MCDERMOTT INTERNATIONAL INC
Form DEF 14A
March 27, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

McDermott International, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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McDermott International, Inc.

John A. Fees
Chief Executive Officer

777 N. Eldridge Pkwy.
Houston, Texas 77079

March 27, 2009

Dear Stockholder:

You are cordially invited to attend this year s Annual Meeting of Stockholders of McDermott International, Inc., which will be held on Friday, May 8, 2009, at 757 N. Eldridge Parkway, Houston, Texas 77079, on the 14th floor, commencing at 9:30 a.m. local time. The notice of annual meeting and proxy statement following this letter describe the matters to be acted on at the meeting.

McDermott is pleased to announce that we are taking advantage of the Securities and Exchange Commission s Notice and Access proxy rule, which allows companies to furnish proxy materials via the Internet as an alternative to the traditional approach of mailing a printed set to each shareholder. We believe this will allow us to continue to provide shareholders with the proxy materials they need while reducing printing and postage costs associated with delivery and reducing the environmental impact of our Annual Meeting. In accordance with these rules, we have sent a Notice of Internet Availability of Proxy Materials to all shareholders who have not previously elected to receive a printed set of proxy materials. The Notice contains instructions on how to access our Proxy Statement and Annual Report to Stockholders, as well as how to vote either online, by telephone or in person at the 2009 Annual Meeting.

It is very important that your shares are represented and voted at the Annual Meeting. Please vote your shares by Internet or telephone, or, if you received a printed set of materials by mail, by returning the accompanying proxy card, as soon as possible to ensure that your shares are voted at the meeting. Further instructions on how to vote your shares can be found in our Proxy Statement.

Thank you for your support of our company.

Sincerely yours,

JOHN A. FEES

YOUR VOTE IS IMPORTANT.

Whether or not you plan to attend the meeting, please take a few minutes now to vote your shares.

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 8, 2009.

The proxy statement and annual report are available on the Internet at www.proxyvote.com.

The following information applicable to the Annual Meeting may be found in the proxy statement and accompanying proxy card:

The date, time and location of the meeting;

A list of the matters intended to be acted on and our recommendations regarding those matters;

Any control/identification numbers that you need to access your proxy card; and

Information about attending the meeting and voting in person.

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McDERMOTT INTERNATIONAL, INC.
777 N. Eldridge Pkwy.
Houston, Texas 77079

Notice of 2009 Annual Meeting of Stockholders

The 2009 Annual Meeting of the Stockholders of McDermott International, Inc., a Panamanian corporation, will be held at 757 N. Eldridge Parkway, Houston, Texas 77079, on the 14th floor, on Friday, May 8, 2009, at 9:30 a.m. local time, in order to:

(1) elect three Class I Directors for a term of one year and three Class II Directors for a term of one year;

(2) approve the 2009 McDermott International, Inc. Long-Term Incentive Plan;

(3) ratify our Audit Committee s appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2009; and

(4) transact such other business as may properly come before the meeting or any adjournment thereof.

If you were a stockholder as of the close of business on March 9, 2009, you are entitled to vote at the meeting and at any adjournment thereof.

This year, instead of mailing a printed copy of our proxy materials, including our Annual Report, to each shareholder of record, we have decided to provide access to these materials via the Internet. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all shareholders. Accordingly, on March 27, 2009, we began mailing a Notice of Internet Availability of Proxy Materials (the Notice) to all shareholders of record as of March 9, 2009, and posted our proxy materials on the Web site referenced in the Notice (www.proxyvote.com). As more fully described in the Notice, all shareholders may choose to access our proxy materials on the Web site referred to in the Notice or may request a printed set of our proxy materials. In addition, the Notice and website provide information regarding how you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

If you received a printed copy of the materials, we have enclosed a copy of our 2008 Annual Report to Stockholders with this notice and proxy statement.

Your vote is important. Please vote your proxy promptly so your shares can be represented, even if you plan to attend the annual meeting. You can vote by Internet, by telephone, or by requesting a printed copy of the proxy materials and using the enclosed proxy card.

By Order of the Board of Directors,

LIANE K. HINRICHS
Secretary

Dated: March 27, 2009

PROXY STATEMENT FOR 2009 ANNUAL MEETING OF STOCKHOLDERS

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GENERAL INFORMATION

As more fully described in the Notice, the Board of Directors of McDermott International, Inc. (McDermott) has made these materials available to you over the Internet or, upon your request, has mailed you printed versions of these materials in connection with our 2009 Annual Meeting of Stockholders, which will take place on May 8, 2009. We mailed the Notice to our shareholders beginning March 27, 2009, and our proxy materials were posted on the Web site referenced in the Notice on that same date. McDermott, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2009 Annual Meeting of Stockholders. We solicit proxies to give all shareholders of record an opportunity to vote on matters that will be presented at the annual meeting. In this proxy statement, you will find information on these matters, which is provided to assist you in voting your shares.

Proxy materials have been sent or access to the materials has been provided to you because our Board of Directors is soliciting your proxy to vote your shares at our Annual Meeting to be held on May 8, 2009. We will bear all expenses incurred in connection with this proxy solicitation, which we expect to conduct primarily by mail. We have engaged The Proxy Advisory Group, LLC to assist in the solicitation for a fee that will not exceed $10,000, plus out-of-pocket expenses. In addition, our officers and regular employees may solicit your proxy by telephone, by facsimile transmission or in person, for which they will not be separately compensated. If your shares are held through a broker or other nominee (*i.e.*, in street name) and you have requested printed versions of these materials, we have requested that your broker or nominee forward this proxy statement to you and obtain your voting instructions, for which we will reimburse them for reasonable out-of-pocket expenses. If your shares are held through the Thrift Plan for Employees of McDermott Incorporated and Participating Subsidiary and Affiliated Companies (the McDermott Thrift Plan) and you have requested printed versions of these materials, the trustee of that plan has sent you this proxy statement and you can instruct the trustee on how to vote your plan shares.

VOTING INFORMATION

Record Date and Who May Vote

Our Board of Directors selected March 9, 2009 as the record date (the Record Date) for determining stockholders entitled to vote at the Annual Meeting. This means that if you were a registered stockholder with our transfer agent and registrar, Computershare Trust Company, N.A., on the Record Date, you may vote your shares on the matters to be considered by our stockholders at the Annual Meeting. If your shares were held in street name on that date, the broker or other nominee that was the record holder of your shares has the authority to vote them at the Annual Meeting. They are seeking your instructions on how you want your shares voted.

On the Record Date, 228,655,752 shares of our common stock were outstanding. Each outstanding share of common stock entitles its holder to one vote on each matter to be acted on at the meeting.

How to Vote

Most shareholders can vote by proxy in three ways:

- by Internet at www.proxyvote.com;
- by telephone; or
- by mail.

If you are a stockholder of record, you can vote your shares in person at the Annual Meeting or vote now by giving us your proxy. You may give us your proxy by following the instructions included in the Notice or, if you received a printed version of these proxy materials, in the enclosed proxy card. If you want to vote by mail but have not received a printed version of these proxy materials, you may request a full packet of proxy materials through the instructions in the Notice. If you vote using either telephone or the Internet, you will save us mail expense.

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By giving us your proxy, you will be directing us how to vote your shares at the meeting. Even if you plan on attending the meeting, we urge you to vote now by giving us your proxy. This will ensure that your vote is represented at the meeting. If you do attend the meeting, you can change your vote at that time, if you then desire to do so.

If your shares are held in street name, the broker or nominee that holds your shares has the authority to vote them, absent your approval, only as to matters for which they have discretionary authority under the applicable New York Stock Exchange rules. For all other matters, the broker or nominee that holds your shares will need to obtain your authorization to vote those shares. If you received a printed version of these proxy materials, you should have received a voting instruction form from your broker or nominee that holds your shares. For shares held in street name, follow the instructions contained in the Notice or voting instruction form to vote by Internet, telephone or mail. If you want to vote by mail but have not received a printed version of these proxy materials, you may request a full packet of proxy materials as instructed by the Notice. If you want to vote your shares in person at the Annual Meeting, you must obtain a valid proxy from your broker or nominee. You should contact your broker or nominee or refer to the instructions provided by your broker or nominee for further information.

Additionally, the availability of telephone or Internet voting depends on the voting process used by the broker or nominee that holds your shares.

You may receive more than one Notice or proxy statement and proxy card or voting instruction form if your shares are held through more than one account (*e.g.*, through different brokers or nominees). Each proxy card or voting instruction form only covers those shares of common stock held in the applicable account. If you hold shares in more than one account, you will have to provide voting instructions as to all your accounts to vote all your shares.

How to Change Your Vote

For shares held of record, you may change your vote by written notice to our Corporate Secretary, granting a new proxy or by voting in person at the Annual Meeting. Unless you attend the meeting and vote your shares in person, you should change your vote using the same method (by telephone, Internet or mail) that you first used to vote your shares. That way, the inspectors of election for the meeting will be able to verify your latest vote.

For shares held in street name, you should follow the instructions in the information provided by your broker or nominee to change your vote. If you want to change your vote as to shares held in street name by voting in person at the Annual Meeting, you must obtain a valid proxy from the broker or nominee that holds those shares for you.

Quorum

The Annual Meeting will be held only if a quorum exists. The presence at the meeting, in person or by proxy, of holders of a majority of our outstanding shares of common stock as of the Record Date will constitute a quorum. If you attend the meeting or vote your shares by Internet, telephone or mail, your shares will be counted toward a quorum, even if you abstain from voting on a particular matter. Shares held by brokers and other nominees as to which they have not received voting instructions from the beneficial owners and lack the discretionary authority to vote on a particular matter are called broker non-votes and will count for quorum purposes.

Proposals to Be Voted on; Vote Required; and How Votes Are Counted

We are asking you to vote on the following:

the election of Roger A. Brown, John A. Fees and Oliver D. Kingsley, Jr. to Class I of our Board of Directors and the election of D. Bradley McWilliams, Richard W. Mies and Thomas C. Schievelbein to Class II of our

Board of Directors;

the approval of the 2009 McDermott International, Inc. Long-Term Incentive Plan (the 2009 LTI Plan); and

the ratification of our Audit Committee s appointment of Deloitte & Touche LLP (Deloitte) as our independent registered public accounting firm for the year ending December 31, 2009.

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With the exception of the proposal to approve the 2009 LTI Plan, each proposal, including the election of directors, requires the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the matter. The proposal to approve the 2009 LTI Plan requires the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal, provided that the total number of votes cast on the proposal represents a majority of the shares outstanding on the Record Date. In the election of directors, you may vote FOR all director nominees or withhold your vote for any one or more of the director nominees. For each other proposal, you may vote FOR or AGAINST or abstain from voting. Because abstentions are counted for purposes of determining whether a quorum is present but are not affirmative votes for a proposal, they have the same effect as an AGAINST vote. Broker non-votes will have no effect on the vote on the election of directors or on the ratification of the independent registered public accounting firm. Broker non-votes will have no effect on the proposal to approve the 2009 LTI Plan, as long as the total number of votes cast on the proposal represents a majority of the shares entitled to vote. Otherwise, the effect of a broker non-vote will be the same as a vote against the proposal.

Our Corporate Governance Guidelines provide that, in an uncontested election of directors, the Board expects any incumbent director nominee who does not receive a FOR vote by a majority of shares present in person or by proxy and entitled to vote on the matter to promptly tender his or her resignation to the Governance Committee, subject to acceptance by our Board. Pursuant to our Corporate Governance Guidelines, the Governance Committee will make a recommendation to the Board with respect to the director nominee s resignation and the Board will consider the recommendation and take appropriate action within 120 days from the date of the certification of the election results.

If you submit a signed proxy card without specifying your vote, your shares will be voted FOR the election of all director nominees, the proposal to approve the 2009 LTI Plan and the ratification of our Audit Committee s appointment of Deloitte as our independent registered public accounting firm for the year ending December 31, 2009. If you hold your shares in street name and you do not instruct your broker or nominee how to vote those shares, they may vote your shares as they decide as to matters for which they have discretionary authority under the applicable New York Stock Exchange rules. Your broker will be entitled to vote your shares in its discretion, absent instructions from you, on the election of directors and the ratification of the appointment of the independent registered public accounting firm.

We are not aware of any other matters that may be presented or acted on at the meeting. If you vote by signing and returning the enclosed proxy card or using the telephone or Internet voting procedures, the individuals named as proxies on the card may vote your shares, in their discretion, on any other matter requiring a stockholder vote that comes before the meeting.

Confidential Voting

All voted proxies and ballots will be handled to protect your voting privacy as a stockholder. Your vote will not be disclosed except:

- to meet any legal requirements;
- in limited circumstances such as a proxy contest in opposition to our Board of Directors;
- to permit independent inspectors of election to tabulate and certify your vote; or
- to adequately respond to your written comments on your proxy card.

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ELECTION OF DIRECTORS

(ITEM 1)

Historically, our Board of Directors has been classified into three classes, with the term of office of one class expiring each year. In 2007, with the approval of our stockholders, we amended our Articles of Incorporation to phase out the classification of our Board by 2010. As a result, until our 2010 Annual Meeting, directors elected to a class by our stockholders will serve one-year terms. Beginning with the Annual Meeting in 2010, our Board will no longer be classified and all directors will be subject to annual election. Currently, our Board has ten members. John A. Fees, who became a director in October 2008, was assigned to Class I, and Richard W. Mies, who became a director in August 2008, was assigned to Class II.

