MCDERMOTT INTERNATIONAL INC
Form 10-Q
May 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from __________ to __________

Commission File No. 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA **(State or Other Jurisdiction of** **Incorporation or Organization)**	**72-0593134** **(I.R.S. Employer** **Identification No.)**
757 N. ELDRIDGE PKWY **HOUSTON, TEXAS** **(Address of Principal Executive Offices)**	**77079** **(Zip Code)**

Registrant s Telephone Number, Including Area Code: (281) 870-5000

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 x 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 x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant s common stock outstanding at May 1, 2014 was 237,544,687.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Revenues	$ 603,811	$ 807,488
Costs and Expenses:		
Cost of operations	591,493	712,814
Selling, general and administrative expenses	55,397	52,226
Gain on asset disposals	(6,439)	(14,716)
Restructuring charges	6,125	
Total costs and expenses	646,576	750,324
Equity in Earnings (Loss) of Unconsolidated Affiliates	1,123	(4,131)
Operating Income (Loss)	(41,642)	53,033
Other Income (Expense):		
Interest income	61	342
Loss on foreign currency net	(4,082)	(2,526)
Other income (expense) net	(265)	782
Total other income (expense)	(4,286)	(1,402)
Income (loss) before provision for income taxes and noncontrolling interests	(45,928)	51,631
Provision for Income Taxes	3,489	27,313
Net Income (Loss)	(49,417)	24,318
Less: Net Income Attributable to Noncontrolling Interests	536	3,765
Net Income (Loss) Attributable to McDermott International, Inc.	$ (49,953)	$ 20,553

Earnings per Common Share:		
Basic:		
Income (loss) from operations, less noncontrolling interests	(0.21)	0.09
Net income (loss) attributable to McDermott International, Inc.	(0.21)	0.09
Diluted:		
Income (loss) from operations, less noncontrolling interests	(0.21)	0.09
Net income (loss) attributable to McDermott International, Inc.	(0.21)	0.09
Shares used in the computation of earnings per share:		
Basic	236,961,158	235,941,185
Diluted	236,961,158	239,199,881

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 31, 2014	2013
	(Unaudited)	
	(In thousands)	
Net Income (Loss)	$ (49,417)	$ 24,318
Other comprehensive income (loss), net of tax:		
Amortization of benefit plan costs	3,171	3,655
Unrealized gain on investments	(24)	401
Translation adjustments	(320)	7,214
Gain (loss) on derivatives	14,529	(17,566)
Other comprehensive income, net of tax[(1)]	17,356	(6,296)
Total Comprehensive Income (Loss)	$ (32,061)	$ 18,022
Less: Comprehensive Income Attributable to Noncontrolling Interests	$ 503	3,753
Comprehensive Income (Loss) Attributable to McDermott International, Inc.	$ (32,564)	$ 14,269

(1) The tax impacts on amounts presented in other comprehensive income are not significant.

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2014	December 31, 2013
	(Unaudited)	
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 268,130	$ 118,702
Restricted cash and cash equivalents	43,286	23,652
Accounts receivable trade, net	332,062	381,858
Accounts receivable other	109,330	89,273
Contracts in progress	431,893	425,986
Deferred income taxes	7,092	7,091
Investments	3,248	
Assets held for sale	1,396	1,396
Other current assets	61,353	32,242
Total Current Assets	1,257,790	1,080,200
Property, Plant and Equipment	2,397,254	2,367,686
Less accumulated depreciation	(913,650)	(889,009)
Net Property, Plant and Equipment	1,483,604	1,478,677
Investments	2,189	13,511
Investments in Unconsolidated Affiliates	48,897	50,536
Assets held for sale	10,121	12,243
Other Assets	221,328	172,204
Total Assets	$ 3,023,929	$ 2,807,371
Liabilities and Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	$ 258,417	$ 39,543
Accounts payable	423,166	398,739
Accrued liabilities	383,401	365,224
Advance billings on contracts	278,881	278,929
Deferred income taxes	20,257	17,892
Income taxes payable	16,656	20,657
Total Current Liabilities	1,380,778	1,120,984

