

CHICAGO BRIDGE & IRON CO N V  
Form 10-Q  
April 24, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-12815

CHICAGO BRIDGE & IRON COMPANY N.V.  
Incorporated in The Netherlands IRS Identification Number: Not Applicable

Prinses Beatrixlaan 35  
2595 AK The Hague  
The Netherlands  
31-70-3732010  
(Address and telephone number of principal executive offices)

Oostduinlaan 75  
2596 JJ The Hague  
The Netherlands  
(Former address of principal executive offices)

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

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

Indicate by check mark 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  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

The number of shares outstanding of the registrant's common stock as of April 15, 2014 – 108,110,418



CHICAGO BRIDGE & IRON COMPANY N.V.

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CHICAGO BRIDGE & IRON COMPANY N.V.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Revenue	\$2,928,132	\$2,251,429
Cost of revenue	2,626,730	2,005,285
Gross profit	301,402	246,144
Selling and administrative expense	119,167	93,968
Intangibles amortization	16,234	9,188
Equity earnings	(4,165	) (4,485
Other operating income, net	(384	) (297
Acquisition and integration related costs	8,067	61,256
Income from operations	162,483	86,514
Interest expense	(18,887	) (22,746
Interest income	2,060	1,871
Income before taxes	145,656	65,639
Income tax expense	(42,910	) (22,767
Net income	102,746	42,872
Less: Net income attributable to noncontrolling interests	(13,795	) (9,264
Net income attributable to CB&I	\$88,951	\$33,608
Net income attributable to CB&I per share:		
Basic	\$0.83	\$0.33
Diluted	\$0.82	\$0.32
Weighted average shares outstanding:		
Basic	107,677	101,802
Diluted	109,113	103,507
Cash dividends on shares:		
Amount	\$7,559	\$5,345
Per share	\$0.07	\$0.05

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands)

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Net income	\$102,746	\$42,872
Other comprehensive income (loss), net of tax:		
Change in cumulative translation adjustment	5,531	(13,043 )
Change in unrealized fair value of cash flow hedges	(990 )	(1,731 )
Change in unrecognized prior service pension credits/costs	(43 )	(192 )
Change in unrecognized actuarial pension gains/losses	1,795	4,897
Comprehensive income	109,039	32,803
Less: Net income attributable to noncontrolling interests	(13,795 )	(9,264 )
Less: Change in cumulative translation adjustment attributable to noncontrolling interests	(1,651 )	(883 )
Comprehensive income attributable to CB&I	\$93,593	\$22,656

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and cash equivalents (\$170,472 and \$153,485 related to variable interest entities ("VIEs"))	\$420,163	\$420,502
Accounts receivable, net (\$179,414 and \$151,241 related to VIEs)	1,273,563	1,385,448
Inventory	292,019	302,987
Costs and estimated earnings in excess of billings (\$86,920 and \$59,092 related to VIEs)	647,878	566,718
Deferred income taxes	574,966	555,589
Other current assets (\$55,059 and \$31,487 related to VIEs)	179,358	158,321
Total current assets	3,387,947	3,389,565
Equity investments	90,867	101,754
Property and equipment, net (\$23,954 and \$24,655 related to VIEs)	780,122	788,797
Deferred income taxes	92,570	110,142
Goodwill	4,225,687	4,226,468
Other intangibles, net	611,570	627,723
Other non-current assets	145,313	145,144
Total assets	\$9,334,076	\$9,389,593
Liabilities		
Revolving facility debt	\$334,754	\$115,000
Current maturities of long-term debt	100,000	100,000
Accounts payable (\$205,014 and \$200,721 related to VIEs)	1,156,640	1,157,478
Accrued liabilities	702,759	699,506
Billings in excess of costs and estimated earnings (\$49,627 and \$29,670 related to VIEs)	2,378,901	2,720,251
Deferred income taxes	6,411	5,389
Total current liabilities	4,679,465	4,797,624
Long-term debt	1,600,000	1,625,000
Other non-current liabilities	375,055	387,555
Deferred income taxes	64,438	71,976
Total liabilities	6,718,958	6,882,155
Shareholders' Equity		
Common stock, Euro .01 par value; shares authorized: 250,000; shares issued: 108,132 and 107,857; shares outstanding: 108,040 and 107,478	1,279	1,275
Additional paid-in capital	748,167	753,742
Retained earnings	1,814,801	1,733,409
Treasury stock, at cost: 92 and 379 shares	(7,628)	(23,914)
Accumulated other comprehensive loss	(115,291)	(119,933)
Total CB&I shareholders' equity	2,441,328	2,344,579
Noncontrolling interests	173,790	162,859
Total shareholders' equity	2,615,118	2,507,438
Total liabilities and shareholders' equity	\$9,334,076	\$9,389,593
The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.		



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CHICAGO BRIDGE & IRON COMPANY N.V.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	\$ 102,746	\$ 42,872
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	45,625	28,637
Deferred taxes	6,616	65,309
Stock-based compensation expense	41,142	38,072
Equity earnings	(4,165	) (4,485
Gain on property and equipment transactions	(384	) (297
Unrealized loss on foreign currency hedge ineffectiveness	2,865	1,756
Excess tax benefits from stock-based compensation	(12,930	) (10,756
Changes in operating assets and liabilities:		
Decrease (increase) in receivables, net	111,885	(153,647
Change in contracts in progress, net	(422,510	) (180,030
Decrease (increase) in inventory	10,968	(4,302
Decrease in accounts payable	(838	) (28,720
(Increase) decrease in other current and non-current assets	(20,401	) 22,515
Decrease in accrued and other non-current liabilities	(11,923	) (137,964
Decrease in equity investments	15,237	351
Change in other, net	(9,685	) 8,474
Net cash used in operating activities	(145,752	) (312,215
Cash Flows from Investing Activities		
Business acquisitions, net of cash acquired	—	(1,713,333
Capital expenditures	(26,485	) (14,932
Proceeds from sale of property and equipment	4,459	613
Change in other, net	—	(24,699
Net cash used in investing activities	(22,026	) (1,752,351
Cash Flows from Financing Activities		
Revolving facility borrowings, net	219,754	116,177
Term loan borrowings	—	1,000,000
Cash withdrawn from restricted cash and cash equivalents (Senior Notes)	—	800,000
Cash withdrawn from restricted cash and cash equivalents (Westinghouse-related debt)	—	1,309,022
Repayment of Westinghouse-related debt	—	(1,353,694
Repayments on term loan	(25,000	) (18,750
Excess tax benefits from stock-based compensation	12,930	10,756
Purchase of treasury stock	(54,946	) (23,764
Issuance of stock	11,586	14,889
Dividends paid	(7,559	) (5,345
Distributions to noncontrolling interests	(4,515	) (1,065
Revolving facility and deferred financing costs	—	(26,987
Net cash provided by financing activities	152,250	1,821,239
Effect of exchange rate changes on cash and cash equivalents	15,189	(7,242
Decrease in cash and cash equivalents	(339	) (250,569