The term of office of our Class I directors Roger A. Brown, John A. Fees, Robert L. Howard and Oliver D. Kingsley, Jr. will expire at this year s Annual Meeting. On the nomination of our Board, Messrs. Brown and Kingsley will stand for reelection and Mr. Fees will stand for election as Class I directors at this year s Annual Meeting for a term of one year.

The term of office of our Class II directors D. Bradley McWilliams, Richard W. Mies and Thomas C. Schievelbein will expire at this year s Annual Meeting. On the nomination of our Board, Messrs. McWilliams and Schievelbein will stand for reelection and Admiral Mies will stand for election as Class II directors at this year s Annual Meeting for a term of one year.

Our By-Laws provide that (1) a person shall not be nominated for election or reelection to our Board of Directors if such person shall have attained the age of 72 prior to the date of election or re-election and (2) any director who attains the age of 72 during his or her term shall be deemed to have resigned and retired at the first Annual Meeting following his or her attainment of the age of 72. Accordingly, a director nominee may stand for election if he or she has not attained the age of 72 prior to the date of election or reelection. Pursuant to these By-Law requirements, Robert L. Howard will retire from our Board after 12 years of service, effective at this year s Annual Meeting.

Unless otherwise directed, the persons named as proxies on the enclosed proxy card intend to vote FOR the election of the nominees. If any nominee should become unavailable for election, the shares will be voted for such substitute nominee as may be proposed by our Board of Directors. However, we are not aware of any circumstances that would prevent any of the nominees from serving. Set forth below under Class III Directors are the names of our other directors who will continue to serve as directors after this year s Annual Meeting. All directors have been previously elected by the stockholders.

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Set forth below is certain information (ages are as of May 8, 2009) with respect to each nominee for election as a director and each director of our company who will continue to serve as a director after this year s Annual Meeting.

Name and Principal Occupation	Age	Director Since
Class I Nominees		
Roger A. Brown Until his retirement in 2007, Mr. Brown was Vice President, Strategic Initiatives of Smith International, Inc., a supplier of goods and services to the oil and gas exploration and production industry, the petrochemical industry and other industrial markets from 2005 and President of Smith Technologies (a business unit of Smith International, Inc.) from 1998. Mr. Brown is also a director of Ultra Petroleum Corporation.	64	2005
John A. Fees Mr. Fees has been Chief Executive Officer of McDermott since October 2008. He joined our company in 1979 and, served as President and Chief Executive Officer of our subsidiary, The Babcock & Wilcox Company, from January 2007 to October 2008; President and Chief Operating Officer of our subsidiary, BWX Technologies, Inc., from September 2002 to January 2007; and President, General Manager of BWXT Services, Inc., a subsidiary of BWX Technologies, from September 1997 to November 2002. His earlier positions at subsidiaries of The Babcock & Wilcox Company include Vice President and General Manager.	51	2008
Oliver D. Kingsley, Jr. Until his retirement in November 2004, Mr. Kingsley served as President and Chief Operating Officer of Exelon Corporation, an integrated utility company, from May 2003, Senior Executive Vice President from February 2002 and President and Chief Nuclear Officer from October 2000. Mr. Kingsley also served as President and Chief Executive Officer of Exelon s subsidiary, Exelon Generation, from February 2000 to November 2004 and as President and Chief Nuclear Officer of Unicom Corporation, an integrated electric utility company, from November 1997 to October 2000. Mr. Kingsley is also a director of FPL Group, Inc. and is the Associate Dean for Special Projects at the Sam Ginn College of Engineering, Auburn University.	66	2004

Our Board recommends that stockholders vote FOR each of the nominees named above.

Name and Principal Occupation	Age	Director Since
Class II Nominees		
D. Bradley McWilliams From April 1995 until his retirement in April 2003, Mr. McWilliams was Senior Vice President and Chief Financial Officer of Cooper Industries Ltd., a worldwide manufacturer of electrical products, tools and hardware. He was Vice President of Cooper Industries from 1982 until April 1995.	67	2003
Richard W. Mies Admiral Mies is a Retired Admiral, United States Navy. He served in the U.S. Navy for 35 years, including most recently as Commander in Chief of the U.S. Strategic Command for all U.S. Air Force and U.S. Navy strategic nuclear forces from 1998 until his retirement from the Navy in 2002. Following his retirement from the Navy until 2007, he served as Senior Vice	64	2008

President of Science Applications International Corporation, a provider of scientific and engineering applications for national security, energy, environment, critical infrastructure and health. He is currently Chief Executive Officer and President of The Mies Group, Ltd. (a consulting firm) and serves as a director of Exelon Corporation.

Thomas C. Schievelbein	55	2004

Until his retirement in November 2004, Mr. Schievelbein was President of Northrop Grumman Newport News, a subsidiary of the Northrop Grumman Corporation, a global defense company, from November 2001. From October 1995 to October 2001, he served as Executive Vice President and Chief Operating Officer of Newport News Shipbuilding, Inc. Mr. Schievelbein is also a director of The Brinks Company.

Our Board recommends that stockholders vote FOR each of the nominees named above.

Name and Principal Occupation	Age	Director Since
Class III Directors		
John F. Bookout III Mr. Bookout has served as Senior Advisor to Kohlberg Kravis Roberts & Co., a private equity firm, since March 2008. Previously, he served as Senior Advisor to First Reserve Corporation, a private equity firm specializing in the energy industry, from 2006 to 2008. Until 2006, he was a director of McKinsey & Company, a global management consulting firm, which he joined in 1978. Mr. Bookout is also a director of Tesoro Corporation.	55	2006
Ronald C. Cambre Mr. Cambre has served as our Chairman since October 1, 2008. Until December 2001, Mr. Cambre was Chairman of the Board of Newmont Mining Corporation, an international mining company, from January 1995 and served as its Chief Executive Officer from November 1993 until his retirement in December 2000. He was also President of Newmont Mining Corporation from June 1994 to July 1999. Mr. Cambre is also a director of Cliffs Natural Resources (formerly, Cleveland-Cliffs Inc.) and W. R. Grace & Co.	70	2000
Robert W. Goldman Since October 2002, Mr. Goldman has served as an independent financial consultant. Previously, Mr. Goldman worked for Conoco Inc., an international, integrated energy company and predecessor to ConocoPhillips, from 1988 to 2002, most recently as Senior Vice President, Finance and Chief Financial Officer from 1998 to 2002. He formerly served as the Vice President, Finance of the World Petroleum Council from 2002 to 2008. He currently serves as a director of El Paso Corporation, Parker Drilling Company and Tesoro Corporation. He is also a member of the Advisory Board of Global Infrastructure Partners.	67	2005

CORPORATE GOVERNANCE

We maintain a corporate governance section on our Web site which contains copies of our principal governance documents. The corporate governance section may be found at *www.mcdermott.com* at Corporate Governance Board Committees and Corporate Governance Governance Policies. The corporate governance section contains the following documents, which are available in print to any stockholder who requests a copy in writing to McDermott International, Inc., Corporate Secretary s Office, 777 N. Eldridge Pkwy., Houston, Texas 77079:

By-Laws
Corporate Governance Guidelines
Code of Ethics for CEO and Senior Financial Officers
Board of Directors Conflicts of Interest Policies and Procedures
Audit Committee Charter
Compensation Committee Charter
Finance Committee Charter
Governance Committee Charter

In addition, our Code of Business Conduct may be found on our website at *www.mcdermott.com* at Corporate Governance Code of Conduct and is available in print to any stockholder who requests a copy in writing.

Director Independence

The New York Stock Exchange listing standards require our Board of Directors to be comprised of at least a majority of independent directors. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with us. To assist it in determining director independence, the Board has established categorical standards which conform to, or are more exacting than, the independence requirements in the New York Stock Exchange listing standards. These standards are contained in the Corporate Governance Guidelines found on our website at *www.mcdermott.com* under Corporate Governance Governance Policies.

Based on these independence standards, our Board of Directors has affirmatively determined that the following directors are independent and meet our categorical standards:

John F. Bookout III
Roger A. Brown
Ronald C. Cambre
Robert W. Goldman
Robert L. Howard
Oliver D. Kingsley, Jr.
D. Bradley McWilliams
Richard W. Mies
Thomas C. Schievelbein

In determining the independence of the directors, our Board considered ordinary course transactions between us and other entities with which the directors are associated. Neither Mr. McWilliams nor Mr. Schievelbein has any relationship with McDermott, except as a director and stockholder. Messrs. Brown, Cambre, Goldman and Kingsley are members of the board of directors of one of those entities and Mr. Bookout is an outside consultant for an affiliate of one of those entities. Our Board also considered unsolicited contributions by us to charitable organizations with which the directors were associated. Admiral Mies and Mr. Howard each serve as a director of a separate charitable organization to which we made unsolicited contributions between 2006 and 2008. Mr. Bookout s spouse serves as a director of a charitable organization to which we made an unsolicited contribution in 2007. The charitable contributions described above were in the usual course of our annual giving programs pursuant to which we made over $1.7 million in total 2008 contributions to more than 200 charitable organizations.

Executive Sessions and Communications With the Board

Our nonmanagement directors meet in executive session without management on a regular basis. Currently, Ronald C. Cambre, our non-executive Chairman of the Board, serves as the presiding director for these executive sessions. Stockholders or other interested persons may send written communications to the nonmanagement members of our Board, addressed to Board of Directors (independent members), c/o McDermott International, Inc., Corporate Secretary s Office, 777 N. Eldridge Pkwy., Houston, Texas 77079. Information regarding this process is posted on our website at *www.mcdermott.com* under Corporate Governance Board Committees.

Board of Directors and Its Committees

Board of Directors. Our Board met nine times during 2008. All directors attended 75% or more of the meetings of the Board and of the committees on which they served during 2008. In addition, as reflected in our Corporate Governance Guidelines, we have adopted a policy that each member of our Board must make reasonable efforts to attend our Annual Meeting. All directors then serving on the Board attended our 2008 Annual Meeting.

Committees. Our Board currently has, and appoints the members of, standing Audit, Compensation, Finance and Governance Committees. Each of the Board committees is comprised entirely of independent nonmanagement directors and has a written charter approved by the Board. The current charter for each committee is posted on our website at *www.mcdermott.com* under Corporate Governance Board Committees. The current members of the committees are identified in the following table.

	Board Committee			
Director	**Audit**	**Compensation**	**Finance**	**Governance**
John F. Bookout III	ü		ü	
Roger A. Brown		ü		ü
Ronald C. Cambre				
Robert W. Goldman	ü		Chair	
Robert L. Howard				Chair
Oliver D. Kingsley, Jr.		ü		ü
D. Bradley McWilliams	Chair		ü	

Richard W. Mies	ü			ü
Thomas C. Schievelbein		Chair	ü	

Audit Committee. During the year ended December 31, 2008, the Audit Committee met five times. The Audit Committee s role is financial oversight. Our management is responsible for preparing financial statements, and our independent registered public accounting firm is responsible for auditing those financial statements. The Audit Committee is not providing any expert or special assurance as to our financial statements or any professional certification as to the independent registered public accounting firm s work.

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of McDermott s independent registered public accounting firm. The committee, among other things, also reviews and discusses McDermott s audited financial statements with management and the independent registered public accounting firm.

Our Board has determined that Messrs. Bookout, Goldman and McWilliams and Admiral Mies each qualify as an audit committee financial expert within the definition established by the Securities and Exchange Commission (SEC). For more information on the backgrounds of these directors, see their biographical information under Election of Directors above.

Compensation Committee. During the year ended December 31, 2008, the Compensation Committee met five times. The Compensation Committee has overall responsibility for our officer compensation plans, policies and programs and has the authority to engage and terminate any compensation consultant or other advisors to assist the committee in the discharge of its responsibilities. The Compensation Committee has engaged Hewitt Associates LLC, or Hewitt, to assist the committee on compensation matters. Hewitt advises the Compensation Committee on all principal elements of our compensation programs, including market data and practices, and attends meetings of the committee and participates in executive sessions without members of management. Hewitt provides advice and analysis on the design, structure and level of executive compensation. The Compensation Committee considers recommendations from our Chief Executive Officer regarding the compensation of our executive officers. Please see the Compensation Discussion and Analysis section of this proxy statement for information about our 2008 executive officer compensation.

The Compensation Committee administers our Executive Incentive Compensation Plan, or EICP, under which it awards annual bonuses to our officers based upon the attainment of annual performance goals. The Compensation Committee establishes target EICP awards for each officer, expressed as a percentage of the officer s base salary for that year, and financial goals applicable to EICP awards. The Compensation Committee authorized our Chief Executive Officer to establish individual goals for our other executive officers applicable to EICP awards and, in coordination with his direct reports, to select such other officers and key employees to participate in the EICP and establish appropriate individual performance goals for them. Under our 2001 Directors and Officers Long-Term Incentive Plan, which we refer to as the 2001 D&O Plan, our Compensation Committee may delegate its duties to our Chief Executive Officer or other senior officers. Pursuant to this authority, our Compensation Committee has authorized our Vice President of Human Resources, together with our Chief Executive Officer, to approve awards of options to purchase up to 5,000 shares of stock and 1,000 shares of restricted stock or performance units under the 2001 D&O Plan to officers or employees (other than officers subject to the reporting provisions of Section 16 of the Securities Exchange Act of 1934, as amended) in connection with their initial employment or promotion within McDermott; provided that time does not permit the review and approval by the Compensation Committee at its next regularly scheduled meeting and that any grants awarded pursuant to this authorization are subject to ratification by the Compensation Committee at its next regularly scheduled meeting. In addition, our restricted stock awards granted under the 2001 D&O Plan in 2008 provide for accelerated vesting at the Compensation Committee s discretion if the participant retires and is at least 60 years of age with at least 10 years of service. To facilitate a timely determination in these instances, the Compensation Committee has authorized our General Counsel and Vice President of Human Resources, acting jointly, to consider and determine any request for such accelerated vesting.