Long-Term Debt	49,761	49,019
Self-Insurance	21,715	20,531
Pension Liability	15,516	15,681
Non-current Income Taxes	55,455	56,042
Other Liabilities	89,019	104,770
Commitments and Contingencies		
Stockholders Equity:		
Common stock, par value $1.00 per share, authorized 400,000,000 shares; issued 244,739,400 and 244,271,365 shares at March 31, 2014 and December 31, 2013, respectively	244,739	244,271
Capital in excess of par value	1,417,374	1,414,457
Retained earnings	(121,110)	(71,157)
Treasury stock, at cost, 7,231,536 and 7,130,294 shares at March 31, 2014 and December 31, 2013, respectively	(97,407)	(97,926)
Accumulated other comprehensive loss	(122,742)	(140,131)
Stockholders Equity McDermott International, Inc.	1,320,854	1,349,514
Noncontrolling Interests	90,831	90,830
Total Equity	1,411,685	1,440,344
Total Liabilities and Equity	$ 3,023,929	$ 2,807,371

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2014	**2013**
	(Unaudited) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (49,417)	$ 24,318
Non-cash items included in net income (loss):		
Depreciation and amortization	24,602	20,222
Drydock amortization	6,946	5,550
Restructuring charges	675	
Equity in (earnings) loss of unconsolidated affiliates	(1,123)	4,131
Gain on asset disposals	(6,439)	(14,716)
Benefit for deferred taxes	(2,628)	5,332
Stock-based compensation charges	4,387	3,923
Net periodic pension benefit cost	2,854	642
Other non-cash items	2,331	1,749
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	26,365	(6,573)
Net contracts in progress and advance billings on contracts	(5,974)	(19,935)
Accounts payable	32,727	(125,234)
Accrued and other current liabilities	15,046	(20,774)
Pension liability and accrued postretirement and employee benefits	5,880	(19,657)
Other assets and liabilities	(78,560)	(46,093)
TOTAL CASH USED IN OPERATING ACTIVITIES	(22,328)	(187,115)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(37,893)	(37,649)
Increase in restricted cash and cash equivalents	(19,634)	(3,826)
Purchases of available-for-sale securities	(1,997)	(3,744)
Sales and maturities of available-for-sale securities	10,055	31,193
Proceeds from the sale and disposal of assets	8,370	35,621
Other investing activities	(1,950)	(4,596)
TOTAL CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(43,049)	16,999
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term debt	250,000	
Payment of debt	(31,373)	(1,494)

Distributions to noncontrolling interests	(502)	(6,200)
Debt issuance cost and other financing activities	(3,356)	(1,015)
TOTAL CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	214,769	(8,709)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	36	213
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	149,428	(178,612)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	118,702	640,147
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 268,130	$ 461,535
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes (net of refunds)	$ 11,668	$ 25,916

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In thousands, except share amounts)

	Common Stock					Accumulated Other Comprehensive			
	Shares	Par Value	Capital In Excess of Par Value	Retained Earnings	Treasury Stock	Income (Loss)	Stockholders Equity	Non-Controlling Interests	Total Equity
Balance December 31, 2012	243,442,156	$ 243,442	$ 1,391,271	$ 445,756	$ (98,725)	$ (94,413)	$ 1,887,331	$ 64,774	$ 1,952,105
Net income				20,553			20,553	3,765	24,318
Other comprehensive income, net of tax						(6,284)	(6,284)	(12)	(6,296)
Exercise of stock options	18,549	18	54				72		72
Share vesting	317,664	318	(318)						
Purchase of treasury shares					(1,034)		(1,034)		(1,034)
Stock-based compensation charges			3,852		71		3,923		3,923
Distributions to noncontrolling interests								(6,200)	(6,200)
Balance March 31, 2013	243,778,369	$ 243,778	$ 1,394,859	$ 466,309	$ (99,688)	$ (100,697)	$ 1,904,561	$ 62,327	$ 1,966,888
Balance December 31, 2013	244,271,365	$ 244,271	$ 1,414,457	$ (71,157)	$ (97,926)	$ (140,131)	$ 1,349,514	$ 90,830	$ 1,440,344
Net loss				(49,953)			(49,953)	536	(49,417)
Other comprehensive income, net of tax						17,389	17,389	(33)	17,356
Exercise of stock options	118,410	118	147				265		265
Share vesting	349,625	350	(350)						
					(748)		(748)		(748)

Purchase of treasury shares									
Stock-based compensation charges			3,120		1,267		4,387		4,387
Distributions to noncontrolling interests								(502)	(502)
Balance March 31, 2014	244,739,400	$ 244,739	$ 1,417,374	$ (121,110)	$ (97,407)	$ (122,742)	$ 1,320,854	$ 90,831	$ 1,411,685

See accompanying notes to condensed consolidated financial statements.

