

CHICAGO BRIDGE & IRON CO N V

Form 10-K

February 28, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2007**
- 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

**Oostduinlaan 75
2596 JJ The Hague
The Netherlands
31-70-3732722**

(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:

Name of Each Exchange on Which Registered:

Common Stock; Euro .01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

none

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

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

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

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

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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)
YES NO

Aggregate market value of common stock held by non-affiliates, based on a New York Stock Exchange closing price of \$37.74 as of June 30, 2007 was \$3,637,596,922.

The number of shares outstanding of the registrant's common stock as of February 1, 2008 was 96,737,506.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2008 Proxy Statement

Part III

CHICAGO BRIDGE & IRON COMPANY N.V. AND SUBSIDIARIES

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PART I

Item 1. *Business*

Founded in 1889, Chicago Bridge & Iron Company N.V. and Subsidiaries (CB&I or the Company) is one of the world's leading engineering, procurement and construction (EPC) companies. Our stock currently trades on the New York Stock Exchange (NYSE) under the ticker symbol CBI. CB&I is a major integrated EPC service provider and process technology licensor, delivering comprehensive solutions to customers in the energy and natural resource industries. With more than 80 locations and approximately 17,000 employees worldwide, we capitalize on our global expertise and local knowledge to safely and reliably deliver projects virtually anywhere. During 2007, we executed more than 500 projects in over 60 countries for customers in a variety of industries.

Segment Financial Information

Segment financial information by geographic area of operation and results of our recent acquisition of Lummus Global (Lummus) can be found in the section entitled Results of Operations in Item 7 and Financial Statements and Supplementary Data in Item 8.

Market Sectors

Within our operating segments, we serve under four broad market sectors: Liquefied Natural Gas (LNG), Energy Processes, Steel Plate Structures, and Lummus Technologies. Through these market sectors, we offer services both independently and on an integrated basis.

Liquefied Natural Gas. LNG terminals and similar facilities are used for the production, handling, storage and distribution of liquefied gases. We specialize in providing liquefaction and regasification facilities consisting of terminals, tanks, and associated systems. We also provide LNG tanks on a stand-alone basis. Customers for these facilities are international oil companies, regional oil and gas companies, and national oil companies and include such companies as CNOOC, Golden Pass LNG, Isle of Grain, Peru LNG, Qatar Petroleum, Southern LNG and Woodside.

Energy Processes. CB&I has extensive experience in a number of energy processes, including offshore structures, refinery process units, petrochemical process units, gas processing facilities, power plants, pipelines, hydrogen/synthesis gas plants, and sulfur removal and recovery. Customers in energy processes include major energy and petrochemical companies such as Chevron, ConocoPhillips, Hunt Oil, Nexen, Shell, Sunoco and Valero.

Steel Plate Structures. CB&I's capabilities for steel structures include above ground storage tanks, elevated storage tanks, pressure vessels, and other specialty structures such as processing facilities. Customers for these structures include oil and gas companies around the world such as ADNOC, British Gas, Chevron, Kinder Morgan, Qatar Petroleum and Suncor.

Lummus Technologies. CB&I offers licensed technologies for customers in the petrochemical, refining and gas processing industries, as well as heat transfer equipment and performance catalysts. Customers in this sector include companies such as Chevron, SABIC, Shell and Sinopec.

Certain Acquisitions

2007

On November 16, 2007, we acquired all of the outstanding shares of the Lummus business from Asea Brown Boveri Ltd. (ABB) and certain of its affiliates for a purchase price of approximately \$820.9 million, net of cash acquired and inclusive of transaction costs. Lummus operations include technology operations and on/near shore engineering, procurement, and construction. Lummus supplies a comprehensive range of products and services to the global oil, gas and petrochemical industries, including the design and supply of production facilities, refineries and petrochemical plants.

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2003

On April 29, 2003, we acquired certain assets and assumed certain liabilities of Petrofac Inc., an EPC company serving the hydrocarbon processing industry, for \$26.6 million, including transaction costs. The acquired operations have been fully integrated into our North America segment.