Finance Committee. During the year ended December 31, 2008, the Finance Committee met seven times. The Finance Committee has the overall responsibility of reviewing and overseeing financial policies (including dividend recommendations and stock repurchase programs) and financial strategies, mergers, acquisitions, financings, liabilities, investment performance of our pension plans and the capital structures of McDermott and its subsidiaries. Generally, the Finance Committee has responsibility over many activities up to $50 million, and for such activities involving amounts over $50 million, the Finance Committee will review the activity and make a recommendation to the Board.

Governance Committee. During the year ended December 31, 2008, the Governance Committee met six times. This committee, in addition to other matters, recommends to our Board of Directors: (1) the qualifications, term limits and nomination and election procedures relating to our directors; (2) nominees for election to our Board of Directors; and (3) compensation of nonmanagement directors. This committee will consider individuals recommended by stockholders for nomination as directors in accordance with the procedures described under Stockholders Proposals. Our Governance Committee has primary oversight responsibility for our compliance and ethics program, excluding certain oversight responsibilities assigned to the Audit Committee. In conjunction with the Compensation Committee, the Governance Committee oversees the annual evaluation of our Chief Executive Officer.

In May 2008, at the request of the Chairman of the Governance Committee, Hewitt performed a market analysis of nonemployee director compensation using our Custom Peer Group (as defined in Compensation Discussion and

Analysis) and made recommendations regarding nonemployee director compensation to the Governance Committee. Based on those recommendations, the Governance Committee recommended to the Compensation Committee an increase in the value of nonmanagement director equity awards from $80,000 to $110,000 for 2008. Our management is not substantively involved in Hewitt s market analysis or recommendation regarding nonmanagement director compensation.

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Compensation Committee Interlocks and Insider Participation

All members of our Compensation Committee are independent in accordance with the New York Stock Exchange listing standards. No member of the Compensation Committee (1) was, during the year ended December 31, 2008, or had previously been, an officer or employee of McDermott or its subsidiaries or (2) had any material interest in a transaction of McDermott or a business relationship with, or any indebtedness to, McDermott. No interlocking relationship existed during the year ended December 31, 2008 between any member of the Board of Directors or the Compensation Committee and an executive officer of McDermott.

Director Nomination Process

Our Governance Committee has determined that a candidate for election to our Board of Directors must meet specific minimum qualifications. Each candidate must:

- have a record of integrity and ethics in his/her personal and professional life;
- have a record of professional accomplishment in his/her field;
- be prepared to represent the best interests of our stockholders;
- not have a material personal, financial or professional interest in any competitor of ours; and
- be prepared to participate fully in Board activities, including active membership on at least one Board committee and attendance at, and active participation in, meetings of the Board and the committee(s) of which he or she is a member, and not have other personal or professional commitments that would, in the Governance Committee s sole judgment, interfere with or limit his or her ability to do so.

In addition, the Governance Committee also considers it desirable that candidates possess the following qualities or skills:

- each candidate should contribute positively to the collaborative culture among Board members; and
- each candidate should possess professional and personal experiences and expertise relevant to our businesses and industries.

The Board recognizes the benefits of a diversified board and believes that any search for potential director candidates should consider diversity as to gender, ethnic background and personal and professional experiences.

The Governance Committee solicits ideas for possible candidates from a number of sources including members of the Board, our senior level executives and individuals personally known to the members of the Board.

Any stockholder may nominate one or more persons for election as one of our directors at an annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in our By-Laws. See Stockholders Proposals in this proxy statement and our By-Laws, which may be found on our website at *www.mcdermott.com* at Corporate Governance Governance Policies.

The Governance Committee will consider candidates identified through the processes described above and will evaluate each of them, including incumbents, based on the same criteria. The Governance Committee also takes into account the contributions of incumbent directors as Board members and the benefits to us arising from their experience on the Board. Although the Governance Committee will consider candidates identified by stockholders, the Governance Committee has sole discretion whether to recommend those candidates to the Board. None of the director nominees for the 2009 Annual Meeting are standing for election for the first time, with the exception of Mr. Fees and Admiral Mies, who were appointed to the Board in October 2008 and August 2008, respectively. Admiral Mies was recommended as a director candidate by a former member of our Board.

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COMPENSATION OF DIRECTORS

The table below summarizes the compensation paid by us to our nonemployee directors during the year ended December 31, 2008. Pursuant to our By-Laws, which require a director to retire at the first Annual Meeting of Stockholders after attaining the age of 72, Bruce DeMars retired from the Board of Directors at the 2008 Annual Meeting. Admiral Mies was appointed to the Board in August 2008.

Director Compensation Table

Name	Fees Earned or Paid in Cash[(1)]	Stock Awards[(2)]	Option Awards[(2)]	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation[(3)]	Total
John F. Bookout III	$ 80,500	$ 124,460		N/A	N/A		$ 204,960
Roger A. Brown	$ 81,500	$ 118,440	$ 7,820	N/A	N/A	$ 3,726	$ 211,486
Ronald C. Cambre	$ 108,250	$ 124,460	$ 7,820	N/A	N/A	$ 468	$ 240,998
Bruce DeMars	$ 16,250	$ 12,765	$ 7,820	N/A	N/A		$ 36,835
Robert W. Goldman	$ 93,250	$ 124,460		N/A	N/A		$ 217,710
Robert L. Howard	$ 82,750	$ 127,340	$ 7,820	N/A	N/A	$ 648	$ 218,558
Oliver D. Kingsley Jr.	$ 80,500	$ 118,440	$ 7,820	N/A	N/A	$ 6,019	$ 212,779
D. Bradley McWilliams	$ 110,750	$ 127,340	$ 7,820	N/A	N/A	$ 2,426	$ 248,336
Richard W. Mies	$ 48,646	$ 84,021		N/A	N/A		$ 132,667
Thomas C. Schievelbein	$ 82,250	$ 127,340	$ 7,820	N/A	N/A		$ 217,410

(1) See Fees Earned or Paid in Cash below for a discussion of the amounts reported in this column.

(2) See Stock and Option Awards below for a discussion of the amounts reported in these columns.

(3) The amounts reported in the All Other Compensation column are attributable to a tax gross-up associated with income imputed to the director as a result of his family member accompanying him on travel in connection with Board business.

The compensation for nonemployee directors for 2008 was comprised of cash and equity compensation earned by directors in connection with their service as directors. The cash compensation consisted of retainers and meeting fees described in more detail below. The equity compensation consisted of restricted stock awards issued under our

2001 Directors and Officer Long-Term Incentive Plan, which we refer to as our 2001 D&O Plan, as described in more detail below. The amounts reported in the Option Awards column represent the associated dollar amounts we recognized for financial statement reporting purposes under SFAS No. 123R. Employee directors do not receive any compensation for their service as directors.

Fees Earned or Paid in Cash. Under our current director compensation program, cash compensation for nonemployee directors consists of the following:

an annual retainer of $45,000 (prorated for partial terms); and

a fee of $2,500 for each Board meeting personally attended, $1,750 for each committee meeting personally attended and $1,000 for each Board and committee meeting attended by telephone.

The chairs of Board committees, the Non-Executive Chairman and the Lead Director receive additional annual retainers as follows (pro-rated for partial terms):

the chair of the Audit Committee: $20,000;

the chair of the Compensation Committee: $15,000;

the chair of each of the Finance and Governance committees: $10,000;

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the Non-Executive Chairman: $100,000; and

the Lead Director: $15,000.

Stock and Option Awards. In addition to the fees and benefits provided to our directors described above, we granted equity awards to our directors under the 2001 D&O Plan.

Under the 2001 D&O Plan, nonemployee directors may be granted stock option, restricted stock, performance unit, deferred stock unit and performance share awards, in such amounts and on such terms, as the Compensation Committee or the Board may determine from time to time. In 2008, all of our nonemployee directors, with the exception of Admiral Mies, received 1,908 shares of restricted stock with a value at the time of grant of $110,000 (calculated based on the average of the highest and lowest price of our common stock ($57.63) on the grant date). Due to Admiral Mies appointment as a director on August 1, 2008, he received a prorated grant of 1,782 shares of restricted stock with a value at the time of grant of $84,678 (calculated based on the average of the highest and lowest price of our common stock ($47.505) on the grant date). Under the terms of each award, the restricted stock vested immediately on the grant date.

The amounts reported in the Stock Awards and Option Awards columns represent the associated dollar amounts we recognized in 2008 for financial statement reporting purposes under Statement of Financial Accounting Standards (SFAS) No. 123R. Under SFAS No. 123R, the fair value of restricted stock and stock options is determined on the date of grant and is not remeasured. Grant date fair values are determined using the closing price of our common stock on the date of grant, for restricted stock, and an option-pricing model, for stock options. We use the Black-Scholes option-pricing model for measuring the fair value of stock options granted. The determination of the fair value of an award on the date of grant using an option-pricing model requires various assumptions, such as the expected life of the award and stock price volatility. For a discussion of the valuation assumptions, see Note 10 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2008.

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The following tables reflect the number of shares and grant date fair value, computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R, with respect to each restricted stock and stock option award granted to nonemployee directors in 2008 and the restricted stock and stock option awards each nonemployee director had outstanding as of December 31, 2008. The fair value of these restricted stock awards determined in accordance with SFAS No. 123R is based on the closing price of our common stock on the date of grant. As a result, the fair value under SFAS 123R is different than the $110,000 value of the grant discussed above.

Stock and Option Awards Granted to Directors in 2008

		Stock Awards	
Name	**Grant Date**	**Shares of Restricted Stock Granted**	**Grant Date Fair Value**
John F. Bookout III	May 15, 2008	1,908	$ 111,694.32
Roger A. Brown	May 15, 2008	1,908	$ 111,694.32
Ronald C. Cambre	May 15, 2008	1,908	$ 111,694.32
Bruce DeMars			
Robert W. Goldman	May 15, 2008	1,908	$ 111,694.32
Robert L. Howard	May 15, 2008	1,908	$ 111,694.32
Oliver D. Kingsley Jr.	May 15, 2008	1,908	$ 111,694.32
D. Bradley McWilliams	May 15, 2008	1,908	$ 111,694.32
Richard W. Mies	August 1, 2008	1,782	$ 84,021.30
Thomas C. Schievelbein	May 15, 2008	1,908	$ 111,694.32

Director Equity Awards Outstanding at 12/31/08

Name	**Stock Awards (All Restricted Stock)**	**Option Awards**
John F. Bookout III	1,350	3,150
Roger A. Brown	0	19,650
Ronald C. Cambre	1,350	0
Bruce DeMars	0	0
Robert W. Goldman	1,350	4,950
Robert L. Howard	1,800	84,900
Oliver D. Kingsley Jr.	0	19,950
D. Bradley McWilliams	1,800	37,876
Richard W. Mies	0	0
Thomas C. Schievelbein	1,800	37,426

EXECUTIVE OFFICERS

Set forth below is the age (as of May 8, 2009), the principal positions held with McDermott or our subsidiaries, and other business experience information for each of our current executive officers other than John A. Fees, who is our Chief Executive Officer and a member of the Board. For more information on Mr. Fees, see his biographical information under Election of Directors above. Unless we otherwise specify, all positions described below are positions with McDermott International, Inc.

Dennis S. Baldwin, 47, has been Vice President and Chief Accounting Officer of McDermott since October 2007. Previously, he served as Chief Accounting Officer of Integrated Electrical Services, Inc,. a national electrical contracting company, from February 2007 to October 2007; as Vice President and Corporate Controller of Veritas DGC, Inc., a seismic company which provides geophysical services to the petroleum industry, from 2005 to 2007; and as Vice President and Corporate Controller of Universal Compression Holdings, Inc., a company providing gas compression services to the domestic and international gas industry, from 2002 to 2005.

Brandon C. Bethards, 61, has been President and Chief Executive Officer of our subsidiary, The Babcock & Wilcox Company, since November 2008 after serving as Interim Chief Executive Officer since September 2008. He joined Babcock & Wilcox Power Generation Group, Inc., a major operating subsidiary of The Babcock & Wilcox Company, in the early 1970s and served most recently as its President from January 2007 to October 2008 and Senior Vice President and General Manager of its Fossil Power division from February 2001 to January 2007. His earlier positions within the Power Generation Group include Vice President of Business Development, General Manager, District Engineer and Field Service Engineer.

Robert A. Deason, 63, has been President and Chief Executive Officer of our subsidiary J. Ray McDermott, S.A. since June 2007. Previously, he served as President and Chief Operating Officer of J. Ray McDermott, S.A. from March 2003 to June 2007. He was also Vice President, Operations of Fluor Corporation, an engineering, procurement, construction and maintenance services company, from March 1999 to January 2003; and Vice President, Project Management Production, Pipelines & Marine Services of Fluor Corporation from June 1997 to March 1999.

Liane K. Hinrichs, 51, has been our Senior Vice President, General Counsel and Corporate Secretary since October 2008. Previously, she served as our Vice President, General Counsel and Corporate Secretary from January 2007 to September 2008; Corporate Secretary and Associate General Counsel, Corporate Compliance and Transactions from January 2006 to December 2006; Associate General Counsel, Transactions, Corporate Compliance and Deputy Corporate Secretary from June 2004 to December 2005; Assistant General Counsel, Corporate Secretary and Transactions from October 2001 to May 2004; and Senior Counsel from May 1999 to September 2001. Prior to joining McDermott in 1999, she was a partner in a New Orleans law firm.

