.** We co-own this entity with Keppel FELS Ltd. This joint venture expands our services related to solutions involving 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.

**Construção e Montagem Offshore, S.A.** We co-own this entity with Construcap-CCPS Engenharia e Comércio S.A. (40%) and Orteng Equipamentos e Sistemas Ltda. (20%). This joint venture plans to provide engineering, procurement and construction services to the oil and gas industry. A significant part of this entity's strategy is to construct and integrate FPSO modules.

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We provide services to a diverse customer base, including major integrated and national oil and gas companies. Our five largest customers, as a percentage of our total consolidated revenues, during the years ended December 31, 2011, 2010 and 2009 were as follows:

<i>Year Ended December 31, 2011:</i>	
Exxon Mobil Corporation	36%
Saudi Aramco	24%
Chevron Corporation	10%
Abu Dhabi Marine Operating Company	*
Al-Khafji Joint Operations	*
<i>Year Ended December 31, 2010:</i>	
Saudi Aramco	40%
Chevron Corporation	15%
Exxon Mobil Corporation	10%
Shell Oil Company.	*
Woodside Energy Limited	*
<i>Year Ended December 31, 2009:</i>	
Saudi Aramco	20%
Ras Laffan Liquefied Natural Gas Company	16%
Qatar Liquefied Gas Company	12%
Shell Oil Company.	11%
Maersk Oil Qatar	11%

\* Less than 10% of consolidated revenues

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

**Raw Materials and Suppliers**

Our operations use raw materials, such as carbon and alloy steels in various forms and components and accessories for assembly, which are available from numerous sources. 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**

At December 31, 2011, we employed approximately 13,500 persons worldwide, compared with approximately 15,000 at December 31, 2010. Approximately 4,300 of those employees were members of labor unions at December 31, 2011, compared with approximately 6,400 at December 31, 2010. Some of our operations are subject to union contracts, which we customarily renew periodically. We consider our relationships with our employees 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

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our technological capabilities 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, 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 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.

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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. These 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 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.

## **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;

workplace health and safety;

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 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 kinds of permits, licenses and certificates required in our operations depend upon a number of factors.

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.

In addition, 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 (i) owned by a certain percentage of U.S. citizens that are built and registered under the laws of the U.S. or (ii) 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

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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.



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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, the Oil Pollution Act of 1990, as amended 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, hazardous substances and waste 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, primarily, in the United States, the Occupational Safety and Health Act and regulations promulgated thereunder.

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

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

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

At December 31, 2011 and 2010, we had total environmental reserves of \$1.3 million and \$2.9 million, respectively. Of our total environmental reserves at December 31, 2011 and 2010, \$1.3 million and \$2.4 million, respectively, were included in current liabilities. Inherent in the estimates of those reserves and recoveries are our expectations regarding the levels of contamination, remediation costs and recoverability from other parties, which may vary significantly as remediation activities progress. Accordingly, changes in estimates could result in material adjustments to our operating results, and the ultimate loss may differ materially from the amounts we have provided for in our consolidated financial statements.

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

### **Cautionary Statement Concerning Forward-Looking Statements**

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

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential security holders about our company. These statements may include projections and estimates concerning the scope, execution, timing and success of specific projects and our future backlog, revenues, income and capital spending. Forward-looking statements are generally accompanied by words such as estimate, project, predict, forecast, believe, expect, anticipate, plan, seek, goal, could, may, or should the uncertainty 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, net income or earnings per share;

outcome of project awards and scope, execution and timing of specific projects;

anticipated levels of demand for our products and services;

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;

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; and

the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation.