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Cash and cash equivalents, beginning of the year	420,502	643,395
Cash and cash equivalents, end of the period	\$420,163	\$392,826

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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## CHICAGO BRIDGE &amp; IRON COMPANY N.V.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except per share data)

	Common Stock		Additional	Retained	Treasury Stock		Accumulated	Non -	Total
	Shares	Amount	Paid-In	Earnings	Shares	Amount	Other	controlling	Shareholders'
			Capital				Comprehensive	Interests	Equity
							(Loss)		
							Income		
(Unaudited)									
Balance at									
December 31, 2013	107,478	\$ 1,275	\$ 753,742	\$ 1,733,409	379	\$(23,914)	\$(119,933)	\$ 162,859	\$ 2,507,438
Net income	—	—	—	88,951	—	—	—	13,795	102,746
Change in cumulative translation adjustment, net	—	—	—	—	—	—	3,880	1,651	5,531
Change in unrealized fair value of cash flow hedges, net	—	—	—	—	—	—	(990)	—	(990)
Change in unrecognized prior service pension credits/costs, net	—	—	—	—	—	—	(43)	—	(43)
Change in unrecognized actuarial pension gains/losses, net	—	—	—	—	—	—	1,795	—	1,795
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(4,515)	(4,515)
Dividends paid (\$0.07 per share)	—	—	—	(7,559)	—	—	—	—	(7,559)
Stock-based compensation expense	—	—	41,142	—	—	—	—	—	41,142
Issuance to treasury stock	—	4	22,091	—	275	(22,095)	—	—	—
Purchase of treasury stock	(716)	—	—	—	716	(54,946)	—	—	(54,946)
Issuance of stock	1,278	—	(68,808)	—	(1,278)	93,327	—	—	24,519
Balance at March 31, 2014	108,040	\$ 1,279	\$ 748,167	\$ 1,814,801	92	\$(7,628)	\$(115,291)	\$ 173,790	\$ 2,615,118
	Common Stock	Additional	Retained		Stock Held in Treasury	Treasury Stock	Accumulated	Non -	Total
		Paid-In	Earnings				Other	controlling	Shareholders'

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	Shares	Amount	Capital	Earnings	Shares	Amount	Shares	Amount	Comprehensive (Loss) Income	Interests	Equity
(Unaudited)											
Balance at December 31, 2012	96,835	\$1,190	\$363,417	\$1,300,742	316	\$(3,031)	4,688	\$(193,533)	\$(101,032)	\$28,557	\$1,396
Net income	—	—	—	33,608	—	—	—	—	—	9,264	42,872
Change in cumulative translation adjustment, net	—	—	—	—	—	—	—	—	(13,926)	) 883	(13,044)
Change in unrealized fair value of cash flow hedges, net	—	—	—	—	—	—	—	—	(1,731)	) —	(1,731)
Change in unrecognized prior service pension credits/costs, net	—	—	—	—	—	—	—	—	(192)	) —	(192)
Change in unrecognized actuarial pension gains/losses, net	—	—	—	—	—	—	—	—	4,897	—	4,897
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(1,065)	) (1,065)
Dividends paid (\$0.05 per share)	—	—	—	(5,345)	) —	—	—	—	—	—	(5,345)
Stock-based compensation expense	—	—	38,072	—	—	—	—	—	—	—	38,072
Business acquisitions	8,893	85	398,366	—	—	—	(2,559)	100,125	—	36,665	535,244
Issuance of treasury stock to trust	98	—	896	—	98	(5,245)	(98)	4,349	—	—	—
Release of trust shares	—	—	1,537	—	(301)	2,537	—	—	—	—	4,074
Purchase of treasury stock	(446)	) —	—	—	—	—	446	(23,764)	) —	—	(23,764)
Issuance of stock	1,612	—	(49,808)	) —	—	—	(1,612)	71,038	—	—	21,230
	106,992	\$1,275	\$752,480	\$1,329,005	113	\$(5,739)	865	\$(41,785)	) \$(111,984)	\$74,304	\$1,997,000

Balance at  
March 31,  
2013

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

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CHICAGO BRIDGE & IRON COMPANY N.V.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(\$ and share values in thousands, except per share data)

(Unaudited)

1. ORGANIZATION AND NATURE OF OPERATIONS

Organization and Nature of Operations—Chicago Bridge & Iron Company N.V. (“CB&I” or the “Company”) provides a wide range of services, including conceptual design, technology, engineering, procurement, fabrication, modularization, construction, commissioning, maintenance, program management and environmental services to customers in the energy infrastructure market throughout the world, and is a provider of diversified government services. Our business is aligned into four principal operating groups: (1) Engineering, Construction and Maintenance, (2) Fabrication Services, (3) Technology, and (4) Environmental Solutions (formerly Government Solutions). See Note 16 for a discussion of our operating groups.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying unaudited interim Condensed Consolidated Financial Statements (“Financial Statements”) are prepared in accordance with the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (the “SEC”) and accounting principles generally accepted in the United States of America (“U.S. GAAP”). These Financial Statements include all wholly-owned subsidiaries and those entities which we are required to consolidate. See the “Partnering Arrangements” section of this footnote for further discussion of our consolidation policy for those entities that are not wholly-owned. We believe these Financial Statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our results of operations for the three months ended March 31, 2014 and 2013, our financial position as of March 31, 2014 and our cash flows for the three months ended March 31, 2014 and 2013. The December 31, 2013 Condensed Consolidated Balance Sheet was derived from our December 31, 2013 audited Consolidated Balance Sheet.