Preston Johnson, Jr., 53, has been our Senior Vice President, Human Resources since May 2008. Previously, Mr. Johnson served as Vice President, Global Human Resources and Health Services at Anadarko Petroleum Corporation (a global oil and natural gas exploration and production company) from October 2005 to May 2008; Senior Vice President for Human Resources and Business Services at CenterPoint Energy, Inc. (an electric, gas, pipeline and power distribution and delivery company) from March 2000 to October 2005; and Global Director, Human Resources at The Dow Chemical Company (a diversified chemical company) from June 1977 to March 2000.

John D. Krueger, 62, has been our Vice President, Corporate Development and Strategic Planning since October 2008. He joined the Company in 1976 and served most recently as Vice President, Planning and Business Development for our subsidiary, The Babcock & Wilcox Company, from October 2006 to September 2008 and Vice President, Business Development of The Babcock & Wilcox Company from March 2004 to October 2006. He also served as Vice President, Business Development for our subsidiary, J. Ray McDermott, S.A., from June 1998 to March 2004 and as Vice President, Planning and Business Development of McDermott International, Inc., from June 1993 to June 1998. His prior positions within the Company include Director of Corporate Business Planning & Analysis, Director of Corporate Development and Senior Analyst.

James C. Lewis, 53, has been our Vice President, Treasurer since March 2006. Previously, he was: Assistant Treasurer of McDermott from July 2003 to February 2006; Vice President, Structuring of Enron Corp., from

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December 2001 to July 2003 and Vice President, Structuring of Enron Global Markets, LLC, a subsidiary of Enron Corp., from September 2000 to December 2001.

John T. Nesser, III, 60, has been our Executive Vice President and Chief Operating Officer of our subsidiary J. Ray McDermott, S.A. since October 2008. Previously, he served as our Executive Vice President, Chief Administrative and Legal Officer from January 2007 to September 2008; Executive Vice President and General Counsel from January 2006 to January 2007; Executive Vice President, General Counsel and Corporate Secretary from February 2001 to January 2006; Senior Vice President, General Counsel and Corporate Secretary from January 2000 to February 2001; Vice President and Associate General Counsel from June 1999 to January 2000; and Associate General Counsel from October 1998 to June 1999. Previously, he served as a managing partner of Nesser, King & LeBlanc, a New Orleans law firm, which he co-founded in 1985.

Michael S. Taff, 47, has been our Senior Vice President and Chief Financial Officer since April 2007. He served as our Vice President and Chief Accounting Officer from June 2005 to April 2007. Previously, Mr. Taff served as Vice President and Chief Financial Officer of HMT Inc., an engineering and construction company, from June 2004 to June 2005 and as Vice President and Corporate Controller of Philip Services Corporation, a provider of industrial, environmental, transportation and container services, from September 1994 to May 2004.

In addition, Bruce W. Wilkinson retired from McDermott during 2008. Mr. Wilkinson served as our Chief Executive Officer and Chairman of the Board from August 2000 to September 2008. He retired from McDermott on September 30, 2008.

COMPENSATION DISCUSSION AND ANALYSIS

The following Compensation Discussion and Analysis, or CD&A, provides information relevant to understanding the 2008 compensation of our executive officers identified in the Summary Compensation Table on page 35, whom we refer to as our Named Executives. The following discussion also contains statements regarding future individual and company performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management s expectations or estimates of results or other guidance. We caution investors not to apply these statements to other contexts.

Summary

The Compensation Committee seeks to design compensation programs for our Named Executives to promote company and shareholder goals. To be competitive, the Compensation Committee generally sets target compensation around the median compensation of officers in comparable positions in our market, which we describe below under Overview of Compensation Programs and Objectives Defining our Market. To drive performance, a majority of a Named Executive s target compensation consists of equity-based and performance-based compensation components. We consider these components variable or at-risk because the value of the compensation earned is dependent on our stock price and/or actual performance relative to specific annual and long-term goals.

In 2008, variable compensation, consisting of our annual bonus and equity-based awards, represented, on average, approximately 83% of the value of a Named Executive s target compensation (excluding Mr. Wilkinson, who retired in 2008). A portion of our Named Executives variable compensation consisted of restricted stock awards that are not tied to performance measures but which helped ensure that our equity-based awards address retention as well as performance. Otherwise, 100% of the 2008 target annual bonus and about 75% of the target equity-based compensation for our Named Executives were tied to the achievement of specific financial performance based on operating income and, in the case of the annual bonus, individual performance. The Compensation Committee believes that aligning a significant portion of a Named Executive s compensation with short and longer-term operating income goals drives longer-term financial objectives that are expected to create shareholder value without encouraging executives to take unnecessary and excessive risks to achieve those objectives. Additionally, the Compensation Committee has begun to study claw back practices, with a view to implementing provisions that may permit us to recover cash and equity we pay or award to certain officers, including Named Executives, in the event of a material restatement of our financial results as a result of intentional misconduct.

Based on 2008 financial results and attainment of individual goals, the amounts paid to our Named Executives, including Mr. Wilkinson, under our annual bonus plan and as discretionary awards represented, on average, approximately 89% of the target amount of 2008 annual bonuses for Named Executives. On a consolidated basis, we earned approximately $570 million of operating income in 2008, outperforming the 2008 threshold goal of $511.5 million. The Babcock & Wilcox Company, or B&W, is our subsidiary under which our Power Generation Systems and Government Operations segments are organized. With operating income of over $450 million in 2008, B&W exceeded its 2008 maximum operating income goal of $320.0 million. J. Ray McDermott, S.A., or J. Ray, which is our subsidiary under which our Offshore Oil and Gas Construction segment is organized, earned approximately $140 million of operating income in 2008, underperforming its threshold operating income goal of $318.7 million. J. Ray s 2008 operating income results significantly affected the payout of the 2008 annual bonus for our Named Executives and, because of the financial performance conditions associated with 2008 awards of performance shares, substantially decreased the potential overall value of the equity-based compensation delivered to our Named Executives in 2008. Despite J. Ray s disappointing results in 2008, McDermott produced its second highest annual consolidated operating income in recent history.

Bruce W. Wilkinson, our former Chairman and Chief Executive Officer, retired on September 30, 2008. In addition, several of our officers were promoted during 2008 which impacted both the composition of our Named Executives and the amount of compensation paid to them. Effective October 1, 2008:

John A. Fees, an employee of nearly 30 years, was appointed our Chief Executive Officer and a member of the Board of Directors;

Brandon C. Bethards, an employee of 35 years, succeeded Mr. Fees at B&W as Interim Chief Executive Officer and, effective November 4, 2008, as B&W s President and Chief Executive Officer; and

John T. Nesser, III, an employee of 10 years, was appointed Executive Vice President and Chief Operating Officer of J. Ray.

Overview of Compensation Programs and Objectives

Philosophy and Objectives. Our compensation programs are based on our belief that our ability to attract, retain and motivate employees with the requisite skill and experience to develop, expand and execute sound business opportunities is essential to our success and the success of our shareholders. To that end, the Compensation Committee and its compensation consultant, Hewitt Associates LLC, or Hewitt, design and implement compensation programs with the participation of our management. These programs generally seek to:

incentivize executives through short- and long-term compensation opportunities that reward individual, company and, where applicable, segment performance;

create and increase shareholder value by:

utilizing equity-based compensation with multi-year vesting schedules to closely align the interests of our executives with those of our shareholders and encourage the retention of our executives; and

structuring compensation contingent on reaching performance goals intended to reward performance by executives over annual and longer-term time horizons and in a manner that we believe creates shareholder value;

manage fixed compensation costs through the use of performance and equity-based compensation; and

reward continuity of service and individual contributions.

Elements. With these objectives in mind, the Compensation Committee approves annual compensation for Named Executives principally consisting of the following three compensation elements:

annual base salary;

annual bonus; and

equity-based awards.

Collectively, these elements make up what we refer to as the total direct compensation of a Named Executive.

Annual base salary provides a fixed level of compensation that helps attract and retain highly qualified executives. Annual bonus and equity-based awards are principally variable components of a Named Executive s compensation where a substantial amount of the compensation is performance-based. Compensation earned under these performance-based elements depends on the achievement of specific financial and, in the case of the annual bonus, individual performance goals established by the Compensation Committee and designed to support our business strategies and generate shareholder value. The annual bonus is the short-term component of compensation generally designed to incentivize a Named Executive to achieve performance goals relative to the then-current fiscal year. Equity-based compensation generally provides incentives to achieve performance goals over a period of three or more years. As we discuss in more detail below, the Compensation Committee also administers several plans as part of our post-employment compensation arrangements designed to reward long-term service and performance.

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Relationship of Elements. When making decisions as to the elements of a Named Executive s total direct compensation, the Compensation Committee considers the dollar value of annual bonus and equity-based compensation, but typically awards these elements as percentages of annual base salary. This is primarily because our market generally targets these elements on a percentage-of-salary basis. See Total Direct Compensation Equity-Based Compensation Analysis of 2008 Equity Grants below for a discussion of how equity grants are valued. Additionally, the Compensation Committee generally considers the entire amount of total direct compensation that is targeted for each Named Executive and the total amount of target cash-based compensation (annual base salary and annual bonus) for a Named Executive relative to the median target compensation for comparable executives in our market. The Compensation Committee s goal is to establish target compensation for each element it considers appropriate to support the compensation objectives that, when combined, create a target total direct compensation award for each Named Executive that is reasonable and competitive.

Target Compensation. The Compensation Committee targets the elements of total direct compensation for our Named Executives at or near the 50^{th} percentile of compensation of comparable positions in our market. The Compensation Committee does not strive for a specific percentile of our market with respect to actual pay, rather it seeks to provide a target level of compensation for each element that falls within a range that it considers reasonable to provide competitive compensation generally plus or minus 15% of the median of our market. The Compensation Committee, however, may deviate from the median of the market to account for a Named Executive s performance and experience, market practices and other factors or situations that are not typically captured by looking at standard market practices and that the Compensation Committee deems relevant to the appropriateness and competitiveness of a Named Executive s compensation. Because some elements of total direct compensation are variable, our Named Executives are capable of earning compensation above or below the target range for similarly situated executives in our market.

Defining our Market Benchmarking. The Compensation Committee principally relies on benchmarking reviewing the compensation of our Named Executives relative to the compensation paid to similarly situated executives at companies we consider to be our peers as well as industry-specific survey data to identify the 50th percentile of compensation for each element. Performance goals used within elements of total direct compensation are designed for the principal purpose of supporting our strategic and financial goals and/or driving the creation of shareholder value, and, as a result, are not generally benchmarked. Benchmarking is an important, but not the only, tool that provides the Compensation Committee a point of reference to ensure that our target compensation is competitive among companies with whom we compete for business and executive talent.

The Compensation Committee requested Hewitt to conduct a market compensation analysis and provide advice regarding the three elements of total direct compensation for our elected officers, including the Named Executives. Using survey data from its proprietary compensation database and other publicly available data, Hewitt collected information from companies generally reflecting the size, scope and complexity of the business and executive talent at McDermott. To account for the size of our operations, Hewitt used regression analysis to adjust the market information based on revenue. To account for the diversity of geography and industry among our operations, Hewitt analyzed information from two principal groups, the J. Ray/Corporate Group and the Babcock & Wilcox Group. In this CD&A, unless the context indicates otherwise, our market means the J. Ray/Corporate Group discussed below.

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J.Ray/Corporate Group. With assistance from our management, Hewitt compiled this group as the primary benchmark for our executives at our corporate and Offshore Oil and Gas Construction segments, both of which are headquartered in Houston, Texas. The group consists of 48 companies with operations in engineering, construction, government operations and/or energy. The median 2007 revenue of companies in this group was $4.8 billion. The component companies of this group include:

Alliant Techsystems Inc.
Ameron International Corp.
Anadarko Petroleum Corp.
Baker Hughes, Inc.
BJ Services Company
Cameron International, Inc.
Chesapeake Energy Corp.
Chicago Bridge & Iron Co.
Cooper Industries Ltd.
Curtiss-Wright Corporation
Devon Energy Corporation
Dover Corporation
Eaton Corporation
El Paso Corporation
EOG Resources, Inc.
ESCO Technologies, Inc.
Flowserve Corporation
FMC Technologies, Inc.
Foster Wheeler Ltd.
General Dynamics Corp.
Granite Construction, Inc.
Gulf Island Fabrication Inc.
Halliburton Company
Honeywell International, Inc.
Hubbell, Inc.
Illinois Tool Works Inc.
Ingersoll-Rand Co. Ltd.
ITT Corp.
Joy Global, Inc.
KBR Inc.
Lockheed Martin Corporation
Martin Marietta Materials, Inc.
Noble Corporation
Northrop Grumman Corporation
Parker-Hannifin Corporation
Pioneer Natural Resources Co.
Raytheon Company
Rockwell Collins, Inc.
Shaw Group, Inc.
Terex Corporation
Textron Inc.
Thomas & Betts Corporation
USG Corporation

Valmont Industries, Inc.
Vulcan Materials Company
Walter Industries, Inc.
Washington Group International Inc.
Williams Cos. Inc.

