MCDERMOTT INTERNATIONAL INC
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

OR

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

Commission File No. 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

The number of shares of the registrant's common stock outstanding at May 7, 2015 was 238,604,332.

McDERMOTT INTERNATIONAL, INC.

INDEX—FORM 10-Q

PART I—FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2015	2014
	(Unaudited)	
	(In thousands, except shares and per share amounts)	
Revenues	$550,463	$603,811
Costs and Expenses:		
Cost of operations	475,459	591,493
Selling, general and administrative expenses	51,676	51,964
Gain on disposal of assets	(367)	(6,439)
Restructuring expenses	10,389	6,125
Total costs and expenses	537,157	643,143
(Loss) Income from Investments in Unconsolidated Affiliates	(6,741)	1,123
Operating Income (Loss)	6,565	(38,209)
Other Income (Expense):		
Interest income (expense), net	(12,179)	61
Loss on foreign currency, net	(1,468)	(4,082)
Other expense, net	(97)	(265)
Total other expense	(13,744)	(4,286)
Loss before provision for income taxes and noncontrolling interests	(7,179)	(42,495)
Provision for income taxes	4,869	3,489
Net loss	(12,048)	(45,984)
Less: net income attributable to noncontrolling interest	2,459	536
Net loss attributable to McDermott International, Inc.	$(14,507)	$(46,520)
Loss per share		
Net loss attributable to McDermott International, Inc.:		

Basic	$(0.06)	$(0.20)
Diluted	$(0.06)	$(0.20)
Shares used in the computation of losses per share:		
Basic:	237,504,719	236,961,158
Diluted:	237,504,719	236,961,158

See accompanying notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended March 31,	
	2015	2014
	(Unaudited) (in thousands)	
Net Loss	$(12,048)	$(45,984)
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on investments	12	(24)
Foreign currency translation adjustment	(2,042)	(320)
Gain (loss) on derivatives	(16,885)	14,529
Other comprehensive income (loss), net of tax	(18,915)	14,185
Total Comprehensive Loss	$(30,963)	$(31,799)
Less: Comprehensive Income Attributable to Non-controlling Interests	2,426	503
Comprehensive Loss Attributable to McDermott International, Inc.	$(33,389)	$(32,302)

See accompanying notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (Unaudited)	December 31, 2014
	(In thousands, except shares and par value data)	
Assets		
Current Assets:		
Cash and cash equivalents	$600,636	$665,309
Restricted cash and cash equivalents	199,764	187,585
Accounts receivable – trade, net	213,144	143,370
Accounts receivable – other	73,837	81,088
Contracts in progress	380,756	357,617
Deferred income taxes	12,646	7,514
Assets held for sale	14,253	14,253
Other current assets	49,971	44,898
Total Current Assets	1,545,007	1,501,634
Property, Plant and Equipment	2,479,797	2,473,563
Less Accumulated depreciation	(850,378)	(830,467)
Net Property, Plant and Equipment	1,629,419	1,643,096
Accounts Receivable – Long-Term Retainages	136,908	137,468
Investments in Unconsolidated Affiliates	36,206	38,186
Deferred Income Taxes	17,034	17,313
Investments	2,151	2,216
Other Assets	93,306	76,966
Total Assets	$3,460,031	$3,416,879
Liabilities and Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	$27,092	$27,026
Accounts payable	374,927	251,924
Accrued liabilities	330,889	337,209
Advance billings on contracts	162,004	199,865
Deferred income taxes	19,265	19,753
Income taxes payable	29,813	25,165
Total Current Liabilities	943,990	860,942
Long-Term Debt	834,247	837,443
Self-Insurance	18,140	17,026
Pension Liability	18,079	18,403
Non-current Income Taxes	48,442	49,229
Other Liabilities	85,707	94,722
Commitments and Contingencies		
Stockholders' Equity:		

Common stock, par value $1.00 per share, authorized 400,000,000 shares; issued and outstanding 246,199,889 and 245,209,850 shares, respectively	246,200	245,210
Capital in excess of par value (including prepaid common stock purchase contracts)	1,679,631	1,676,815
Accumulated Deficit	(254,079)	(239,572)
Treasury stock, at cost: 7,700,580 and 7,400,027 shares, respectively	(96,972)	(96,441)
Accumulated other comprehensive loss	(116,690)	(97,808)
Stockholders' Equity - McDermott International, Inc.	1,458,090	1,488,204
Noncontrolling interest	53,336	50,910
Total Equity	1,511,426	1,539,114
Total Liabilities and Equity	$3,460,031	$3,416,879

See accompanying notes to the Consolidated Financial Statements.

