

MCDERMOTT INTERNATIONAL INC

Form 424B5

April 02, 2014

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**Filed Pursuant to Rule 424(b)(5)**  
**Registration No. 333-194926**

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Maximum Offering Price Per Unit	Maximum Aggregate Offering Price	Amount of Registration Fee(2)
Tangible Equity Units (3)	11,500,000	\$25.00	\$287,500,000	\$37,030

- (1) Includes 1,500,000 tangible equity units that may be purchased by the underwriters pursuant to their option to purchase additional tangible equity units to cover overallocments, if any.
- (2) The filing fee is calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended (the Securities Act ).
- (3) Each tangible equity unit is comprised of a prepaid stock purchase contract and a senior amortizing note due 2017 issued by McDermott International, Inc., which has an initial principal amount of \$4.1266 per amortizing note and a final installment payment of April 1, 2017.

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10,000,000 Units  
**McDermott International, Inc.**  
6.25% Tangible Equity Units

This is an offering of tangible equity units, or Units, of McDermott International, Inc. Each Unit has a stated amount of \$25.00.

Each Unit is comprised of a prepaid stock purchase contract and a senior amortizing note due 2017 issued by McDermott International, Inc., which has an initial principal amount of \$4.1266 per amortizing note and a final installment payment date of April 1, 2017.

Unless previously settled early at your or our election, for each purchase contract we will deliver to you on the third business day immediately following the last trading day of the observation period a number of shares of our common stock determined as described herein (a mandatory settlement). The observation period will be the 20 consecutive trading day period beginning on, and including, the 22<sup>nd</sup> scheduled trading day immediately preceding April 1, 2017 (the mandatory settlement date). The number of shares of our common stock issuable upon mandatory settlement of each purchase contract (the settlement amount) will be equal to the sum of the daily settlement amounts (as defined below) for each of the 20 consecutive trading days during the relevant observation period. The daily settlement amount for each purchase contract and for each of the 20 consecutive trading days during the observation period will consist of:

if the daily VWAP is equal to or greater than \$8.61 per share, subject to adjustment, a number of shares of our common stock equal to (1) 2.9030 shares of common stock, subject to adjustment, *divided by* (2) 20;

if the daily VWAP is less than \$8.61 per share, subject to adjustment, but greater than \$7.03 per share, subject to adjustment, a number of shares of our common stock equal to \$1.25, which is 1/20 of the \$25.00 stated amount of each Unit, *divided by* the daily VWAP; and

if the daily VWAP of our common stock is less than or equal to \$7.03 per share, subject to adjustment, a number of shares of our common stock equal to (1) 3.5562 shares of common stock, subject to adjustment, *divided by* (2) 20.

At any time prior to the third business day immediately preceding April 1, 2017, you may settle your purchase contract early, and we will deliver 2.9030 shares of our common stock, subject to adjustment. In addition, if a fundamental change (as defined herein) occurs and you elect to settle your purchase contracts early in connection with such fundamental change, you will receive a number of shares of our common stock based on the fundamental change early settlement rate, as described herein. In addition, we may elect to settle all outstanding purchase contracts prior to April 1, 2017 at the early mandatory settlement rate (as defined herein), upon a date fixed by us upon not less than 20 business days notice. Except in the limited circumstances described herein, the purchase contract holders will not receive any cash distributions under the purchase contracts.

The amortizing notes will pay you equal quarterly installments of \$0.3906 per amortizing note (or, in the case of the installment payment due on July 1, 2014, \$0.3646 per amortizing note), which in the aggregate will be equivalent to a 6.25% cash payment per year with respect to each \$25.00 stated amount of Units. The amortizing notes will be our senior unsecured obligations, will rank equally with all of our other unsecured, unsubordinated senior indebtedness and will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. If we elect to settle the purchase contracts early, you will have the right to require us to repurchase your amortizing notes.

Each Unit may be separated into its constituent purchase contract and amortizing note after the initial issuance date of the Units, and the separate components may be combined to create a Unit.

We do not intend to apply for a listing of the Units, the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system. Prior to this offering there has been no public market for the Units. Our common stock is listed on the NYSE under the symbol MDR. The closing price for our common stock on the NYSE on April 1, 2014 was \$7.03 per share.

**The Units, the separate purchase contracts and the separate amortizing notes have not been, and will not be, registered with the Superintendent of Securities Market of Panama. Accordingly, (1) the Units, the separate purchase contracts and the separate amortizing notes cannot be publicly offered or sold in Panama, except in transactions exempted from registration under the Panamanian securities laws, (2) the Superintendent of Securities Market of Panama has not reviewed the information contained in this prospectus supplement, (3) the Units, the separate purchase contracts and the separate amortizing notes and this offering are not subject to the supervision of the Superintendent of Securities Market of Panama, and (4) the Units, the separate purchase contracts and the separate amortizing notes do not benefit from the tax incentives provided by the Panamanian securities laws and regulations.**

The underwriter has the option to purchase, within 13 days beginning on, and including, the date of initial issuance of the Units, up to an additional 1,500,000 Units from us at the same price as sold to the public less the underwriting discounts and commissions.

*Investing in the Units involves risk. Before buying any Units, you should consider the risks that we have described in Risk Factors beginning on page S-15 of this prospectus supplement, as well as those described in our other filings under the Securities Exchange Act of 1934, as amended (the Exchange Act).*

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to McDermott International, Inc.
Per Unit	\$ 25.00	\$ 0.75	\$ 24.25
Total	\$ 250,000,000	\$ 7,500,000	\$ 242,500,000

The underwriter expects to deliver the Units to purchasers on or about April 7, 2014 through the book-entry facilities of The Depository Trust Company.

