MCDERMOTT INTERNATIONAL INC
Form 10-K
February 25, 2019

false FY MDR MCDERMOTT INTERNATIONAL INC 0000708819 --12-31 Yes Yes No Large Accelerated Filer false false false Less than 65 percent Between 65 and less than 80 percent At least 80 percent Which is effective through December 31, 2020 P7Y 2022-08-31 P10Y P10Y P10Y P4Y P30Y P20Y P11Y P27Y P12Y P10Y P10Y P1Y P1Y P4Y P2Y P27Y P12Y P10Y P10Y Between 65 and less than 80 percent Implemented NA 0.25 0.25 2019 2030 2019 2021 2037 2038 P1Y8M12D 0000708819 2018-01-01 2018-12-31 xbrli:shares 0000708819 2019-02-21 iso4217:USD 0000708819 2018-06-29 0000708819 2017-01-01 2017-12-31 0000708819 2016-01-01 2016-12-31 iso4217:USD xbrli:shares 0000708819 2018-12-31 0000708819 2017-12-31 0000708819 us-gaap:VariableInterestEntityPrimaryBeneficiaryMember 2018-12-31 0000708819 us-gaap:VariableInterestEntityPrimaryBeneficiaryMember 2017-12-31 0000708819 2016-12-31 0000708819 2015-12-31 0000708819 us-gaap:CommonStockMember 2015-12-31 0000708819 us-gaap:AdditionalPaidInCapitalMember 2015-12-31 0000708819 us-gaap:RetainedEarningsMember 2015-12-31 0000708819 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2015-12-31 0000708819 us-gaap:TreasuryStockMember 2015-12-31 0000708819 us-gaap:ParentMember 2015-12-31 0000708819 us-gaap:NoncontrollingInterestMember 2015-12-31 0000708819 us-gaap:RetainedEarningsMember 2016-01-01 2016-12-31 0000708819 us-gaap:ParentMember 2016-01-01 2016-12-31 0000708819 us-gaap:NoncontrollingInterestMember 2016-01-01 2016-12-31 0000708819 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-01-01 2016-12-31 0000708819 us-gaap:CommonStockMember 2016-01-01 2016-12-31 0000708819 us-gaap:AdditionalPaidInCapitalMember 2016-01-01 2016-12-31 0000708819 us-gaap:TreasuryStockMember 2016-01-01 2016-12-31 0000708819 us-gaap:CommonStockMember 2016-12-31 0000708819 us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0000708819 us-gaap:RetainedEarningsMember 2016-12-31 0000708819 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0000708819 us-gaap:TreasuryStockMember 2016-12-31 0000708819 us-gaap:ParentMember 2016-12-31 0000708819 us-gaap:NoncontrollingInterestMember 2016-12-31 0000708819 us-gaap:RetainedEarningsMember 2017-01-01 2017-12-31 0000708819 us-gaap:ParentMember 2017-01-01 2017-12-31 0000708819 us-gaap:NoncontrollingInterestMember 2017-01-01 2017-12-31 0000708819 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-12-31 0000708819 us-gaap:CommonStockMember 2017-01-01 2017-12-31 0000708819 us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-12-31 0000708819 us-gaap:TreasuryStockMember 2017-01-01 2017-12-31 0000708819 us-gaap:CommonStockMember 2017-12-31 0000708819 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000708819 us-gaap:RetainedEarningsMember 2017-12-31 0000708819 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000708819 us-gaap:TreasuryStockMember 2017-12-31 0000708819 us-gaap:ParentMember 2017-12-31 0000708819 us-gaap:NoncontrollingInterestMember 2017-12-31 0000708819 us-gaap:RetainedEarningsMember 2018-01-01 2018-12-31 0000708819 us-gaap:ParentMember 2018-01-01 2018-12-31 0000708819 us-gaap:NoncontrollingInterestMember 2018-01-01 2018-12-31 0000708819 us-gaap:CommonStockMember 2018-01-01 2018-12-31 0000708819 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-12-31 0000708819 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-12-31 0000708819 us-gaap:TreasuryStockMember 2018-01-01 2018-12-31 0000708819 us-gaap:CommonStockMember 2018-12-31 0000708819 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0000708819 us-gaap:RetainedEarningsMember 2018-12-31 0000708819 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0000708819 us-gaap:TreasuryStockMember 2018-12-31 0000708819 us-gaap:ParentMember 2018-12-31 0000708819 us-gaap:NoncontrollingInterestMember 2018-12-31 0000708819 mdr:ProjectRelatedIntangiblesMember 2018-01-01 2018-12-31 0000708819 us-gaap:OtherIntangibleAssetsMember 2018-01-01 2018-12-31 0000708819 mdr:ReclassificationsMember 2018-01-01 2018-12-31 0000708819 mdr:ChicagoBridgeAndIronCompanyNVMember 2018-05-10 2018-05-10 mdr:Segment 0000708819 mdr:PostCombinationBidAndProposalCostsMember 2018-01-01 2018-12-31 0000708819 mdr:PreCombinationBidAndProposalCostsMember 2018-01-01 2018-03-31 0000708819 mdr:PreCombinationBidAndProposalCostsMember 2017-01-01 2017-12-31 0000708819 mdr:PreCombinationBidAndProposalCostsMember 2016-01-01 2016-12-31 0000708819

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA	72-0593134
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

757 N. Eldridge Parkway

HOUSTON, TEXAS	77079
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of each class	Name of each Exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 29, 2018) was approximately $3.5 billion.

The number of shares of the registrant's common stock outstanding at February 21, 2019 was 180,796,580.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

McDERMOTT INTERNATIONAL, INC.

INDEX—FORM 10-K

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

PART I

Item 1. BUSINESS

General

McDermott International, Inc. ("McDermott"), a corporation incorporated under the laws of the Republic of Panama in 1959, is a fully integrated provider of engineering, procurement, construction and installation ("EPCI") and technology solutions to the energy industry. Our common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol MDR.

On May 10, 2018, we completed our combination with Chicago Bridge & Iron Company N.V. ("CB&I") through a series of transactions (the "Combination") (see below (Business Combination with CB&I) and Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements for further discussion). We design and build end-to-end infrastructure and technology solutions to transport and transform oil and gas into a variety of products. Our proprietary technologies, integrated expertise and comprehensive solutions are utilized for offshore, subsea, power, liquefied natural gas ("LNG") and downstream energy projects around the world. Our customers include national, major integrated and other oil and gas companies as well as producers of petrochemicals and electric power, and we operate in most major energy producing regions throughout the world.

Our business is organized into five operating groups, which represent our reportable segments, consisting of: North, Central and South America ("NCSA"); Europe, Africa, Russia and Caspian ("EARC"); the Middle East and North Africa ("MENA"); Asia Pacific ("APAC"); and Technology. For further discussion, see "Business Segments" below and Note 24, *Segment Reporting*, to the accompanying Consolidated Financial Statements for further discussion.

In this report, unless the context otherwise indicates, "McDermott," "we," "our" or "us" mean McDermott and its consolidated subsidiaries, and references to any of the Notes to the accompanying Consolidated Financial Statements refer to the Notes to the Consolidated Financial Statements included in Item 8 of Part II.

Business Combination with CB&I

On May 10, 2018 (the "Combination Date") we completed the Combination. On the Combination Date, we acquired the equity of certain U.S. and non-U.S. CB&I subsidiaries that owned CB&I's technology business, as well as certain intellectual property rights, for $2.87 billion in cash consideration that was funded using debt financing and existing cash. Also on the Combination Date, CB&I shareholders received 0.82407 shares of McDermott common stock for each share of CB&I common stock tendered in an exchange offer. Each remaining share of CB&I common stock held by CB&I shareholders not acquired by McDermott in the exchange offer was effectively converted into the right to receive the same 0.82407 shares of McDermott common stock that was paid in the exchange offer, together with cash in lieu of any fractional shares of McDermott common stock, less any applicable withholding taxes. Stock-settled equity based awards relating to shares of CB&I's common stock were either canceled and converted into the right to receive cash or were converted into comparable McDermott awards on generally the same terms and conditions as prior to the Combination Date. We issued 84.5 million shares of McDermott common stock to the former CB&I shareholders and converted CB&I stock-settled equity awards into McDermott stock-settled equity-based awards to be settled in approximately 2.2 million shares of McDermott common stock. See Note 3, *Business Combination,* to the accompanying Consolidated Financial Statements for further discussion.