3

McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Month Ended March 31, 2015	2014
	(Unaudited) (In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$(12,048)	$(45,984)
Non-cash items included in net loss:		
Depreciation and amortization	25,327	24,602
Drydock amortization	5,272	6,946
Stock-based compensation charges	4,278	4,387
Losses (gains) from Investments in unconsolidated affiliates	6,741	(1,123)
Gain on asset disposals	(367)	(6,439)
Restructuring expense	4,169	675
Deferred taxes	(5,341)	(2,628)
Other non-cash items	(1,472)	1,752
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(69,214)	26,365
Net contracts in progress and advance billings on contracts	(61,021)	(5,974)
Accounts payable	110,785	32,727
Accrued and other current liabilities	(5,723)	15,046
Pension liability and accrued postretirement and employee benefits	(555)	5,880
Other assets and liabilities	(19,370)	(78,560)
TOTAL CASH USED IN OPERATING ACTIVITIES	(18,539)	(22,328)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(23,972)	(37,893)
(Increase) in Restricted cash and cash equivalents	(12,179)	(19,634)
Purchases of available-for-sale securities	-	(1,997)
Sales and maturities of available-for-sale securities	1,775	10,055
Investments in unconsolidated affiliates	(4,696)	-
Proceeds from asset dispositions	-	8,370
Other	76	(1,950)
TOTAL CASH USED IN INVESTING ACTIVITIES	(38,996)	(43,049)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	-	250,000
Repayment of debt	(4,706)	(31,373)
Other	(1,323)	(3,858)
TOTAL CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(6,029)	214,769
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(1,109)	36
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(64,673)	149,428

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	665,309	118,702
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$600,636	$268,130

See accompanying notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss ("AOCI")	Treasury Stock	Stockholders' Equity	Noncontrolling Interest ("NCI")	Total Equity
	Shares	Par Value							
	(Unaudited) (In thousands, except shares)								
Balance at December 31, 2014	245,209,850	$245,210	$1,676,815	$(239,572)	$(97,808)	$(96,441)	1,488,204	$50,910	1,539,114
Net loss	-	-	-	(14,507)	-	-	(14,507)	2,459	(12,048)
Other comprehensive loss, net of tax	-	-	-	-	(18,882)	-	(18,882)	(33)	(18,915)
Share vesting	990,039	990	(990)	-	-	-	-	-	-
Stock-based compensation charges	-	-	3,806	-	-	472	4,278	-	4,278
Purchase of treasury shares	-	-	-	-	-	(1,003)	(1,003)	-	(1,003)
Balance at March 31, 2015	246,199,889	$246,200	$1,679,631	$(254,079)	$(116,690)	$(96,972)	$1,458,090	$53,336	$1,511,426

See accompanying notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

TABLE OF CONTENTS

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

NOTE 1—BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Presentation

The accompanying Consolidated Financial Statements are unaudited and have been prepared from our books and records in accordance with Rule 10-1 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. In the opinion of our management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of results of operations for a full year. These Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements and notes thereto included in MII’s Current Report on Form 8-K filed with the SEC on May 11, 2015.

Business Segments

In the first quarter of 2015, we completed changes to our organizational structure which resulted in realignment of our reporting segments. Our North Sea and Africa operations were previously aggregated into the Middle East (“MEA”) reporting segment. However, the responsibility for business decisions relating to the North Sea and Africa was moved to our Americas reporting segment in the first quarter of 2015. As a result, the North Sea and Africa businesses are reflected in our Americas reporting segment, now referred to as Americas, Europe and Africa (collectively, “AEA”). All comparable periods presented have been revised to reflect this change. Accordingly, we report financial results under three reporting segments consisting of AEA, MEA and Asia (“ASA”). We also report certain corporate and other non-operating activities under the heading “Corporate and other,” which primarily reflects corporate personnel and activities, incentive compensation programs and other costs that are generally fully allocated to our reporting segments. However, Corporate restructuring costs associated with our corporate reorganization are not allocated to our reporting segments. See Note 13 for summarized financial information on our segments.