*Sole Book-Running Manager*

**Goldman, Sachs & Co.**

The date of this prospectus supplement is April 1, 2014.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

We provide information to you about this offering in two separate documents. The accompanying prospectus provides general information about us and the securities we may offer from time to time. This prospectus supplement describes the specific details regarding this offering. Additional information is incorporated by reference in this prospectus supplement. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

**You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any related free writing prospectus filed by us with the Securities and Exchange Commission, or the SEC. We have not, and the underwriter has not, authorized anyone else to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer and sale thereof is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus, any related free writing prospectus or any document incorporated by reference herein or therein is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.**

**You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountants and other advisers for legal, tax, business, financial and related advice regarding the purchase of our securities.**

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**AVAILABLE INFORMATION AND INCORPORATION BY REFERENCE**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read and copy these materials at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information about the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains information we have filed electronically with the SEC, which you can access over the Internet at <http://www.sec.gov>. You can also obtain information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

This prospectus supplement is part of a registration statement we have filed with the SEC relating to the securities we may offer. As permitted by SEC rules, this prospectus supplement does not contain all the information we have included in the registration statement and the accompanying exhibits and schedules we have filed with the SEC. You may refer to the registration statement, exhibits and schedules for more information about us and the securities. The registration statement, exhibits and schedules are available at the SEC's public reference room or through its Internet site.

The SEC allows us to incorporate by reference the information we have filed with it, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is an important part of this prospectus supplement, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than information furnished and not filed with the SEC, unless we specifically provide that such furnished information is to be incorporated by reference) after the date of this prospectus supplement and until the termination of this offering. The documents we incorporate by reference are:

our Annual Report on Form 10-K for the year ended December 31, 2013;

our proxy statement relating to our 2014 annual meeting of stockholders filed on March 24, 2014;

our Current Reports on Form 8-K filed on January 27, 2014, February 24, 2014, March 7, 2014 and March 31, 2014; and

the description of our common stock contained in our registration statement on Form 8-A/A filed with the SEC on December 7, 1982, as amended by our Form 8-A/A filed with the SEC on December 11, 2001.

You may request a copy of these filings, other than an exhibit to these filings unless we have specifically incorporated that exhibit by reference into the filing, at no cost, by writing to or telephoning us at:

McDermott International, Inc.

757 N. Eldridge Parkway

Houston, Texas 77079



Attention: Investor Relations

Telephone: (281) 870-5000

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**TRADEMARKS AND SERVICE MARKS**

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the trademarks that we own or have rights to use that appear in this prospectus supplement or the accompanying prospectus include the McDermott trademark, which is registered in the United States and various other jurisdictions. Each trademark, trade name or service mark of any other company appearing in this prospectus supplement or the accompanying prospectus is owned by such company.

**INDUSTRY AND MARKET DATA**

This prospectus supplement includes or incorporates by reference estimates of industry data and forecasts that we have obtained from industry publications and surveys or our internal sources. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Neither we nor the underwriter has independently verified any of the data from third-party sources, nor have we or the underwriter ascertained the underlying economic assumptions relied upon therein. Our internal research is based on our understanding of industry conditions, and such information has not been verified by any independent sources.

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement, including the documents incorporated by reference in this prospectus supplement, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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, goal, could, may, or should or other words that convey the uncertainty of future events or outcomes. In particular, these forward-looking statements include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to:

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

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

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

estimates of percentage of completion and contract profits or losses;

anticipated levels of demand for our products and services;

global demand for oil and gas and fundamentals of the oil and gas industry;

expectations regarding trends towards offshore development of oil and gas;

market outlook for the engineering, procurement, construction and installation market, including subsea;

expectations regarding backlog;

future levels of capital, environmental or maintenance expenditures;

the success or timing of completion of ongoing or anticipated capital or maintenance projects;

the adequacy of our sources of liquidity and capital resources;

potential financing arrangements, including, without limitation, statements relating to the timing or consummation of the concurrent private placement of second-lien notes referred to herein, if at all;

the effectiveness of our derivative contracts in mitigating foreign currency risk;

results of our capital investment program;

expectations regarding the acquisition or divestiture of assets;

the ability to dispose of assets held for sale in a timely manner or for a price at or above net realizable value;

the restructuring of our Atlantic operations, including the expected range of costs and timing of cost recognition;

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.

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

general economic and business conditions and industry trends;

general developments in the industries in which we are involved;

decisions about offshore developments to be made by oil and gas companies;

the highly competitive nature of our industry;

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

changes in project design or schedule;

changes in scope or timing of work to be completed under contracts;

cancellations of contracts, change orders and other modifications and related adjustments to backlog and the resulting impact from using backlog as an indicator of future revenues or earnings;

the collectability of amounts reflected in change orders and claims relating to work previously performed on contracts;

the capital investment required to 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;

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;

natural or man-caused disruptive events that could damage our facilities, equipment or our work-in-progress and cause us to incur losses and/or liabilities;

equipment failure;

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

adverse outcomes from legal and regulatory proceedings;

impact of potential regional, national and/or global requirements to significantly limit or reduce greenhouse gas and other emissions in the future;

changes in, and liabilities relating to, existing or future environmental regulatory matters;

changes in tax laws;

rapid technological changes;

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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 information technology;

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

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

interference from adverse weather or sea conditions;

the possibilities of war, other armed conflicts or terrorist attacks;

the effects of asserted and unasserted claims and the extent of available insurance coverages;

our ability to obtain surety bonds, letters of credit and financing;

our ability to maintain builder's risk, liability, property and other insurance in amounts and on terms we consider adequate and at rates that we consider economical;

the aggregated risks retained in our captive insurance subsidiary; and

the impact of the loss of insurance rights as part of the Chapter 11 Bankruptcy settlement concluded in 2006 involving several of our former subsidiaries.

We believe the items we have outlined above are important factors that could cause estimates in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this prospectus supplement, the documents incorporated herein by reference or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this prospectus supplement, including those mentioned under the caption "Risk Factors" in this prospectus supplement and in our public filings with the SEC that are incorporated by reference in this prospectus supplement. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this prospectus supplement 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 investors 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.