Strategic Review of Business Portfolio

We have performed a strategic review of our business portfolio, which included businesses acquired in the Combination. Our review sought to determine if any portions of our business are non-core for purposes of our vertically integrated offering model. As a result of our review, we identified our storage tank and U.S. pipe fabrication businesses as non-core for purposes of our vertically integrated offering model. As a result and in view of the considerations discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources," we are developing plans to sell each of the two businesses, subject to approval by our Board of Directors. We expect a substantial portion of the proceeds resulting from the sales of these businesses would be utilized to reduce our outstanding debt.

Business Segments

Following completion of the Combination, during the second quarter of 2018, we reorganized our operations into five business segments. This reorganization is intended to better serve our global clients, leverage our workforce, help streamline operations and provide enhanced growth opportunities. Our five business segments, which represent our reportable segments are: NCSA; EARC; MENA; APAC; and Technology. We also report certain corporate and other non-operating activities under the heading of “Corporate and Other,” which primarily reflects costs that are not allocated to our segments. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and Note 24, *Segment Reporting*, to the accompanying Consolidated Financial Statements for further discussion of our business segments.

Through our five business segments, we deliver a broad services offering that addresses four key end markets, as follows:

Offshore and subsea—We offer a comprehensive range of technology and EPCI services for the upstream oil & gas sector, including any combination of front-end design, engineering, procurement, fabrication, construction, installation, hook-up, start-up and commissioning services across all phases of the project life cycle. We have a particular focus on installation of offshore oil & gas production systems, including jackets, topsides and floating production, storage and offloading (FPSO) vessels and pipelines, as well as installation of subsea production systems.

LNG—We offer a full range of technology and engineering, procurement, fabrication and construction services for the LNG industry, with a focus on natural gas liquefaction plants and LNG regasification terminals. We provide a full range of services, including conceptual design, detailed engineering, material procurement, pipe and storage tank fabrication, construction, project management, compliance support, commissioning and startup, and operator training.

Downstream—We design, build, and offer technology licenses and services for state-of-the-art petrochemical and refinery process units and plants. Our comprehensive services include market-leading proprietary technologies, process design, front-end engineering and design, detailed engineering, material procurement, pipe and storage tank fabrication, construction, permitting assistance, operator training, commissioning and startup. We offer solutions for clean fuels production, including low sulfur gasoline and diesel, as well as a wide range of refinery process units and related ancillary facilities.

Power—We design and build new combined-cycle and simple-cycle gas-fired power generation projects and provide related engineering, procurement, construction and commissioning services. Additionally, we are a joint venture partner of NET Power, LLC, a company that is developing a new natural gas power generation technology that produces low-cost electricity while reducing air emissions.

Contracts

Our contracts are awarded on a competitively bid and negotiated basis. 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. Factors that customers may consider include price, facility or equipment availability, technical capabilities of equipment and personnel, efficiency, safety record and reputation.

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

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

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

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

Some of our contracts contain provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under those provisions. Those contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. See Note 23, *Commitments and Contingencies,* to the accompanying Consolidated Financial Statements.

Change orders, which are a normal and recurring part of our business, can increase (sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period when those estimates are revised. Revenue from unapproved change orders is recognized to the extent of amounts management expects to recover or costs incurred. Unapproved change orders that are disputed by the customer are treated as claims.

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

Some of our contracts, regardless of type, may operate under joint venture, consortium or other collaborative arrangements. Typically, we enter into these arrangements with reputable companies with whom we have worked previously. These arrangements are generally made to strengthen our market position or technical skills, or where the size, scale or location of the project warrants the use of such arrangements.

Remaining Performance Obligations (“RPOs”)

RPOs represent the amount of revenues we expect to recognize in the future from our contract commitments on projects. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Outlook—Remaining Performance Obligations” for discussion and quantification of our RPO’s. See also “Risk Factors—Our RPOs are subject to unexpected adjustments and cancellations” in Item 1A.

Competition

We operate in a competitive environment. Technology performance, price, timeliness of completion, quality, safety record, track record and reputation are principal competitive factors within our industry. There are numerous regional, national and global competitors that offer similar services to those offered by each of our operating groups, including Axens SA; Bechtel Group Inc.; China Offshore Oil Engineering Co. Ltd.; Fluor Corporation; Honeywell/UOP; Hyundai Heavy Industrial Co. Ltd.; KBR Inc.; Kiewit Corporation; Larsen and Toubro Ltd.; Lyondell Basell Industries N.V.; Petrofac International Ltd.; Saipem S.P.A.; Samsung Heavy Industries Co., Ltd.; Subsea 7 S.A.; Techidas Reunidas, S.A; TechnipFMC plc; Wood plc; Worley Parson Limited and W.R. Grace & Co.

Significant Customers

See Note 24, *Segment Reporting*, to the accompanying Consolidated Financial Statements for information on customers that accounted for significant percentages of our consolidated revenues.

Raw Materials and Suppliers

The principal raw materials we use are metal plate, structural steel, pipe, fittings, catalysts, proprietary equipment and selected engineered equipment such as pressure vessels, exchangers, pumps, valves, compressors, motors and electrical and instrumentation components. Most of these materials are available from numerous suppliers worldwide, with some furnished under negotiated supply agreements. We anticipate being able to obtain these materials for the foreseeable future; however, the price, availability and scheduled deliveries offered by our suppliers may vary significantly from year to year due to various factors, including supplier consolidations, supplier raw material shortages, costs, surcharges, supplier capacity, customer demand, market conditions and any duties and tariffs imposed on the materials.

We use subcontractors where it assists us in meeting customer requirements with regard to resources, schedule, cost or technical expertise. These subcontractors may range from small local entities to companies with global capabilities, some of which may be utilized on a repetitive or preferred basis.

Employees

At December 31, 2018, we employed approximately 31,900 persons worldwide, comprised of approximately 14,600 salaried employees and approximately 17,300 hourly and craft employees. Our number of employees, particularly hourly and craft, varies in relation to the location, number and size of projects we have in process at any given time. To preserve our project management and technological expertise as core competencies, we continuously recruit and develop qualified personnel, and maintain ongoing training programs for all our key personnel.

The percentage of our employees represented by unions at December 31, 2018 was approximately 5% to 10%. We have agreements, which we customarily renew periodically, with various unions representing groups of employees at project sites and fabrication facilities in the U.S. and Canada and various other countries. We consider our relationships with our employees and the applicable labor unions to be satisfactory.

Patents and Licenses

We have numerous active patents and patent applications throughout the world, the majority of which are associated with technologies licensed by our Technology operating group. We continue to invest in research and development to ensure that our portfolio of patents remains competitive and we also acquire rights to technologies when we consider it advantageous for us to do so. However, no individual patent is so essential that its loss would materially affect our business.

Hazard Risks and Loss Control Systems

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

As loss control measures will not always be successful, we seek to establish various means of funding losses and liability related to incidents or occurrences. We primarily seek to do this through contractual protections, including waivers of consequential damages, indemnities, caps on liability, liquidated damage provisions and access to the insurance of other parties. We also procure insurance for certain potential losses or liabilities, operate our own “captive” insurance company or establish funded or unfunded reserves. In cases where we place insurance, we are subject to the credit worthiness of the relevant insurer(s), the available limits of the coverage, our retention under the relevant policy, exclusions in the policy and gaps in coverage. There can be no assurance that our insurance arrangements will adequately address all risks. See “Item 1A, Risk Factors—Risk Factors Relating to Our Business Operations—Our operations are subject to operating risks and limits on insurance coverage and contractual indemnity protections, which could expose us to potentially significant liabilities and costs.”

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

Governmental Regulations and Environmental Matters

General

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

- constructing and equipping offshore production platforms and various onshore and offshore facilities;
- workplace health and safety, including marine vessel safety;
- the operation of foreign-flagged vessels in the coastal trade;
- the Foreign Corrupt Practices Act and similar anti-corruption laws;
- data privacy;
- currency conversions and repatriation;
- taxation of unremitted earnings and earnings of expatriate personnel; and
- protecting the environment.

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

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

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

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

Environmental

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

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

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

We have been identified as a potentially responsible party at various cleanup sites under the CERCLA. CERCLA and other environmental laws can impose liability for the entire cost of cleanup on any of the potentially responsible parties, regardless of fault or the lawfulness of the original conduct.