We believe the disclosures accompanying these Financial Statements are adequate to make the information presented not misleading. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC for interim reporting periods. The results of operations and cash flows for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying Financial Statements should be read in conjunction with our Consolidated Financial Statements and notes thereto included in our 2013 Annual Report on Form 10-K (“2013 Annual Report”).

Use of Estimates—The preparation of our Financial Statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We believe the most significant estimates and judgments are associated with revenue recognition for our contracts, including the recognition of incentive fees and unapproved change orders and claims; recoverability assessments that must be periodically performed with respect to long-lived tangible assets, goodwill and other intangible assets; valuation of deferred tax assets and financial instruments; the determination of liabilities related to self-insurance programs and income taxes; and consolidation determinations with respect to our partnering arrangements. If the underlying estimates and assumptions upon which our Financial Statements are based change in the future, actual amounts may differ from those included in the accompanying Financial Statements.

Revenue Recognition—Our revenue is primarily derived from long-term contracts and is generally recognized using the percentage of completion (“POC”) method, primarily based on the percentage that actual costs-to-date bear to total estimated costs to complete each contract. We follow the guidance of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Revenue Recognition Topic 605-35 for accounting policies relating to our use of the POC method, estimating costs, and revenue recognition, including the recognition of incentive fees, unapproved change orders and claims, and combining and segmenting contracts. We primarily utilize the cost-to-cost approach to estimate POC as we believe this method is less subjective than relying on assessments of physical progress. Under the cost-to-cost approach, the use of estimated costs to complete each contract is a significant variable in the process of determining recognized revenue and is a significant factor in the accounting for contracts. Significant

estimates that impact the cost to complete each contract are costs of engineering, materials, components, equipment, labor and subcontracts; labor productivity; schedule durations, including subcontract and supplier progress; liquidated damages; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates. Backlog for each of our operating groups generally consists of several hundred contracts, and although our results are impacted by changes in estimated project margins, in the current period and for the past several years, such aggregate variations have not resulted in a

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Chicago Bridge &amp; Iron Company N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

material net impact to our income from operations. For the three months ended March 31, 2014, we had no individual projects with significant changes in estimated margins and for the three months ended March 31, 2013, individual projects with significant changes in estimated margins did not have a material net impact on our income from operations.

Our long-term contracts are awarded on a competitive bid and negotiated basis and the timing of revenue recognition may be impacted by the terms of such contracts. We use a range of contracting options, including cost-reimbursable, fixed-price and hybrid, which has both cost-reimbursable and fixed-price characteristics. Fixed-price contracts, and hybrid contracts with a more significant fixed-price component, tend to provide us with greater control over project schedule and the timing of when work is performed and costs are incurred, and accordingly, when revenue is recognized. Cost-reimbursable contracts, and hybrid contracts with a more significant cost-reimbursable component, generally provide our customers with greater influence over the timing of when we perform our work, and accordingly, such contracts often result in less predictability with respect to the timing of revenue recognition.

Contract revenue for our long-term contracts recognized under the POC method reflects the original contract price adjusted for approved change orders and estimated recoveries for incentive fees, unapproved change orders and claims. We recognize revenue associated with incentive fees when the value can be reliably estimated and recovery is probable. We recognize revenue associated with unapproved change orders and claims to the extent the related costs have been incurred, the value can be reliably estimated and recovery is probable. Our recorded incentive fees, unapproved change orders and claims reflect our best estimate of recovery amounts; however, the ultimate resolution and amounts received could differ from these estimates. See Note 15 for additional discussion of our recorded unapproved change orders, claims, incentives and other contract recoveries.

With respect to our engineering, procurement, and construction (“EPC”) services, our contracts are not segmented between types of services, such as engineering and construction, if each of the EPC components is negotiated concurrently or if the pricing of any such services is subject to the ultimate negotiation and agreement of the entire EPC contract. However, we segment an EPC contract if it includes technology or fabrication services and the technology or fabrication scope is independently negotiated and priced. In addition, an EPC contract including technology or fabrication services may be segmented if we satisfy the segmenting criteria in ASC 605-35. Revenue recorded in these situations is based on our prices and terms for similar services to third party customers. Segmenting a contract may result in different interim rates of profitability for each scope of service than if we had recognized revenue without segmenting. In some instances, we may combine contracts that are entered into in multiple phases, but are interdependent and include pricing considerations by us and the customer that are impacted by all phases of the project. Otherwise, if each phase is independent of the other and pricing considerations do not give effect to another phase, the contracts will not be combined.

Cost of revenue for our long-term contracts includes direct contract costs, such as materials and labor, and indirect costs that are attributable to contract activity. The timing of when we bill our customers is generally dependent upon advance billing terms, completion of certain phases of the work, or when services are provided. Cumulative costs and estimated earnings recognized to-date in excess of cumulative billings is reported on the Condensed Consolidated Balance Sheet (“Balance Sheet”) as costs and estimated earnings in excess of billings. Cumulative billings in excess of cumulative costs and estimated earnings recognized to-date is reported on the Balance Sheet as billings in excess of costs and estimated earnings. At March 31, 2014 and December 31, 2013, we had billings to customers on our long-term contracts of \$18,982,146 and \$16,113,591, respectively, netted within costs and estimated earnings in excess of billings, and billings to customers of \$23,115,520 and \$25,436,810, respectively, netted within billings in excess of costs and estimated earnings. Any uncollected billed revenue, including contract retentions, is reported as accounts receivable. At March 31, 2014 and December 31, 2013, accounts receivable included contract retentions of approximately \$72,400 and \$68,600, respectively. Contract retentions due beyond one year were not material at March 31, 2014 or December 31, 2013.