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**SUMMARY**

**The Company**

McDermott 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 companies principally focused on the upstream offshore oil and gas sector. Providing fully integrated EPCI services, we deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning. Operating in approximately 20 countries across the Atlantic, Middle East and Asia Pacific, our integrated resources include approximately 14,000 employees and a diversified fleet of marine vessels, fabrication facilities and engineering offices. We support our activities with comprehensive project management and procurement services, while utilizing our 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 prospectus supplement, unless otherwise stated or the context otherwise indicates, McDermott, we, us and our mean McDermott International, Inc. and its consolidated subsidiaries.

**Operational Update**

Through working capital management, we maintained our previously reported liquidity and leverage position at the end of March 2014 compared to amounts previously reported at the end of February 2014. Specifically, as of March 31, 2014, we had approximately \$320 million of total cash, cash equivalents, restricted cash and investments and \$307 million of total funded debt, including \$250 million of borrowings under our credit facility and \$57 million of separate vessel financing.

We recently achieved significant operational milestones on several key projects, including:

**Malaysia (Siakap) Project** We completed installing pipe and subsea structures. The customer received first oil in February 2014, and our vessel *North Ocean 105* has demobilized from the field. We expect mechanical completion in early April 2014. Although this project resulted in financial losses recorded in 2013, it was a major technical achievement of complex pipe-in-pipe and subsea structure installation in over 5,000 feet of water.

**Brazil (Papa Terra) Project** We completed the installation of the extended tension leg platform in March 2014 and our vessel *DB 50* has demobilized from the field. This facility is a significant operational achievement because it includes the first dry tree in deepwater Brazil.

**Azerbaijan (COP) Project** We progressed the work as expected and continue to expect to complete the limited remaining offshore work by mid-May 2014.

Australia (Ichthys) Project We remain on schedule for fabrication operations in our Batam, Indonesia fabrication yard and anticipate commencing offshore installation operations in the third quarter of 2014. Our work has resulted in the customer recognizing us as a leader among the program contractors, and we expect our work on this project will be a major subsea achievement.

In addition, we continue to make progress with our customers related to commercial matters and, although we can provide no assurance, there remains opportunity to improve the financial outcome from each of the above-mentioned projects.

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We continue to expect the operating profit margins of projects in backlog to be in the low single digits, which does not cover our restructuring costs or a portion of fixed costs for direct operating expenses and general and administrative expenses. We review all our ongoing contracts and unresolved change orders at the end of each quarter to assess performance, progress and likelihood of successful resolution and determine if there is any need for adjustments to our estimates. While this review for the first quarter of 2014 will be conducted over the next few weeks, we are not aware, as a preliminary matter, of any issues that we believe would give rise to additional material losses on contracts, due to write-downs of change orders or otherwise, that, after taking into account offsetting positive developments, would materially and adversely impact our expectations regarding the first quarter of 2014. Our preliminary estimates are based on various assumptions and on our review of preliminary financial results for only two months of the quarter, and the full quarterly results will be based, in substantial part, on estimates and assumptions as of (and, in some cases, particularly with respect to contracts in a loss position, subsequent to) March 31, 2014. Accordingly, it is possible that actual first quarter 2014 results will differ substantially from our current expectation. In addition, our preliminary estimates relating to the first quarter of 2014 and the related assumptions do not give effect to our financial closing procedures. We expect to complete our financial closing procedures for the quarter ended March 31, 2014 in May 2014, and those procedures may also result in actual first quarter 2014 results differing substantially from our current expectations. Accordingly, you should not place undue reliance on our preliminary statements relative to the first quarter of 2014.

We completed the sale of the *DLB KPI* in March 2014 for a gain of over \$5 million.

We booked approximately \$149 million of new orders in the first quarter of 2014, which includes a marine installation charter contract for our vessel *North Ocean 105* for Petrobras in Brazil.

We are implementing our previously announced plan to improve our internal processes and risk management by increasing our operational efficiency through a new organizational design aimed at delivering improved and more predictable performance. The new organizational design orients our management around our offshore and subsea operations, with highly experienced business leaders who have responsibility for strategic direction of the business lines and for aligning our operations with customer needs. These business leaders will also provide oversight and project execution support for our regional operations and will have responsibility for efficiently allocating assets among the regional operations. Many of these leaders have been hired from outside McDermott and bring significant experience in the offshore industry. We have recently hired approximately 150 new people with extensive experience in subsea projects. These new additions to our team bring expertise in determining bid levels for new projects and executing complex subsea work. We expect to continue adding subsea leadership at the executive level and within our global, regional and local operations.

***Atlantic and Corporate Restructuring***

We commenced a restructuring of our Atlantic operations during the quarter ended June 30, 2013, which involves our Morgan City, Louisiana, Houston, Texas, New Orleans, Louisiana and Brazil locations. Our Morgan City, Louisiana location was one of our principal fabrication facilities prior to the restructuring. The restructuring involves, among other things, reductions of management, administrative, fabrication and engineering personnel, and a plan to discontinue utilization of the Morgan City facility (after the completion of existing backlog projects, which are currently forecasted to be completed in the third quarter of 2014). Future fabrication operations in the Atlantic segment are expected to be executed using the Altamira, Mexico facility for the foreseeable future. In addition, we have reached an agreement to exit our joint venture operation in Brazil. Costs associated with our Atlantic segment restructuring activities primarily include severance and other personnel-related costs,

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costs associated with exiting the joint venture in Brazil, asset impairment and relocation costs, environmental reserves and future unutilized lease costs. The total costs are expected to range between \$55 million to \$60 million in the aggregate. Of the total anticipated costs, we incurred approximately \$14.6 million during the quarter ended December 31, 2013 and had incurred an aggregate of \$34.1 million as of December 31, 2013.