In connection with the historical operation of our facilities, including those associated with acquired operations, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties from whom we have purchased or to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. Generally, however, where there are multiple responsible parties, a final allocation of costs is made based on the amount and type of wastes disposed of by each party and the number of financially viable parties, although this may not be the case with respect to any particular site. We have not been determined to be a major contributor of waste to any of these sites. On the basis of our relative contribution of waste to each site, we expect our share of the ultimate liability for the various sites will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows in any given year.

We believe we are in compliance, in all material respects, with applicable environmental laws and regulations and maintain insurance coverage to mitigate our exposure to environmental liabilities. We do not anticipate we will incur material capital expenditures for environmental control facilities or for the investigation or remediation of environmental conditions during 2019 or 2020. As of December 31, 2018, we had no environmental reserve recorded. See Note 23, *Commitments and Contingencies*, to the accompanying Consolidated Financial Statements for additional information.

Cautionary Statement Concerning Forward-Looking Statements

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

From time to time, our management or persons acting on our behalf make "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, to inform existing and potential security holders about our company. These statements may include projections and estimates concerning the scope, execution, timing and success of specific projects and our future remaining performance obligations ("RPOs"), revenues, income and capital spending. Forward-looking statements are generally accompanied by words such as "achieve," "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "might," "plan," "potential," "predic "should," "strategy" or other words that convey the uncertainty of future events or outcomes. Sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

In addition, various statements in this report, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. Those forward-looking statements appear in Item 1, Business, and Item 3, Legal Proceedings, in Part I of this report and in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the Notes to our Consolidated Financial Statements and elsewhere in this report.

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

- expectations regarding our recently completed business combination with CB&I described in Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements, and the anticipated benefits of combining CB&I's business with McDermott's business;
- future levels of revenues, operating margins, operating income, cash flows, net income or earnings per share;
- the 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, and the success of, operational activities on specific projects, and the ability of projects to generate sufficient revenues to cover our fixed costs;
- estimates of revenue over time and contract profits or losses;

- expectations regarding the acquisition or divestiture of assets, including expectations regarding the sales of our storage tanks and U.S. pipe fabrication businesses and the timing of, and use of proceeds from, those transactions;
- 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 offshore development of oil and gas;
- market outlook for the EPCI market;
- expectations regarding cash flows from operating activities;
- expectations regarding RPOs;
- future levels of capital, environmental or maintenance expenditures;
- the success or timing of completion of ongoing or anticipated capital or maintenance projects;
- the adequacy of our sources of liquidity and capital resources;
- interest expense;
- the effectiveness of our derivative contracts in mitigating foreign currency and interest rate risks;
- results of our capital investment program;
- the impact of U.S. and non-U.S. tax law changes;
- the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows; and
- the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation.

These forward-looking statements speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently 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;
- the volatility of oil and gas prices;
- decisions about capital investment to be made by oil and gas companies and other participants in the energy and natural resource industries, demand from which is the largest component of our revenues;
- other factors affecting future levels of demand, including investments across the natural gas value chain, including LNG and petrochemicals, investments in power and petrochemical facilities and investments in various types of facilities that require storage structures and pre-fabricated pipe;
- the highly competitive nature of the businesses in which we are engaged;
- uncertainties as to timing and funding of new contract awards;
- 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;
- cost overruns on fixed-price or similar contracts or failure to receive timely or proper payments on cost-reimbursable contracts, whether as a result of improper estimates, performance, disputes or otherwise;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;

- risks associated with labor productivity;
- cancellations of contracts, change orders and other modifications and related adjustments to RPOs and the resulting impact from using RPOs 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;
- our ability to settle or negotiate unapproved change orders and claims and estimates regarding liquidated damages;
- the capital investment required to construct new-build vessels and maintain and/or upgrade our existing fleet of vessels;
- the ability of our suppliers and subcontractors to deliver raw materials in sufficient quantities and/or perform in a timely manner;
- volatility and uncertainty of the credit markets;
- our ability to comply with covenants in our credit agreements and other debt instruments and the availability, terms and deployment of capital;
- the unfunded liabilities of our pension and other post-retirement plans, which may negatively impact our liquidity and, depending upon future operations, may impact our ability to fund our pension obligations;
- the continued availability of qualified personnel;
- the operating risks normally incident to our lines of business, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors and give rise to contractually imposed 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 U.S. and non-U.S. tax laws or regulations;
- the continued competitiveness and availability of, and continued demand and legal protection for, our intellectual property assets or rights, including the ability of our patents or licensed technologies to perform as expected and to remain competitive, current, in demand, profitable and enforceable;
- our ability to keep pace with rapid technological changes or innovations;
- the risk that we may not be successful in updating and replacing current information technology and the risks associated with information technology systems interruptions and cybersecurity threats;
- the risks associated with failures to protect data privacy in accordance with applicable legal requirements and contractual provisions binding upon us;
- 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 risks associated with forming and operating joint ventures, including exposure to joint and several liability for failures in performance by our co-venturers;
- social, political and economic situations in countries where we do business;
- the risks associated with our international operations, including risks relating to local content or similar requirements;
- foreign currency and interest rate risks and our ability to properly manage or hedge those or similar risks;
- 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 new financing arrangements;
- 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 subsidiaries; 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 report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this report, including those mentioned under the caption "Risk Factors." These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our security holders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

Available Information

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

Item 1A. RISK FACTORS

You should carefully consider each of the following risks and all of the other information contained in this report. If any of these risks develop into actual events, our business, financial condition, results of operations or cash flows could be materially and adversely affected, and, as a result, the trading price of our common stock could decline. Additional risks not presently known to us or that we currently deem immaterial individually or in the aggregate may also materially and adversely affect us.

Risk Factors Relating to Our Business Operations

We derive substantial revenues from companies in various energy-related industries, including the oil and natural gas exploration and development industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and natural gas prices.

The demand for our EPCI services from companies in various energy-related industries, particularly the oil and gas exploration and development industry, has traditionally been cyclical, depending primarily on the capital expenditures of oil and gas exploration and development companies. These capital expenditures are influenced by such factors as:

- prevailing oil and natural gas prices;
- expectations about future prices;
- the cost of exploring for, producing and delivering hydrocarbons;
- the sale and expiration dates of available offshore leases;
- the discovery rate, size and location of new hydrocarbon reserves, including in offshore areas;

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- the rate of decline of existing hydrocarbon 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, including technology related to the exploitation of shale oil; and
- the ability of oil and gas companies to generate funds for capital expenditures.

Prices for oil and natural gas have historically been, and we anticipate they will continue to be, extremely volatile and react to changes in the supply of and demand for oil and natural gas (including changes resulting from the ability of the Organization of Petroleum Exporting Countries to establish and maintain production quotas), domestic and worldwide economic conditions and political instability in oil producing countries. Material declines in oil and natural gas prices have affected, and will likely continue to affect, the demand for and pricing of our EPCI services. In response to currently prevailing industry conditions, many oil and gas exploration and development companies and other energy companies have made significant reductions in their capital expenditure budgets over the past three years. In particular, some of our customers have reduced their spending on exploration, development and production programs, new LNG import and export facilities and power plant projects. Although oil prices have increased, on a relative basis in the recent short term, sustained lower relative prices have adversely affected demand for our services and lower relative prices compared to recent pricing levels could, over a sustained period of time, have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our results of operations and operating cash flows depend on us obtaining significant EPCI contracts, primarily from companies in the oil and gas exploration and development, petrochemical, natural resources and power industries. The timing of or failure to obtain contracts, delays in awards of contracts, cancellations of contracts, delays in completion of contracts, or failure to obtain timely payments from our customers, could result in significant periodic fluctuations in our results of operations and operating cash flows. In addition, many of our contracts require us to satisfy specific progress or performance milestones in order to receive payment from the customer. As a result, we may incur significant costs for engineering, materials, components, equipment, labor or subcontractors prior to receipt of payment from a customer. Such expenditures could reduce our cash flows and necessitate borrowings under our credit agreements. If customers do not proceed with the completion of significant projects or if significant defaults on customer payment obligations to us arise, or if we encounter disputes with customers involving such payment obligations, we may face difficulties in collecting payment of amounts due to us, including for costs we previously incurred. In addition, some of our customers for large EPCI projects are project-specific entities that do not have significant assets other than their interests in the EPCI project, and it may be even more difficult to collect amounts owed to us by those customers if any of the problems or issues referred to above arise. Our failure to collect amounts owed to us could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are subject to risks associated with contractual pricing in our industry, including the risk that, if our actual costs exceed the costs we estimate on our fixed-price contracts, our profitability will decline, and we may suffer losses.