Revenue for our service contracts that do not satisfy the criteria for revenue recognition under the POC method is recorded at the time services are performed. Revenue associated with incentive fees for these contracts is recognized when earned. Unbilled receivables for our service contracts are recorded within accounts receivable and were \$85,980 and \$79,979 at March 31, 2014 and December 31, 2013, respectively.

Revenue for our pipe and steel fabrication and catalyst manufacturing contracts that are independent of an EPC contract, or for which we satisfy the segmentation criteria discussed above, is recognized upon shipment of the fabricated or manufactured units. During the fabrication or manufacturing process, all related direct and allocable indirect costs are capitalized as work in process inventory and such costs are recorded as cost of revenue at the time of shipment.

Our billed and unbilled revenue may be exposed to potential credit risk if our customers should encounter financial difficulties, and we maintain reserves for specifically-identified potential uncollectible receivables. At March 31, 2014 and December 31, 2013, our allowances for doubtful accounts were not material.

Other Operating Expense (Income), Net—Other operating expense (income), net, generally represents losses (gains) associated with the sale or disposition of property and equipment.



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Chicago Bridge &amp; Iron Company N.V.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Acquisition and Integration Related Costs**—For the three months ended March 31, 2014, integration-related costs of \$8,067 primarily related to facility consolidations, including the associated accrued future lease costs for vacated facilities and unutilized capacity, personnel relocation and severance-related costs, and systems integration and other integration-related costs. For the three months ended March 31, 2013, acquisition and integration related costs of \$61,256 primarily included transaction costs, professional fees, and change-in-control and severance-related costs.

**Impairment of Long-Lived Assets**—Goodwill is not amortized to earnings, but instead is reviewed for impairment at least annually at our reporting unit level, absent any indicators of impairment. Our Engineering, Construction and Maintenance operating group includes three reporting units, our Fabrication Services operating group includes two reporting units, and our Technology and Environmental Solutions operating groups each represent a reporting unit. We perform our annual impairment assessment during the fourth quarter of each year based upon balances as of the beginning of that year's fourth quarter. As part of our annual impairment assessment, in the fourth quarter of 2013, we performed a quantitative assessment of goodwill for each of our reporting units. We utilized an income approach (discounted cash flow method) to value our reporting units and test for impairment as we believe this is the most direct approach to incorporate the specific economic attributes and risk profiles of our reporting units into our valuation model. This is consistent with the methodology used for our annual impairment assessment in previous years. We generally do not utilize a market approach given the difficulty in identifying relevant market transactions and the volatility of markets from which transactions are derived. Based upon this quantitative assessment, no impairment charge was necessary during 2013, as the fair value of each of the reporting units acquired in 2013 exceeded their respective net book value and the fair value of all other reporting units significantly exceeded their respective net book values. During the three months ended March 31, 2014, no indicators of goodwill impairment were identified. If, based on future assessments, our goodwill is deemed to be impaired, the impairment would result in a charge to earnings in the year of impairment.

We amortize our finite-lived intangible assets on a straight-line basis with lives ranging from 2 to 20 years, absent any indicators of impairment. We review tangible assets and finite-lived intangible assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If a recoverability assessment is required, the estimated future cash flow associated with the asset or asset group will be compared to the asset's carrying amount to determine if impairment exists. During the three months ended March 31, 2014, we noted no indicators of impairment. See Note 6 for further discussion regarding goodwill and other intangible assets.

**Earnings Per Share ("EPS")**—Basic EPS is calculated by dividing net income attributable to CB&I by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of dilutive securities, consisting of restricted shares, performance shares (where performance criteria have been met), stock options and directors' deferred-fee shares. See Note 3 for calculations associated with basic and diluted EPS.

**Cash Equivalents**—Cash equivalents are considered to be all highly liquid securities with original maturities of three months or less.

**Inventory**—Inventory is recorded at the lower of cost or market and cost is determined using the first-in-first-out ("FIFO") or weighted-average cost method. The cost of inventory includes acquisition costs, production or conversion costs, and other costs incurred to bring the inventory to a current location and condition. An allowance for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, estimates of future sales expectations and salvage value. See Note 5 for additional disclosures associated with our inventory.

**Foreign Currency**—The nature of our business activities involves the management of various financial and market risks, including those related to changes in foreign currency exchange rates. The effects of translating financial statements of foreign operations into our reporting currency are recognized as a cumulative translation adjustment in Accumulated Other Comprehensive Income (loss) ("AOCI") which is net of tax, where applicable. Foreign currency exchange gains (losses) are included within cost of revenue and were not material for the three months ended March 31, 2014 and 2013.

Financial Instruments—We utilize derivative instruments in certain circumstances to mitigate the effects of changes in foreign currency exchange rates and interest rates, as described below:

Foreign Currency Exchange Rate Derivatives—We do not engage in currency speculation; however, we do utilize foreign currency exchange rate derivatives on an on-going basis to hedge against certain foreign currency-related operating exposures. We generally seek hedge accounting treatment for contracts used to hedge operating exposures and designate them as cash flow hedges. Therefore, gains and losses, exclusive of credit risk and forward points (which represent the time-value component of the fair value of our derivative positions), are included in AOCI until the associated underlying operating exposure impacts our earnings. Changes in the fair value of (1) credit risk and forward points, (2) instruments deemed ineffective during the period, and (3) instruments that we do not designate as cash flow hedges are recognized within cost of revenue.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest Rate Derivatives—During the three months ended March 31, 2014, we continued to utilize a swap arrangement to hedge against interest rate variability associated with \$454,500 of our remaining \$900,000 unsecured term loan (the “Term Loan”). The swap arrangement has been designated as a cash flow hedge as its critical terms matched those of the Term Loan at inception and through March 31, 2014. Accordingly, changes in the fair value of the swap arrangement are included in AOCI until the associated underlying exposure impacts our earnings.