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

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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 highly competitive nature of our industry;

cancellations of and adjustments to backlog and the resulting impact from using backlog as an indicator of future revenues or earnings;

The capital investment required to maintain and/or upgrade our fleet of vessels;

the ability of our suppliers and subcontractors to deliver raw materials in sufficient quantities and/or perform in a timely manner;

our ability to appropriately bid, estimate and effectively perform projects on time, in accordance with the schedules established by the applicable contracts with customers;

volatility and uncertainty of the credit markets;

our ability to comply with covenants in our credit agreements and other debt instruments and availability, terms and deployment of capital;

the unfunded liabilities of our pension plans 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;

changes in, or our failure or inability to comply with, government regulations;

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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 key financial and human resources legacy systems;

social, political and economic situations in foreign countries where we do business;

the risks associated with our international operations, including local content requirements;

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;

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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 subsidiaries of our former subsidiary B&W.

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](http://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](http://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 Related to Our Business**

*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;

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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 in offshore areas;

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 extremely volatile and have reacted 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. We anticipate oil and natural gas prices will continue to be volatile and affect the demand for and pricing of our EPCI services. A material decline in 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 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. 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. These variations and the 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.



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### ***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.

### ***Our backlog is subject to unexpected adjustments and cancellations.***

There can be no assurance that the revenues projected in our backlog will be realized or, if realized, will 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.

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*Vessel 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 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 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.

***Our operations could continue to be adversely impacted by the Macondo well incident and resulting regulations.***

On April 22, 2010, the drilling rig Deepwater Horizon, which was engaged in deepwater drilling operations in the U.S. Gulf of Mexico, sank after an explosion and fire. The incident resulted in a significant and uncontrolled oil spill off the coast of Louisiana. During the period from May 28 through October 12, 2010, the U.S. government imposed moratoriums on all offshore deepwater drilling projects. During 2010, the U.S. government established new regulations relating to the design of wells and testing of the integrity of wellbores, the use of drilling fluids, the functionality and testing of well control equipment, including blowout preventers, and other safety regulations. In addition, the U.S. government is requiring that operators demonstrate their compliance with the new regulations before commencing deepwater drilling operations. Compliance issues associated with regulations are significantly impacting deepwater drilling in the U.S. Gulf of Mexico. Marine vessel utilization in our Atlantic segment has been negatively impacted by these developments. Changes in laws

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or regulations regarding offshore oil and gas exploration and development activities, the cost or availability of insurance and the impacts of these factors on decisions by customers or other industry participants could reduce demand for our services, which would have a negative impact on our operations.

*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 our reorganization 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. It is possible that, if legislation were to be enacted in this area, we could be subject to a substantial increase in our corporate income taxes and, consequently, decrease our future net income and increase 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.

*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

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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. 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 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.

### ***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. Based on fluctuations in currency, the U.S. dollar value of our backlog may from time to time increase or decrease significantly. 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. 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.

### ***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

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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), liability related to the participation of our executives in the management of certain outside entities, professional liability/errors and omissions coverage, 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 protection 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 as a result of our operations 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.

### ***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, investments, cash flows from operations, and borrowings under our credit facility. We also enter into various financial derivative contracts, including foreign currency forward contracts with banks and institutions represented in our 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. In the past several years, 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 fully draw upon our existing credit facility 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.



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### ***Our credit facility imposes restrictions that could limit our operating and investment flexibility.***

We maintain a credit facility that permits borrowings for working capital and other needs, as well as letters of credit for projects. The terms of our credit facility impose various restrictions and covenants on us that could have adverse consequences, including:

limiting our ability to react to changing economic, regulatory and industry conditions;

limiting our ability to compete and our flexibility in planning for, or reacting to, changes in our business and the industry;

limiting our ability to pay dividends to our stockholders; and

limiting our ability to borrow additional funds.

### ***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 under our credit facility 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. There can be no assurance that letters of credit will 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.

### ***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 inability to continue to perform services for a number of these large existing customers, if not offset by contracts with new or other existing customers, could have a material adverse effect on our business and operations. Our significant customers include major integrated and national oil and gas companies.

### ***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.

### ***The loss of the services of one or more of our key personnel, or our failure to attract, assimilate and retain trained personnel in the future, 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.