In October 2013, we announced certain executive management changes that became effective during the fourth quarter of 2013. We also expect to implement changes to our organizational structure during the first half of 2014. These structure-related changes are expected to orient our company around offshore and subsea business lines supported by four geographic regions. We are also reevaluating and deferring capital expenditures, reducing our fixed-cost structure and seeking to divest certain non-core assets. Costs associated with our corporate reorganization activities will primarily include severance, relocation and other personnel-related costs and costs for advisors. The total of these costs is expected to range between \$35 million to \$40 million and to be incurred during 2014 and early 2015. Of the total anticipated costs, we incurred approximately \$1.6 million during the quarter ended December 31, 2013.

## ***Refinancing Transactions***

We plan to refinance our existing revolving credit facility using the proceeds from new financings, which may include a \$400 million first-lien, first-out letter of credit facility, a \$300 million funded first-lien term loan facility and, as described below under Concurrent Private Placement of Second-Lien Notes, \$500 million of second-lien secured notes.

The offering of the Units is not conditioned upon the successful closing of the other refinancing transactions. Because the offering of the Units is not conditioned upon the successful closing of these other refinancing transactions, the offering of the Units may close even though the other refinancing transactions never close. If the other refinancing transactions do not close, our principal source of debt capital in the near term may be a funded first-lien bridge loan in the aggregate principal amount of \$950 million pursuant to a financing commitment we have obtained from an affiliate of Goldman, Sachs & Co., which bridge facility and financing commitment are subject to customary conditions. See Description of Material Indebtedness for a more detailed description of the bridge facility.

You will face additional risks as a holder of Units if the other refinancing transactions do not close and we must rely on the bridge facility. For example, the bridge facility would not provide us with as much potential liquidity as the other refinancing transactions, may mature prior to one or more of the other refinancing transactions and would bear interest at a cost that is materially higher than both our historical debt servicing cost and the borrowing cost that would be associated with the other refinancing transactions. For a more detailed description of the risks you will face as a holder of Units if the other refinancing transactions do not close and we must rely on the bridge facility, see Risk Factors. Because the offering of the Units is not conditioned upon the successful closing of the other refinancing transactions, the offering of the Units may occur even though the other refinancing transactions never close. If the other refinancing transactions do not close, our principal source of debt capital in the near term may be a funded bridge loan that will not provide us with as much potential liquidity as the other refinancing transactions and would bear interest at a cost that is materially higher than both our historical debt servicing cost and the cost that would be associated with the other refinancing transactions.

We may not be able to complete the other refinancing transactions, and even if we complete the other refinancing transactions, we can provide no assurance as to what the final terms of those transactions will be. In particular, the sizes of the components of the other refinancing transactions may

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change from those described above. The foregoing description and any other information regarding the other refinancing transactions are included in this prospectus supplement solely for informational purposes and are not complete.

***Concurrent Private Placement of Second-Lien Notes***

On March 28, 2014, we announced that we were commencing a private placement of second-lien notes, in an aggregate principal amount currently contemplated to be \$500 million. If we complete that private placement, the proceeds will be used to refinance indebtedness under our existing revolving credit facility and for other general corporate purposes, including the funding of working capital requirements and capital expenditures.

We can provide no assurance that we will complete the second-lien notes private placement, and even if we complete the second-lien notes private placement, we can provide no assurance as to what the final terms will be. In particular, the aggregate principal amount of second-lien notes may change from the \$500 million currently contemplated. Completion of this offering is not contingent on the completion of the second-lien notes private placement, and completion of the second-lien notes private placement is not contingent on the completion of this offering. **The foregoing description and any other information regarding the second-lien notes is included herein solely for informational purposes and is not complete. The concurrent private placement of second-lien notes is being made by a separate offering circular and is not part of the offering to which this prospectus supplement relates. The private placement of the second-lien notes have not been registered under the Securities Act of 1933, as amended (the Securities Act ), and may not be offered or sold absent registration in the United States or an applicable exemption from the registration requirements. The second-lien notes will be offered only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside the United States pursuant to Regulation S under the Securities Act. This prospectus supplement shall not be deemed an offer to sell or a solicitation of an offer to buy any second-lien notes.**

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*The following summary of the offering contains basic information about the offering and the Units and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the Units, please refer to the section of this prospectus entitled "Description of the Units."*

**The Units**

Issuer	McDermott International, Inc.
Number of Units offered	10,000,000 Units
Option to purchase additional Units	Up to 1,500,000 additional Units
Stated amount and initial offering price of each Unit	\$25.00 for each Unit
Components of each Unit	<p>Each Unit is comprised of two parts:</p> <ul style="list-style-type: none"> <li>a prepaid stock purchase contract (a "purchase contract"); and</li> <li>a senior amortizing note issued by us (an "amortizing note").</li> </ul> <p>Unless settled earlier at the holder's option or our election, each purchase contract will automatically settle on April 1, 2017 (the "mandatory settlement date") (subject to postponement in certain limited circumstances), and we will deliver not more than 3.5562 shares and not less than 2.9030 shares of our common stock per purchase contract, each subject to adjustment, based upon the applicable fixed settlement rates, the reference price, the threshold appreciation price and daily VWAP of our common stock, all as described below under "Description of the Purchase Contracts" Delivery of Common Stock.</p>



Each amortizing note will have an initial principal amount of \$4.1266, will bear interest at the rate of 7.75% per annum and will have a final installment payment date of April 1, 2017. On each April 1, July 1, October 1 and January 1, commencing on July 1, 2014, we will pay equal quarterly cash installments of \$0.3906 per amortizing note (except for the July 1, 2014 installment payment, which will be \$0.3646 per amortizing note), which cash payment in the aggregate per year will be equivalent to a 6.25% cash payment per year with respect to each \$25.00 stated amount of Units. Each installment will constitute a payment of interest and a partial

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repayment of principal, allocated as set forth on the amortization schedule set forth under Description of the Amortizing Notes Amortization Schedule.