Recently Issued and Adopted Accounting Guidance

In April 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The standard does not affect the recognition and measurement of debt issuance costs. Therefore, the amortization of debt issuance costs will be calculated using the interest method and be reported as interest expense. Retrospective application of this ASU is required for public entities for annual and interim periods beginning on or after December 15, 2015, and early adoption is permitted. We early adopted this ASU. Our accompanying Consolidated Financial Statements classify debt issuance costs related to long-term debt as components of Long-term debt. These costs were previously reported by us as Assets (see Note 7). All comparable periods presented have been revised to reflect this change.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the definition of a discontinued operation by raising the threshold for a disposal to qualify as discontinued operations. ASU 2014-08 also requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The pronouncement is effective prospectively for all disposals (except disposals classified as held for sale before the adoption

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The application of this ASU did not have any impact on the accompanying Consolidated Financial Statements.

Accounting Guidance Issued But Not Adopted as of March 31, 2015

In April 2015, the FASB issued ASU 2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. This ASU is intended to provide a practical expedient for the measurement date of defined benefit plan assets and obligations. The practical expedient allows employers with fiscal year-end dates that do not fall on a calendar month-end (e.g., companies with a 52/53-week fiscal year) to measure pension and post-retirement benefit plan assets and obligations as of the calendar month-end date closest to the fiscal year-end. The FASB also provided a similar practical expedient for interim remeasurements for significant events. This ASU requires perspective application and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the impact of this amendment on our future Consolidated Financial Statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which amends and changes the consolidation analysis currently required under U.S. GAAP. This ASU modifies the process used to evaluate whether limited partnerships and similar entities are variable interest entities or voting interest entities; affects the analysis performed by reporting entities regarding variable interest entities, particularly those with fee arrangements and related party relationships; and provides a scope exception for certain investment funds. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. We are currently assessing the impact of these amendments on our future Consolidated Financial Statements and related disclosures.

In January 2015, the FASB issued ASU 2015-01, Income Statement-Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates the concept of extraordinary items. Under this new guidance, entities will no longer be required to separately classify, present and disclose extraordinary events and transactions. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2015. The application of these amendments is not expected to have an impact on our future Consolidated Financial Statements and related disclosures.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 will be effective for us for annual and interim reporting periods beginning after December 15, 2016, with early application not permitted. Retrospective and modified retrospective application is allowed. We are currently evaluating the requirements of this ASU and have not yet determined its impact on our future Consolidated Financial Statements and related disclosures.

NOTE 2—REVENUE RECOGNITION

Unapproved Change Orders

As of March 31, 2015, total unapproved change orders included in our estimates at completion aggregated approximately $240.3 million, of which approximately $73.0 million was included in backlog. As of March 31, 2014, total unapproved change orders included in our estimates at completion aggregated approximately $223.5 million, of which approximately $38.1 million was included in backlog.

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

Claims Revenue

The amount of revenues and costs included in our estimates at completion (i.e., contract values) associated with claims was $6.5 million as of March 31, 2015 and 2014. All of these claim amounts at March 31, 2015 and 2014 were related to our MEA segment. For the quarters ended March 31, 2015 and 2014, no revenues or costs pertaining to claims were included in the accompanying Consolidated Financial Statements. None of the pending claims as of March 31, 2015 were the subject of any litigation proceedings.

Our unconsolidated joint ventures did not include any claims revenue or associated cost in their financial results for the quarters ended March 31, 2015 and 2014.

Deferred Profit Recognition

As of March 31, 2015 and 2014, we were not accounting for any projects under our deferred profit recognition policy.

Completed Contract Method

As of March 31, 2015 and 2014, we were not accounting for any contracts under the completed contract method.