We offer our customers a range of commercial options for our contracts, including fixed-price, cost-reimbursable and hybrid, which has both fixed-price and cost-reimbursable components. Under fixed-price contracts, we perform our services and execute our projects at an established price. Under cost-reimbursable contracts, we generally perform our services in exchange for a price that consists of reimbursement of all customer-approved costs and a profit component, which is typically a fixed rate per hour, an overall fixed fee, or a percentage of total reimbursable costs. Under cost-reimbursable contracts, if we are unable to obtain proper reimbursement for all costs incurred due to improper estimates, performance issues, customer disputes, or any of the other factors noted below for fixed-price contracts, the project may be less profitable than we expect.

We are engaged in a highly competitive industry, and we have contracted for a substantial number of projects on a fixed-price basis. In many cases, these projects involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management and other activities conducted over extended time periods, sometimes in remote locations. Our actual costs related to these projects could exceed our projections. We attempt to cover the increased costs of anticipated changes in labor, material and service costs of long-term contracts, either through estimates of cost increases, which are reflected in the original contract price, or through price escalation clauses. Despite these attempts, however, the cost and gross profit we realize on a fixed-price contract could vary materially from the estimated amounts because of supplier, contractor and subcontractor performance, our own performance, including the quality and timeliness of work performed, failure to properly estimate costs of engineering, materials, components, equipment, labor or subcontractors, changes in job conditions, unanticipated weather conditions, variations in labor and equipment productivity and associated costs, increases in the cost of raw materials, particularly steel, over the term of the contract, difficulties in obtaining required governmental permits or approvals, changes in laws and regulations and changes in general economic conditions.

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 revenues, 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; and
- 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. Additionally, we may be at a greater risk of reduced profitability or losses with respect to our contracts with companies in the oil and gas exploration and development industry in the current low-oil-price environment due to pricing pressures, potential difficulties in obtaining customer approvals of change orders or claims, deterioration in contract terms and conditions, including customer-required extended-payment terms, unexpected project delays, suspensions and cancellations or changes or reductions in project scope or schedule and other factors.

Our use of “over time” revenue recognition could result in volatility in our results of operations.

We recognize revenues and profits from our long-term contracts over time as work progresses for contracts that satisfy the criteria for “over time” recognition. 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 our RPOs, 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, all of which could be material.

Our RPOs are subject to unexpected adjustments and cancellations.

The revenues projected in our RPOs 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 projects reflected in our RPOs 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 reflected in our RPOs.

Reductions in our RPOs 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 RPOs. Many of the contracts included in our RPOs 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 RPOs. Projects may remain in our RPOs for extended periods of time. If we experience significant project suspensions, cancellations or scope adjustments to contracts reflected in our RPOs, our business, financial condition, results of operations and cash flows may be materially and adversely impacted.

We may be exposed to additional risks as we obtain significant new awards and execute our RPOs, including greater RPOs concentration in fewer projects, potential cost overruns and increasing requirements for letters of credit, each of which could have a material adverse effect on our financial condition, results of operations and cash flows.

As we obtain significant new project awards and convert the RPOs into revenues, these projects may use larger sums of working capital than other projects and may be concentrated among a smaller number of customers. If any significant projects currently included in our RPOs or awarded in the future were to have material cost overruns, or are significantly delayed, modified or canceled, and we are unable to replace the projects in RPOs, our business, financial condition, results of operations and cash flows could be materially and adversely impacted.

Additionally, as we convert our significant projects from RPOs into active operational phases, we may face significantly greater requirements for the provision of working capital, letters of credit or other forms of credit enhancement. We can provide no assurance that we will be able to access such capital and credit as may be needed or that we would be able to do so on terms we believe to be economically attractive.

We may have difficulties integrating CB&I's business with McDermott's businesses, and we may not realize all the anticipated benefits of the Combination.

The ultimate success of the Combination will depend in large part on the success of our management in integrating CB&I's operations, strategies, policies procedures, technologies, systems and personnel with McDermott's. We may fail to realize some or all of the anticipated benefits of the Combination if the integration process takes longer than expected or is more costly than expected. Our failure to meet the challenges involved in the integration or to otherwise realize any of the anticipated benefits of the Combination, including cost savings and synergies, could impair our operations. We have been devoting significant management attention and resources to the integration efforts.

Potential issues and difficulties we may encounter as we continue the integration process include the following:

- the inability to integrate the respective businesses of CB&I and McDermott in a manner that permits us to achieve the cost savings, operating synergies and follow-on opportunities expected to result from the Combination, which could result in the anticipated benefits of the Combination not being realized partly or wholly in the time frame currently anticipated or at all;
- lost sales and customers as a result of any historical customers of either or both of the two companies deciding not to do business with us, or deciding to decrease their amount of business in order to reduce their reliance on a single company;
- integrating personnel from the two companies while maintaining focus on safety and providing consistent, high quality products and customer service;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the Combination; and
- performance shortfalls as a result of the diversion of management's attention to the integration process.

Business issues historically faced by either McDermott or CB&I may be imputed to the entire operations of the combined enterprise.

To the extent that either McDermott or CB&I has or is perceived by customers to have operational challenges, such as performance, quality, safety issues or workforce issues, those challenges may raise concerns by historical customers of the other company, which may limit or impede our future ability to obtain additional work from those customers.

We could incur substantial expenses related to the integration of CB&I with McDermott.

We expect to incur substantial expenses in connection with the integration of the respective operations, strategies, policies, procedures, technologies, systems and personnel of McDermott and CB&I. There are a large number of systems that must be integrated, including information management, purchasing, accounting and finance, sales, billing, payroll and benefits, fixed asset and lease administration systems and regulatory compliance. There are a number of factors beyond our control that could affect the total amount or the timing of all of the expected integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately at the present time. These expenses could, particularly in the near term, reduce the savings that McDermott expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings and revenue enhancements related to the integration of the businesses, and accordingly, any anticipated net benefits may not be achieved in the near term or at all. These integration expenses may result in us taking significant charges against earnings.

The agreements that govern our indebtedness contain various covenants that impose restrictions on us and certain of our subsidiaries that may affect our ability to operate our business.

The agreements that govern our indebtedness contain various affirmative and negative covenants that, subject to various exceptions, restrict our ability and the ability of certain of our subsidiaries to, among other things, incur indebtedness, allow our property to be subject to liens, make investments and acquisitions, make dividends and other distributions, change the nature of our business, transact business with affiliates, merge or consolidate and sell or convey our assets. In addition, some of the agreements that govern the indebtedness contain covenants that require the maintenance of specified financial ratios. The terms of our 12% Redeemable Preferred Stock may also have similar effects as those terms of our debt agreements. Our ability and our subsidiaries ability to comply with those provisions may be affected by events beyond our control. Failure to comply with our debt covenants could result in an event of default, which, if not cured or waived, could accelerate the applicable repayment obligations.

Holders of our outstanding shares of 12% Redeemable Preferred Stock have rights that may restrict our ability to operate our business or be adverse to holders of our common stock.

The Certificate of Designation establishing our 12% Redeemable Preferred Stock (the “Certificate of Designation”) contains covenants that, among other things, limit our ability to, without the written consent of the holders of a majority of the 12% Redeemable Preferred Stock, but subject to certain exceptions, (1) amend, modify, alter or supplement our amended and restated articles of incorporation or the Certificate of Designation in a manner that would adversely affect the rights, preferences, privileges or power of the 12% Redeemable Preferred Stock, (2) issue stock senior to or on parity with the 12% Redeemable Preferred Stock, (3) make certain distributions on or repurchases of our common stock or junior stock, (4) incur indebtedness that would cause us to exceed a specified leverage ratio, (5) enter into or amend certain debt agreements that would expressly prohibit or be more restrictive on dividends or redemption payments on the 12% Redeemable Preferred Stock than those existing on the date of the initial issuance of the shares of 12% Redeemable Preferred Stock were initially issued, (6) enter into a change of control transaction if our debt agreements would prohibit or otherwise prevent the redemption of the 12% Redeemable Preferred Stock, unless we redeem or otherwise satisfy the 12% Redeemable Preferred Stock in cash at the Minimum Return (as defined in the Certificate of Designation) plus accrued and unpaid dividends, (7) make certain restricted payments and payments on junior priority indebtedness, (8) make certain issuances of equity of subsidiaries or, if prohibited under our debt agreements, the formation of certain subsidiaries or the making of certain investments or (9) certain transactions with affiliates. We may be required to redeem the 12% Redeemable Preferred Stock after the seventh anniversary of its initial issuance.