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 of such personnel. If we should suffer any material loss of personnel to competitors 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. A significant increase in the wages paid by other employers could result in a reduction in our workforce, increases in wage rates, or both. If either of these events occurred for a significant period of time, our financial condition, results of operations and cash flows could be adversely impacted.



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*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.

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

We intend to pursue growth through 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 businesses or assets, reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Moreover, business or asset acquisitions 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 may be funded by the issuance of additional equity or new debt financing, which may not be available on attractive terms. 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 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.

*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.*

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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.

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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.

### ***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;

currency conversions and repatriation;

oil exploration and development;

clean air and other environmental protection legislation;

taxation of foreign earnings and earnings of expatriate personnel; and

use of local employees and suppliers by foreign contractors.

In addition, we depend on the demand for our services from the oil and gas industry and, therefore, we 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 economic and other policy reasons would adversely affect our operations by limiting the demand for our services.

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.

### ***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 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. 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

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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.

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

Our businesses are required to obtain, and to comply with, government permits and approvals. Any of these permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits 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 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 or approvals. Our inability to obtain, and to comply with, the permits and approvals required for our businesses could have a material adverse effect on us.

### ***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 by one or more of our employees, agents or partners could have a significant negative impact on our business and reputation. Such misconduct could include the failure to comply with regulations on lobbying or similar activities, regulations pertaining to the internal controls 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 failure to comply with applicable laws or regulations or acts of fraud or misconduct could subject us to fines and penalties, lead to the suspension of operations and result in reduced revenues and profits.

### ***We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, UK 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 recently enacted U.K. Bribery Act, which became effective on July 1, 2011 and 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.





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

We are currently evaluating 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 results of operations could be affected by natural disasters in locations in which we and our customers operate.***

Our customers 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.***

The wars in Iraq and Afghanistan and 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.

### ***In connection with the spin-off, B&W agreed to indemnify us for certain liabilities. However, the indemnity from B&W may not be sufficient to protect us against the full amount of such liabilities, and B&W's ability to satisfy its indemnification obligations may be impaired in the future.***

Pursuant to the master separation agreement we entered into with B&W, B&W agreed to indemnify us from certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that B&W assumed. In addition, the indemnity may not be sufficient to protect us against the full amount of such liabilities, and B&W may not be able to fully satisfy its indemnification obligations to us. Moreover, even if we ultimately succeed in recovering from B&W any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. Each of these risks could adversely affect our business, results of operations and financial condition.

### ***The spin-off could result in substantial tax liability.***

We obtained a private letter ruling from the Internal Revenue Service ( IRS ) substantially to the effect that, for U.S. federal income tax purposes, the spin-off and certain related transactions qualified under Sections 355 and/or 368 of the U.S. Internal Revenue Code of 1986, as amended (the Code ). If the factual assumptions or

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representations made in the request for the private letter ruling prove to have been inaccurate or incomplete in any material respect, then we will not be able to rely on the ruling. Furthermore, the IRS does not rule on whether a distribution such as the spin-off satisfies certain requirements necessary to obtain tax-free treatment under Section 355 of the Code. The private letter ruling was based on representations by us that those requirements were satisfied, and any inaccuracy in those representations could invalidate the ruling. In connection with the spin-off, we also obtained an opinion of outside counsel, substantially to the effect that, for U.S. federal income tax purposes, the spin-off and certain related transactions qualified under Sections 355 and/or 368 of the Code. The opinion relied on, among other things, the continuing validity of the private letter ruling and various assumptions and representations as to factual matters made by B&W and us which, if inaccurate or incomplete in any material respect, would jeopardize the conclusions reached by such counsel in its opinion. The opinion is not binding on the IRS or the courts, and there can be no assurance that the IRS or the courts would not challenge the conclusions stated in the opinion or that any such challenge would not prevail.

If, notwithstanding receipt of the private letter ruling and opinion, certain transactions related to the spin-off were to fail to qualify for tax-free treatment, B&W would be treated as if it had sold part of its assets (which were retained by us) in a taxable sale for fair market value and we would be treated as receiving such assets from B&W as a taxable dividend.