Loss Recognition

As of March 31, 2015, we have provided for our estimated costs to complete on all of our ongoing contracts. However, it is possible that current estimates could change due to unforeseen events, which could result in adjustments to overall contract costs. Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. For all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

Of the March 31, 2015 backlog, approximately $406.7 million related primarily to four active projects that were in loss positions, whereby future revenues are expected to equal costs when recognized. Included in this amount was $130.4 million of backlog associated with an EPCI project, PB Litoral, in Mexico, which is expected to be completed in the fourth quarter of 2015, $87.5 million of backlog pertaining to a five-year charter of the Agile in Brazil, which is expected to be completed in the first quarter of 2017, and $20.8 million of backlog relating to NO102 vessel charter project in Brazil, scheduled for completion in the second quarter of 2015, all of which are being conducted in our AEA segment. The March 31, 2015 backlog amount also included $166.5 million relating to an EPCI project in our MEA segment, which is also in a loss position and is expected to be completed by the fourth quarter of 2017. It is possible that our estimates of gross profit could increase or decrease based on changes in productivity, actual downtime and the resolution of change orders and claims with the customers.

NOTE 3—USE OF ESTIMATES

We use estimates and assumptions to prepare our financial statements in conformity with U.S. GAAP. Those estimates and assumptions affect the amounts we report in our consolidated financial statements and accompanying notes. Our actual results could differ from those estimates, and variances could materially affect our financial condition and results of operations in future periods. Changes in project estimates generally exclude change orders and changes in scope, but may include, without limitation, changes in cost recovery estimates, unexpected changes in weather conditions, changes in productivity, unidentified required vessel repairs, customer and vendor delays and other costs. We generally expect to experience a reasonable amount of unanticipated events, and some of those events can result in significant cost increases above cost amounts we previously estimated. As of March 31, 2015, we have provided for our estimated costs to complete on all of our ongoing contracts. However, it is possible that current estimates could change due to unforeseen events, which could result in adjustments to overall contract costs. Variations from estimated contract performance could result in material adjustments to operating results. For all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

The following is a discussion of our most significant changes in estimates that impacted operating income for the three months ended March 31, 2015 and 2014.

Three months ended March 31, 2015

Operating income for the three months ended March 31, 2015 was positively impacted by net favorable changes in cost estimates totaling approximately $21.6 million across all segments.

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

The AEA segment was positively impacted by net favorable changes in estimates aggregating approximately $6.6 million, primarily due to $4.4 million in reduced cost estimates attributable to a revised demobilization plan for one of our vessels, North Ocean 105 (the "NO 105"), which is working on a subsea project in Brazil.

The MEA segment was positively impacted by net favorable changes in estimates aggregating approximately $9.1 million. Two EPCI projects in Saudi Arabia were positively impacted by $6.9 million of changes in revenue recovery and cost savings based on constructive discussions with a customer on design optimization and by $6.3 million for improvement in revenue recovery estimates and due to the favorable outcome of our discussions with a customer on compensation for vessel downtime due to weather and standby delays. These favorable changes were partially offset by the $4.5 million negative impact on a Saudi Arabia EPCI project, primarily due to change in cost estimates as a result of a change in marine execution plans.

The ASA segment was positively impacted by net favorable changes in estimates aggregating approximately $5.9 million, driven by multiple projects, none of the individual results of which were material.

Three months ended March 31, 2014

Operating income for the three months ended March 31, 2014 was impacted by net unfavorable changes in cost estimates relating to projects in our AEA and MEA segments, partially offset by net favorable changes in ASA segment.

The AEA segment was negatively impacted by changes in estimates of approximately $35.4 million on an EPCI project, PB Litoral, in Mexico, in the first quarter of 2014. The estimated cost at completion on this project increased primarily due to delays in final project delivery, resulting in a revised execution plan, increased fabrication labor costs and recognition of liquidated damages.

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

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

NOTE 4—ACCOUNTS RECEIVABLE

Accounts Receivable—Trade, Net

A summary of contract receivables is as follows:

	March 31, 2015	December 31, 2014
	(in thousands)	
Contract receivables:		
Contracts in progress	$ 176,027	106,174
Completed contracts	26,512	34,698
Retainages	32,100	28,586
Unbilled	4,303	4,303
Less allowances	(25,798)	(30,391)
Accounts receivable—trade, net	$ 213,144	$ 143,370

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

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

	March 31, 2015	December 31, 2014
	(in thousands)	
Retainages expected to be collected within one year	$32,100	$28,586
Retainages expected to be collected after one year	136,908	137,468
Total retainages	$169,008	$166,054