Babcock & Wilcox Group. With assistance from our management, Hewitt compiled this group as the primary benchmark for our executives at our Power Generation Systems and Government Operations segments. The group is a subset of the J.Ray/Corporate Group and consists of 33 engineering, construction and/or governments operations companies that are more specifically representative of our Power Generation Systems and Government Operations segments. The median 2007 revenue of companies in this group was $7.3 billion. The component companies within this group include:

Alliant Techsystems, Inc.
Ameron International Corp.
Chicago Bridge & Iron Co.
Cooper Industries Ltd.
Curtiss-Wright Corporation
Dover Corporation
Eaton Corporation
ESCO Technologies, Inc.
Flowserve Corporation
Foster Wheeler Ltd.
General Dynamics Corp.
Granite Construction, Inc.
Honeywell International, Inc.
Hubbell, Inc.
Illinois Tool Works Inc.
Ingersoll-Rand Co. Ltd.
ITT Corporation
Joy Global, Inc.
Lockheed Martin Corporation
Martin Marietta Materials, Inc.
Northrop Grumman Corp.
Parker-Hannifin Corporation
Raytheon Company
Rockwell Collins, Inc.
Shaw Group, Inc.
Terex Corporation
Textron, Inc.
Thomas & Betts Corporation
USG Corporation
Valmont Industries, Inc.
Vulcan Materials Co.
Walter Industries Inc.
Washington Group International Inc.

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In addition, Hewitt supplements the market data with compensation information related to companies in a peer group identified by management and Hewitt in October 2007, which we refer to as the Custom Peer Group. The Custom Peer Group consists of nine similarly situated engineering and construction companies and is the same group we used in the performance graph included in our annual report on Form 10-K. For 2007, the median revenue of the companies in the Custom Peer Group was $5.5 billion. Compensation information for the Custom Peer Group companies was based on information reported by those companies in publicly available Securities and Exchange Commission filings. The information available was largely limited to the five highest paid positions at the company and generally based on 2006 compensation. As a result, the Compensation Committee relied on the J.Ray/Corporate Group and the Babcock & Wilcox Group as the primary benchmarks to define the market and determine 2008 target compensation for our elected officers, including the Named Executives.

For more information regarding the Compensation Committee s consultant and the role of the consultant and executive management in executive compensation, see the discussion under Corporate Governance Board of Directors and Its Committees Compensation Committee.

Total Direct Compensation

2008 Overview. Total direct compensation is built around our philosophy of targeting market median compensation with significant incentive components that reflect positive, as well as negative, company and individual performance. The chart below shows, for each element of total direct compensation, the target compensation the Compensation Committee sought to deliver to our Named Executives in 2008.

2008 McDermott Target Total Direct Compensation Summary

Named Executive	Annual Base Salary ($)	Annual Bonus (% of Salary)	Equity (% of Salary)
J.A. Fees			
CEO, McDermott International, Inc.	$ 750,000	100%	671%
CEO, The Babcock & Wilcox Company	$ 540,000	70%	285%
Composite*	$ 592,500	79%	671%
B.W. Wilkinson	$ 750,000	100%	0%
M.S. Taff	$ 440,000	55%	261%
B.C. Bethards			
CEO, The Babcock & Wilcox Company	$ 526,200	70%	203%
President, B&W Power Generation Group, Inc.	$ 409,500	60%	160%
Composite*	$ 438,675	63%	203%
R.A. Deason	$ 540,000	70%	235%
J.T. Nesser, III			
COO, J. Ray McDermott, S.A.	$ 500,000	70%	390%
CALO, MII	$ 500,000	65%	240%
Composite*	$ 500,000	66%	390%

*

The composite values shown for Messrs. Fees, Bethards and Nesser represent a composite target compensation of each person because each of these Named Executives held more than one position in 2008. The composite values reported under the Annual Base Salary and Annual Bonus columns reflect the prorated compensation targeted for each person under his current and former position. For a discussion of how the composite target annual bonus amounts were calculated, see the Grants of Plan-Based Awards table under Compensation of Executive Officers below and the disclosures under Compensation of Executive Officers Estimated Possible Payouts Under Non-Equity Incentive Plan Awards below. The composite values reported under the Equity column, however, represent the targeted amounts of equity awarded in 2008 as percentages of the respective annual base salaries of these executives as of October 1, 2008 under their current positions. See Annual Base Salary, Annual Bonus and Equity-Based Compensation below for a detailed discussion of each element.

While we do not set a specific target allocation among the total direct compensation elements, the Compensation Committee believes that equity-based and performance-based compensation relate most directly to achievement of strategic and financial goals and to building shareholder value and, as a result, should represent a majority of the total direct compensation for a Named Executive. On average, about 83% of the 2008 target total direct compensation of our Named Executives (excluding Mr. Wilkinson) was attributable to target annual bonus and equity-based compensation. The remainder of a Named Executive s target total direct compensation for 2008 was from annual base salary. On average, the 2008 mix of target total direct compensation elements for our Named Executives, excluding Mr. Wilkinson, was as follows:

2008 Named Executive Target Total Direct Compensation (Average)

Mr. Wilkinson, who had served as our Chairman and Chief Executive Officer since 2000, announced his intention to retire from McDermott in February 2008 and retired on September 30, 2008. As a result, he did not receive any equity award in 2008. Without any equity, only 50% of his 2008 target total direct compensation was attributable to at-risk incentive compensation. Because of his retirement, Mr. Wilkinson is uniquely situated compared to the other Named Executives with respect to compensation and, unless otherwise stated in this CD&A, the analysis provided for Named Executives as a group excludes Mr. Wilkinson.

Annual Base Salary

2008 Salaries. Annual base salary is the fixed component of total direct compensation which the Compensation Committee reviews annually. Our Board of Directors reviews the base salaries of our elected officers at the request of the Compensation Committee. With respect to 2008 salaries, our Board of Directors approved the salaries of our elected officers, including our Named Executives, as approved by the Compensation Committee.

In January 2008, Hewitt provided the Compensation Committee with an analysis of total direct compensation for our elected officers, including for each Named Executive, indicating the median compensation targeted by compensation element for similarly situated executives in our market. Additionally, Hewitt presented the separate recommendations of Hewitt and our Chief Executive Officer as to 2008 base salaries and Hewitt s market analysis of target cash compensation based on proposed annual salaries and bonus amounts. After reviewing the recommendations and market information, the Compensation Committee set 2008 base salaries for Messrs. Fees and Nesser at or within 4% above the median salaries of comparable positions in our market as indicated by their applicable benchmark. In January 2008, Mr. Fees and Mr. Deason were each serving as the Chief Executive Officer of one of our two principal operating subsidiaries. As a result of internal equity considerations, the Compensation Committee set the same base salary for Mr. Fees and Mr. Deason, although market data indicated that Mr. Deason s salary was approximately 16% above the median a result due to the use of different benchmarks for these positions. The Compensation Committee approved a base salary for Mr. Taff that was 10% higher than his prior salary, but was approximately 18% below the median salaries for chief financial officers in our market, having considered that Mr. Taff received an increase in compensation as a result of his then-recent promotion to Chief Financial Officer in 2007. The 2008 salary for Mr. Bethards, who at the time served as President of our subsidiary Babcock & Wilcox Power Generation Group, Inc., or B&W PGG, represented a 5% increase and was approximately 12% above the median salary for his position in our market. Mr. Wilkinson s 2008 salary remained unchanged from 2007. As a result, his 2008 salary was about 32% below the median base salary indicated by the applicable benchmark.

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The Compensation Committee asked Hewitt to provide further market compensation analysis for selected positions in connection with the October 1, 2008 promotions of Messrs. Fees, Bethards and Nesser. After reviewing the analysis and the separate recommendations of Hewitt and our Chief Executive Officer for each position, the Compensation Committee increased Mr. Bethards annual base salary to $526,200, which equaled the median salary for his position in our market. Based on Mr. Nesser s skills and experience, as well as the change in responsibility from corporate and legal focus to an operations focus, and on consideration of survey data of our market and our Custom Peer Group, the Compensation Committee considered Mr. Nesser s base salary competitive for his new position and his salary remained unchanged. Our Board of Directors set Mr. Fees base salary and other compensation at the time of his appointment. In setting Mr. Fees annual base salary as Chief Executive Officer, our Board of Directors considered a number of market practices and other factors regarding internal chief executive officer promotions highlighted by Hewitt, including the following:

that individual circumstances have produced a wide range of pay practices in the market;

the historical pay of our Chief Executive Officer;

that it is typical for new chief executive officer pay to trail the market for a short period; and

that although Mr. Fees serves as a director of our Board, he is not serving as Chairman.

As a result, our Board increased Mr. Fees base salary as Chief Executive Officer to match Mr. Wilkinson s prior salary of $750,000, although this salary was approximately 32% below the median salary for chief executive officers in our market.

Annual Bonus

2008 Overview. The Compensation Committee administers our short-term incentive compensation program under our Executive Incentive Compensation Plan, which we refer to as the EICP. For 2008, the Compensation Committee authorized separate discretionary bonus payments in addition to the amounts paid under the EICP. See Analysis of 2008 Discretionary Awards below for more information regarding the discretionary payments.

The EICP is a cash bonus plan designed to motivate and reward our Named Executives and other key employees for their contributions to business goals and other factors that we believe drive our earnings and/or create shareholder value. The payment amount, if any, of an EICP award is determined based on: (1) the attainment of short-term financial goals; (2) the attainment of short-term individual goals; and (3) the exercise of the Compensation Committee s discretionary authority. The EICP award is generally expressed as a percentage of the Named Executive s annual base salary. For more information regarding the mechanics of the EICP and the 2008 award opportunities under the EICP, see the Grants of Plan-Based Awards table under Compensation of Executive Officers below and the disclosures under Compensation of Executive Officers Estimated Possible Payouts Under Non-Equity Incentive Plan Awards. In 2008, the Compensation Committee requested that Hewitt assess our compensation programs with a specific focus on the EICP. Based on the input received from Hewitt following that review, the Compensation Committee determined that the overall structure of our EICP was competitive for purposes of providing 2008 annual bonus compensation.

The Compensation Committee considers financial goals to be more objective and to more directly influence the creation of shareholder value, as compared to individual goals and the exercise of the Compensation Committee s discretion. As a result, the largest percentage of an EICP award is allocated to the attainment of financial goals. With respect to our 2008 EICP awards, up to 170% of a target award was attributable to financial performance relative to the specific goals, while up to 30% was attributable to a Named Executive s individual goals. The Compensation

Committee may decrease an EICP award in its discretion and the maximum EICP award a Named Executive can earn is 200% of his target EICP award.

The 2008 financial goals consisted of a mix of McDermott, B&W and J. Ray operating income. Generally, EICP financial goals are based (1) entirely on our consolidated operating income for McDermott officers; (2) entirely on applicable segment operating income for officers of B&W and J. Ray, other than segment chief executive officers; and (3) on a mix of our consolidated operating income and J. Ray or B&W operating income for segment chief executive officers. The mix of consolidated and segment operating income relative to the 170% that can be earned by a segment chief executive officer under an EICP award consists of approximately 70% segment and 30% consolidated operating income. The following charts illustrate the mix of consolidated and segment operating income goals for our 2008 EICP awards. See 2008 EICP Financial Goals below for further analysis regarding our 2008 operating income goals.

2008 EICP Awards McDermott

2008 EICP Awards B&W/J. Ray CEO

2008 EICP Awards B&W/J. Ray Non-CEO

Following the October 1, 2008 promotions, the mix of McDermott, B&W and J. Ray financial goals changed for each of Messrs. Fees, Bethards and Nesser. As a result, each officer s 2008 EICP consists of two of the above operating income goals, each prorated based on an October 1 transition date. For example, Mr. Fees 2008 target EICP was based on 75% of the goals for B&W/J. Ray CEO and 25% of the goals for McDermott.

In connection with setting the EICP award, the Compensation Committee establishes three levels of operating income performance for determining the threshold, target and maximum payout under the financial component of an EICP award. The threshold level represents the minimum amount of operating income that must be earned before any amount of compensation is paid under the financial component of an EICP award. Prior to 2008, the Compensation Committee believed that no amount should be paid under an EICP award for financial performance if operating income results are below 85% of the target level. Accordingly, it set the 2007 threshold level operating income goals at 85% of target. For 2008 EICP awards, the Compensation Committee set ambitious financial performance goals. As a result, the Compensation Committee changed the operating income goal at the threshold level from 85% to 75% of the target level to allow for a payout at performance levels that it expected would contribute to the creation of significant shareholder value.

2008 EICP Target Awards. The Compensation Committee set the amount of target 2008 EICP awards for all Named Executives, including Mr. Wilkinson but excluding Mr. Taff, at or near the median annual incentive award targeted by our market for similarly situated executives. The Compensation Committee determined the median annual incentive award target for our market as a percentage of median annual base salary for our market (rather than the median dollar amount of the awards targeted by our market). With regard to Mr. Taff, after considering his 2007 promotion to Chief Financial Officer as discussed above under Annual Base Salary, the Compensation Committee increased his 2008 target EICP award to 55% from 45% in 2007. As a percentage of annual base salary, Mr. Taff s 2008 target EICP award was approximately 21% below the median target annual bonus (as a percentage of median annual base salary) for chief financial officers in our market. Otherwise, the 2008 EICP target awards, as a percentage of annual base salary, for our other Named Executives were all within 15% of the median target annual cash incentive awards (as a percentage of median annual base salary) for comparable positions indicated by our benchmarks. Mr. Fees target award as Chief Executive Officer was increased to match Mr. Wilkinson s target award, which was approximately 10% below the median award for chief executive officers in our market. The 2008 EICP target awards were set as follows:

2008 Target EICP

Named Executive	**Target EICP (% of Annual Base Salary)**
J.A. Fees CEO, MII	100%
J.A. Fees CEO, B&W	70%
B.W. Wilkinson	100%
M.S. Taff	55%
B.C. Bethards CEO, B&W	70%
B.C. Bethards Pres., B&W PGG	60%
R.A. Deason	70%
J.T. Nesser, III COO, J. Ray	70%
J.T. Nesser, III CALO, MII	65%

2008 EICP Financial Goals. For the 2008 EICP awards, the Compensation Committee set financial goals based upon year-over-year increases in our consolidated and, where applicable, segment operating income. The Compensation Committee considers operating income an appropriate financial measure to use for this purpose, because it believes it is the primary driver of net income, which it expects to drive our stock price. In comparison to net income, operating income is more directly influenced by the revenues generated and costs incurred as a result of management action, and is more readily attributable to our operating segments.