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McDERMOTT INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

McDermott International, Inc. (MII), a corporation incorporated under the laws of the Republic of Panama in 1959, is a leading engineering, procurement, construction and installation (EPCI) company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Operating in approximately 20 countries across the Americas, Middle East and Asia Pacific, our integrated resources include approximately 14,000 employees and a diversified fleet of marine vessels, fabrication facilities and engineering offices. We support our activities with comprehensive project management and procurement services, while utilizing our fully integrated capabilities in both shallow water and deepwater construction. Our customers include national, major integrated and other oil and gas companies, and we operate in most major offshore oil and gas producing regions throughout the world. We execute our contracts through a variety of methods, principally fixed-price, but also including cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods. In these notes to our unaudited condensed consolidated financial statements, unless the context otherwise indicates, we, us and our mean MII and its consolidated subsidiaries.

Basis of Presentation

We have presented our unaudited condensed consolidated financial statements in U.S. Dollars, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) applicable to interim reporting. Financial information and disclosures normally included in our financial statements prepared annually in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted. Readers of these financial statements should, therefore, refer to the consolidated financial statements and the accompanying notes in our annual report on Form 10-K for the year ended December 31, 2013.

We have included all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation. These condensed consolidated financial statements include the accounts of McDermott International, Inc., its consolidated subsidiaries and controlled entities. We use the equity method to account for investments in entities that we do not control, but over which we have significant influence. We generally refer to these entities as unconsolidated affiliates or joint ventures. We have eliminated all intercompany transactions and accounts.

Certain 2013 amounts in the condensed consolidated balance sheet and statement of cash flows have been reclassified to conform to the 2014 presentation.

Business Segments

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

The North Sea and Africa operating segment is also aggregated into the Middle East reporting segment due to the proximity of regions and similarities in the nature of services provided, economic characteristics and oversight responsibilities. Accordingly, we continue to report financial results under reporting segments consisting of Asia Pacific, Americas and the Middle East. We also report certain corporate and other non-operating activities under the heading Corporate and other . Corporate and other primarily reflects corporate personnel and activities, incentive compensation programs and other costs, which are generally fully allocated to our operating segments. The only corporate costs currently not being allocated to our operating segments are the restructuring costs associated with our corporate reorganization. See Note 9 for summarized financial information on our segments.

Revenue Recognition

We determine the appropriate accounting method for each of our long-term contracts before work on the project begins. We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the activity involved. We include the amount of accumulated contract costs and estimated earnings that exceed billings to customers in contracts in progress. We include billings to customers that exceed accumulated contract costs and estimated earnings in advance billings on contracts. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for and collect all unbilled revenues. Certain costs are generally excluded from the cost-to-cost method of measuring progress, such as significant procurement costs for materials and third-party subcontractors. Total estimated project costs, and resulting income, are affected by changes in the expected cost of materials and labor, productivity, vessel costs, scheduling and other factors. Additionally, external factors such as weather, customer requirements and other factors outside of our control may affect the progress and estimated cost of a project s completion and, therefore, the timing and amount of revenue and income recognition.

In addition, change orders, which are a normal and recurring part of our business, can increase (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 recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period when those estimates are revised. Revenue from unapproved change orders is generally recognized to the extent of the lesser of amounts management expects to recover or costs incurred. Additionally, to the extent that claims included in backlog, including those that arise from change orders which are under dispute or which have been previously rejected by the customer, are not resolved in our favor, there could be reductions in or reversals of previously reported, revenues and profits, and charges against current earnings, which could be material.