Holders of the 12% Redeemable Preferred Stock will have the right, voting separately as a class, to appoint and elect one director to our board of directors in the event we fail to timely pay dividends, fail to redeem the 12% Redeemable Preferred Stock upon a change of control if required or fail to redeem the 12% Redeemable Preferred Stock upon request of the holders of the 12% Redeemable Preferred Stock following the seventh anniversary of the date of issuing the 12% Redeemable Preferred Stock.

Holders of the 12% Redeemable Preferred Stock also have limited voting rights, including those with respect to potential amendments to our amended and restated articles of incorporation or the Certificate of Designation that have an adverse effect on the existing terms of the 12% Redeemable Preferred Stock and in certain other limited circumstances or as required by law.

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

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

Significant cost overruns or delays could materially affect our financial condition and results of operations. Additionally, capital expenditures for vessel construction, 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 revenues 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. Subsequent to the completion of the Combination, we established our tax residency in the United Kingdom. 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 the past. Examples include, but are not limited to, legislative proposals that would broaden the circumstances in which a non-U.S. company would be considered a U.S. resident for U.S. tax purposes. It is possible that, if legislation were to be enacted in 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. For a discussion of the impact of the new U.S. tax legislation on our financial results, see Note 18, *Income Taxes*, to the accompanying Consolidated Financial Statements.

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

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

- accidents resulting in injury or the loss of life or property;
- environmental or toxic tort claims, including delayed manifestation claims for personal injury or loss of life;

- pollution or other environmental mishaps;
- hurricanes, tropical storms and other adverse weather conditions;
- mechanical or equipment failures, including with respect to newer technologies;
- collisions;
- property losses;
- business interruption due to political action or terrorism (including 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. In addition, we design, engineer, procure, construct, install and provide services (including fabrication of pipe, tanks, platforms and other large, complex structures) for large industrial facilities in which system failure can be disastrous. We may be subject to claims resulting from the subsequent operations of facilities we have designed, engineered, constructed or installed or for which we have provided other services. Under some of our contracts, we must use customer-specified metals or processes for producing or fabricating items for our customers. The failure of any of these metals or processes (whether or not customer-specified) could result in warranty claims against us for significant replacement or rework costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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), acts of terrorism, strikes, riots, civil unrest and malicious damage, pollution liability, liabilities related to occupational health exposures (including asbestos), professional liability, such as 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. In addition, we may have difficulty enforcing our contractual rights with others following a material loss. 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 captive insurance company subsidiaries which provide us with various insurance coverages. Claims could adversely impact the ability of our captive insurance company subsidiaries to respond to all claims presented.

Additionally, upon the February 2006 consummation of the Chapter 11 proceedings involving several subsidiaries of our former subsidiary, the Babcock & Wilcox Company, most of our then-existing 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 have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

In addition, we are from time to time involved in various litigation and other matters related to hazardous substances encountered in our business. In particular, the numerous operating hazards inherent in our business increase the risk of toxic tort litigation relating to any and all consequences arising out of human exposure to hazardous substances, including, without limitation, current or past claims involving asbestos-related materials, formaldehyde, Cesium 137 (radiation), mercury and other hazardous substances, or related environmental damage. As a result, we are subject to potentially material liabilities related to personal injuries or property damages that may be caused by hazardous substance releases and exposures. The outcome of such litigation is inherently uncertain and adverse developments or outcomes can result in significant monetary damages, penalties, other sanctions or injunctive relief against us, limitations on our property rights, or regulatory interpretations that increase our operating costs. If any of these disputes result in a substantial monetary judgment against us or an adverse legal interpretation is settled on unfavorable terms, or otherwise affects our operations, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We depend on a relatively small number of customers.

We derive a significant amount of our revenues and profits from a relatively small number of customers in a given year. Our significant customers include major integrated and national oil and gas exploration and development companies. Revenues from Saudi Aramco represented 19% of our total consolidated revenues for the year ended December 31, 2018. As of December 31, 2018, approximately 8% of our contractual RPOs were attributable to Saudi Aramco. Our inability to continue to perform substantial services for our large existing customers (whether due to our failure to satisfy their bid tender requirements, disappointing project performance, changing political conditions and changing laws and policies affecting trade and investment, disagreements with respect to new (or potentially new) ventures or other business opportunities), or delays in collecting receivables from these customers, could have a material adverse effect on our business and operations.

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

The industry in which we operate is highly competitive and requires substantial resources and capital investment in equipment, technology and skilled personnel. Several of our competitors have greater financial or other resources than we have. Competition also places downward pressure on our contract prices and margins. Intense competition is expected to continue in our markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable margins. In particular, some of our competitors or potential competitors serving the offshore oil and gas exploration and development industry offer a broader range of SPS and SURF services than we provide and have been gaining success in marketing those services on an integrated or “packaged” basis to customers around the world. Our operations may be adversely affected if our current competitors or new market entrants successfully offer SPS and SURF services on an integrated basis in a manner that we may be unable to match, even with our alliance and joint venture arrangements, or introduce new facility designs or improvements to engineering, procurement, construction or installation services. If we are unable to meet these and other competitive challenges, we could lose market share to our competitors and experience reductions in our results of operations and cash flows.

Our employees work on projects that are inherently dangerous. If we fail to maintain safe work sites, we can be exposed to significant financial losses and reputational harm.

Safety is a leading focus of our business, and our safety record is critical to our reputation and is of paramount importance to our employees, customers and stockholders. However, we often work on large-scale and complex projects which can place our employees and others near large mechanized equipment, moving vehicles, dangerous processes or highly regulated materials and in challenging environments. Although we have a functional group whose primary purpose is to implement effective quality, health, safety, environmental and security procedures throughout our company, if we fail to implement effective safety procedures, our employees and others may become injured, disabled or lose their lives, our projects may be delayed and we may be exposed to litigation or investigations.

Unsafe conditions at project work sites also have the potential to increase employee turnover, increase project costs and raise our operating costs. Additionally, many of our customers require that we meet certain safety criteria to be eligible to bid for contracts, and our failure to maintain adequate safety standards could result in reduced profitability or lost project awards or customers. Any of the foregoing could result in financial losses or reputational harm, which could have a material adverse impact on our business, financial condition, and results of operations.

We are exposed to potential risks and uncertainties associated with our use of joint venture arrangements and our subcontracting and vendor arrangements to execute certain projects.

In the ordinary course of business, we execute specific projects and conduct certain operations through joint venture, consortium and other collaborative arrangements (collectively referred to as “joint ventures”). We have various ownership interests in these joint ventures, with such ownership typically proportionate to our decision-making and distribution rights. Services may be performed directly by the joint ventures or in combination with us or our co-venturers.

The use of these joint ventures exposes us to a number of risks, including the risk that our co-venturers may be unable or unwilling to provide their share of capital investment to fund the operations of the joint ventures or complete their obligations to us, the joint ventures or, ultimately, the customers. Differences in opinions or views among co-venturers could also result in delayed decision-making or failure to agree on material issues, which could adversely affect the business and operations of the applicable joint venture. In addition, agreement terms may subject us to joint and several liability for our co-venturers, and the failure of our co-venturers to perform their obligations could impose additional performance and financial obligations on us. For example, the contractual arrangements with our customers for the Cameron, Louisiana and Freeport, Texas LNG projects provide for joint and several liability of the co-venturers for contractual liabilities to the applicable customers. These factors could result in unanticipated costs to complete projects, liquidated damages or contract disputes, including claims against our co-venturers, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Additionally, we rely on third parties, including equipment manufacturers and subcontractors, to assist in the completion of our projects. To the extent these parties cannot execute their portion of the work and are unable to deliver their services, equipment or materials according to the contractual terms, or to the extent we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely manner may be impacted. If the amount we are required to pay for these goods and services exceeds the amount we have included in the estimates for our work, we could experience project losses or a reduction in estimated profitability.

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

We conduct substantial operations through foreign subsidiaries and joint ventures. We do not fully control all of our joint ventures. Even in those joint ventures that we fully control, 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 also be affected by the known or unknown actions or omissions of the joint venture and the other joint venture participants, to the extent that they affect the operations of the applicable joint venture. We may experience difficulties relating to the assimilation of personnel, services and systems in the joint venture’s operations or the appropriate transfer of communications and data between us and the joint venture. Any failure to efficiently and effectively operate a joint venture with the other joint venture participants 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. Also, 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. Additionally, complexities may arise from the termination of our ownership interests in foreign subsidiaries and joint ventures (whether through a sale of equity interests, dissolution, winding-up or otherwise). Those complexities may include issues such as proper valuations of assets, provisions for resolution of trailing liabilities and other issues as to which we may not be aligned with other owners, participants, creditors, customers, governmental entities or other persons or entities that have relationships with such foreign subsidiaries and joint ventures. Resolution of any such issues could give rise to unanticipated expenses or other cash outflows, the loss of potential new contracts or other adverse impacts on our business, any of which could have a material adverse effect on us.