For those contracts designated as cash flow hedges, we document all relationships between the derivative instruments and associated hedged items, as well as our risk-management objectives and strategy for undertaking hedge transactions. This process includes linking all derivatives to specific firm commitments or highly-probable forecasted transactions. We continually assess, at inception and on an on-going basis, the effectiveness of derivative instruments in offsetting changes in the cash flow of the designated hedged items. Hedge accounting designation is discontinued when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the cash flow of the hedged item, including firm commitments or forecasted transactions, (2) the derivative is sold, terminated, exercised, or expires, (3) it is no longer probable that the forecasted transaction will occur, or (4) we determine that designating the derivative as a hedging instrument is no longer appropriate. See Note 10 for additional discussion of our financial instruments.

Income Taxes—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using currently enacted income tax rates for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets (“DTA(s)”) if, based upon the available evidence, it is more likely than not that some or all of the DTAs will not be realized. The final realization of DTAs depends upon our ability to generate sufficient future taxable income of the appropriate character and in the appropriate jurisdictions. We provide income tax and associated interest reserves, where applicable, in situations where we have and have not received tax assessments. Tax and associated interest reserves are provided in those instances where we consider it more likely than not that additional tax will be due in excess of amounts reflected in income tax returns filed worldwide. At March 31, 2014 and December 31, 2013, our reserves totaled approximately \$14,300. If these income tax reserves are ultimately unnecessary, approximately \$11,100 would impact the effective tax rate as we are contractually indemnified for the remaining balances. We continually review our exposure to additional income tax obligations and, as further information is known or events occur, changes in our tax and interest reserves may be recorded within income tax expense and interest expense, respectively.

Partnering Arrangements—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 “venture(s)”). We have various ownership interests in these ventures, with such ownership typically being proportionate to our decision-making and distribution rights. The ventures generally contract directly with the third party customer; however, services may be performed directly by the ventures, or may be performed by us or our partners, or a combination thereof.

Venture net assets consist primarily of cash, working capital and property and equipment, and assets may be restricted from being used to fund obligations outside of the venture. These ventures typically have limited third-party debt or have debt that is non-recourse in nature; however, they may provide for capital calls to fund operations or require participants in the venture to provide additional financial support, including advance payment or retention letters of credit.

Each venture is assessed at inception and on an ongoing basis as to whether it qualifies as a VIE under the consolidations guidance in ASC 810. A venture generally qualifies as a VIE when it (1) meets the definition of a legal entity, (2) absorbs the operational risk of the projects being executed, creating a variable interest, and (3) lacks sufficient capital investment from the partners, potentially resulting in the venture requiring additional subordinated financial support, if necessary, to finance its future activities.

If at any time a venture qualifies as a VIE, we perform a qualitative assessment to determine whether we are the primary beneficiary of the VIE and, therefore, need to consolidate the VIE. We are the primary beneficiary if we have (1) the power to direct the economically significant activities of the VIE and (2) the right to receive benefits from, and obligation to absorb losses of, the VIE. If the venture is a VIE and we are the primary beneficiary, or we otherwise have the ability to control the venture, we consolidate the venture. If we are not determined to be the primary beneficiary of the VIE, or only have the ability to significantly influence, rather than control the venture, we do not consolidate the venture. We account for unconsolidated ventures using proportionate consolidation when we meet the applicable accounting criteria to do so and utilize the equity method otherwise. At March 31, 2014 and December 31, 2013, and for the three months ended March 31, 2014 and 2013, the results of our proportionately consolidated ventures were not material. See Note 7 for additional discussion of our material partnering arrangements.

New Accounting Standards—There are no recently issued accounting standards that we believe will have a material impact on our financial position, results of operations or cash flow.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 3. EARNINGS PER SHARE

A reconciliation of weighted average basic shares outstanding to weighted average diluted shares outstanding and the computation of basic and diluted EPS are as follows:

	Three months ended March 31,	
	2014	2013
Net income attributable to CB&I	\$88,951	\$33,608
Weighted average shares outstanding—basic	107,677	101,802
Effect of restricted shares/performance shares/stock options <sup>(1)</sup>	1,367	1,633
Effect of directors' deferred-fee shares	69	72
Weighted average shares outstanding—diluted	109,113	103,507
Net income attributable to CB&I per share:		
Basic	\$0.83	\$0.33
Diluted	\$0.82	\$0.32

<sup>(1)</sup> Antidilutive stock options excluded from diluted EPS were not material for the three months ended March 31, 2014 or 2013.

## 4. RECENT ACQUISITION

General—As more fully described in our 2013 Annual Report, on February 13, 2013 (the “Acquisition Closing Date”), we acquired The Shaw Group Inc. (“Shaw”) (the “Shaw Acquisition”, the “2013 Shaw Acquisition”, or the “Acquisition”) for a gross purchase price of \$3,340,070, comprised of \$2,851,260 in cash consideration and \$488,810 in equity consideration. The cash consideration was funded using \$1,051,260 from existing cash balances of CB&I and Shaw on the Acquisition Closing Date, and the remainder was funded using debt financing. Shaw’s unrestricted cash balance on the Acquisition Closing Date totaled \$1,137,927, and accordingly, the cash portion of our purchase price, net of cash acquired, was \$1,713,333 and our total purchase price, net of cash acquired, was \$2,202,143. The results from the Shaw Acquisition were incorporated within our expanded operating groups beginning on the Acquisition Closing Date. See Note 16 for a discussion of our operating groups.