On May 30, 2003, we acquired certain assets and assumed certain liabilities of John Brown Hydrocarbons Ltd. for \$29.6 million, including transaction costs, net of cash acquired. The acquired operations have been integrated into our Europe, Africa and Middle East (EAME) segment.

Competitive Strengths

Our core competencies, which we believe are significant competitive strengths, include:

Strong Health, Safety and Environmental (HSE) Performance. Because of our long and outstanding safety record, we are sometimes invited to bid on projects for which other competitors do not qualify. According to the U.S. Bureau of Labor Statistics, the national Lost Workday Case Incidence Rate for construction companies similar to CB&I was 3.5 per 100 full-time employees for 2006 (the latest reported year), while our rate for 2007 was only 0.13 per 100. Our excellent HSE performance also translates directly to lower cost, timely completion of projects, and reduced risk to our employees, subcontractors and customers.

Worldwide Record of Excellence. We have an established record as a leader in the international engineering and construction industry by providing consistently superior project performance for 118 years.

Global Execution Capabilities. With a global network of some 80 sales and operations offices, established supplier relationships and available workforces, we have the ability to rapidly mobilize people, materials and equipment to execute projects in locations ranging from highly industrialized countries to some of the world's more remote regions. Additionally, due primarily to our long-standing presence in numerous markets around the world, we have a prominent position as a local contractor in global energy and industrial markets.

Fabrication. We are one of the few EPC and process technology contractors with in-house fabrication facilities which allow us to offer customers the option of modular construction, when feasible. In contrast to traditional onsite stick built construction, modular construction enables the modules to be built within a tightly monitored shop environment and allows us to better control quality, minimize weather delays and expedite schedules. Once completed, the modules are shipped and assembled at the project site.

Licensed Lummus Technologies. We offer a broad, state-of-the-art portfolio in gas processing, refining and petrochemical technologies. Being able to provide licensed technologies sets CB&I apart from our competitors and presents opportunities for increased profitability. Combining technology with EPC capabilities strengthens CB&I's presence throughout the project life cycle, allowing us to capture additional market share in the important higher margin growth sectors.

Recognized Expertise. Our in-house engineering team includes internationally recognized experts in oil and gas processes and facilities, modular design and fabrication, cryogenic storage and processing and bulk liquid storage and systems. Several of our senior engineers are long-standing members of committees that have helped develop worldwide standards for storage structures and process vessels for the petroleum industry, including the American Petroleum Institute and the American Society of Mechanical Engineers.

Strong Focus on Project Risk Management. We are experienced in managing the risk associated with bidding on and executing complex projects. Our position as an integrated EPC service provider allows us to execute global projects on a competitively bid and negotiated basis. We offer our customers a range of contracting options, including fixed-price, cost reimbursable and hybrid approaches.

Management Team with Extensive Engineering and Construction Industry Experience. Members of our senior leadership team have an average of more than 25 years of experience in the engineering and construction industry.

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Growth Strategy

On an opportunistic basis, we may pursue additional growth through selective acquisitions of businesses or assets that will expand or complement our current portfolio of services and meet our stringent acquisition criteria. The combination of CB&I and Lummus creates one of the world's leading construction and process engineering companies, with a broad range of multinational customers in the energy and natural resource industries. The offering of both EPC services and technologies further differentiates CB&I from its competitors, and the combination of the complementary platforms has resulted in an organization with formidable resources at each stage of the project life cycle.

Competition

We operate in a competitive environment. Technology performance, price, timeliness of completion, quality, safety record and reputation are the principal competitive factors within the industry. There are numerous regional, national and global competitors that offer services similar to ours.

Marketing and Customers

Through our global network of sales offices, we contract directly with hundreds of customers in the energy and natural resources industries. We rely primarily on direct contact between our technically qualified sales and engineering staff and our customers' engineering and contracting departments. Dedicated sales employees are located throughout our global offices.

Our significant customers, with many of which we have had longstanding relationships, are primarily in the hydrocarbon sector and include major petroleum and petrochemical companies (see our "Market Sectors" for our customers).