The return to an investor on a Unit will depend upon the return provided by each component. The overall return will consist of the value of the shares of our common stock delivered upon settlement of the purchase contracts and the cash installments paid on the amortizing notes.

Each Unit may be separated into its components

Each Unit may be separated by a holder into its constituent purchase contract and amortizing note on any business day during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third business day immediately preceding the mandatory settlement date or any early mandatory settlement date, as defined below. Prior to separation, the purchase contracts and amortizing notes may only be purchased and transferred together as Units. See Description of the Units Separating and Recreating Units.

A Unit may be recreated from its components

If you hold a separate purchase contract and a separate amortizing note, you may combine the two components to recreate a Unit on any business day before the third business day immediately preceding the mandatory settlement date or any early mandatory settlement date. See Description of the Units Separating and Recreating Units.

No listing

We do not intend to apply for a listing of the Units, the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system. Prior to this offering, there has been no public market for the Units.

Our common stock is listed on the NYSE under the symbol MDR.

Use of proceeds

We estimate that the net proceeds of this offering will be approximately \$242 million (or approximately \$279

million if the underwriter exercises its option to purchase additional Units in full), after deducting the underwriter's commissions and estimated offering expenses payable by us. We currently intend to use the net proceeds of this offering for general corporate

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purposes, including the funding of working capital requirements and capital expenditures. See Use of Proceeds.

U.S. federal income tax considerations

Although there is no authority directly on point and therefore the issue is not free from doubt, each Unit will be treated as an investment unit composed of two separate instruments for U.S. federal income tax purposes, including amortizing notes which will be treated as indebtedness for U.S. federal income tax purposes. Under this treatment, a holder of Units will be treated as if it held each component of the Units for U.S. federal income tax purposes. By acquiring a Unit, you will agree to treat (1) a Unit as an investment unit composed of two separate instruments in accordance with its form and (2) the amortizing notes component as indebtedness for U.S. federal income tax purposes. If, however, the components of a Unit were treated as a single instrument, the U.S. federal income tax consequences could differ from the consequences described herein.

Prospective investors should consult their tax advisors regarding the tax treatment of an investment in Units, whether a purchase of a Unit is advisable in light of the investor's particular tax situation and the tax treatment described under U.S. Federal Income Tax Considerations.

Dividend policy

We currently intend to retain any future earnings to support our business and do not anticipate paying cash dividends in the foreseeable future. The declaration and payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including without limitation, our financial condition, earnings, capital requirements of our business, the terms of any credit agreements, indentures or other debt agreements to which we may be a party at the time, legal requirements, industry practice and other factors that our board of directors deems relevant. The provisions contained in or to be contained in our existing revolving credit facility, the proposed refinancing transactions, and the bridge facility (if drawn) restrict or would restrict our ability to pay dividends on our common stock.

Risk factors

An investment in the Units involves certain risks. You should carefully consider the risks described under Risk Factors beginning on page S-15 of

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this prospectus supplement, as well as other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements and the notes thereto, before making an investment decision.

**The Purchase Contracts**

**Mandatory settlement**

Unless previously settled early at your or our election, for each purchase contract we will deliver to you on the third business day immediately following the last trading day of the observation period a number of shares of our common stock determined as described herein (a mandatory settlement). The observation period will be the 20 consecutive trading day period beginning on, and including, the 22<sup>nd</sup> scheduled trading day immediately preceding April 1, 2017 (the mandatory settlement date). The number of shares of our common stock issuable upon mandatory settlement of each purchase contract (the settlement amount) will be equal to the sum of the daily settlement amounts (as defined below) for each of the 20 consecutive trading days during the relevant observation period.

**Daily settlement amount**

The daily settlement amount for each purchase contract and for each of the 20 consecutive trading days during the observation period will consist of:

if the daily VWAP is equal to or greater than \$8.61 per share (the threshold appreciation price), subject to adjustment, a number of shares of our common stock equal to (1) 2.9030 shares of common stock, subject to adjustment (the minimum settlement rate) *divided by* (2) 20;

if the daily VWAP is less than \$8.61 per share, subject to adjustment, but greater than \$7.03 per share (the reference price), subject to adjustment, a number of shares of our common stock equal to \$1.25, which is 1/20 of the \$25.00 stated amount of each Unit, *divided by* the daily VWAP; and

if the daily VWAP of our common stock is less than or equal to \$7.03 per share, subject to adjustment, a number of shares of our

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common stock equal to (1) 3.5562 shares of common stock, subject to adjustment (the maximum settlement rate), *divided by* (2) 20.

The minimum settlement rate, maximum settlement rate, reference price and threshold appreciation price are subject to adjustment as described below under Description of the Purchase Contracts Adjustments to the Fixed Settlement Rates.

The initial threshold appreciation price represents an appreciation of approximately 22.5% above the initial reference price of \$7.03 per share.

No fractional shares of our common stock will be issued to holders upon settlement of purchase contracts. In lieu of fractional shares, holders will be entitled to receive a cash payment calculated as described herein. Except in the limited circumstances described herein, the purchase contract holders will not receive any cash distributions under the purchase contracts.

Early settlement at your election

On any business day during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third business day immediately preceding the mandatory settlement date, you may settle any or all of your purchase contracts early, in which case we will deliver a number of shares of our common stock equal to the minimum settlement rate, which is subject to adjustment as described below under Description of the Purchase Contracts Adjustments to the Fixed Settlement Rates. That is, the market value of our common stock on the early settlement date will not affect the early settlement rate.

In addition, if a fundamental change (as defined herein) occurs and you elect to settle your purchase contracts early in connection with such fundamental change, you will receive a number of shares of our common stock based on the fundamental change early settlement rate as described under Description of the Purchase Contracts Early Settlement Upon a Fundamental Change.



Early settlement at our election

We may elect to settle all outstanding purchase contracts early at the early mandatory settlement rate upon a date fixed by us upon not less than 20 business days notice (the early mandatory settlement date ).