Under the terms of the tax sharing agreement we entered into with B&W in connection with the spin-off, B&W is generally responsible for any taxes imposed on B&W or us and our subsidiaries in the event that the spin-off and/or certain related transactions were to fail to qualify for tax-free treatment. However, if the spin-off and/or certain related transactions were to fail to qualify for tax-free treatment because of actions or failures to act by us or our subsidiaries, a subsidiary of ours would be responsible for all such taxes. If we were to become liable for taxes under the tax sharing agreement, that liability could have a material adverse effect on us.

### ***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

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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 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

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The following table provides the segment name, location, and general use of each of our principal properties at December 31, 2011 that we own or lease.

<b>Business Segment and Location</b>	<b>Principal Use</b>	<b>Owned/Leased</b>
<i>Asia Pacific</i>		
Singapore, Singapore	Operations/engineering/administrative office	Leased
Batam Island, Indonesia	Fabrication facility	Leased
Perth, Australia	Operations/administrative	Leased
Melbourne, Australia	Operations	Leased
<i>Atlantic</i>		
Morgan City, Louisiana	Fabrication facility	Leased
Altamira, Mexico	Fabrication facility	Owned/Leased
Houston, Texas	Operations/engineering/administrative office	Leased
New Orleans, Louisiana	Engineering office	Leased
<i>Middle East</i>		
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
Baku, Azerbaijan	Operations/administrative office	Leased
<i>Corporate</i>		
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 range in length from 260 to 500 feet and 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. Most of our marine vessels are encumbered by liens under our credit facility.

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The following table sets forth certain information with respect to the major construction and multi-service vessels utilized to conduct our operations, including their location at December 31, 2011:

Location and Vessel Name	Vessel Type	Year Entered Service/ Upgraded	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
<b>ATLANTIC</b>				
Agile <sup>(1)</sup>	Multi-Service Vessel	1978/2011	100	
DB 16 <sup>(1)</sup>	Pipelay/Derrick	1967/2000	860	30
Intermac 600	Launch/Cargo Barge	1973		
<b>MIDDLE EAST</b>				
DB 27	Pipelay/Derrick	1974/1984	2,400	60
DB 101	Semi-Submersible Derrick	1978/1984	3,500	
LB 32	Pipelay	2010		60
North Ocean 102 <sup>(1)</sup>	Multi-Service Vessel	2009	100	
Thebaud Sea <sup>(1)</sup>	Multi-Service Vessel	1999	50	
<b>ASIA PACIFIC</b>				
Bold Endurance <sup>(1)</sup>	Multi-Service Vessel	1979		
DB 26	Pipelay/Derrick	1975	900	60
DB 30	Pipelay/Derrick	1975/1999	3,080	60
DB 50 <sup>(1)</sup>	Pipelay/Derrick	1988	4,400	20
DLB KP1	Pipelay/Derrick	1974	660	60
Emerald Sea <sup>(1)</sup>	Multi-Service Vessel	1996/2007	100	
Intermac 650	Launch/Cargo Barge	1980/2006		

*(1) Vessel with dynamic positioning capability*

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 governmental authorities or classification societies. We maintain our fleet to the standards for seaworthiness, safety and health set by the 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 13, "Commitments and Contingencies," to our consolidated financial statements included in this annual report is incorporated by reference into this Item 3.

**Table of Contents****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 Senior 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, 2011 and 2010:

**YEAR ENDED DECEMBER 31, 2011**

QUARTER ENDED	SALES PRICE	
	HIGH	LOW
March 31, 2011	\$ 26.14	\$ 18.96
June 30, 2011	\$ 25.94	\$ 17.69
September 30, 2011	\$ 21.69	\$ 10.76
December 31, 2011	\$ 14.84	\$ 9.77

**YEAR ENDED DECEMBER 31, 2010**

QUARTER ENDED	SALES PRICE	
	HIGH	LOW
March 31, 2010	\$ 27.15	\$ 21.34
June 30, 2010	\$ 28.98	\$ 19.25
September 30, 2010 <sup>(1)</sup>	\$ 25.10	\$ 12.10
December 31, 2010	\$ 20.78	\$ 14.25

(1) On July 30, 2010, we completed the spin-off of B&W. On July 30, 2010, the closing price of our common stock on the NYSE was \$23.51. On August 2, 2010, the opening price of our common stock on the NYSE was \$12.56.