We are not dependent upon any single customer on an ongoing basis and do not believe the loss of any single customer would have a material adverse effect on our business. For the year ended December 31, 2007, we had one customer within our EAME segment that accounted for more than 10% of our total revenue. Revenue from South Hook LNG totaled approximately \$542.2 million or 12% of our total revenue. For the year ended December 31, 2006, we had one customer within our North America segment and one customer within our EAME segment that each accounted for more than 10% of our total revenue. Revenue from Valero Energy Corporation totaled approximately \$353.5 million or 11% of our total revenue, and revenue from South Hook LNG totaled approximately \$515.4 million or 16% of our total revenue. For the year ended December 31, 2005, we had one customer within our North America segment that accounted for more than 10% of our revenue. Revenue from Valero Energy Corporation totaled approximately \$244.5 million or 11% of our total revenue.

Backlog/New Awards

We had a backlog of work to be completed on contracts of \$7.7 billion as of December 31, 2007, compared with \$4.6 billion as of December 31, 2006. Due to the timing of awards and the long-term nature of some of our projects, certain backlog of our work may not be completed in the current fiscal year as our revenue is anticipated to be approximately \$5.9 to \$6.2 billion in 2008. New awards were approximately \$6.2 billion for the year ended December 31, 2007, compared with \$4.4 billion for the year ended December 31, 2006.

Years Ended December 31,	
2007	2006

(In thousands)

North America	\$ 1,958,368	\$ 2,753,121
Europe, Africa and Middle East	1,068,224	1,143,941
Asia Pacific	610,340	324,445
Central and South America	2,540,511	207,776
Lummus	25,800	
Total New Awards	\$ 6,203,243	\$ 4,429,283

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Types of Contracts

Our contracts are usually awarded on a competitive bid and negotiated basis. We offer our customers a range of contracting options, including fixed-price, cost reimbursable and hybrid approaches. Each contract is designed to optimize the balance between risk and reward.

Raw Materials and Suppliers

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

We make planned use of subcontractors where it assists us in meeting customer requirements with regard to schedule, cost or technical expertise. These subcontractors may range from small local entities to companies with global capabilities, some of which may be utilized on a repetitive or preferred basis. We anticipate being able to locate and contract with qualified subcontractors in all global areas where we do business.

Environmental Matters

Our operations are subject to extensive and changing U.S. federal, state and local laws and regulations, as well as laws of other nations that establish health and environmental quality standards. These standards, among others, relate to air and water pollutants and the management and disposal of hazardous substances and wastes. We are exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes.

In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. We are not aware of any possible claim or assessment with respect to any such facility.

We believe that we are currently in compliance, in all material respects, with all environmental laws and regulations. We do not anticipate that we will incur material capital expenditures for environmental controls or for investigation or remediation of environmental conditions during 2008 or 2009.

Patents

We hold patents and licenses for certain items incorporated into our structures. However, none is so essential that its loss would materially affect our business.

Employees

We employed approximately 17,000 persons worldwide as of December 31, 2007. With respect to our total number of employees as of December 31, 2007, we had 7,779 salaried employees and 9,516 hourly and craft employees. The number of hourly and craft employees varies in relation to the number and size of projects we have in process at any

particular time. The percentage of our employees represented by unions generally ranges between 10 and 20 percent. CB&I has agreements with various unions representing groups of its employees at project sites in the United States (U.S.), Canada, the United Kingdom (U.K.), Australia and various other countries. We have multiple agreements with various unions, the terms of which generally extend up to three years.

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We enjoy good relations with our unions and have not experienced a significant work stoppage in any of our facilities in more than 10 years. Additionally, to preserve our project management and technological expertise as core competencies, we recruit, develop and maintain ongoing training programs for engineers and field supervision personnel.

Available Information

We make available our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), free of charge through our internet website at www.cbi.com as soon as reasonably practicable after we electronically file such material with or furnish it to the Securities Exchange Commission (the SEC).

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Item 1A. Risk Factors

Any of the following risks (which are not the only risks we face) could have material adverse effects on our financial condition, operating results and cash flow.

Risk Factors Relating to Our Business

We Could Lose Money if We Fail to Execute Within Our Cost Estimates on Fixed-Price, Lump-Sum Contracts.