Supplemental Pro Forma Information (Unaudited)—The following unaudited pro forma condensed combined financial information (“the pro forma financial information”) presented for the three months ended March 31, 2013 gives effect to the acquisition of Shaw by CB&I, accounted for as a business combination using the purchase method of accounting. The pro forma financial information reflects the Acquisition and related events as if they occurred on January 1, 2013, and gives effect to pro forma events that are directly attributable to the Acquisition, factually supportable, and expected to have a continuing impact on the combined results of CB&I and Shaw following the Acquisition. The pro forma financial information includes adjustments to: (1) exclude transaction costs, professional fees, and change-in-control and severance-related costs that were included in CB&I and Shaw’s historical results and are not expected to be recurring; (2) exclude the results of portions of the Shaw business that were not acquired by CB&I or are not expected to have a continuing impact; (3) include additional intangibles amortization and net interest expense associated with the Shaw Acquisition; and (4) include the pro forma results of Shaw from January 1, 2013 through the Acquisition Closing Date for the three months ended March 31, 2013. Adjustments, net of tax, included in the pro forma net income below that were of a non-recurring nature totaled approximately \$51,200 for the three months ended March 31, 2013, reflecting the elimination of financing and acquisition and integration related costs. This pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the pro forma events taken place on the dates indicated. Further, the pro forma financial information does not purport to project the future operating results of the combined company following the Acquisition.

Three months  
ended March  
31, 2013

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Pro forma revenue	\$2,744,799
Pro forma net income attributable to CB&I	\$87,367
Pro forma net income attributable to CB&I per share:	
Basic	\$0.82
Diluted	\$0.81

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 5. INVENTORY

The components of inventory at March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014	December 31, 2013
Raw materials	\$177,035	\$184,586
Work in process	35,041	31,764
Finished goods	79,943	86,637
Total	\$292,019	\$302,987

## 6. GOODWILL AND OTHER INTANGIBLES

Goodwill—At March 31, 2014 and December 31, 2013, our goodwill balances were \$4,225,687 and \$4,226,468, respectively, attributable to the excess of the purchase price over the fair value of net assets acquired in connection with our acquisitions:

	Total
Balance at December 31, 2013	\$4,226,468
Amortization of tax goodwill in excess of book goodwill	(1,387 )
Foreign currency translation	606
Balance at March 31, 2014	\$4,225,687

During the three months ended March 31, 2014, no indicators of goodwill impairment were identified and therefore no goodwill impairment charge was recorded. There can be no assurance that future goodwill impairment tests will not result in charges to earnings.

Other Intangible Assets—The following table provides a summary of our acquired finite-lived intangible assets at March 31, 2014 and December 31, 2013, including weighted-average useful lives for each major intangible asset class and in total:

	March 31, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets (weighted average life)				
Backlog and customer relationships (16 years)	\$380,586	\$(42,718 )	\$380,586	\$(33,735 )
Process technologies (15 years)	295,885	(95,178 )	295,726	(90,282 )
Tradenames (10 years)	86,049	(13,367 )	86,042	(11,126 )
Lease agreements (6 years) <sup>(1)</sup>	—	—	7,718	(7,627 )
Non-compete agreements (7 years)	3,016	(2,703 )	3,012	(2,591 )
Total (15 years) <sup>(2)</sup>	\$765,536	\$(153,966 )	\$773,084	\$(145,361 )

<sup>(1)</sup> Lease agreement intangibles totaling \$7,718 became fully amortized during the three months ended March 31, 2014 and were therefore removed from the gross carrying and accumulated amortization balances above.

<sup>(2)</sup> The decrease in intangibles during three months ended March 31, 2014 primarily related to amortization expense of \$16,234.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 7. PARTNERING ARRANGEMENTS

As discussed in Note 2, we account for our unconsolidated ventures using either proportionate consolidation or the equity method. Further, we consolidate any venture that is determined to be a VIE for which we are the primary beneficiary, or which we otherwise effectively control.

Unconsolidated Ventures (Proportionate Consolidation)—The following is a summary description of our significant unconsolidated ventures which have been accounted for using proportionate consolidation:

CBI/Zachry—We have a venture with Zachry (CB&I—50% / Zachry—50%) to perform EPC work for two liquefied natural gas (“LNG”) liquefaction trains in Freeport, Texas. Our proportionate share of the CB&I/Zachry project value is approximately \$2,600,000.

CBI/Chiyoda—We have a venture with Chiyoda (CB&I—50% / Chiyoda—50%) to perform EPC work for three LNG liquefaction trains in Hackberry, Louisiana. Our proportionate share of the CB&I/Chiyoda project value is approximately \$3,100,000.

The above noted proportionately consolidated projects did not have a material impact on our results for the three months ended March 31, 2014 or 2013, but will become more material as project activities progress.

Unconsolidated Ventures (Equity Method)—The following is a summary description of our significant unconsolidated ventures which have been accounted for using the equity method:

Chevron-Lummus Global (“CLG”)—We have a venture with Chevron (CB&I—50% / Chevron—50%), which provides licenses, basic engineering services and catalyst supply for deep conversion (e.g. hydrocracking), residual hydroprocessing and lubes processing. The venture is focused on converting/upgrading heavy/sour crude that is produced in the refinery process to more marketable products. As sufficient capital investments in CLG have been made by the venture partners, it does not qualify as a VIE. Additionally, we do not effectively control CLG and therefore do not consolidate the venture.

NET Power LLC (“NET Power”)—We have a commitment to invest cash and in-kind services in NET Power, a venture between CB&I and various other parties, formed for the purpose of developing a new fossil fuel-based power generation technology and building a demonstration unit that is intended to produce cost-effective power with little-to-no carbon dioxide emissions. Our commitment totals \$50,400 and is contingent upon demonstration of various levels of feasibility of the NET Power technology and could result in up to a 50% interest in NET Power and provide for the exclusive right to engineer, procure and construct NET Power plants. At March 31, 2014, we had cumulatively invested cash and in-kind services of approximately \$7,300 and had an approximate 10% interest in NET Power. Cash and in-kind contributions have been expensed within our equity earnings and were not material during the three months ended March 31, 2014.