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 10, 2012, there were approximately 2,655 record holders of our common stock.

The following table provides information on our equity compensation plans as of December 31, 2011:

**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	2,262,879	\$ 10.96	8,871,477





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The following graph provides a comparison of our five-year, cumulative total shareholder return<sup>(1)</sup> from December 2006 through December 2011 to the return of S&P 500 and our custom peer group.

(1) Assumes initial investment of \$100 on December 31, 2006. All stock prices before the B&W spin-off have been discounted 48% to remove the value attributed to the stock dividend of B&W common stock for all periods presented.

(2) Includes Global Industries, Ltd. until December 1, 2011, the date it was acquired by Technip S.A.

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

Baker Hughes Incorporated	Helix Energy Solutions Group, Inc.
Cal Dive International, Inc.	Jacobs Engineering Group Inc.
Cameron International Corporation	KBR, Inc.
Chicago Bridge & Iron Company N.V.	National Oilwell Varco, Inc.
Dresser-Rand Group, Inc.	Noble Corporation
FMC Technologies, Inc.	Oceaneering International, Inc.
Foster Wheeler AG	Oil States International, Inc.
Global Industries, Ltd.	The Shaw Group Inc.
Halliburton Company	Tidewater Inc.

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	2011	2010	For the Years Ended		
			2009	2008	2007
	(In thousands, except for per share amounts)				
Statement of Income Data <sup>(1)</sup> :					
Revenues	\$ 3,445,110	\$ 2,403,743	\$ 3,281,790	\$ 3,098,104	\$ 2,396,963
Operating Income	\$ 250,723	\$ 314,905	\$ 279,349	\$ 106,987	\$ 381,256
Income from Continuing Operations	\$ 151,542	\$ 236,566	\$ 206,158	\$ 60,649	\$ 385,090
Income (Loss) from Discontinued Operations	\$ (12,812)	\$ (34,900)	\$ 180,898	\$ 368,653	\$ 222,738
Net Income Attributable to McDermott International, Inc.	\$ 138,730	\$ 201,666	\$ 387,056	\$ 429,302	\$ 607,828
Basic Earnings per Common Share:					
Income from Continuing Operations	0.65	1.02	0.90	0.27	1.72
Income (Loss) from Discontinued Operations	(0.05)	(0.15)	0.79	1.62	1.00
Diluted Earnings per Common Share:					
Income from Continuing Operations	0.64	1.00	0.88	0.26	1.68
Income (Loss) from Discontinued Operations	(0.05)	(0.15)	0.78	1.60	0.97
Balance Sheet Data <sup>(2)</sup> :					
Total Assets	\$ 2,992,814	\$ 2,598,688	\$ 4,849,110	\$ 4,601,693	\$ 4,411,486
Current Maturities of Long-Term Debt	\$ 8,941	\$ 8,547	\$ 16,270	\$ 9,021	\$ 6,599
Long-Term Debt	\$ 84,794	\$ 46,748	\$ 56,714	\$ 6,109	\$ 10,609
Total Equity	\$ 1,733,712	\$ 1,512,267	\$ 1,833,100	\$ 1,316,513	\$ 1,167,378

- (1) Statement of income 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.
- (2) Balance sheet data presented prior to December 31, 2010 includes the historical information of the charter fleet business and B&W.

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### **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**

MII is a leading EPCI company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services for offshore oil and gas field developments, we deliver fixed and floating production facilities, pipeline and subsea systems from concept to commissioning. We support these activities with comprehensive project management and procurement services. Our reporting segments consist of Asia Pacific, Atlantic and the Middle East. We also report certain corporate and other non-operating activities under 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.