Most of our net revenue is derived from fixed-price, lump-sum contracts. Under these contracts, we perform our services and execute our projects at a fixed price and, as a result, benefit from cost savings, but we may be unable to recover any cost overruns. If we do not execute the contract within our cost estimates, we may incur losses or the project may not be as profitable as we expected. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to changes in a variety of factors, including but not limited to:

costs incurred in connection with modifications to a contract (change orders) that may be unapproved by the customer as to scope and/or price;

unanticipated costs (claims), including costs for customer-caused delays, errors in specifications or designs, or contract termination;

unanticipated technical problems with the structures or systems being supplied by us, which may require that we spend our own money to remedy the problem;

changes in the costs of components, materials, labor or subcontractors;

failure to properly estimate costs of engineering, materials, equipment or labor;

difficulties in obtaining required governmental permits or approvals;

changes in laws and regulations;

changes in labor conditions;

project modifications creating unanticipated costs;

delays caused by weather conditions;

our suppliers or subcontractors failure to perform; and

exacerbation of any one or more of these factors as projects grow in size and complexity.

These risks are exacerbated if the duration of the project is long-term because there is an increased risk that the circumstances upon which we based our original bid will change in a manner that increases costs. In addition, we sometimes bear the risk of delays caused by unexpected conditions or events.

Our Use of the Percentage-of-Completion Method of Accounting Could Result in a Reduction or Reversal of Previously Recorded Revenue and Profit.

Revenue is primarily recognized using the percentage-of-completion method. Our contracts are usually awarded on a competitive bid and negotiated basis. We offer our customers a range of contracting options, including fixed-price, cost reimbursable and hybrid approaches. Contract revenue is primarily accrued based on the percentage that actual costs-to-date bear to total estimated costs. We utilize this cost-to-cost approach as we believe this method is less subjective than relying on assessments of physical progress. We follow the guidance of the Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, (SOP 81-1) for accounting policies relating to our use of the percentage-of-completion method, estimating costs, revenue recognition, combining and segmenting contracts and unapproved change order/claim recognition. Under the cost-to-cost approach, while the most widely recognized method used for percentage-of-completion accounting, the use of estimated cost to complete each contract is a significant variable

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in the process of determining income earned and is a significant factor in the accounting for contracts. 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. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which may result in a reduction or reversal of previously recorded revenue and profit.

Certain Remedies Ordered in a Federal Trade Commission Order Could Adversely Affect Us.

In October 2001, the U.S. Federal Trade Commission (the "FTC" or the "Commission") filed an administrative complaint (the "Complaint") challenging our February 2001 acquisition of certain assets of the Engineered Construction Division of Pitt-Des Moines, Inc. ("PDM") that we acquired together with certain assets of the Water Division of PDM (the Engineered Construction and Water Divisions of PDM are hereafter sometimes referred to as the "PDM Divisions"). The Complaint alleged that the acquisition violated Federal antitrust laws by threatening to substantially lessen competition in four specific business lines in the U.S.: liquefied nitrogen, liquefied oxygen and liquefied argon (LIN/LOX/LAR) storage tanks; liquefied petroleum gas (LPG) storage tanks; liquefied natural gas (LNG) storage tanks and associated facilities; and field erected thermal vacuum chambers (used for the testing of satellites) (the "Relevant Products").

In June 2003, an FTC Administrative Law Judge ruled that our acquisition of PDM assets threatened to substantially lessen competition in the four business lines identified above and ordered us to divest within 180 days of a final order all physical assets, intellectual property and any uncompleted construction contracts of the PDM Divisions that we acquired from PDM to a purchaser approved by the FTC that is able to utilize those assets as a viable competitor.

We appealed the ruling to the full FTC. In addition, the FTC Staff appealed the sufficiency of the remedies contained in the ruling to the full FTC. On January 6, 2005, the Commission issued its Opinion and Final Order. According to the FTC's Opinion, we would be required to divide our industrial division, including employees, into two separate operating divisions, CB&I and New PDM, and to divest New PDM to a purchaser approved by the FTC within 180 days of the Order becoming final. By order dated August 30, 2005, the FTC issued its final ruling substantially denying our petition to reconsider and upholding the Final Order as modified.