The consolidated and segment operating income goals for the 2008 EICP awards were as follows:

	Threshold	**Target**	**Maximum**
The Babcock & Wilcox Company			
Power Generation Systems Segment	*$ 225.0 million*	*$ 300.0 million*	*$ 320.0 million*
Government Operations Segment			
J. Ray McDermott			
Offshore Oil & Gas Construction Segment	*$ 318.7 million*	*$ 425.0 million*	*$ 451.0 million*
McDermott International			
Consolidated(1)	*$ 511.5 million*	*$ 682.0 million*	*$ 750.0 million*

(1) Consolidated operating income levels equal the sum of the segment operating income less unallocated corporate operating expenses.

In determining the specific levels of operating income, the Compensation Committee believes that the target and maximum goals should be set at levels that, if achieved, are likely to produce reasonable and above-average value for shareholders, respectively, but that also have reasonable probabilities of achievement, relative to the payout, so as to provide a meaningful incentive to employees. The Compensation Committee set the 2008 target goal in February 2008 based on management s internal estimates of 2008 operating income and set the 2008 maximum goal at a stretch operating income level for 2008. The Compensation Committee considered the attainment of the stretch goal to be significantly less probable than the target goal but, at twice the payout, it provided considerable additional incentive to encourage profitable growth. At the consolidated entity level, the target and maximum financial goals represented approximately 7% and 18% year-over-year increases from an adjusted 2007 consolidated operating income, respectively. Our 2007 GAAP operating income results were adjusted down by approximately $80 million for purposes of this comparison for one-time settlements on projects. As discussed under Annual Bonus 2008 Overview above, the operating income goals at the threshold levels were set at 75% of target.

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2008 EICP Individual Goals. As discussed above under 2008 Overview above, collectively the individual goals represent 0-30% of each Named Executive s EICP award. The individual goals and their respective weightings for our Named Executives 2008 EICP awards were set as follows:

For John A. Fees, as our Chief Executive Officer:

- successfully execute transition plan developed with the Board of Directors (0-30%).

For John A. Fees, as Chief Executive Officer of B&W:

- achieve specific levels of health, safety and environmental performance averages at our Power Generation Systems and Government Operations segments (0-10%);
- implement identified strategic initiatives (0-10%); and
- develop a strategic consolidation strategy for a specific business function at The Babcock & Wilcox Company (0-10%).

For Bruce W. Wilkinson:

- achieve specific levels of company-wide health, safety and environmental performance averages (0-10%); and
- receive a positive assessment by the Board of Directors regarding six performance categories selected by the Board of Directors (0-20%).

For Michael S. Taff:

- assess and modify McDermott s liquidity position as approved by the Chief Executive Officer/Finance Committee (0-10%);
- define McDermott financial planning and analysis activities for 2008 (0-10%); and
- develop a plan to mitigate defined benefit plan liabilities (0-10%).

For Brandon C. Bethards, as Chief Executive Officer of B&W:

- effect a successful transition as the Chief Executive Officer of B&W (0-30%).

For Brandon C. Bethards, as President of Babcock & Wilcox Power Generation Group, Inc.:

- achieve specific levels of health, safety and environmental performance averages for B&W PGG (0-10%);
- develop a strategic plan for B&W PGG in North America (0-10%);
- identify strategic international growth strategies for B&W PGG (0-5%); and
- record specified amount of royalties and license fees (0-5%).

For Robert A. Deason:

- achieve specific levels of health, safety and environmental performance averages at our Offshore Oil and Gas Construction segment (0-10%); and
- commence implementing diversified strategies for our Offshore Oil and Gas Construction segment in connection with McDermott s strategic five-year plan (0-20%).

For John T. Nesser, III, as our Chief Administrative and Legal Officer:

- achieve specific levels of company-wide health, safety and environmental performance averages (0-10%);
- design and prepare new strategic compensation program (0-10%); and
- complete a targeted risk assessment (0-10%).

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2008 Annual Bonus Payments. The 2008 target and final EICP award amounts as well as the discretionary awards paid to each Named Executive are shown in the table below.

2008 EICP AND DISCRETIONARY AWARDS SUMMARY

Named Executive	2008 EICP Target % of Salary	2008 EICP Target $ Amount	2008 EICP Actual $ Amount	2008 EICP Actual % of Salary	2008 Discretionary Award	Total 2008 Annual Bonus Awards
J.A. Fees	79%	$ 471,000	$ 570,803(1)	96%	$ 270,223	$ 841,026
B.W. Wilkinson	100%	$ 750,000	$ 323,550(2)	43%	$ 0	$ 323,550
M.S. Taff	55%	$ 242,000	$ 141,207	32%	$ 110,000	$ 251,207
B.C. Bethards	63%	$ 276,360	$ 509,298(1)	116%	$ 10,000	$ 519,298
R.A. Deason	70%	$ 378,000	$ 0(3)	0%	$ 0	$ 0
J.T. Nesser, III	66%	$ 331,250	$ 136,122(1)	27%	$ 100,000	$ 236,122

(1) The 2008 EICP awards for Messrs. Fees, Bethards and Nesser represent composites of EICP awards earned under their respective current and former positions, as follows:

Mr. Fees award represents three-fourths of the award he earned as Chief Executive Officer of B&W and one-fourth of the award he earned as Chief Executive Officer of MII;

Mr. Bethards award represents three-fourths of the award he earned as President of B&W PGG and one-fourth of the award he earned as Chief Executive Officer of B&W; and

Mr. Nesser s award represents three-fourths of the award he earned as Chief Administrative and Legal Officer of MII and one-fourth of the award he earned as Chief Operating Officer of J. Ray.

(2) Under the terms of Mr. Wilkinson s separation agreement, his 2008 EICP award was prorated based on the length of his employment during 2008. As a result, his total 2008 EICP award represents three-fourths of $431,400, the amount he would have earned for the full year based on the level of attainment of financial and individual goals.

(3) As further discussed below, Mr. Deason declined any bonus payment for 2008.

Analysis of 2008 EICP Payments. In February 2009, our Chief Executive Officer presented the Compensation Committee with an assessment regarding the financial and individual performance goals applicable to each of the Named Executives, together with his recommendation for each Named Executive s 2008 EICP award.

<u>Financial Component Payment</u>: Financial performance accounted for 85% of each Named Executive s target 2008 EICP award or, depending on the performance achieved, 0-170% of the final EICP award amount. As discussed above, the financial goals consisted of consolidated and/or segment operating income goals with three performance levels that determined threshold, target and maximum payments. Operating income at the threshold level would produce a payout of 25% of the target EICP award attributable to financial goals. Operating income at the target and maximum levels would produce a payout of 100% and 200%, respectively, of the target EICP award attributable to financial goals. The percentage paid out between threshold and maximum is interpolated. No payment would be made

under the financial component if the level of operating income earned was below the applicable threshold level.

The Compensation Committee considered our 2008 GAAP consolidated and segment operating income in light of the established operating income goals. McDermott earned approximately $570 million of consolidated operating income in 2008, which exceeded the threshold goal but not the target goal and resulted in a 51% payout on the financial component related to consolidated operating income goals. At least part of the financial component of the 2008 EICP award for all Named Executives (including Mr. Wilkinson) was based on consolidated operating income results. As a result, all six Named Executives earned 51% of that portion of the target financial component that was tied to consolidated operating income. B&W earned over $450 million of operating income, which exceeded its maximum level and resulted in a 200% payout on the financial component related to B&W operating income goals. The EICP award for each of Mr. Fees, particularly for the portion attributable to his service as Chief Executive Officer of B&W, and Mr. Bethards contain financial goals based on B&W stand-alone operating income results. As a result, Messrs. Fees and Bethards earned 200% of that portion of their respective target EICP award. Finally, J. Ray earned approximately $140 million of operating income, which amount was below the threshold level of operating income for J. Ray. Messrs. Deason and Nesser were the only Named Executives whose 2008 EICP awards were directly tied to J. Ray stand-alone operating income goals and, as a result, neither officer earned any payment as to that portion of their respective target EICP award. 25% of Mr. Deason s target EICP award attributable to financial performance was based on consolidated operating income. As a result, he earned an EICP bonus of approximately $48,000. However, at his request, no payment was made to Mr. Deason under the EICP for 2008.

Individual Component Payment: Individual performance accounted for 15% of each Named Executive s target 2008 EICP award, or, depending on the level of individual and financial performance, 0-30% of the final EICP award amount. The Compensation Committee considered (1) the Governance Committee s assessment of the individual performance of Messrs. Fees and Wilkinson and (2) Mr. Fees assessment of each other Named Executive s individual performance. In addition to those assessments, the Compensation Committee applied the following three general principles to determine the amount to be paid for individual performance:

1) If financial performance did not meet or exceed the threshold level, no amount would be earned for individual performance, even if the individual goals were achieved;

2) No Named Executive could earn more than 15% of his target EICP for individual performance unless target financial performance was achieved; and

3) If target financial performance was achieved, a Named Executive could earn up to 30% of his target EICP award based on individual performance.

Mr. Fees and Mr. Taff both achieved all of their individual goals. However, the portion of Mr. Fees award attributable to his service as McDermott s Chief Executive Officer, and as to Mr. Taff, the Compensation Committee limited their respective individual components to 15% since the consolidated operating income results were below target performance levels. As to Mr. Fees individual component related to that portion of his EICP award received as Chief Executive Officer of B&W, the Compensation Committee approved the individual component of that portion at 30%. Messrs. Bethards, Nesser and Wilkinson met or exceeded their individual goals, except with respect to one of their goals, which in each case was only partially achieved. Mr. Nesser, as to that portion of this EICP award attributable to his service as McDermott s Chief Administrative and Legal Officer, and Mr. Wilkinson, earned slightly less than the 15% target amount as a result of the consolidated operating income results, and Mr. Bethards earned slightly less than 30% for individual performance as to both of his EICP awards as a result of B&W s operating income results. As a result of J. Ray s operating income results, Mr. Nesser earned no payment on the individual component of his EICP award attributable to his service as Chief Operating Officer of J. Ray.

Analysis of 2008 Discretionary Awards. The financial performance of J. Ray in 2008 negatively impacted the amount of EICP awards paid out to each Named Executive for 2008. The Compensation Committee believed that J. Ray s results disproportionately impacted the EICP awards of Messrs. Fees, Bethards, Nesser and Taff. Specifically, the awards earned by Messrs. Fees and Nesser were both considerably lower than the awards they would have otherwise received in their former positions. To a lesser extent, Mr. Bethards EICP award was affected by J. Ray s financials as a result of the consolidated operating income goal that became applicable to him on his appointment as Chief Executive Officer of B&W. In addition, Mr. Taff s target EICP award was already 21% below market-median, as discussed above. However, as a result of J. Ray s financial performance, Mr. Taff s actual 2008 award was approximately 46% below market, which the Compensation Committee concluded was significantly beyond the reasonable range of competitive compensation. Finally, the Compensation Committee considered the below-market salary and bonus paid to Mr. Fees and the execution of his 100-day plan as McDermott s Chief Executive Officer. As a result, the Compensation Committee authorized additional awards to these Named Executives in amounts it considered reasonable and appropriate under the circumstances to incentivize and reward them for their individual contribution to the overall performance of McDermott. No discretionary bonus was paid to Mr. Deason, as discussed above, or to Mr. Wilkinson, who retired in 2008.

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Equity-Based Compensation

We believe that the interests of our shareholders are best served when a significant percentage of compensation is comprised of equity and other long-term incentives that appreciate in value contingent upon increases in the price of our common stock and other indicators that reflect improvements in business fundamentals. Therefore, the Compensation Committee includes equity and other long-term incentive awards as a significant part of a Named Executive s total direct compensation.

Timing of Equity Grants. Since 2005, the Compensation Committee has granted annual equity awards at its regularly scheduled committee meeting held in connection with our annual meeting of stockholders. To avoid timing equity grants ahead of the release of material nonpublic information, the Compensation Committee generally approves stock option and other equity awards effective as of the first day of the next open trading window, which is generally the third day following the filing of our annual report on Form 10-K or quarterly report on Form 10-Q with the Securities and Exchange Commission.

Analysis of 2008 Equity Grants.