NOTE 5—CONTRACTS IN PROGRESS AND ADVANCE BILLINGS ON CONTRACTS

Contracts in progress were $380.8 million and $357.6 million at March 31, 2015 and December 31, 2014, respectively. Advance billings on contracts were $162.0 million at March 31, 2015 and $199.9 million at December 31, 2014. A detail of the components of contracts in progress and advance billings on contracts is as follows:

	March 31, 2015	December 31, 2014
	(In thousands)	
Costs incurred less costs of revenue recognized	$160,306	$90,191
Revenues recognized less billings to customers	220,450	267,426
Contracts in Progress	$380,756	$357,617
Billings to customers less revenue recognized	514,089	578,896
Costs incurred less costs of revenue recognized	(352,085)	(379,031)
Advance Billings on Contracts	$162,004	$199,865

NOTE 6—RESTRUCTURING

In 2014 we completed a major review of our cost structure, and we are implementing a plan, which we refer to as the McDermott Profitability Initiative (“MPI”), to increase our profitability and flexibility through reduced fixed and variable costs. The plan includes headcount reductions, centralization of operational activities, other cost reduction initiatives and certain asset impairments. For the quarter ended March 31, 2015, expenses incurred under the MPI totaled $8.6 million.

During 2013 and 2014, we implemented a restructuring of our Americas operations, which involved our Morgan City, Louisiana, Houston, Texas, New Orleans, Louisiana and some Brazil locations. The restructuring involved, among other things, reductions of management, administrative, fabrication and engineering personnel, and the discontinued utilization of the Morgan City facility. For the quarter ended March 31, 2015, expenses incurred under the Americas restructuring totaled $1.8 million.

We completed a Corporate restructuring by the end of 2014. Costs associated with our Corporate restructuring activities primarily included severance, relocation and other personnel-related costs and costs for advisors, as well as costs for certain executive management changes which became effective during the fourth quarter of 2013.

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

The following table presents amounts incurred during the three months ended March 31, 2015 and 2014, as well as amounts incurred from the inception of our restructuring efforts up to March 31, 2015 and amounts expected to be incurred in the future by major type of cost and by segment.

	Incurred in the three months ended March 31, 2015	Incurred in the three months ended March 31, 2014	Incurred from inception to March 31, 2015	Estimate of remaining amounts to be incurred	Total
	(In thousands)				
Americas Restructuring					
Impairments and write offs	$-	$ -	$ 12,923	$ -	$12,923
Severance and other personnel-related costs	881	2,029	14,261	-	14,261
Morgan City environmental reserve	-	-	5,925	-	5,925
Morgan City yard-related expenses	914	1,602	11,764	4,002	15,766
Other	-	-	158	-	158
	$1,795	$ 3,631	$ 45,031	$ 4,002	$49,033
Corporate Restructuring					
Severance and other personnel-related costs	$-	$ 908	$ 2,599	$ -	$2,599
Legal and other advisor fees	-	1,586	3,204	-	3,204
Other	-	-	798	-	798
	$-	$ 2,494	$ 6,601	$ -	$6,601
MPI					
Severance and other personnel-related costs					
AEA segment	$1,252	$ -	$ 1,252	$ 3,877	$5,129
MEA segment	607	-	607	3,300	3,907
ASA segment	1,800	-	1,800	5,329	7,129
Corporate and other	719	-	719	6,967	7,686
Asset impairment					
ASA segment	4,168	-	4,168	-	4,168
Legal and other advisor fees					
Corporate	48	-	4,051	-	4,051
	$8,594	$ -	$ 12,597	$ 19,473	$32,070
Total	$10,389	$ 6,125	$ 64,229	$ 23,475	$87,704

In the first quarter of 2015, we reclassified certain MPI-related legal and other advisory fees of $4.0 million incurred in 2014 from Corporate restructuring costs to MPI costs.

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

	December 31, 2014	Accruals	Payments	March 31, 2015
	(In thousands)			
Morgan City environmental reserve	$3,675	$ -	$ (715)	$2,960
Morgan City yard-related expenses and other	373	833	(141)	1,065
Total	$4,048	$ 833	$ (856)	$4,025

McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

NOTE 7—LONG-TERM DEBT AND NOTES PAYABLE

The carrying values of our long-term debt obligations are as follows:

	March 31, 2015	December 31,2014
	(In thousands)	
Long-term debt consists of:		
Senior Notes	$	