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The early mandatory settlement rate will be the maximum settlement rate.

If we elect to settle all the purchase contracts early, you will have the right to require us to repurchase your amortizing notes on the repurchase date and at the repurchase price as described under Description of the Amortizing Notes Repurchase of Amortizing Notes at the Option of the Holder.

Purchase Contract Agent and Trustee  
**The Amortizing Notes**

U.S. Bank National Association

Initial principal amount of each amortizing note

\$4.1266

Installment payments

Each installment payment of \$0.3906 (or, in the case of the installment payment due on July 1, 2014, \$0.3646 ) per amortizing note will be paid in cash and will constitute a partial repayment of principal and a payment of interest, computed at an annual rate of 7.75%. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Payments will be applied first to the interest due and payable and then to the reduction of the unpaid principal amount, allocated as set forth on the amortization schedule set forth under Description of the Amortizing Notes Amortization Schedule.

Installment payment dates

Each April 1, July 1, October 1 and January 1, commencing on July 1, 2014, with a final installment payment date of April 1, 2017.

Ranking of the amortizing notes

The amortizing notes will be our senior unsecured obligations. The indebtedness evidenced by the amortizing notes will:

rank senior in right of payment to any of our future subordinated indebtedness;

rank equally in right of payment with all of our existing and future senior indebtedness that is not subordinated;

be effectively subordinated in right of payment to our existing and future secured indebtedness, including borrowings under our existing revolving credit facility, any other secured indebtedness we may issue or incur under the refinancing transactions and any borrowings under the bridge facility (if drawn) to the extent of the value of the assets securing such indebtedness; and

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be structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

As of December 31, 2013, we had approximately \$89.0 million of total consolidated indebtedness, all of which was secured indebtedness, and all of which would have been effectively senior to the amortizing notes. As of March 31, 2014, after giving effect to this offering, we would have had approximately \$350.5 million of total debt outstanding, including approximately \$41.27 million principal amount of the amortizing notes constituting a component of the Units offered hereby (assuming no exercise of the underwriter's option to purchase additional units) and including approximately \$308 million of secured indebtedness. As of December 31, 2013, our consolidated subsidiaries had approximately \$89 million of total debt, all of which would have been structurally senior to the amortizing notes.

Repurchase of amortizing notes at the option of the holder

If we elect to settle the purchase contracts early (as described under "Description of the Purchase Contracts—Early Settlement at Our Election"), then holders will have the right to require us to repurchase some or all of their amortizing notes on the repurchase date for cash at the repurchase price per note to be repurchased, in accordance with and subject to the conditions described under "Description of the Amortizing Notes—Repurchase of Amortizing Notes at the Option of the Holder."

Additional amounts

All payments made by, or on behalf of, us under or with respect to the amortizing notes will be made without withholding or deduction for, or on account of, any taxes imposed or levied by or on behalf of any Panamanian taxing authority or any political subdivision or any authority or agency therein or thereof having power to tax or any other jurisdiction in which we (including, for the purposes of this sentence, any successor entity) are organized, incorporated, engaged in business or are otherwise resident or treated as resident for tax purposes, or any jurisdiction from or through which payment is made (including, without limitation, the jurisdiction of each paying agent), unless required by law or regulation of any such taxing authority. In the event that any

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such withholding or deduction is so required, we will pay to the holder of each amortizing note such additional amounts as may be necessary to ensure that the net amount received by the holders after such withholding or deduction (and after deducting any taxes on the additional amounts) will equal the amounts that would have been received by such holders had no such withholding or deduction been required, subject to certain exceptions. See Description of the Amortizing Notes Payment of Additional Amounts.

Redemption for changes in tax law

We may redeem the amortizing notes in whole, but not in part, at our option at 100% of principal amount, plus accrued and unpaid interest and additional amounts, if any, if we are required to pay any additional amounts as a result of certain changes in tax laws. See Description of the Amortizing Notes Redemption for Changes in Tax Law.

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**Table of Contents****Summary Historical Consolidated Financial Data**

The summary historical consolidated financial data set forth below as of and for each of the three years ended December 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements. The summary consolidated financial data are qualified in their entirety by and should be read in conjunction with our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference herein. Historical results are not necessarily indicative of results that may be expected for any future period.

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>		
<b>Statements of Income Data:</b>			
Revenues	\$ 2,658,932	\$ 3,641,624	\$ 3,445,110
Total Costs and Expenses (net of gains and disposals)	3,107,606	3,305,578	3,189,402
Equity in Income (Loss) of Unconsolidated Affiliates	(16,116)	(16,719)	(4,985)
Operating Income (Loss)	(464,790)	319,327	250,723
Total Other Income (Expense)	15,886	23,803	568
Income from Continuing Operations before Provision for Income Taxes, Discontinued Operations and Noncontrolling Interest	(448,904)	343,130	251,291
Provision for Income Taxes	49,051	129,204	87,124
Income (Loss) from Continuing Operations Before Discontinued Operations and Noncontrolling Interest	(497,955)	213,926	164,167
Total Income (Loss) from Discontinued Operations, Net of Tax		3,497	(12,812)
Net Income (Loss)	(497,955)	217,423	151,355
Less: Net Income Attributable to Noncontrolling Interest	18,958	10,770	12,625
Net Income (Loss) Attributable to McDermott International, Inc.	\$ (516,913)	\$ 206,653	\$ 138,730
<b>Statements of Cash Flow Data:</b>			
Net Cash Provided by (Used in) Operating Activities - Continuing Operations	\$ (256,611)	\$ 209,784	\$ 97,446
Net Cash Provided by (Used in) Investing Activities - Continuing Operations	\$ (231,155)	\$ (188,923)	\$ 48,765
Net Cash Provided by (Used in) Financing Activities - Continuing Operations	\$ (33,832)	\$ (13,793)	\$ 21,289
<b>Other Data:</b>			
Backlog	\$ 4,802,223	\$ 5,067,161	\$ 3,881,063
EBITDA(1)	\$ (380,701)	\$ 420,542	\$ 345,056
Ratio of Earnings to Fixed Charges		(2) 12.60x	9.98x
<b>Balance Sheet Data (as of period end):</b>			