Mix of 2008 Equity. In 2006 and 2007, the Compensation Committee relied exclusively on performance shares to deliver equity-based compensation to Named Executives. These performance shares generally provided for vesting three years from the date of grant in an amount between 0% and 150% of the number of shares granted depending on the level of cumulative consolidated operating income achieved during 2006-2008, for the 2006 grants, and 2007-2009, for the 2007 grants. At the Compensation Committee s request, Hewitt reviewed our long-term incentive program relative to the equity practices among the companies in our J.Ray/Corporate Group and our Custom Peer Group. Hewitt s analysis showed that both groups use a mix of equity types but relied to a significant extent on time-based vesting awards such as restricted stock. Accordingly, Hewitt recommended that the Compensation Committee consider adding restricted stock for retention purposes and to remain competitive with our market. Having considered Hewitt s analysis and in consideration that compensation through both our EICP awards and performance share awards is based on achieving operating income targets, the Compensation Committee concluded that using restricted stock as part of our equity-based compensation program was important for retention purposes. However, the Compensation Committee decided that a majority of equity-based compensation for senior executives, including Named Executives, should continue to be performance-based. As a result, the Compensation Committee approved the use of a mix of performance shares and restricted stock awards in 2008 along the following general guidelines:

- elected officers (including our Named Executives): 75% performance shares and 25% restricted stock; and
- all other participants: 50% performance shares and 50% restricted stock.

Similar to prior years, our 2008 performance shares are generally scheduled to vest three years from the date of grant in an amount between 0% and 150% of the number of shares granted, depending on the level of cumulative consolidated operating income achieved during 2008-2010. The shares of restricted stock we awarded in 2008 generally vest one-third on the first, second and third anniversary of the date of grant. For 2008, performance shares represented approximately 75% and restricted stock represented approximately 25% of our Named Executives equity-based compensation, except for Mr. Bethards. Restricted stock comprised approximately 54% of Mr. Bethards 2008 equity-based compensation due to a restricted stock grant made in connection with his promotion to Chief Executive Officer of B&W. That grant was made in November 2008, and, with one-third of the performance measurement period already completed, the Compensation Committee believed that restricted stock provided a greater incentive at that time than performance shares.

For more information regarding the 2008 performance share and restricted stock awards, see the Grants of Plan-Based Awards table under Compensation of Executive Officers below and disclosures under Compensation of Executive Officers Estimated Future Payouts Under Equity Incentive Plan Awards.

Sizing Equity Awards. The Compensation Committee generally determines the size of equity awards as a percentage of a Named Executive s annual base salary, rather than granting a targeted number of shares. The Compensation Committee determined the amount of each Named Executive s target equity-based compensation, as a percentage of his annual base salary, based on market data provided by Hewitt. Hewitt applied a discount to

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equity-based compensation data of our market in order to ensure proper comparison of awards with different terms and plan designs. The dollar value of the target equity award for each Named Executive was derived by multiplying the applicable percentage by the Named Executive s 2008 base salary. Once the target value was established, the total number of performance shares and shares of restricted stock granted was determined by dividing the target value of equity in dollars by the discounted fair market value near the time of grant of one performance share or one share of restricted stock and rounding down to the nearest 10 shares. The value of one performance share or one share of restricted stock was determined by Hewitt and generally reflected a discount from the market price as quoted on the New York Stock Exchange as a result of the vesting conditions and limitations on transfer. For the annual equity awards granted in February 2008, the fair market value of our common stock as of the date the grants were calculated (based on the closing price of our common stock on the New York Stock Exchange on that date) was $47.10, compared to the discounted value of $34.65 for one performance share and $41.65 for one share of restricted stock.

Value of 2008 Equity Awards. As a percentage of annual base salary, the equity-based awards granted to Mr. Taff were equal to the median equity value, as a percentage of annual base salary, of equity awards to chief financial officers indicated by our benchmark. The Compensation Committee set the value of Mr. Deason s equity award at 235% of his base salary, which was approximately 11% above the median percentage value of his position based on the applicable benchmark, to make the dollar value of his award more comparable to his counterpart at B&W. Messrs. Fees, Bethards and Nesser received two equity awards in 2008, the first in connection with the annual grants made by the Compensation Committee in February 2008 and the second in connection with their respective promotions.

As a result of the second equity award, the total value of Mr. Fees , Mr. Bethards and Mr. Nesser s 2008 equity awards was approximately 49% above, 29% below and 86% above the median value of equity awards, as a percentage of annual base salary, for similar executives in our market, respectively. As a percentage of his annual base salary, Mr. Bethards first equity award was approximately 4% above the median value (as a percentage of annual base salary) of our market for his position. In determining the amount of Mr. Bethards second award, the Compensation Committee considered current market data provided by Hewitt, and granted him a second award that, in absolute numbers, was comparable to equity awards made to his counterpart at J. Ray. Based on market data provided by Hewitt in connection with Mr. Nesser s promotion, the value of his February 2008 equity award was near the median value of equity awards (as a percentage of annual base salary) of comparable executives for both his new and former position. However, the Compensation Committee awarded Mr. Nesser additional equity-based awards in connection with his change of duties in 2008 to help drive and reward the achievement of long-term performance.

Mr. Fees second equity award was based on the median dollar value of equity awards for chief executive officers in our market rather than the median value as a percentage of annual base salary. Our Board considered the change in methodology for Mr. Fees award appropriate because Mr. Fees base salary was substantially below market median (as discussed under Annual Base Salaries above). Our Board also considered the long-term nature of equity-based awards, which are principally designed to drive and reward long-term performance. At the time, the median value of equity-based awards to chief executive officers in our market as indicated by our benchmark was approximately $5,029,733, without regard to annual base salary. In February 2008, Mr. Fees had received an equity-based award valued at approximately $1,539,000. Accordingly, in August 2008 our Board approved an equity-based award for Mr. Fees of $3,490,733 in connection with his promotion to our Chief Executive Officer. That amount represented the difference between the median dollar value of chief executive officer equity awards in our market and the dollar value of Mr. Fees February 2008 award. As a result, in dollar amount, the value of Mr. Fees 2008 total equity award was equal to the median value of equity for chief executive officers in our market.

Performance Targets for 2008 Performance-Based Equity. The 2008 performance shares vest between 0% and 150% of the amount of shares initially granted depending on the level of cumulative operating income obtained over the three-year period ending December 31, 2010. Cumulative operating income at the threshold level will result in vesting of 25% of the performance shares initially granted. 100% and 150% of the shares initially granted vest if our consolidated cumulative operating income over the three-year period reaches the target and maximum levels, respectively. The amount vesting for cumulative operating income between the threshold level and maximum level is determined by linear interpolation.

Based on information provided by management, the Compensation Committee set cumulative operating income at the target and maximum vesting levels at amounts that represent 6% and 10% year-over-year increases from the same adjusted 2007 operating income amounts used to set payouts under our 2008 annual bonus plan. The Compensation Committee determined to structure performance share vesting around the same baseline used in connection with the determination of our annual bonus, to complement and leverage consolidated operating income results that may be achieved as a result of our annual bonus awards. In addition, the Compensation Committee sought to encourage consistent and profitable growth while driving the creation of significant shareholder value. Finally, consistent with our 2006 and 2007 performance share awards, the Compensation Committee concluded that, based on the levels of the performance goals established, no performance shares should vest for cumulative operating income below 85% of the target level for the three-year measurement period.

Perquisites

Perquisites are not generally factored into the determination of the total direct compensation of our Named Executives, because they are typically provided to Named Executives on an exception basis after the Compensation Committee has reviewed the implications of a perquisite on McDermott.

We own a fractional interest in three aircraft through an aircraft management company, which we acquired and use for business purposes and which we make available to our Named Executives for limited personal use upon the approval of our Chief Executive Officer. When we permit the personal use of aircraft by a Named Executive, we have a choice regarding the amount of income tax imputed to the executive officer for that use. Under current Internal Revenue Service rules, we may impute to the executive officer the actual cost incurred by us for the flight or an amount based on Standard Industry Fare Level (SIFL) rates set by the U.S. Department of Transportation. Imputing income based on SIFL rates usually results in less income tax liability to the executive officer but higher income taxes to us due to limitations on deducting aircraft expenses that exceed the income imputed to employees. To minimize our cost of permitting the personal use of the aircraft, we impute income for personal use of aircraft to our Named Executives in an amount that results in the least amount of tax burden for McDermott.

We compute incremental cost for personal use of aircraft on the actual cost incurred by us for the flight, including:

- the cost of fuel;
- a usage charge equal to the hourly rate multiplied by the flight time;
- dead head costs, if applicable, of flying empty aircraft to and from locations; and
- the dollar amount of increased income taxes we incur as a result of disallowed deductions under IRS rules.

Since the aircraft are used primarily for business travel, incremental costs generally exclude fixed costs such as the purchase price of our interests in the aircraft, aircraft management fees, depreciation, maintenance and insurance. Our cost for flights using aircraft, whether business or personal, is not affected by the number of passengers. As a result, we do not assign any amount, other than the amount of any disallowed deduction, when computing incremental costs for the presence of guests accompanying a Named Executive on such flights. While we do not generally incur any additional cost, this travel may result in imputed income to the Named Executive and disallowed deductions on our income taxes. We will reimburse the Named Executive for the travel expenses of a guest accompanying a Named Executive, including the provision of a gross-up for any imputed income, when the presence of that guest is related to the underlying business purpose of the trip. We also provide our Named Executives with a tax gross-up for imputed income in connection with a relocation with McDermott or one of our affiliated companies. Otherwise, it is not our practice, and we do not intend, to provide any Named Executive with a tax gross-up for imputed income resulting from executive perquisites, including personal use of corporate aircraft.

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Post-Employment Compensation

Retirement Plans

Overview. We provide retirement benefits through a combination of qualified defined benefit pension plans, which we refer to as our Retirement Plans, and a qualified defined contribution 401(k) Plan, which we refer to as our Thrift Plan, for most of our regular employees, including our Named Executives. We sponsor the following four Retirement Plans:

- the McDermott Retirement Plan for the benefit of the employees of McDermott Incorporated;
- the JRM Retirement Plan for the benefit of the employees of our Offshore Oil and Gas Construction segment;
- the Government Operations Retirement Plan for the benefit of the employees of our Government Operations segment; and
- the Commercial Operations Retirement Plan for the benefit of the employees of our Power Generation Systems segment.

In addition to the broad-based qualified plans described above, we sponsor unfunded, nonqualified or excess retirement plans. The excess plans cover a small group of highly compensated employees, including our Named Executives, whose ultimate benefit under the applicable Retirement Plan is reduced by Internal Revenue Code Sections 415(b) and 401(a)(17) limits. Benefits under the excess plans are paid from our general assets. See the Pension Benefit table under Compensation of Executive Officers below for more information regarding our Retirement Plans.

Recent Changes to Retirement Plans. Over the past several years, we have reassessed our retirement plans due to the volatility, cost and complexity associated with defined benefit plans and evolving employee preferences. As a result, we have taken steps to shift away from traditional defined benefit plans and toward a defined contribution approach. In 2003, we closed the JRM Retirement Plan to new participants and froze benefit accruals for existing participants. In lieu of future defined benefit plan accruals under the JRM Retirement Plan, we amended our Thrift Plan to provide affected employees with an automatic cash contribution to their Thrift Plan account equal to 3% of the employee s base pay, plus overtime pay, expatriate pay and commissions, which we refer to collectively as thriftable earnings. Mr. Deason had not satisfied the JRM Retirement Plan eligibility requirements at the time that plan was closed to new participants. Therefore, he does not participate in a Retirement Plan or an excess plan. In 2006, we closed the McDermott, Commercial Operations and Government Operations Retirement Plans to new salaried participants and froze benefit accruals for existing salaried participants with less than five years of credited service as of March 31, 2006, subject to specific annual cost-of-living increases. In lieu of future defined benefit plan accruals under those plans, we further amended our Thrift Plan to provide an automatic cash contribution to the Thrift Plan accounts of affected employees and new hires in an amount between 3% and 8% of the employee s thriftable earnings, based on their length of service. Mr. Taff was affected by these changes. Mr. Taff does not participate in a Retirement Plan or an Excess Plan because he had not met the McDermott Retirement Plan eligibility requirements at the time that plan was closed to new participants. In 2007, we offered salaried participants in the McDermott, Commercial Operations and Government Operations Retirement Plans with between five and 10 years of credited service as of January 1, 2007 the one-time irrevocable choice between (1) continuing to accrue future benefits under the Retirement Plan or (2) freezing their Retirement Plan accrued benefit as of March 31, 2007, subject to annual cost-of-living increases, and receiving an automatic service-based cash contribution to their Thrift Plan account instead. Based on years of service, Messrs. Wilkinson and Nesser were offered this choice. Mr. Wilkinson chose to have his McDermott Retirement Plan accrued benefit frozen. Therefore, his service after March 31, 2007 is not taken into account as credited service under a Retirement Plan. Mr. Nesser chose to continue to accrue future benefits under the McDermott Retirement Plan, and he continues to be credited with service under that plan.

Supplemental Plans. In 2005, as part of our philosophy to move away from defined benefit plans, our management recommended that the Board of Directors and the Compensation Committee terminate our then existing defined benefit supplemental executive retirement plan. In its place, our Board of Directors and

Compensation Committee established a new supplemental executive retirement plan, which we refer to as the SERP, to help maintain the competitiveness of our post-employment compensation as compared to our market. The SERP is an unfunded, nonqualified plan that provides participants with benefits based upon the participant s notional account balance at the time of retirement or termination. Annually, we credit a participant s notional account with an amount equal to 5% of the participant s prior base salary and annual bonus. The Compensation Committee has designated deemed mutual fund investments to serve as indices for the purpose of determining notional investment gains and losses to the participant s account. Each participant allocates the annual notional contribution among the various deemed investments. SERP benefits are based on the participant s vested notional account balance at the time of retirement or termination. Please see the Nonqualified Deferred Compensation table on page 47 and accompanying narrative for further information about the SERP and our contributions to our Named Executives accounts.