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

We derive substantial 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;

- increased costs, lower revenues and RPOs and decreased liquidity resulting from a full or partial break-up of the EU or its currency, the Euro;
- the lack of well-developed legal systems in some countries in which we make capital investments, operate or provide services, which could make it difficult for us to enforce our rights;
- overlap of multiple tax regimes;
- risk of changes in currency exchange rates and currency exchange restrictions that limit our ability to convert local currencies into U.S. dollars; 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. 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 easily 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 and loss of future business opportunities, which could have a material adverse effect on our business, 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, representative or co-venturer misconduct or our overall failure to comply with laws or regulations could weaken our ability to win contracts, lead to the suspension of our operations and result in reduced revenues and profits.

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

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 and several of our joint ventures operate in some countries that international corruption monitoring groups have identified as having high levels of corruption. Those activities create the risk of unauthorized payments or offers of payments by one of our employees, agents or representatives (or those of our joint ventures) 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. Additionally, our global operations include the import and export of goods and technologies across international borders, which requires a robust compliance program. 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, agents or representatives (or those of our joint ventures). If we or any of our joint ventures are found to be liable for violations of the FCPA, other applicable anti-corruption laws, other applicable laws and regulations or the 1976 Consent Decree (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others), civil and criminal penalties or other sanctions could be imposed, and negative or derivative consequences could materialize, all of 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 flows.

Governmental requirements relating to the protection of the environment, including those requirements relating to solid waste management, air quality, water quality, generation, storage, handling, treatment and disposal of waste materials and cleanup of contaminated sites, as well as laws and regulations relating to human health and safety, 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 some of 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 could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, our businesses often involve working around and with volatile, toxic and hazardous substances and other highly regulated pollutants, substances or wastes, for which the improper characterization, handling or disposal could constitute violations of U.S. federal, state or local laws and regulations and laws of other countries and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require us to obtain permits and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on us, or revoke or deny issuance or renewal of operating permits for failure to comply with applicable laws and regulations. We are also exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes.

We may incur liabilities that may not be covered by insurance policies, or, if covered, the financial amount of such liabilities may exceed our policy limits or fall within applicable deductible or retention limits. A partially or completely uninsured claim, if successful and of significant magnitude, could cause us to suffer a significant loss and reduce cash available for our operations.

In connection with the historical operation of our facilities, including those associated with acquired operations, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties from whom we have purchased or to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred.

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

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

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

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

Our customers' and our co-venturers' abilities to receive applicable regulatory and environmental approvals for our projects and the timeliness of those approvals could adversely affect us.

The regulatory permitting process for various of our projects, particularly power projects, requires significant investments of time and money by our customers and sometimes by us and our co-venturers. There are no assurances that we or our customers will obtain the necessary permits for these projects. Applications for permits to operate newly constructed facilities, including air emissions permits, may be opposed by government entities, individuals or environmental groups, resulting in delays and possible non-issuance of the permits.

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 coastwise 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 to a large extent on the demand for certain of our services from the oil and gas exploration and development 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 exploration and development 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 could adversely affect our operations by limiting the demand for our services. In the U.S. Gulf of Mexico, regulatory initiatives developed and implemented at the federal level have imposed stringent safety, permitting and certification requirements on oil and gas companies pursuing exploration, development and production activities, which, at times, 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 business, including the transportation of personnel and equipment between ports and the fields of work in the same country's waters, may constitute "coastwise trade" within the meaning of laws and regulations of the U.S. and other countries. Under these laws and regulations, often referred to as cabotage laws, including the Merchant Marine Act of 1920, as amended (the "Jones Act"), in the U.S., only vessels meeting specific national ownership and registration requirements or which are subject to an exception or exemption, may engage in such "coastwise trade." When we operate our foreign-flagged vessels, we operate within the current interpretation of such cabotage laws with respect to permitted activities for foreign-flagged vessels. Significant changes in cabotage laws or to the interpretation of such laws in the places where we perform offshore activities could affect our ability to operate, or competitively operate, our foreign-flagged vessels in those 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.

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 have a material adverse effect on our business, financial condition, results of operations and cash flows.

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 and future operating results. In addition, current and prospective employees may experience uncertainty about their future roles until after the integration of the CB&I business with the McDermott business is complete. This may adversely affect our ability to attract and retain key personnel, which could adversely affect our performance during the integration period.

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 or other compensation paid by other employers could result in a reduction in our workforce, increases in wage rates, or both. Our industry has historically experienced high demand for the services of employees and escalating wage rates. If any of these events occurred for a significant period of time, they could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Work stoppages, union negotiations and other labor problems could adversely affect us.

A portion of our employees are represented by labor unions. A lengthy strike or other work stoppage at any of our facilities or involving any of our significant projects could have an adverse effect on us. There is inherent risk that ongoing or future negotiations relating to collective bargaining agreements or union representation may not be favorable to us. From time to time, we also have experienced attempts to unionize some of our nonunion operations. Such efforts can often disrupt or delay work and present risk of labor unrest.

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, our inability to obtain or renew licenses to use intellectual property of third parties, or the obsolescence of our technology, could adversely affect our business.

We believe that we are an industry leader by owning or having access to our technologies. We protect our technology positions through patent registrations, license restrictions and our research and development program. However, 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. Further, our competitors may independently develop or obtain access to technologies that are similar or superior to our technologies.

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 or confidential information, we may not have adequate legal remedies to protect our intellectual property or other proprietary and confidential information. Litigation to determine the scope of our legal rights, even if ultimately successful, could be costly and could divert management's attention away from other aspects of our business.

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, which could adversely affect our business.

We rely on information technology systems and other information technologies to conduct our business, and any failure, interruption or security breach of these systems or technologies could adversely impact us.

In order to achieve our business objectives, we rely heavily on information technology systems and other information technologies, many of which require regular upgrades or improvements and some of which are approaching the point at which they will need to be replaced in the near future. The failure or interruption of these systems or technologies, or the potential implementation of replacements, particularly with respect to our existing key financial and human resources legacy systems, could have a material adverse effect on us. Also, our implementation of new information technology systems or upgrades to existing systems may not result in improvements at the levels anticipated, or at all. In addition, the implementation of new information technology systems or upgrades to existing systems subjects us to inherent costs and risks, including potential disruptions in our business or in our internal control structure, substantial capital expenditures, the alteration, loss or corruption of data, demands on management time and other risks. Any such disruptions or other effects, if not anticipated and appropriately mitigated, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operations are also subject to the risk of cyberattacks and security breaches. Threats to our information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. In addition, a cyberattack or security breach of some of our systems could go undetected for extended periods of time. As a result of a breach or failure of our computer systems or networks, or those of our customers, vendors or others with whom we do business, or a failure of any of those systems to protect against cybersecurity risks, our business operations could be materially interrupted. In addition, any such breach or failure could result in the alteration, loss, theft or corruption of data or unauthorized release of confidential, proprietary or sensitive data concerning our company, business activities, employees, customers or vendors, as well as increased costs to prevent, respond to, or mitigate cybersecurity attacks. These risks could have a material adverse effect on our business, reputation, financial condition, results of operations and cash flows.

Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding data privacy and protection.

The regulatory environment surrounding data privacy and protection is evolving and can be subject to significant change. In addition, new laws and regulations relating to data privacy and the unauthorized disclosure of confidential information, including the European Union General Data Protection Regulation and recent legislation and regulations adopted in the various U.S. jurisdictions, pose complex compliance challenges and may result in increased costs, and any failure to comply with these laws and regulations (or contractual provisions requiring similar compliance) could result in negative publicity and significant penalties or other liabilities. As noted above, we are also subject to the possibility of security and privacy breaches, some of which may result in a violation of these laws or regulations. Additionally, if we acquire a company that has violated or is not in compliance with applicable data privacy and protection laws or regulations (or contractual provisions), we may experience similar adverse consequences.