Claims Revenue

Claims revenue may relate to various factors, including the procurement of materials, equipment performance failures, change order disputes or schedule disruptions and other delays, including those associated with weather or sea conditions. Claims revenue, when recorded, is only recorded to the extent of the lesser of the amounts management expects to recover or the associated costs incurred in our consolidated financial statements. We include certain unapproved claims in the applicable contract values when we have a legal basis to do so, consider collection to be probable and believe we can reliably estimate the ultimate value. Amounts attributable to unapproved change orders are not included in claims. We continue to actively engage in negotiations with our customers on our outstanding claims. However, these claims may be resolved at amounts that differ from our current estimates, which could result in increases or decreases in future estimated contract profits or losses. Claims are generally negotiated over the course of the respective projects and many of our projects are long-term in nature. None of the claims as of March 31, 2014 were involved in litigation.

The amount of revenues and costs included in our estimates at completion (i.e., contract values) associated with such claims was $6.5 million and $225.8 million as of March 31, 2014 and March 31, 2013, respectively. All of those claim amounts at March 31, 2014 were related to our Middle East segment. For the three months ended March 31, 2014, no revenues and costs pertaining to claims were included in our condensed consolidated financial statements. For the three months ended March 31, 2013, $29.0 million of revenues and costs pertaining to claims were included in our condensed consolidated financial statements.

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Our unconsolidated joint ventures did not include any claims revenue or associated cost in their financial results for the period ended March 31, 2014. For the period ended March 31, 2013, our unconsolidated joint ventures included $3.7 million of claims revenue and associated costs in their financial results.

Deferred Profit Recognition

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

Completed Contract Method

Under the completed contract method, revenue and gross profit is recognized only when a contract is completed or substantially complete. We generally do not enter into fixed-price contracts without an estimate of cost to complete that we believe to be accurate. However, it is possible that in the time between contract execution and the start of work on a project, we could lose the ability to forecast cost to complete based on intervening events, including, but not limited to, experience on similar projects, civil unrest, strikes and volatility in our expected costs. In such a situation, we would use the completed contract method of accounting for that project. We did not enter into any contracts that we accounted for under the completed contract method during the quarters ended March 31, 2014 and March 31, 2013.

Loss Recognition

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

As of March 31, 2014, we have provided for our estimated costs to complete on all of our ongoing contracts. However, it is possible that current estimates could change due to unforeseen events, which could result in adjustments to overall contract costs. Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. For all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

Of the March 31, 2014 backlog amount of $4.4 billion, approximately $550.7 million relates to nine active projects that are in loss positions, whereby future revenues are expected to equal costs when recognized. Included in this amount is $191.6 million of backlog associated with an EPCI project in Altamira, which is expected to be completed in the third quarter of 2015, $144.6 million pertaining to a five-year charter of the *Agile* in Brazil, which began in early 2012, and $65.9 million relating to a subsea project in the U.S. Gulf of Mexico scheduled for completion during

2014, all of which are being conducted by our Americas segment. The amount also includes $91.5 million of backlog relating to an EPCI project in Saudi Arabia, in our Middle East segment, which is expected to be completed by the end of 2015. These four projects represent approximately 90% of the backlog amount in a loss position. It is possible that our estimates of gross profit could increase or decrease based on changes in productivity, actual downtime and the resolution of change orders and claims with the customers.

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Use of Estimates

We use estimates and assumptions to prepare our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts we report in our financial statements and accompanying notes. Our actual results could differ from these estimates, and variances could materially affect our financial condition and results of operations in future periods. Changes in project estimates generally exclude change orders and changes in scope, but may include, without limitation, unexpected changes in weather conditions, productivity, unanticipated vessel repair requirements, customer, subcontractor and supplier delays and other costs. We generally expect to experience a reasonable amount of unanticipated events, and some of these events can result in significant cost increases above cost amounts we previously estimated. As of March 31, 2014, we have provided for our estimated costs to complete on all of our ongoing contracts. However, it is possible that current estimates could change due to unforeseen events, which could result in adjustments to overall contract costs. Variations from estimated contract performance could result in material adjustments to operating results.

The following is a discussion of our most significant changes in estimates that impacted operating income for the three months ended March 31, 2014 and 2013.

2014 Period

Operating income for the three months ended March 31, 2014 was impacted by changes in cost estimates relating to projects in each of our segments.