Employment and Severance Arrangements

Employment and Separation Agreements. Except for change-in-control agreements and a separation agreement with Mr. Wilkinson, we do not currently have any employment or severance agreements with any of our Named Executives. In recent years, the Compensation Committee has determined that it may be appropriate in certain circumstances for us to enter into separation agreements with key officers. Under such agreements, the officer would be retained as a consultant for a limited period to assist us in the transition to a successor. In general, under these separation agreements, the officer receives a prorated EICP award for the year in which the separation agreement commences, continued vesting in equity awards at the normal vesting schedule for the duration of the consulting period and accelerated vesting of the unvested portion of the officer s SERP account. In September 2008, we entered into such a separation agreement with Mr. Wilkinson. In addition, in October 2008, we entered into a separate consulting agreement with Mr. Wilkinson to provide our Board and management post-transition assistance with specific matters involving customers, investors, acquisition transactions and other matters. See the Potential Payments upon Termination or Change in Control table under Compensation of Executive Officers below for more information regarding Mr. Wilkinson s agreements.

Change-in-Control Agreements. In our experience, change-in-control agreements for Named Executives are common within our industry, and our Board and Compensation Committee believe that providing these agreements to our Named Executives protects shareholders interests by helping to assure management continuity and focus through and beyond a change in control. Accordingly, the Compensation Committee has offered change-in-control agreements to key senior executives, including Named Executives, since 2005. With the exception of our change-in-control agreement with Mr. Fees, our change-in-control agreements generally provide a severance payment of two times the sum of the Named Executive s annual base salary and target EICP award and provide an additional tax gross-up in the event of any excise tax liability. Additionally, these agreements contain what is commonly referred to as a double trigger, that is, they provide benefits only upon an involuntary termination or constructive termination of the executive officer within one year following a change in control. In 2008, at the request of the Compensation Committee, Hewitt conducted a review of our change-in-control agreements relative to existing practices among companies in the J.Ray/Corporate Group and the Custom Peer Group and to emerging practices generally. Specifically, Hewitt considered change-in-control provisions relating to triggers, the definition and calculation of severance pay and treatment of payments for bonus, equity, medical and excise tax. Hewitt s analysis indicated that our change-in-control agreements were generally consistent with practices in our market and in the Custom Peer Group, except with respect to calculating severance pay for chief executive officers and payments for medical benefits. Market practices generally calculated chief executive officer severance at 2.99 or 3.0 times the executive s pay and provided an additional payment for medical benefits. Based on Hewitt s analysis, the Compensation Committee revised our change-in-control agreements to include a payment for two years of medical benefits for each Named Executive and, for Mr. Fees agreement only, calculate severance pay at 2.99 times his annual base salary and target EICP award. No change was made in the 2008 change-in-control agreements regarding the provision for an excise tax gross-up payment. However, for any future change-in-control agreements we may enter into, we do not intend to provide for an excise tax gross-up payment. See the Potential Payments Upon Termination or Change in Control table under Compensation of Executive Officers below and the accompanying disclosures for more information regarding the change-in-control agreements with our Named Executives, as well as other plans and arrangements that have different trigger mechanisms that relate to a change in control.

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Stock Ownership Guidelines

Overview. To align the interests of directors, executive officers and shareholders, we believe our directors and executive officers should have a significant financial stake in McDermott. To further that goal, we adopted stock ownership guidelines, effective January 1, 2006, requiring generally that our nonmanagement directors and our officers maintain a minimum ownership interest in McDermott. The amount required to be retained varies depending on the executive s position. The guidelines require our Chief Executive Officer to own and retain a minimum of 100,000 shares of our common stock and our other Named Executives to own and retain at least 35,000 shares. The guidelines require nonmanagement directors to own and retain a minimum of 6,000 shares of our common stock.

Directors and officers have five years from the effective date of the stock ownership guidelines or their initial election as a director/officer, whichever is later, to comply with the guidelines. The Compensation Committee has discretion to waive or modify the stock ownership guidelines for directors and officers.

Compliance. We assess our Named Executives compliance with these guidelines annually. When calculating stock ownership for purposes of these guidelines, we do not include any stock options, even if vested but unexercised. All of our Named Executives are in compliance with these guidelines. Additionally, we have considered these guidelines and believe that the minimum levels continue to be appropriate for our officers and directors at this time.

COMPENSATION COMMITTEE REPORT

We have reviewed and discussed the Compensation Discussion and Analysis with McDermott s management and, based on our review and discussions, we recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Thomas C. Schievelbein, Chairman
Roger A. Brown
Oliver D. Kingsley, Jr.

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COMPENSATION OF EXECUTIVE OFFICERS

The following table summarizes compensation of our current and former Chief Executive Officer, our Chief Financial Officer and our three highest paid executive officers who did not serve as our CEO and CFO during 2008, for the fiscal years ended December 31, 2006, December 31, 2007 and December 31, 2008. We refer to these persons as our Named Executives. No compensation information for Mr. Taff is provided for 2006 because he became a Named Executive in 2007. No compensation information for Mr. Bethards is provided for 2006 or 2007 because he became a Named Executive in 2008.

Summary Compensation Table

rincipal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation
	2008	$ 592,500	$ 270,223	$ 2,013,812	$ 53,131	$ 570,803	$ 143,028	$ 148,310
ive Officer	2007	$ 515,000	$ 0	$ 1,685,149	$ 169,616	$ 702,975	$ 333,153	$ 57,679
	2006	$ 460,000	$ 0	$ 722,379	$ 262,030	$ 568,100	$ 367,828	$ 56,307
son	2008	$ 562,500	$ 0	$ 2,299,144	$ 122,340	$ 323,550	$ 69,867	$ 2,259,830
man &	2007	$ 750,000	$ 0	$ 2,472,448	$ 392,293	$ 1,462,500	$ 107,004	$ 105,050
ive Officer	2006	$ 750,000	$ 0	$ 1,694,958	$ 620,566	$ 1,140,000	$ 158,853	$ 116,687
	2008	$ 440,000	$ 110,000	$ 914,569	$ 30,220	$ 141,207	N/A	$ 45,757
President &	2007	$ 374,999	$ 0	$ 648,095	$ 69,458	$ 387,563	N/A	$ 34,211
al Officer	2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
s	2008	$ 438,675	$ 10,000	$ 842,624	$ 0	$ 509,298	$ 158,014	$ 54,831
Chief	2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ficer, The	2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Vilcox Company								
	2008	$ 540,000	$ 0	$ 1,456,797	$ 47,766	$ 0	N/A	$ 117,077
Chief Executive	2007	$ 485,000	$ 0	$ 1,236,539	$ 152,977	$ 679,000	N/A	$ 59,375
y McDermott	2006	$ 440,000	$ 0	$ 478,188	$ 247,814	$ 543,400	N/A	$ 55,751
II	2008	$ 500,000	$ 100,000	$ 1,295,766	$ 37,115	$ 136,122	$ 104,864	$ 74,933
ce President &	2007	$ 475,013	$ 0	$ 1,011,166	$ 120,551	$ 602,079	$ 95,660	$ 46,078
ng Officer,	2006	$ 385,000	$ 0	$ 594,535	$ 196,653	$ 423,500	$ 55,341	$ 42,818
rmott								

Bonus. The amounts reported in the Bonus column are attributable to discretionary bonus awards earned in 2008 but paid in 2009. For more information regarding discretionary bonuses, see Compensation Discussion and Analysis Annual Bonus Analysis of 2008 Discretionary Awards above.

Stock and Option Awards. The amounts reported in the Stock Awards and Option Awards columns represent the associated dollar amounts we recognized in the applicable year for financial statement reporting purposes under SFAS No. 123R. Under SFAS No. 123R, the fair value of equity-classified awards, such as restricted stock, performance shares and stock options, is determined on the date of grant and is not remeasured. Grant date fair values are determined using the closing price of our common stock on the date of grant, for restricted stock and performance shares, or an option-pricing model, for stock options. We use the Black-Scholes option-pricing model for measuring the fair value of stock options granted. The determination of the fair value of an award on the date of grant using an option-pricing model requires various assumptions, such as the expected life of the award and stock price volatility. For a discussion of the valuation assumptions, see Note 10 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2008. For liability-classified awards, such as cash-settled deferred stock units, fair values are determined based on the closing price of our common stock on the grant date and are remeasured based on the closing price of our common stock at the end of each reporting period through the date of settlement. See the Grants of Plan-Based Awards table for more information regarding the stock awards we granted in 2008.

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Non-Equity Incentive Plan Compensation. The amounts reported in the Non-Equity Incentive Plan Compensation column are attributable to the EICP awards earned in fiscal years 2006, 2007 and 2008, but paid in 2007, 2008 and 2009, respectively.

Change in Pension Value and Nonqualified Deferred Compensation Earnings. The amounts reported in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column represent the changes in actuarial present values of the accumulated benefits under defined benefit plans: at December 31, 2006, as compared to December 31, 2005, for fiscal year 2006; at December 31, 2007, as compared to December 31, 2006, for fiscal year 2007; and at December 31, 2008, as compared to December 31, 2007, for fiscal year 2008.

All Other Compensation. The amounts reported for 2008 in the All Other Compensation column are attributable to the following:

All Other Compensation

	SERP Contribution	Thrift Match	Service-Based Thrift Contribution	Tax Gross-Ups	Perquisites	Other
J.A. Fees	$ 54,155	$ 10,601		$ 15,280	$ 68,274	
B.W. Wilkinson	$ 94,500	$ 4,688	$ 9,200			$ 2,151,442
M.S. Taff	$ 31,125	$ 6,902	$ 6,904	$ 826		
B.C. Bethards	$ 31,042	$ 4,603		$ 1,020	$ 18,166	
R.A. Deason	$ 51,400	$ 4,691		$ 25,220	$ 35,766	
J.T. Nesser, III	$ 44,926	$ 6,629		$ 8,213	$ 15,165	

Thrift Match and Service-Based Thrift Contribution. For information regarding our Thrift Plan matching contributions and service-based Thrift Plan contributions, see Compensation Discussion and Analysis Postemployment Compensation Retirement Plans above.

Tax Gross-Ups. The tax gross-ups reported for 2008 under All Other Compensation are attributable to the following:

Mr. Fees: Mr. Fees received tax gross-ups of $14,587 associated with income imputed to him as a result of his relocation from Virginia to Texas, following his appointment as Chief Executive Officer of McDermott. In addition, Mr. Fees received a tax gross-up of $693 attributable to income imputed to him as a result of his spouse accompanying him on business travel.

Mr. Taff: Mr. Taff received a tax gross-up associated with income imputed to him as a result of his spouse accompanying him on business travel.

Mr. Bethards: Mr. Bethards received tax gross-ups associated with income imputed to him as a result of his relocation from Ohio to Virginia, following his appointment as Chief Executive Officer of The Babcock & Wilcox Company.

Mr. Deason: Mr. Deason received tax gross-ups associated with income imputed to him as a result of his spouse accompanying him on business travel.

Mr. Nesser: Mr. Nesser received tax gross-ups associated with income imputed to him as a result of his spouse accompanying him on business travel.

Perquisites. Perquisites and other personal benefits received by a Named Executive are not included if their aggregate value does not exceed $10,000. For Messrs. Fees, Bethards and Deason, the values of the perquisites and other personal benefits reported for 2008 are as follows:

Mr. Fees: $60,475 is attributable to the costs of providing him relocation assistance in connection with his move from Virginia to Texas. The remainder is attributable to the cost of a club membership and the costs resulting from his spouse accompanying him on business travel.

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Mr. Bethards: $17,070 is attributable to the costs of providing him relocation assistance in connection with his move from Ohio to Virginia. The remainder is attributable to the costs resulting from his spouse accompanying him on business travel.

Mr. Deason: This amount is attributable to the costs resulting from his spouse accompanying him on business travel.

Mr. Nesser: This amount is attributable to the costs resulting from his spouse accompanying him on business travel.

Other. The amounts reported for Mr. Wilkinson include $57,692 of accrued but unused vacation and $2,093,750 paid by us for consulting services pursuant to a Consultancy Agreement. For more information regarding Mr. Wilkinson s Consultancy Agreement, see Potential Payments Upon Termination or Change in Control below.

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Grants of Plan-Based Awards

The following Grants of Plan-Based Awards table provides additional information about stock awards and equity and non-equity incentive plan awards granted to our Named Executives during the year ended December 31, 2008.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards					
Grant Date	Committee Action Date	Threshold	Target	Maximum	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exe B Pr Op Aw
02/25/08	02/25/08	$ 100,088	$ 471,000	$ 942,000	8,327	33,310	49,965			
03/03/08	02/25/08							9,240		
03/03/08	02/25/08				36,135	144,540	216,810			
10/01/08	09/03/08							40,080		
10/01/08	09/03/08									
02/25/08	02/25/08	$ 159,375	$ 750,000	$ 1,500,000						
02/25/08	02/25/08	$ 51,425	$ 242,000	$ 484,000	6,215	24,860	37,290			
03/03/08	02/25/08							6,890		
03/03/08	02/25/08									
02/25/08	02/25/08	$ 58,727	$ 276,360	$ 552,720	3,545	14,180	21,270			
03/03/08	02/25/08							3,930		
03/03/08	02/25/08							26,000		
11/10/08	11/03/08									
02/25/08	02/25/08	$ 80,325	$ 378,000	$ 756,000	6,867	27,470	41,205			
03/03/08	02/25/08							7,620		
03/03/08	02/25/08									
02/25/08	02/25/08	$ 70,391	$ 331,250	$ 662,500	6,492	25,970	38,955			
03/03/08	02/25/08							7,200	&#151	