We believe that the FTC's Order and Opinion are inconsistent with the law and the facts presented at trial, in the appeal to the Commission, as well as new evidence following the close of the record. We have filed a petition for review of the FTC Order and Opinion with the U.S. Court of Appeals for the Fifth Circuit. Oral arguments occurred on May 2, 2007. On January 25, 2008, we received the decision of the Fifth Circuit Court of Appeals regarding our appeal of the Order. We are currently reviewing the Court's decision, which denied our petition to review the Order, and are evaluating our legal options. As we have done over the course of the past year, we will also continue to work cooperatively with the FTC to resolve this matter. We are not required to divest any assets until we have exhausted all appeal processes available to us, including appeal to the U.S. Supreme Court. Because (i) the remedies described in the Order and Opinion are neither consistent nor clear, (ii) the needs and requirements of any purchaser of divested assets could impact the amount and type of possible additional assets, if any, to be conveyed to the purchaser to constitute it as a viable competitor in the Relevant Products beyond those contained in the PDM Divisions, and (iii) the demand for the Relevant Products is constantly changing, we have not been able to definitively quantify the potential effect on our financial statements. The divested entity could include, among other things, certain fabrication facilities, equipment, contracts and employees of CB&I. The remedies contained in the Order, depending on how and to the extent they are ultimately implemented to establish a viable competitor in the Relevant Products, could have an adverse effect on us, including the possibility of a potential write-down of the net book value of divested assets, a loss of revenue relating to divested contracts and costs associated with a divestiture.

Our Recent Acquisitions or Any Prospective Acquisitions that We Undertake Could Be Difficult to Integrate, Disrupt Our Business, Dilute Stockholder Value and Harm Our Operating Results.

We may continue to pursue growth through the opportunistic acquisition of companies or assets that will enable us to broaden the types of projects we execute and also expand into new markets. Our opportunity to grow through prospective acquisitions may be limited if we cannot identify suitable companies or assets, reach agreement

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on potential strategic acquisitions on acceptable terms or for other reasons. Our recent or future acquisitions may be subject to a variety of risks, including:

difficulties in the integration of operations and systems;

the key personnel and customers of the acquired company may terminate their relationships with the acquired company;

we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;

we may assume or be held liable for risks and liabilities (including for environmental-related costs) as a result of our acquisitions, some of which we may not discover during our due diligence;

our ongoing business may be disrupted or receive insufficient management attention; and

we may not be able to realize the cost savings or other financial benefits we anticipated.

If one or more of these risks are realized, it could have an adverse impact on our operations. Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit and bonding capacity.

Our Business is Dependent upon Major Construction Projects from our Clients, the Unpredictable Timing of Which May Result in Significant Fluctuations in our Cash Flow and Earnings due to Timing Between the Award of the Project and Payment Under the Contract.

Our cash flow and earnings are dependent upon major construction projects in cyclical industries, including the hydrocarbon refining, natural gas and water industries. The selection of, timing of or failure to obtain projects, delays in awards of projects, cancellations of projects or delays in completion of contracts could result in significant periodic fluctuations in our cash flows. Moreover, construction projects for which our services are contracted may require significant expenditures by us prior to receipt of relevant payments by a customer and such expenditures could reduce our cash flows and necessitate increased borrowings under our credit facilities.

We Could be Exposed to Credit Risk from a Customer's Financial Difficulties.

The majority of our accounts receivable and all contract work in progress are from clients in various industries and locations throughout the world. Most contracts require payments as the projects progress or in certain cases advance payments. We may be exposed to potential credit risk if our customers should encounter financial difficulties.

Our New Awards and Liquidity May Be Adversely Affected by Bonding and Letter of Credit Capacity.

A portion of our new awards requires the support of bid, performance, payment and retention bonds. Our primary use of surety bonds is to support water and wastewater treatment and standard tank projects in the U.S. A restriction, reduction, or termination of our surety agreements could limit our ability to bid on new project opportunities, thereby limiting our new awards, or increase our letter of credit utilization in lieu of bonds, thereby reducing availability under our credit facilities.