The Asia Pacific segment experienced an improvement of approximately $20.6 million mostly due to changes in estimates on a subsea project in Malaysia during the quarter ended March 31, 2014, primarily due to productivity improvements on our marine vessels as well as offshore support activities.

The Middle East segment was negatively impacted by losses of approximately $31.9 million, mostly due to changes in estimates on three projects in Saudi Arabia during the three months ended March 31, 2014. On two EPCI projects in Saudi Arabia, we increased our estimated cost at completion by approximately $24.3 million, primarily as a result of vessel downtime due to weather and standby delays (which may be recoverable from the customer, but which were not recognizable at March 31, 2014), and reduced productivity on fabrication and engineering activities. Both projects remain in a profitable position at March 31, 2014. On another EPCI project in Saudi Arabia, we increased our estimated cost to complete by approximately $7.6 million, primarily due to increases in our cost estimates for the completion of onshore activities on the project.

The Americas segment was negatively impacted by changes in estimates of approximately $35.4 million on an EPCI project in Altamira during the quarter ended March 31, 2014. The estimated cost at completion on this project increased primarily due to expected delays in final project delivery, resulting in a revised execution plan, increased fabrication labor costs and recognition of liquidated damages.

2013 Period

Operating income for the three months ended March 31, 2013 was impacted by changes in cost estimates relating to projects in each of our segments.

The Middle East segment was impacted by changes in estimates on five projects. In total, those five projects recognized approximately $7.7 million in project losses in the three months ended March 31, 2013, as a result of increases to the estimated costs to complete those projects of approximately $38.0 million. On one of those projects, we increased our estimated cost at completion by $17.5 million, which resulted in the recognition of a $5.4 million loss in the three months ended March 31, 2013, primarily due to changes in the project s execution plan, which resulted in additional third-party construction vessel usage and marine downtime, cost overruns on offshore hook-up activities, and additional costs for project management-related activities. This project remained in a profitable position at March 31, 2014.

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On three projects in the Middle East segment, we increased our estimated cost at completion by $16.7 million, which resulted in the recognition of only $1.8 million of project income in the three months ended March 31, 2013. The changes in estimated cost at completion were principally driven by cost overruns associated with marine equipment downtime, including productivity, hook-up and project management-related activities. Each of those projects was in a profitable position at March 31, 2013. One of those projects was completed in the third quarter of 2013, and the remaining two projects are expected to be completed during 2014. On the remaining project in the Middle East segment, we recognized incremental costs of $4.1 million in the three months ended March 31, 2013, primarily due to cost overruns on marine installation activities. That project was in a loss position at March 31, 2013 and was completed in the second quarter of 2013.

The Americas segment was impacted by changes in estimates on two projects. On one of those projects, we recognized approximately $6.9 million of incremental project losses in the three months ended March 31, 2013, primarily due to declines in fabrication productivity. That project remained in a loss position through its completion in the fourth quarter of 2013. The other project was completed in the first quarter of 2013 and recognized $2.4 million of cost savings as a result of efficiencies associated with fabrication activities.

The Asia Pacific segment benefited from certain changes in estimates, which resulted in a reduction of estimated costs at completion in the three months ended March 31, 2013 of approximately $14.0 million, primarily due to efficiencies associated with the marine campaigns on two of our EPCI projects, both of which were completed in 2013. These benefits were partially offset by project charges recognized in the three months ended March 31, 2013 of approximately $4.1 million associated with cost overruns on support vessels on one of our subsea projects, which remains in a loss position and is expected to be completed in the second quarter of 2014.

Loss Contingencies

We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed the recorded provision or if such loss is not reasonably estimable. We are currently involved in litigation and other proceedings, as discussed in Note 10. We have accrued our estimates of the probable losses associated with these matters, and associated legal costs are generally recognized in selling, general and administrative expenses as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

Cash and Cash Equivalents

Our cash and cash equivalents are highly liquid investments with maturities of three months or less when we purchase them. We record cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes. At March 31, 2014, all of our restricted cash was held in restricted foreign-entity accounts.