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Total cash, restricted cash and cash equivalents and investments	\$ 155,865	\$ 704,255	\$ 731,822
Total Assets	\$ 2,807,371	\$ 3,333,627	\$ 2,992,814
Total Debt	\$ 88,562	\$ 102,708	\$ 93,735
Total Equity	\$ 1,440,344	\$ 1,952,105	\$ 1,733,712

- (1) EBITDA is a non-GAAP financial measure. See [Non-GAAP Financial Measure and Reconciliation](#) below for a reconciliation of EBITDA to net income for the periods indicated.
- (2) For the year ended December 31, 2013, earnings were insufficient to cover fixed charges by \$452,042, primarily as a result of operating losses during the year.

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**Table of Contents*****Non-GAAP Financial Measure and Reconciliation***

We define EBITDA as net income before interest expense (net of interest income), income taxes and depreciation and amortization. EBITDA is presented to provide additional information about our operations. This item should be considered in addition to, but not as a substitute for or superior to, operating income, net income, operating cash flow and other measures of financial performance prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). The GAAP measure most directly comparable to EBITDA is net income. Management believes that EBITDA provides investors and analysts with useful information with which to analyze and compare our operational performance and ability to service and incur debt with other companies in our industry. EBITDA may differ in the method of calculation from similarly titled measures used by other companies. EBITDA provides another measure of the operations of our business prior to the impact of interest expense (net of interest income), income taxes and depreciation and amortization. Furthermore, EBITDA is a common method of valuing companies such as ours.

The following table presents a reconciliation of EBITDA to the non-GAAP financial measure of net income for the periods indicated:

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>		
Net Income	\$ (497,955)	\$ 217,423	\$ 151,355
Less:			
Total Income (Loss) from Discontinued Operations, Net of Tax		3,497	(12,812)
Net Income Attributable to Noncontrolling Interest	18,958	10,770	12,625
Plus:			
Provision for Income Taxes	49,051	129,204	87,124
Depreciation and Amortization	84,580	86,440	82,391
Drydock Amortization	18,467	25,545	24,567
Interest Income	(1,357)	(4,656)	(1,848)
Interest Expense	4		529
Other Income (Expense)	(14,533)	(19,147)	751
<b>EBITDA</b>	<b>\$ (380,701)</b>	<b>\$ 420,542</b>	<b>\$ 345,056</b>

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**RISK FACTORS**

*An investment in the Units involves risk. You should carefully consider the following risk factors, as well as the other information contained in and incorporated by reference into this prospectus supplement, before deciding whether to invest in the Units. Any of the following risks could materially adversely affect our business, financial condition, results of operations and cash flows. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations and cash flows.*

**Risk Factors Related to Our Business Operations**

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

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

prevailing oil and gas prices;

expectations about future prices;

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

the sale and expiration dates of available offshore leases;

the discovery rate of new oil and gas reserves, including in offshore areas;

the rate of decline of existing oil and gas reserves;

laws and regulations related to environmental matters, including those addressing alternative energy sources and the risks of global climate change;

the development and exploitation of alternative fuels or energy sources;

domestic and international political, military, regulatory and economic conditions;

technological advances; and

the ability of oil and gas companies to generate funds for capital expenditures.

Prices for oil and gas have historically been 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 additional losses.***

We are engaged in a highly competitive industry, and we have contracted for a substantial number of projects on a fixed-price basis. In many cases, these projects involve complex design and engineering, significant procurement of equipment and supplies and extensive construction

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management and other activities conducted over extended time periods, sometimes in remote locations. Our actual costs related to these projects could exceed our projections. We attempt to cover the increased costs of anticipated changes in labor, material and service costs of long-term contracts, either through estimates of cost increases, which are reflected in the original contract price, or through price escalation clauses. Despite these attempts, however, the cost and gross profit we realize on a fixed-price contract could vary materially from the estimated amounts because of supplier, contractor and subcontractor performance, our own performance, changes in job conditions, unanticipated weather conditions, variations in labor and equipment productivity and increases in the cost of raw materials, particularly steel, over the term of the contract. Several of these factors contributed to the substantial operating losses we incurred in the year ended December 31, 2013. In the future, these factors and other risks generally inherent in the industry in which we operate may result in actual revenues or costs being different from those we originally estimated and may result in reduced profitability or losses on projects. Some of these risks include:

Our engineering, procurement and construction projects may encounter difficulties related to the procurement of materials, or due to schedule disruptions, equipment performance failures or other factors that may result in additional costs to us, reductions in revenue, claims or disputes.

We may not be able to obtain compensation for additional work we perform or expenses we incur as a result of customer change orders or our customers providing deficient design or engineering information or equipment or materials.

We may be required to pay significant amounts of liquidated damages upon our failure to meet schedule or performance requirements of our contracts.

Difficulties in engaging third-party subcontractors, equipment manufacturers or materials suppliers or failures by third-party subcontractors, equipment manufacturers or materials suppliers to perform could result in project delays and cause us to incur additional costs.

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

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

We recognize revenues and profits from our long-term contracts using the percentage-of-completion basis of accounting. Accordingly, we review contract price and cost estimates periodically as the work progresses and reflect adjustments proportionate to the percentage of completion in income in the period when we revise those estimates. To the extent these adjustments result in a reduction or an elimination of previously reported profits with respect to a project, we would recognize a charge against current earnings, which could be material. Our current estimates of our contract costs and the profitability of our long-term projects, although reasonably reliable when made, could change as a result of the uncertainties associated with these types of contracts, and if adjustments to overall contract costs are significant, the reductions or reversals of previously recorded revenues and profits could be material in future periods. In addition, change orders, which are a normal and recurring part of our business, can increase (and sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and

profits that otherwise would be recognized to date. Additionally, to the extent that claims included in backlog, including those which arise from change orders which are under dispute or which have been previously rejected by the customer, are not resolved in our favor, there could be reductions in, or reversals of previously reported amounts of, revenues and profits, and charges against current earnings, which could be material.