Our Revenue and Earnings May Be Adversely Affected by a Reduced Level of Activity in the Hydrocarbon Industry.

In recent years, demand from the worldwide hydrocarbon industry has been the largest generator of our revenue. Numerous factors influence capital expenditure decisions in the hydrocarbon industry, including:

current and projected oil and gas prices;

exploration, extraction, production and transportation costs;

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the discovery rate and size of new oil and gas reserves;

the sale and expiration dates of leases and concessions;

local and international political and economic conditions, including war or conflict;

technological advances;

the ability of oil and gas companies to generate capital; and

demand for hydrocarbon production.

In addition, changing taxes, price controls, and laws and regulations may reduce or affect the level of activity in the hydrocarbon industry. These factors are beyond our control. Reduced activity in the hydrocarbon industry could result in a reduction of major projects available in the industry, which may result in a reduction of our revenue and earnings and possible under-utilization of our assets.

Intense Competition in the Engineering and Construction and Process Technology Industries Could Reduce Our Market Share and Earnings.

We serve markets that are highly competitive and in which a large number of multinational companies compete. In particular, the EPC and process technology markets are highly competitive and require substantial resources and capital investment in equipment, technology and skilled personnel. Competition also places downward pressure on our contract prices and margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our earnings.

Our Projects Expose Us to Potential Professional Liability, Product Liability, or Warranty or Other Claims.

We engineer and construct (and our structures typically are installed in) large industrial facilities in which system failure can be disastrous. We may also be subject to claims resulting from the subsequent operations of facilities we have installed. In addition, our operations are subject to the usual hazards inherent in providing engineering and construction services, such as the risk of work accidents, fires and explosions. These hazards can cause personal injury and loss of life, business interruptions, property damage, pollution and environmental damage. We may be subject to claims as a result of these hazards.

Although we generally do not accept liability for consequential damages in our contracts, any catastrophic occurrence in excess of insurance limits at projects where our structures are installed or services are performed could result in significant professional liability, product liability, warranty and other claims against us. These liabilities could exceed our current insurance coverage and the fees we derive from those structures and services. These claims could also make it difficult for us to obtain adequate insurance coverage in the future at a reasonable cost. Clients or subcontractors that have agreed to indemnify us against such losses may refuse or be unable to pay us. A partially or completely uninsured claim, if successful, could result in substantial losses and reduce cash available for our operations.

We May Experience Increased Costs and Decreased Cash Flow Due to Compliance with Environmental Laws and Regulations, Liability for Contamination of the Environment or Related Personal Injuries.

We are subject to environmental laws and regulations, including those concerning:

emissions into the air;

discharge into waterways;

generation, storage, handling, treatment and disposal of waste materials; and

health and safety.

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Our businesses often involve working around and with volatile, toxic and hazardous substances and other highly regulated materials, the improper characterization, handling or disposal of which could constitute violations of U.S. federal, state or local laws and regulations and laws of other nations, and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require us to obtain permits and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on us, or revoke or deny issuance or renewal of operating permits for failure to comply with applicable laws and regulations. We are also exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such substances or materials. We may incur liabilities that may not be covered by insurance policies, or, if covered, the dollar amount of such liabilities may exceed our policy limits or fall within applicable deductible or retention limits. A partially or completely uninsured claim, if successful and of significant magnitude, could cause us to suffer a significant loss and reduce cash available for our operations.

The environmental health and safety laws and regulations to which we are subject are constantly changing, and it is impossible to predict the effect of such laws and regulations on us in the future. We cannot assure you that our operations will continue to comply with future laws and regulations or that these laws and regulations will not cause us to incur significant costs or adopt more costly methods of operation.

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

We Are Currently Subject to Securities Class Action Litigation, the Settlement of Which, if Not Finally Approved by the Court, Might Have a Material Adverse Effect on Our Financial Condition, Results of Operations and Cash Flow.