Consolidated Joint Ventures—The following is a summary description of the significant joint ventures we consolidate due to their designation as VIEs for which we are the primary beneficiary:

CBI/Kentz—We have a venture with Kentz (CB&I—65% / Kentz—35%) to perform the structural, mechanical, piping, electrical and instrumentation work on, and to provide commissioning support for, three LNG trains, including associated utilities and a gas processing and compression plant, for the Gorgon LNG project, located on Barrow Island, Australia. Our CB&I/Kentz project value is approximately \$4,500,000.

CBI/Clough—We have a venture with Clough (CB&I—65% / Clough—35%) to perform the EPC work for a gas conditioning plant, nearby wellheads, and associated piping and infrastructure for the Papua New Guinea LNG project, located in the Southern Highlands of Papua New Guinea. Our CB&I/Clough project value is approximately \$2,000,000.

CB&I/AREVA—We have a venture with AREVA (CB&I—52% / AREVA—48%) to design, license and construct a mixed oxide fuel fabrication facility in Aiken, South Carolina, which will be used to convert weapons-grade plutonium into fuel for nuclear power plants for the U.S. Department of Energy. Our CB&I/AREVA project value is approximately \$5,000,000.





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents summarized balance sheet information for our consolidated VIEs:

	March 31, 2014	December 31, 2013
CBI/Kentz		
Current assets	\$211,444	\$156,974
Current liabilities	\$104,940	\$72,741
CBI/Clough		
Current assets	\$132,243	\$122,179
Current liabilities	\$47,401	\$48,933
CBI/AREVA		
Current assets	\$69,053	\$34,547
Current liabilities	\$108,717	\$98,478
All Other <sup>(1)</sup>		
Current assets	\$80,700	\$83,370
Non-current assets	\$24,200	\$24,802
Total assets	\$104,900	\$108,172
Current liabilities	\$22,311	\$26,879

(1) Other ventures that we consolidate due to their designation as VIEs are not individually material to our financial results and are therefore aggregated as “All Other”.

The use of these ventures exposes us to a number of risks, including the risk that our partners may be unable or unwilling to provide their share of capital investment to fund the operations of the venture or to complete their obligations to us, the venture, or ultimately, our customer. This could result in unanticipated costs to complete the projects, liquidated damages or contract disputes, including claims against our partners.

**8. FACILITY REALIGNMENT LIABILITY**

At March 31, 2014 and December 31, 2013, we had a facility realignment liability related to the recognition of future operating lease expense for vacated facility capacity where we remain contractually obligated to a lessor. The liability was recognized within accrued liabilities and other non-current liabilities, as applicable, based upon the anticipated timing of payment. The following table summarizes the movements in the facility realignment liability during the three months ended March 31, 2014:

Balance at December 31, 2013	\$12,111
Charges <sup>(1)</sup>	2,275
Cash payments	(3,242)
Balance at March 31, 2014	\$11,144

(1) During the three months ended March 31, 2014, charges of \$2,275 were recognized within acquisition and integration related costs related to facility consolidations and the associated accelerated lease costs for vacated facilities, primarily in our Environmental Solutions operating group. During the remainder of 2014, we are continuing to assess our facility requirements in light of the 2013 Shaw Acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 9. DEBT

Our outstanding debt at March 31, 2014 and December 31, 2013 was as follows:

	March 31, 2014	December 31, 2013
Current		
Revolving facility debt	\$334,754	\$115,000
Current maturities of term loan	100,000	100,000
Current debt	\$434,754	\$215,000
Long-Term		
Term Loan: \$1,000,000 term loan (interest at LIBOR plus an applicable floating margin)	\$900,000	\$925,000
Senior Notes: \$800,000 senior notes, series A-D (fixed interest ranging from 4.15% to 5.30%)	800,000	800,000
Less: current maturities of term loan	(100,000 )	(100,000 )
Long-term debt	\$1,600,000	\$1,625,000

Revolving Facilities—We have a five-year, \$1,350,000, committed and unsecured revolving facility (the “Revolving Facility”) with BofA, as administrative agent, and BNP Paribas Securities Corp., BBVA Compass, Credit Agricole Corporate and Investment Bank (“Credit Agricole”) and The Royal Bank of Scotland plc, each as syndication agents, which expires in October 2018. The Revolving Facility has a borrowing sublimit of \$675,000 (with financial letters of credit not to exceed \$270,000) and certain financial covenants, including a maximum leverage ratio of 3.00, a minimum fixed charge coverage ratio of 1.75, and a minimum net worth level calculated as \$1,762,124 at March 31, 2014. The Revolving Facility also includes customary restrictions regarding subsidiary indebtedness, sales of assets, liens, investments, type of business conducted, and mergers and acquisitions, and includes a trailing twelve-month limitation of \$250,000 for dividend payments and share repurchases if our leverage ratio exceeds 1.50 (unlimited if our leverage ratio is equal to or below 1.50), among other restrictions. In addition to interest on debt borrowings, we are assessed quarterly commitment fees on the unutilized portion of the facility as well as letter of credit fees on outstanding instruments. The interest, letter of credit fee, and commitment fee percentages are based upon our quarterly leverage ratio. In the event that we borrow funds under the facility, interest is assessed at either prime plus an applicable floating margin (0.5% at March 31, 2014), or LIBOR plus an applicable floating margin (1.5% at March 31, 2014). At March 31, 2014, we had no outstanding borrowings under the facility, but had \$237,550 of outstanding letters of credit, providing \$1,112,450 of available capacity. Such letters of credit are generally issued to customers in the ordinary course of business to support advance payments and performance guarantees, in lieu of retention on our contracts, or in certain cases, are issued in support of our insurance program.