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 years presented reflect the historical operations of the charter fleet business and B&W as discontinued operations. The discussions of our business and results of operations in this annual report are presented on the basis of continuing operations.

#### **Recent Developments**

During 2010, we committed to a plan to sell our charter fleet business, which operates 10 of the 14 vessels acquired in our 2007 Secunda Acquisition. Based on information obtained through recent discussions with interested parties and external advisors, in December 2011 we recognized an approximate \$22 million write-down of the carrying value of the assets held for sale to reflect their estimated net realizable value.

On August 26, 2011, we completed the sale of the *DB 23* marine vessel. Cash consideration received from the vessel sale was approximately \$8.0 million, resulting in a pre-tax gain of \$7.7 million.

#### **Business Outlook**

We expect our backlog of approximately \$3.9 billion at December 31, 2011 to produce revenues of approximately \$3.2 billion in 2012, not including the effects of any change orders or new contracts that may be awarded during the year. We are actively bidding on and, in some cases, beginning preliminary work on projects that we expect will be awarded to us in 2012, subject to successful contract negotiations. We were also awarded an approximate \$2 billion contract in February 2012. These projects are not included in the December 31, 2011 backlog.

Improvements in oil prices have led to increased levels of capital expenditures by the major integrated oil and gas companies and national oil companies. As a result, we have a significant number of bids outstanding as we look to take advantage of the increased market activity. However, any significant future economic contraction could reduce worldwide demand for energy and negatively impact any improvements in oil prices, leading our customers to defer major capital projects, which would result in a decline in the demand for our services.

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The decision-making process for oil and gas companies in making capital expenditures on offshore construction services for a development project differs depending on whether the project involves a new or existing development. In the case of new development projects, the demand for offshore construction services generally follows exploratory drilling and, in some cases, initial development drilling activities. Based on the results of these activities and evaluations of field economics, customers determine whether to install new platforms and new infrastructure, such as subsea gathering lines and pipelines. For existing development projects, demand for offshore construction services is generated by decisions to, among other things, expand development in existing fields and expand existing infrastructure.

We generated more than 98% of our 2011 consolidated revenues from projects outside the U.S. Our worldwide operations are heavily influenced by the worldwide demand for oil and gas. Our Atlantic segment operation continues to be adversely impacted by uncertainty in the U.S. Gulf of Mexico. The U.S. Government has implemented new regulations relating to the design of wells and testing of the integrity of wellbores, the use of drilling fluids, the functionality and testing of well control equipment, including blowout preventers, and other safety regulations. Compliance issues associated with these new regulations are significantly impacting deepwater drilling activity in the U.S. Gulf of Mexico, which has in turn negatively impacted marine vessel utilization in our Atlantic segment. We have and will continue to monitor the regulatory and market developments in the U.S. Gulf of Mexico, and we believe we will continue to incur losses in our Atlantic segment in the near term, in large part due to our fixed costs. As a result, our Atlantic segment operations, financial position and cash flows could be adversely affected. We continue to take certain measures to reduce our U.S. cost structure to address current and anticipated business levels. While these cost reductions are expected to improve long-term operating performance, short-term operating performance could be negatively impacted due to restructuring, severance and other costs related to the anticipated actions. In the long term, we anticipate improvements in the Atlantic segment, due not only to the U.S. Gulf of Mexico business outlook, but also the other regions included in this segment, including Brazil, Mexico, the Caribbean, West Africa and the North Sea.

As of December 31, 2011, it is possible that we may incur liabilities for liquidated damages aggregating approximately \$66 million, of which approximately \$17 million has been recorded in our financial statements, based on our actual or projected failure to meet certain specified contractual milestone dates. The date range during which these potential liquidated damages could arise is from April 2011 to December 2012. Subsequent to December 31, 2011, approximately \$28 million of the \$66 million possible liquidated damages were resolved without payment. 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.

## **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.

*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 billing