A class action shareholder lawsuit was filed on February 17, 2006 against us, Gerald M. Glenn, Robert B. Jordan, and Richard E. Goodrich in the U.S. District Court for the Southern District of New York entitled *Welmon v. Chicago Bridge & Iron Co. NV, et al.* (No. 06 CV 1283). The complaint was filed on behalf of a purported class consisting of all those who purchased or otherwise acquired our securities from March 9, 2005 through February 3, 2006 and were damaged thereby.

The action asserts claims under the U.S. securities laws in connection with various public statements made by the defendants during the class period and alleges, among other things, that we misapplied percentage-of-completion accounting and did not follow our publicly stated revenue recognition policies.

Since the initial lawsuit, other suits containing substantially similar allegations and with similar, but not exactly the same, class periods were filed.

On July 5, 2006, a single Consolidated Amended Complaint was filed in the *Welmon* action in the Southern District of New York consolidating all previously filed actions. We and the individual defendants filed a motion to dismiss the Complaint, which was denied by the Court. On March 2, 2007, the lead plaintiffs filed a motion for class certification, and we and the individual defendants filed an opposition to class certification on April 2, 2007. After an initial hearing on the motion for class certification held on May 29, 2007, the Court scheduled another hearing to be held on November 13-14, 2007, to resolve factual issues regarding the typicality and adequacy of the proposed class representatives. The parties have agreed to a rescheduling of the hearing to a later date.

On January 22, 2008, the parties entered into a definitive settlement agreement that, without any admission of liability, would fully resolve the claims made against us and the individual defendants in this litigation. The settlement agreement received preliminary approval by the Court on January 30, 2008 and, after notice to class members, is subject to final approval by the Court at a hearing to be held on June 3, 2008. Under the terms of the settlement agreement, the plaintiff class would receive a payment of \$10.5 million to be made by our insurance carrier. We can give no assurance that the Court will finally approve the settlement, and should it fail to do so, the case would revert to a hearing on class certification and could then proceed to discovery and trial on the merits. Should the case proceed to trial, although we believe that we have meritorious defenses to the claims made in the

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above action and would contest them vigorously, an adverse result could have a material adverse effect on our financial position and results of operations in the period in which the lawsuit is resolved.

An adverse result also could reduce our available cash and necessitate increased borrowings under our credit facility, leaving less capacity available for letters of credit to support our new business, or result in our inability to comply with the covenants of our credit facility and other financing arrangements.

We Are and Will Continue to Be Involved in Litigation That Could Negatively Impact Our Earnings and Financial Condition.

We have been and may from time to time be named as a defendant in legal actions claiming damages in connection with engineering and construction projects, Lummus technology licenses and other matters. These are typically claims that arise in the normal course of business, including employment-related claims and contractual disputes or claims for personal injury (including asbestos-related lawsuits) or property damage which occur in connection with services performed relating to project or construction sites. Contractual disputes normally involve claims relating to the timely completion of projects, performance of equipment or technologies, design or other engineering services or project construction services provided by our subsidiaries. Management does not currently believe that pending contractual, employment-related personal injury or property damage claims will have a material adverse effect on our earnings or liquidity; however, such claims could have such an effect in the future. We may incur liabilities that may not be covered by insurance policies, or, if covered, the dollar amount of such liabilities may exceed our policy limits or fall below applicable deductibles. A partially or completely uninsured claim, if successful and of significant magnitude, could cause us to suffer a significant loss and reduce cash available for our operations.

We May Not Be Able to Fully Realize the Revenue Value Reported in Our Backlog.

We had a backlog of work to be completed on contracts totaling \$7.7 billion as of December 31, 2007. Backlog develops as a result of new awards, which represent the revenue value of new project commitments received by us during a given period. Backlog consists of projects which have either (i) not yet been started or (ii) are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed. The revenue projected in our backlog may not be realized, or if realized, may not result in earnings as a result of poor project or contract performance. From time to time, projects are cancelled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to being unable to recover certain direct costs, cancelled projects may also result in additional unrecoverable costs due to the resulting under-utilization of our assets.

Political and Economic Conditions, Including War or Conflict, in Non-U.S. Countries in Which We Operate Could Adversely Affect Us.