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

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

- difficulties relating to the assimilation of personnel, services and systems of an acquired business and the assimilation of marketing and other operational capabilities;
- challenges resulting from unanticipated changes in customer, supplier or subcontractor relationships subsequent to an acquisition or joint venture, alliance or consortium formation;
- 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 or a co-venturer, including liabilities that were unknown at the time the acquisition transaction was negotiated and joint and several liability for failures in performance by our co-venturers;
- diversion of management's attention from day-to-day operations;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements;
- potentially substantial transaction costs associated with business combinations; and
- potential impairment of goodwill or other intangible assets resulting from the overpayment for an acquisition.

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

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

We recorded a significant amount of goodwill as a result of the Combination. Subsequent to the Combination Date, we recorded a material charge resulting from the impairment of the acquired goodwill. We could record additional material charges if all or a portion of the remaining goodwill became impaired in the future.

In accordance with Accounting Standards Codification Topic ASC 805, Business Combinations, we are accounting for the Combination in accordance with the acquisition method of accounting for business combinations. We recorded net tangible and identifiable intangible assets acquired and liabilities assumed from CB&I at their respective fair values as of the date of the closing of the Combination. The excess of the purchase price over the fair value of the identifiable assets of CB&I was recorded as goodwill.

We are required to assess goodwill for impairment at least annually. In conjunction with our 2018 impairment assessment, we recorded a charge of approximately $2.2 billion. If our remaining goodwill were to become impaired in the future, we may be required to incur additional material charges relating to such impairment. Such a potential impairment charge could have a material adverse effect on our business, financial condition and results of operations. See Note 9, *Goodwill and Other Intangible Assets*, to the accompanying Consolidated Financial Statements for further discussion.

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

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

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

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

Risk Factors Relating to Our Financial Condition and Markets

We are vulnerable to significant fluctuations in our liquidity that may vary substantially over time.

Our operations could require us to utilize large sums of working capital, sometimes on short notice and sometimes without assurance of recovery of the expenditures. Circumstances or events that could create large cash outflows include increased costs or losses resulting from fixed-price or hybrid contracts, inability to achieve contractual billing or payment milestones, inability to recover unapproved change orders or claims, environmental liabilities, litigation risks, unexpected costs or losses resulting from previous acquisitions, contract initiation or completion delays, political conditions, customer payment problems, foreign exchange risks and professional and product liability claims.

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

We intend to finance our existing operations and initiatives, primarily with cash and cash equivalents, investments, cash flows from operations and borrowings from our lenders. We also enter into various financial derivative contracts, including foreign currency forward contracts and interest rate swaps with banks and other financial institutions, to manage our foreign exchange rate risk and interest rate risk. In addition, we maintain our cash balances and short-term investments in accounts held by major banks and financial institutions located globally, and some of those accounts hold deposits that exceed available insurance. If national and international economic conditions deteriorate, it is possible that we may not be able to refinance our outstanding indebtedness when it becomes due, and we may not be able to obtain alternative financing on favorable terms. It is possible that one or more of the financial institutions in which we hold our cash and investments could become subject to bankruptcy, receivership or similar proceedings. As a result, we could be at risk of not being able to access material amounts of our cash, which could result in a temporary liquidity crisis that could impede our ability to fund operations. Some of our customers, suppliers and subcontractors have traditionally accessed commercial financing and capital markets, as well as government backed export credit agency support to fund their operations or projects, and the availability of funding from those sources could be adversely impacted by a volatile credit markets. A deterioration in the credit markets could adversely affect the ability of many of our customers to pursue new projects requiring our services or to pay us on time, and the ability of many of our suppliers and subcontractors to meet our needs on a competitive basis. Our financial derivative contracts involve credit risk associated with our hedging counterparties, and a deterioration in the financial markets, including the markets with respect to any particular currencies, such as the Euro, could adversely affect our hedging counterparties and their abilities to fulfill their obligations to us.

Our debt and related debt service obligations could have negative consequences.

Our debt and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flows from operations to the payment of principal, interest and other amounts payable on our debt, which would reduce the funds we have available for other purposes, such as working capital, capital expenditures and acquisitions;

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- making it more difficult or expensive for us to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing our flexibility in planning for or reacting to changes in our industry and market conditions;
- making us more vulnerable in the event of a downturn in our business; and
- exposing us to increased interest rate risk given that a portion of our debt obligations are at variable interest rates.

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

In line with industry practice, we are often required to post standby letters of credit to customers or enter into surety bond arrangements in favor of customers. Those letters of credit and surety bond arrangements generally indemnify or protect customers against our failure to perform our obligations under the applicable contracts. However, the terms of those letters of credit, including terms relating to the customer's ability to draw upon the letter of credit and the amount of the letter of credit required, can vary significantly. If a letter of credit or surety bond is required for a particular project and we are unable to obtain it due to insufficient liquidity or other reasons, we may not be able to pursue that project. We have limited capacity for letters of credit. Moreover, due to events that affect the credit markets generally, letters of credit may be more difficult to obtain in the future or may only be available at significant additional cost. Letters of credit may not continue to be available to us on reasonable terms. Our inability to obtain adequate letters of credit and surety bonds and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Risk Factors Relating to Our Common Stock

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

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

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

- authorizing a large number of shares of common stock that are not yet issued, which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us; and
- authorizing the issuance of "blank check" preferred stock, which could be issued by our board of directors to increase the number of outstanding shares in an attempt to thwart a takeover.

The Certificate of Designation with respect to our 12% Redeemable Preferred Stock also contains terms that may restrict our ability to enter into change-of-control transactions, including a requirement to offer to repurchase our 12% Redeemable Preferred Stock upon a change in control.

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

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

Our sale or issuance of additional shares of common stock could dilute each stockholder's share ownership.

Part of our business strategy is to expand into new markets and enhance our position in existing markets throughout the world through the strategic and opportunistic acquisition of complementary businesses. In order to complete future acquisitions or fund our other activities, we may issue equity securities that could dilute our earnings per share and each stockholder's share ownership in McDermott.

We have issued and may in the future issue preferred stock that could dilute the voting power or reduce the value of our common stock.

Our articles of incorporation authorize us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over our common stock respecting dividends and distributions, as our board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, as is the case with our 12% Redeemable Preferred Stock, we could grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Real Estate

The following table provides the segment name, location, and principal use of each of our significant properties at December 31, 2018 that we own or lease:

Business Segment and Location	Principal Use	Owned/Leased
NCSA		
Altamira, Mexico	Administrative Office/Fabrication Facility	Owned/Leased
Charlotte, North Carolina	Operations and sales office	Leased
Clearfield, Utah	Fabrication facility	Leased
Clive, Iowa	Fabrication facility	Owned
El Dorado, Arkansas	Fabrication facility	Owned
Gulfport, Mississippi	Administrative Office/Fabrication Facility	Leased
Houston, Texas	Operations office, fabrication facility, warehouse and distribution facility	Owned/Leased
Houston, Texas	Engineering and operations office	Leased
Lake Charles, Louisiana	Fabrication facility	Leased
New Brunswick, New Jersey	Fabrication and distribution facility	Leased
Niagara-on-the-Lake, Canada	Engineering office	Leased
Plainfield, Illinois	Engineering and operations office	Owned/Leased
Shreveport, Louisiana	Manufacturing and distribution facilities	Owned
Walker, Louisiana	Administrative and operations office, fabrication facility and warehouse	Owned
EARC		
Brno, Czech Republic	Engineering office	Leased
London, England	Engineering and sales office	Leased
Moscow, Russia (1)	Administrative, operations and sales office	Leased
The Hague, The Netherlands (1)	Administrative, engineering, operations and sales office	Leased
MENA		
Abu Dhabi, UAE	Operations office and fabrication facility	Owned/Leased
Al Aujam, Saudi Arabia	Fabrication facility and warehouse	Owned
Al Khobar, Saudi Arabia	Fabrication Facility/Operations/Engineering Office	Leased
Al Khobar, Saudi Arabia	Administrative and engineering office	Leased
Askar, Bahrain	Operations office and fabrication facility	Leased
Dammam, Saudi Arabia	Fabrication Facility	Leased
Doha, Qatar	Operations Office	Leased
Dubai, UAE (1)	Operations/Engineering/Fabrication Facility/Administrative Office	Leased
APAC		
Batam Island, Indonesia	Fabrication Facility	Leased
Chennai, India	Engineering Office	Leased
Gurgaon, India (1)	Engineering and operations office	Leased
Kuala Lumpur, Malaysia	Operations/Engineering/Administrative Office	Leased
Kwinana, Australia	Administrative, engineering and operations office	Owned
Perth, Australia	Operations Office	Leased
Qingdao, China	Fabrication Facility	Leased

Sattahip, Thailand [1]	Operations office and fabrication facility	Leased
Technology		
Beijing, China	Sales and operations office	Leased
Bloomfield, New Jersey	Administrative, engineering and operations office	Leased
Ludwigshafen, Germany	Research and development office	Leased
Mannheim, Germany	Engineering and operations office	Leased
Pasadena, Texas	Research and development office and manufacturing facility	Owned/Leased
The Woodlands, Texas	Administrative Office	Leased
Tyler, Texas	Engineering and operations office	Owned
Corporate		
Houston, Texas [1]	Administrative Office	Leased

[1] These offices also serve our Technology segment.