We also have a five-year, \$650,000, committed and unsecured revolving credit facility (the “Second Revolving Facility”) with BofA, as administrative agent, and Credit Agricole, as syndication agent, which expires in February 2018. The Second Revolving Facility supplements our Revolving Facility, has a \$487,500 borrowing sublimit and includes financial and restrictive covenants similar to those noted above for the Revolving Facility. In addition to interest on debt borrowings, we are assessed quarterly commitment fees on the unutilized portion of the facility as well as letter of credit fees on outstanding instruments. The interest, letter of credit fee, and commitment fee percentages are based upon our quarterly leverage ratio. In the event we borrow funds under the facility, interest is assessed at either prime plus an applicable floating margin (0.5% at March 31, 2014), or LIBOR plus an applicable floating margin (1.5% at March 31, 2014). At March 31, 2014, we had \$331,000 of outstanding borrowings and \$74,665 of outstanding letters of credit under the facility, providing \$244,335 of available capacity.

During 2014, our maximum outstanding borrowings under our revolving credit facilities were \$458,000.

Term Loan—At March 31, 2014, we had \$900,000 remaining on our four-year, \$1,000,000 unsecured Term Loan with BofA as administrative agent, which was used to fund a portion of the 2013 Shaw Acquisition. Interest and principal

under the Term Loan is payable quarterly in arrears and bears interest at LIBOR plus an applicable floating margin (1.5% at March 31, 2014). However, we continue to utilize an interest rate swap to hedge against \$454,500 of the remaining \$900,000 Term Loan, which resulted in a weighted average interest rate of approximately 1.97% during the three months ended March 31, 2014, inclusive of the applicable floating margin. Future annual maturities for the Term Loan are \$75,000, \$100,000, \$150,000 and \$575,000 for the remainder of 2014, 2015, 2016, and 2017, respectively. The Term Loan includes financial and restrictive covenants similar to those noted above for the Revolving Facility.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Senior Notes—We have a series of senior notes totaling \$800,000 in the aggregate (“Senior Notes”), with Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Credit Agricole, as administrative agents, which were used to fund a portion of the 2013 Shaw Acquisition. The Senior Notes have financial and restrictive covenants similar to those noted above for the Revolving Facility. The Senior Notes include Series A through D, which contain the following terms:

Series A—Interest due semi-annually at a fixed rate of 4.15%, with principal of \$150,000 due in December 2017

Series B—Interest due semi-annually at a fixed rate of 4.57%, with principal of \$225,000 due in December 2019

Series C—Interest due semi-annually at a fixed rate of 5.15%, with principal of \$275,000 due in December 2022

Series D—Interest due semi-annually at a fixed rate of 5.30%, with principal of \$150,000 due in December 2024

Uncommitted Facilities—We also have various short-term, uncommitted revolving credit facilities across several geographic regions of approximately \$2,030,936. These facilities are generally used to provide letters of credit or bank guarantees to customers in the ordinary course of business to support advance payments and performance guarantees, in lieu of retention on our contracts. At March 31, 2014, we had \$3,754 of outstanding borrowings and \$733,484 of outstanding letters of credit under these facilities, providing \$1,293,698 of available capacity.

In addition to providing letters of credit or bank guarantees, we also issue surety bonds in the ordinary course of business to support our contract performance. At March 31, 2014, we had \$667,006 of outstanding surety bonds.

Westinghouse Bonds—As more fully described in our 2013 Annual Report, in conjunction with the 2013 Shaw Acquisition, in the first quarter of 2013, we paid approximately 128,980,000 Japanese Yen (approximately \$1,353,700) to settle bond obligations associated with Shaw's former 20% investment in Westinghouse Electric Company (“WEC”). The bond holders were repaid from proceeds of a trust account (approximately \$1,309,000) established by Shaw prior to the Acquisition Closing Date and a payment by CB&I (approximately \$44,700). The bond obligations, and the associated trust account cash, were included in the Acquisition Closing Date balance sheet.

Compliance and Other—At March 31, 2014, we were in compliance with all of our restrictive and financial covenants associated with our debt and revolving credit facilities. Capitalized interest was insignificant at March 31, 2014 and December 31, 2013.

## 10. FINANCIAL INSTRUMENTS

## Foreign Currency Exchange Rate Derivatives

Operating Exposures—At March 31, 2014, the notional value of our outstanding forward contracts to hedge certain foreign exchange-related operating exposures was approximately \$107,000. These contracts vary in duration, maturing up to two years from period-end. We designate certain of these hedges as cash flow hedges and accordingly, changes in their fair value are recognized in AOCI until the associated underlying operating exposure impacts our earnings. We exclude forward points, which are recognized as ineffectiveness within cost of revenue and are not material to our earnings, from our hedge assessment analysis.

## Interest Rate Derivatives

Interest Rate Exposures—We continue to utilize a swap arrangement to hedge against interest rate variability associated with \$454,500 of our remaining \$900,000 Term Loan. The swap arrangement has been designated as a cash flow hedge as its critical terms matched those of the Term Loan at inception and through March 31, 2014. Accordingly, changes in the fair value of the hedge are recognized in AOCI until the associated underlying exposure impacts our earnings.

## Financial Instruments Disclosures

Fair Value—Financial instruments are required to be categorized within a valuation hierarchy based upon the lowest level of input that is significant to the fair value measurement. The three levels of the valuation hierarchy are as follows:

Level 1—Fair value is based upon quoted prices in active markets. Our cash and cash equivalents are classified within Level 1 of the valuation hierarchy as they are valued at cost, which approximates fair value.

Level 2—Fair value is based upon internally-developed models that use, as their basis, readily observable market parameters. Our derivative positions are classified within Level 2 of the valuation hierarchy as they are valued using

quoted market prices for similar assets and liabilities in active markets. These level 2 derivatives are valued utilizing an income approach, which discounts future cash flow based upon current market expectations and adjusts for credit risk.

Level 3—Fair value is based upon internally-developed models that use, as their basis, significant unobservable market parameters. We did not have any Level 3 classifications at March 31, 2014 or December 31, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the fair value of our cash and cash equivalents, foreign currency exchange rate derivatives and interest rate derivatives at March 31, 2014 and December 31, 2013, respectively, by v