Investments

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

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Investments in Unconsolidated Affiliates

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

Accounts Receivable

Accounts Receivable Trade, Net

A summary of contract receivables is as follows:

	March 31, 2014	December 31, 2013
	(Unaudited) (In thousands)	
Contract receivables:		
Contracts in progress	$ 189,044	$ 192,745
Completed contracts	55,880	77,248
Retainages	110,718	127,698
Unbilled	4,325	14,571
Less allowances	(27,905)	(30,404)
Accounts receivable trade, net	$ 332,062	$ 381,858

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

Contract retainages generally represent amounts withheld by our customers until project completion, in accordance with the terms of the applicable contracts. The following is a summary of retainages on our contracts:

	March 31, 2014	December 31, 2013
	(Unaudited) (In thousands)	
Retainages expected to be collected within one year	$ 110,718	$ 127,698
Retainages expected to be collected after one year	107,315	65,365
Total retainages	$ 218,033	$ 193,063

We have included in accounts receivable trade, net, retainages expected to be collected within one year. Retainages expected to be collected after one year are included in other assets.

Accounts Receivable Other

Accounts receivable other was $109.3 million and $89.3 million at March 31, 2014 and December 31, 2013, respectively. The balance primarily relates to transactions with unconsolidated affiliates, receivables associated with our hedging activities, value-added tax, other items and employee receivables. Employee receivables were $4.2 million and $4.5 million as of March 31, 2014 and December 31, 2013, respectively. These amounts are expected to be collected within 12 months, and any allowance for doubtful accounts on our accounts receivable other is based on our estimate of the amount of probable losses due to the inability to collect these amounts (based on historical collection experience and other available information). As of March 31, 2014 and December 31, 2013, no such allowance for doubtful accounts was recorded.

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Contracts in Progress and Advance Billings on Contracts

Contracts in progress were $431.9 million and $426.0 million at March 31, 2014 and December 31, 2013, respectively. Advance billings on contracts were $278.9 million at both March 31, 2014 and December 31, 2013. A detail of the components of contracts in progress and advance billings on contracts is as follows:

	March 31, 2014	December 31, 2013
	(Unaudited) (In thousands)	
Costs incurred less costs of revenue recognized	$ 127,773	$ 65,113
Revenues recognized less billings to customers	304,120	360,873
Contracts in Progress	$ 431,893	$ 425,986

	March 31, 2014	December 31, 2013
	(Unaudited) (In thousands)	
Billings to customers less revenue recognized	$ 496,040	$ 466,205
Costs incurred less costs of revenue recognized	(217,159)	(187,276)
Advance Billings on Contracts	$ 278,881	$ 278,929

Fair Value of Financial Instruments

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

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

Level 1 inputs are based upon quoted prices for identical instruments traded in active markets.

Level 2 inputs are based upon quoted prices for similar instruments in active markets, quoted prices for similar or identical instruments in inactive markets and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3 inputs are generally unobservable and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar valuation techniques.

The carrying amounts that we have reported for financial instruments, including cash and cash equivalents, accounts receivables and accounts payable approximate their fair values. See Note 6 for additional information regarding fair value measurements.

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Derivative Financial Instruments

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

In certain cases, contracts with our customers contain provisions under which some payments from our customers are denominated in U.S. Dollars and other payments are denominated in a foreign currency. In general, the payments denominated in a foreign currency are designed to compensate us for costs that we expect to incur in such foreign currency. In these cases, we may use derivative instruments to reduce the risks associated with foreign currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows. See Note 5 for additional information regarding derivative financial instruments.

Foreign Currency Translation

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

Earnings per Share

We have computed earnings per common share on the basis of the weighted average number of common shares, and, where dilutive, common share equivalents, outstanding during the indicated periods. See Note 8 for our earnings per share computations.