Fabrication Facility Utilization During 2018, our actual fabrication facilities utilization was 16 million man-hours compared to a 24 million of combined standard man-hours. The combined standard man-hours is the expected annual utilization of our fabrication facilities.

Saudi Aramco Long Term Lease In March 2017, we entered into a memorandum of understanding ("MOU") with Saudi Aramco, which contemplates a long-term lease of land to us at the new fabrication and maritime complex being developed by Saudi Aramco in the Kingdom of Saudi Arabia. Negotiations for the long-term lease remain ongoing. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations perating Results"

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

Vessels

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

The following table sets forth certain information with respect to the major construction and multi-service vessels currently utilized to conduct our operations, including the reporting segments in which they were operating as of December 31, 2018:

Location and Vessel Name	Vessel Type	Year Entered Service/Upgraded	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
NCSA				
DB 50(1)(2)	Pipelay/Derrick	1988/2012	4,400	-
Intermac 650(2)	Launch/Cargo Barge	1980/2006	-	-
North Ocean 102(1)(2)	Multi-Service Vessel	2009	275	-
North Ocean 105(1)(3)(4)	Multi-Service Vessel	2012	440	16
Amazon(1)(3)(5)	Multi-Service Vessel	2014	880	-
MENA				
DB 27(2)	Pipelay/Derrick	1974/1984	2,400	60
DB 32(2)	Pipelay/Derrick	2010/2013	1,650	60
Thebaud Sea(1)(2)	Multi-Service Vessel	1999/2010	55	-
Emerald Sea(1)(2)	Multi-Service Vessel	1996/2007	110	-

APAC				
LV 108[1][2]	Multi-Service Vessel	2014	440	-
DLV 2000[1][2]	Multi-Service Vessel	2016	2,200	60
DB 30[3]	Pipelay/Derrick	1975/1999	3,080	60

(1) Vessel with dynamic positioning capability
(2) Vessels subject to mortgages securing indebtedness under our credit agreement
(3) Vessels not subject to mortgages securing indebtedness under our credit agreement
(4) North Ocean 105 ("NO 105") is currently subject to a mortgage securing indebtedness of the entity that owns that vessel. For further discussion see Note 13, *Debt*, to the accompanying Consolidated Financial Statements.
(5) Leased vessel

During 2018, our actual offshore and subsea vessels utilization was 1,032 and 535 days, compared to 1,500 and 1,250 of combined standard days, respectively. The combined standard days is the expected annual utilization of our vessels.

As security for the indebtedness under our Credit Agreement and Letter of Credit Agreement described in Note 13, *Debt*, we have pledged all of the capital stock of our subsidiaries that own the vessels that are mortgaged to secure that indebtedness.

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

Item 3. LEGAL PROCEEDINGS

The information set forth under the heading “Investigations and Litigation” in Note 23, *Commitments and Contingencies*, to the accompanying Consolidated Financial Statements included in this Annual Report on Form 10-K is incorporated by reference into this Item 3.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Stock Information

General Our common stock is traded on the NYSE under the symbol MDR. As of February 21, 2019 there were approximately 1,461 record holders of our common stock. We did not make any unregistered sales of any of our common stock during 2018, and we did not repurchase any shares of our common stock during 2018 (except in connection with net share settlements of various equity-based incentive awards).

Dividends We have not paid cash dividends on our common stock since the second quarter of 2000 and do not currently have plans to reinstate a cash dividend at this time. Our Board of Directors evaluates our cash dividend policy from time to time. In addition, our existing credit agreement and the indenture relating to our outstanding senior notes contain contractual restrictions on our ability to pay dividends.

Redeemable Preferred Stock On November 29, 2018, we issued 300,000 shares of our 12% Redeemable Preferred Stock, par value $1.00 per share, and Series A Warrants to purchase approximately 6.8 million shares of our common stock in reliance upon an exemption from the registration requirements under the Securities Act pursuant to Section 4(a)(2) thereof. To the extent any shares of common stock are issued upon exercise of the warrants by a warrant holder, they will be issued in transactions expected to be exempt from registration under the Securities Act by virtue of Section 3(a)(9) thereof.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
	(In whole shares)		
Equity compensation plans approved by security holders:			5,417,821
Stock options and stock appreciation rights [(1)] [(3)]	541,344	$ 36.98	
Other equity compensation awards [(2)] [(3)]	3,561,049	N/A	
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	4,102,393		5,417,821

[(1)] As of December 31, 2018, there were approximately 541,344 securities to be issued upon the exercise of outstanding options and stock appreciation rights. The weighted-average exercise price reflects only the weighted-average exercise price of stock options and stock appreciation rights outstanding.

(2) As of December 31, 2018, there were approximately 3,561,049 securities to be issued upon vesting of outstanding restricted stock units or performance units. The award agreements for the legacy McDermott awards of restricted stock units granted in 2016, 2017 and 2018, the performance units granted in 2016 and 2017 (which have since been converted to restricted stock units) and the performance units granted in 2018 provide that the awards may be settled in shares, cash equal to the fair market value of the shares otherwise deliverable on the vesting date, or any combination thereof in the sole discretion of the Compensation Committee. There is no exercise price associated with the awards of restricted stock units or performance units. The award agreements for the legacy CB&I awards of restricted stock units outstanding may only be settled in shares of common stock.

(3) Includes shares of our common stock issuable upon the exercise of outstanding stock options or stock appreciation rights or the vesting of restricted stock units, or shares of our common stock remaining available for future issuance under the Chicago Bridge & Iron Company 2008 Long-Term Incentive Plan and The Shaw Group, Inc. 2008 Omnibus Incentive Plan (together, the “Assumed Plans”), which we assumed as a result of the Combination. Under the Assumed Plans, as of December 31, 2018, 98,938 shares of our common stock were issuable upon the exercise of options or stock appreciation rights, at a weighted average exercise price of $24.86, 897,756 shares of our common stock were issuable upon vesting of outstanding restricted stock units and 3,468,330 shares of our common stock were available for future issuance.

Corporate Performance Graph

The following graph provides a comparison of our five-year, cumulative total stockholder return[(1)] from December 2013 through December 2018 to the return of S&P 500 and our 2018 and 2017 peer groups. Our peer groups consist of companies utilized for executive compensation benchmarking. The only companies from the 2018 peer group which were also included in the 2017 peer group, are Jacobs Engineering Group, Inc. and KBR, Inc. Each other company was added to the 2018 peer group in consideration of the significantly increased size and scope of McDermott's operations following the Combination.

[(1)] Total stockholder return assuming $100 invested on December 31, 2013 and reinvestment of dividends on daily basis.

The 2018 peer group was comprised of the following companies:

AECOM	MasTech, Inc.
Dover Corporation	National Oilwell Varco, Inc.
Fluor Corporation	Parker-Hannifin Corporation
EMCOR Group, Inc.	Quanta Services, Inc.
Ingersoll-Rand plc	Stanley Black & Decker, Inc.
Jacobs Engineering Group Inc.	Weatherford International plc
KBR, Inc.	

The 2017 peer group was comprised of the following companies:

Archrock, Inc.	Noble Corporation
Helix Energy Solutions Group, Inc.	Oceaneering International, Inc.
Jacobs Engineering Group Inc	Oil States International, Inc.
KBR, Inc.	Superior Energy Services, Inc.

Item 6. SELECTED FINANCIAL DATA

The following selected financial data was derived from our Consolidated Financial Statements. This data should be read in conjunction with the accompanying Consolidated Financial Statements and related notes thereto and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	For the Years Ended December 31,				
	2018 (1)	2017	2016	2015	2014
	(Dollars in millions, except for per share amounts)				
Statement of Operations Data:					
Revenues	$6,705	$2,985	$2,636	$3,070	