A significant number of our projects are performed outside the U.S., including in developing countries with political and legal systems that are significantly different from those found in the U.S. We expect non-U.S. sales and operations to continue to contribute materially to our earnings for the foreseeable future. Non-U.S. contracts and operations expose us to risks inherent in doing business outside the U.S., including:

unstable economic conditions in the non-U.S. countries in which we make capital investments, operate and provide services;

the lack of well-developed legal systems in some countries in which we operate, which could make it difficult for us to enforce our contracts;

expropriation of property;

restrictions on the right to receive dividends from joint ventures, convert currency or repatriate funds; and

political upheaval and international hostilities, including risks of loss due to civil strife, acts of war, guerrilla activities, insurrections and acts of terrorism.

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Political instability risks may arise from time to time on a country-by-country (not geographic segment) basis where we happen to have a large active project. We do not believe we have any material risks at the present time attributable to political instability.

We Are Exposed to Possible Losses from Foreign Currency Exchange Rates.

We are exposed to market risk from changes in foreign currency exchange rates. Our exposure to changes in foreign currency exchange rates arises from receivables, payables, forecasted transactions and firm commitments from international transactions, as well as intercompany loans used to finance non-U.S. subsidiaries. We may incur losses from foreign currency exchange rate fluctuations if we are unable to convert foreign currency in a timely fashion. We seek to minimize the risks from these foreign currency exchange rate fluctuations through a combination of contracting methodology and, when deemed appropriate, use of primarily foreign currency forward contracts. In circumstances where we utilize forward contracts, our results of operations might be negatively impacted if the underlying transactions occur at different times or in different amounts than originally anticipated. We do not use financial instruments for trading or speculative purposes.

Our Goodwill and Other Intangible Assets Could be Impaired and Result in a Charge to Income.

We have accounted for our acquisitions, including the recent acquisition of Lummus, using the purchase method of accounting. Under the purchase method we have recorded, at fair value, assets acquired and liabilities assumed, and we recorded as goodwill, the difference between the cost of acquisitions and the sum of the fair value of tangible and identifiable intangible assets acquired, less liabilities assumed. Definite-lived intangible assets have been segregated from goodwill and recorded based upon expected future recovery of the underlying assets. At December 31, 2007, our goodwill balance was \$942.3 million, \$714.9 million of which is attributable to the excess of the purchase price of Lummus over the fair value of assets and liabilities acquired on November 16, 2007. The remainder is attributable to past acquisitions within our North America and EAME segments. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), definite-lived intangible assets are initially recorded at fair value and amortized over their anticipated useful lives, while goodwill balances are not amortized but rather tested for impairment annually or more frequently if indicators of impairment arise. A fair value approach is used to identify potential goodwill or other intangible impairment, utilizing a discounted cash flow model. Since our adoption of SFAS No. 142 during the first quarter of 2002, we have had no indicators of impairment on goodwill or other intangible assets. However, in the future, if our remaining goodwill or other intangible assets were determined to be impaired, the impairment would result in a charge to income from operations in the year of the impairment with a resulting decrease in our recorded net worth.

If We Are Unable to Attract and Retain Key Personnel, Our Business Could Be Adversely Affected.

Our future success depends on our ability to attract, retain and motivate highly skilled personnel in various areas, including engineering, project management, procurement, project controls, finance and senior management. If we do not succeed in retaining and motivating our current employees and attracting new high quality employees, our business could be adversely affected.

Uncertainty in Enforcing U.S. Judgments Against Netherlands Corporations, Directors and Others Could Create Difficulties for Holders of Our Securities in Enforcing Any Judgments Obtained Against Us.

We are a Netherlands company and a significant portion of our assets are located outside the U.S. In addition, members of our management and supervisory boards may be residents of countries other than the U.S. As a result, effecting service of process on each person may be difficult, and judgments of U.S. courts, including judgments

against us or members of our management or supervisory boards predicated on the civil liability provisions of the federal or state securities laws of the U.S., may be difficult to enforce.

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Risk Factors Associated with Our Common Stock