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

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

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

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

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

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

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

unexpectedly long delivery times for, or shortages of, key equipment, parts or materials;

shortages of skilled labor and other shipyard personnel necessary to perform the work;

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shipyard delays and performance issues;

failures or delays of third-party equipment vendors or service providers;

unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;

work stoppages and other labor disputes;

unanticipated actual or purported change orders;

disputes with shipyards and suppliers;

design and engineering problems;

latent damages or deterioration to equipment and machinery in excess of engineering estimates and assumptions;

financial or other difficulties at shipyards;

interference from adverse weather conditions;

difficulties in obtaining necessary permits or in meeting permit conditions; and

customer acceptance delays.

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

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

As a result of a reorganization completed in 1982, McDermott International, Inc. is a corporation organized under the laws of the Republic of Panama. Tax legislative proposals intending to eliminate some perceived tax advantages of



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

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

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

accidents resulting in injury or the loss of life or property;

environmental or toxic tort claims, including delayed manifestation claims for personal injury or loss of life;

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pollution or other environmental mishaps;

hurricanes, tropical storms and other adverse weather conditions;

mechanical failures;

collisions;

property losses;

business interruption due to political action in foreign countries or other reasons; and

labor stoppages.

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

We have a captive insurance company subsidiary which provides us with various insurance coverages. Claims could adversely impact the ability of our captive insurance company subsidiary to respond to all claims presented.

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

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

Our projects generally involve complex design and engineering, significant procurement of equipment and supplies and construction management. We may encounter difficulties in design or

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

***We depend on a relatively small number of customers.***

We derive a significant amount of our revenues and profits from a relatively small number of customers in a given year. Our 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, or delays in collecting receivables from these 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.

***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.



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

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

risks of war, terrorism, piracy and civil unrest;

expropriation, confiscation or nationalization of our assets;

renegotiation or nullification of our existing contracts;

changing political conditions and changing laws and policies affecting trade and investment;

overlap of different tax structures;

risk of changes in currency exchange rates; and

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

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

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

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities 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 internal control over financial reporting and various other applicable laws or regulations. The precautions we take to prevent and detect fraud, misconduct or failures to comply with applicable laws and regulations may not be effective. Our 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.

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

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

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

Governmental requirements relating to the protection of the environment, including those requirements relating to solid waste management, air quality, water quality and cleanup of contaminated sites, have had a substantial impact on our operations. These requirements are complex and subject to frequent change as well as new restrictions. For example, because of concerns that carbon dioxide, methane and certain other so-called greenhouse gases in the Earth's atmosphere may produce climate changes that have significant adverse impacts on public health and the environment, various governmental authorities have considered and are continuing to consider the adoption of regulatory strategies and controls designed to reduce the emission of greenhouse gases resulting from regulated activities, which adoption in areas where we conduct business could require us or our customers to incur added costs to comply, may result in delays in pursuit of regulated activities and could adversely affect demand for the oil and natural gas that our customers produce, thereby potentially limiting the demand for our services. Failure to comply with these requirements may result in the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations or the issuance of orders enjoining performance of some or all of our operations. In some cases, they can impose liability for the entire cost of cleanup on any responsible party without regard to negligence or fault and impose liability on us for the conduct of others or conditions others have caused, or for our acts that complied with all applicable requirements when we performed them. Our compliance with amended, new or more stringent requirements, stricter interpretations of existing requirements or the future discovery of contamination may require us to make material expenditures or subject us to liabilities that we currently do not anticipate. Such expenditures and liabilities may adversely affect our business, financial condition, results of operations and cash flows. See Business Governmental Regulations and Environmental Matters Environmental in our Annual Report on Form 10-K incorporated by reference herein 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.

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

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

constructing and equipping of production platforms and other offshore facilities;

marine vessel safety;

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

currency conversions and repatriation;

oil exploration and development;

clean air and other environmental protection legislation;

taxation of foreign earnings and earnings of expatriate personnel;

required use of local employees and suppliers by foreign contractors; and

requirements relating to local ownership.

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

Additionally, certain ancillary activities related to the offshore construction industry, including the transportation of personnel and equipment between U.S. ports and the field of work in U.S. waters,

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

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

### ***Recently adopted regulations related to conflict minerals could adversely impact our business.***

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

In August 2012, pursuant to the Dodd-Frank Act, the SEC adopted new annual disclosure and reporting requirements applicable to any company that files periodic public reports with the SEC, if any conflict minerals are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by that company. These new annual reporting requirements, which require companies to describe reasonable country of origin inquiries, due diligence measures, the results of those activities and related determinations, will become applicable beginning in May 2014.

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

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

Our success depends on the continued active participation of our executive officers and key operating personnel. The unexpected loss of the services of any one of these persons could adversely affect our operations.

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

***Our inability to change our organizational structure could have a significant adverse impact on our business and results of operations in the future.***

We expect to implement changes to our organizational structure during the first half of 2014. These structure-related changes are expected to orient our company around offshore and subsea business lines supported by four geographic regions. If we are unable to implement these changes as expected, it may have a significant adverse impact on our business and results of operations in the future.

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

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

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

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

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

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

Our operations are also subject to the risk of cyber attacks. If our systems for protecting against cybersecurity risks prove not to be sufficient, we could be adversely affected by, among other things, loss or damage of intellectual property, proprietary information, or customer data, having our business operations interrupted, and increased costs to prevent, respond to, or mitigate cybersecurity attacks. These risks could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

***Our business strategy includes acquisitions 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