Accumulated Other Comprehensive Loss

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

	March 31, 2014	December 31, 2013
	(Unaudited) (In thousands)	
Foreign currency translation adjustments	$ (2,882)	$ (2,562)
Net gain on investments	214	238
Net loss on derivative financial instruments	(30,824)	(45,386)
Unrecognized losses on benefit obligations	(89,250)	(92,421)
Accumulated other comprehensive loss	$ (122,742)	$ (140,131)

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

For the three months ended March 31, 2014	Unrealized holding loss on investment	Deferred gain (loss) on derivatives[1]	Foreign currency gain (loss)	Defined benefit pension plans loss[2]	TOTAL
			(Unaudited) (In thousands)		
Balance, December 31, 2013	$ 238	$ (45,386)	$ (2,562)	$ (92,421)	$ (140,131)
Other comprehensive income (loss) before reclassification	(24)	12,358	(320)		12,014
Amounts reclassified from AOCI		2,204[3]		3,171[4]	5,375
Net current period other comprehensive income (loss)	(24)	14,562	(320)	3,171	17,389
Balance, March 31, 2014	$ 214	$ (30,824)	$ (2,882)	$ (89,250)	$ (122,742)

For the three months ended March 31, 2013	Unrealized holding loss on investment	Deferred gain (loss) on derivatives[1]	Foreign currency gain (loss)	Defined benefit pension plans loss[2]	TOTAL
			(Unaudited) (In thousands)		
Balance, December 31, 2012	$ (2,315)	$ 11,734	$ (3,366)	$ (100,466)	$ (94,413)
Other comprehensive income before reclassification	401	(15,450)	7,214		(7,835)
Amounts reclassified from AOCI		(2,104)[3]		3,655[4]	1,551
Net current period other comprehensive income	401	(17,554)	7,214	3,655	(6,284)
Balance, March 31, 2013	$ (1,914)	$ (5,820)	$ 3,848	$ (96,811)	$ (100,697)

(1) Refer to Note 5 for additional details.
(2) Refer to Note 4 for additional details.
(3) Reclassified to cost of operations and gain on foreign currency, net.
(4) Reclassified to selling, general and administrative expenses.

Recently Issued Accounting Standards

On July 18, 2013, the Financial Accounting Standards Board (FASB) issued an update to the topic *Income Taxes*. The update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if settlement is required or expected in the event the uncertain tax position is disallowed. In situations where these items are not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The update is effective for reporting periods beginning after December 15, 2013, and the adoption of this update does not have a material impact on our condensed consolidated financial statements.

In February 2013, the FASB issued an update to the topic *Comprehensive Income*. The update requires companies to provide additional information about the nature and amount of certain reclassifications out of AOCI, which impact the income statement. While the amendment does not change current reporting requirements, companies are required to provide information about the amounts reclassified out of AOCI by the respective line item. The update is effective for reporting periods beginning after December 15, 2012, and the adoption of this update did not have a material impact on our condensed consolidated financial statements.

In January 2013, the FASB issued an update to the topic *Balance Sheet*. This update requires new disclosures presenting detailed information regarding both the gross and net basis of derivatives and other financial instruments that are eligible for offset in the balance sheet or that are subject to a master netting arrangement. The update is effective for the first quarter of 2013 and is to be applied retrospectively. As this new guidance relates to presentation only, the adoption of this update did not have a material impact on our condensed consolidated financial statements.

NOTE 2 ACQUISITION AND DISPOSITIONS

Acquisition

During the quarter ended March 31, 2013, we entered into a share purchase agreement to acquire all of the issued and outstanding shares of capital stock of Deepsea Group Limited, a United Kingdom-based company that provides subsea and other engineering services to international energy companies, primarily through offices in the United Kingdom and the United States. Total consideration was approximately $9.0 million, which includes cash ($6.0 million) and the delivery of 313,580 restricted shares of MII common stock (out of treasury). The transaction is being accounted for using the acquisition method and, accordingly, assets acquired and liabilities assumed are recorded at their respective fair values.

During the quarter ended December 31, 2013, we entered into two joint ventures with TH Heavy Engineering Berhad (THHE), whereby we acquired a 30% interest in a subsidiary of THHE, THHE Fabricators Sdn. Bhd., and THHE acquired a 30% interest in our Malaysian subsidiary, Berlian McDermott Sdn. Bhd. Accounting for these transactions is preliminary at March 31, 2014 and is pending finalization of these transactions by mid-2014. As of March 31, 2014, we recorded an equity method investment of approximately $25.5 million, a non-controlling interest of approximately $20.9 million and an increase in capital in excess of par value of approximately $4.6 million arising from these transactions.

Non-Core Asset Sales