

MCDERMOTT INTERNATIONAL INC

Form 10-K/A

March 03, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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REPUBLIC OF PANAMA
(State or Other Jurisdiction of
Incorporation or Organization)

72-0593134
(I.R.S. Employer
Identification No.)

757 N. ELDRIDGE PKWY.
HOUSTON, TEXAS
(Address of Principal Executive Offices)

77079
(Zip Code)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 30, 2010) was approximately \$5.0 billion.

The number of shares of the registrant's common stock outstanding at February 18, 2011 was 233,916,525.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the registrant's 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this Form 10-K/A) to our Annual Report on Form 10-K for the year ended December 31, 2010, initially filed with the Securities and Exchange Commission on March 1, 2011 (the Original Filing), is being filed to amend Item 8 and Item 9A in the Original Filing to add the name of our independent registered public accounting firm to the signature lines of the Report of Independent Registered Public Accounting Firm regarding the consolidated financial statements of McDermott International, Inc. and Subsidiaries and the supporting financial statement schedule, and the Report of Independent Registered Public Accounting Firm regarding our internal control over financial reporting (each, a Report). In addition, Item 15 of the Original Filing has been amended to (1) add the name of our independent registered public accounting firm to the signature line of Exhibit 23.1 and (2) contain currently dated certifications from our Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Such Exhibit 23.1 and such certifications are attached to this Form 10-K/A as Exhibits 23.1, 31.1, 31.2, 32.1 and 32.2. In addition, we have disclosed that certain exhibits that were filed with the Original Filing were previously filed.

The conformed signature of Deloitte & Touche LLP was inadvertently omitted from the electronic version of each Report and Exhibit 23.1, although we had manually signed copies of each Report and Exhibit 23.1 in our possession prior to making the Original Filing. Except for the aforementioned amended information, this Form 10-K/A does not amend or update any other information contained in the Original Filing, and we have not updated the disclosures contained therein to reflect events that occurred at any subsequent date.

Table of Contents

MCDERMOTT INTERNATIONAL, INC.

INDEX FORM 10-K/A

	PAGE
Item 8.	
<u>Financial Statements and Supplementary Data</u>	
<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Consolidated Balance Sheets December 31, 2010 and December 31, 2009</u>	2
<u>Consolidated Statements of Income for the Years Ended December 31, 2010, 2009 and 2008</u>	4
<u>Consolidated Statements of Equity for the Years Ended December 31, 2010, 2009 and 2008</u>	5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 9A.	
<u>Controls and Procedures</u>	50
<u>Disclosure Controls and Procedures</u>	50
<u>Management's Report on Internal Control Over Financial Reporting</u>	50
<u>Changes in Internal Control Over Financial Reporting</u>	51
<u>Report of Independent Registered Public Accounting Firm</u>	51
	<u>PART IV</u>
Item 15.	
<u>Exhibits and Financial Statement Schedules</u>	53
<u>Signatures</u>	59

Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of McDermott International, Inc.

Houston, Texas

We have audited the accompanying consolidated balance sheets of McDermott International, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of McDermott International, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, on July 30, 2010, the Company completed the spin-off of its Government Operations and Power Generations Systems segments into an independent, publicly traded company named The Babcock & Wilcox Company.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 1, 2011

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2010	2009
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 403,463	\$ 899,270
Restricted cash and cash equivalents (Note 1)	197,861	69,920
Investments (Note 6)	209,463	12
Accounts receivable trade, net (Note 1)	323,497	642,995
Accounts and notes receivable unconsolidated affiliates	2,960	5,806
Accounts receivable other	25,487	68,035
Contracts in progress	65,853	400,831
Inventories	1,675	101,494
Deferred income taxes	10,323	100,828
Assets held for sale (Note 2)	10,161	
Other current assets	34,895	68,730
Total Current Assets	1,285,638	2,357,921
Property, Plant and Equipment	1,720,040	2,608,740
Less accumulated depreciation	804,471	1,271,135
Net Property, Plant and Equipment	915,569	1,337,605
Assets Held for Sale (Note 2)	77,150	
Investments (Note 6)	75,742	228,706
Goodwill	41,202	306,497
Deferred Income Taxes		275,567
Investments in Unconsolidated Affiliates	45,016	86,932
Other Assets	158,371	255,882
TOTAL	\$ 2,598,688	\$ 4,849,110

See accompanying notes to consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONSOLIDATED BALANCE SHEETS (Continued)**

	December 31,	
	2010	2009
	(In thousands)	
LIABILITIES AND EQUITY		
Current Liabilities:		
Notes payable and current maturities of long-term debt	\$ 8,547	\$ 16,270
Accounts payable	252,974	471,858
Accrued employee benefits	80,585	217,178
Accrued pension liability - current portion	8,797	173,271
Accrued liabilities - other	107,511	155,773
Accrued contract cost	89,888	103,041
Advance billings on contracts	250,053	689,334
Deferred income taxes	12,849	4,735
Income taxes	32,851	59,294
Accrued warranty	50	118,278
Liabilities associated with assets held for sale (Note 2)	20,902	
Total Current Liabilities	865,007	2,009,032
Long-Term Debt	46,748	56,714
Accumulated Postretirement Benefit Obligation	5,258	105,605
Self-Insurance	35,655	87,222
Pension Liability	52,831	610,166
Other Liabilities	80,922	147,271
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Common stock, par value \$1.00 per share, authorized 400,000,000 shares; issued 240,791,473 and 236,919,404 shares at December 31, 2010 and December 31, 2009, respectively	240,791	236,919
Capital in excess of par value	1,357,316	1,300,998
Retained earnings	100,373	951,647
Treasury stock at cost, 6,906,262 and 6,168,705 shares at December 31, 2010 and December 31, 2009, respectively	(85,735)	(69,370)
Accumulated other comprehensive loss	(163,717)	(612,997)
Stockholders' Equity - McDermott International, Inc.	1,449,028	1,807,197
Noncontrolling interest	63,239	25,903
Total Equity	1,512,267	1,833,100
TOTAL	\$ 2,598,688	\$ 4,849,110

See accompanying notes to consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2010	2009	2008
	(In thousands, except per share amounts)		
Revenues	\$ 2,403,743	\$ 3,281,790	\$ 3,098,104
Costs and Expenses:			
Cost of operations	1,842,261	2,781,735	2,787,803
(Gain) loss on asset disposals and impairments net	22,220	(914)	(2,599)
Selling, general and administrative expenses	216,763	218,063	202,252
Total Costs and Expenses	2,081,244	2,998,884	2,987,456
Equity in Loss of Unconsolidated Affiliates	(7,594)	(3,557)	(3,661)
Operating Income	314,905	279,349	106,987
Other Income (Expense):			
Interest income	1,495	6,021	21,619
Interest expense	(2,584)		(4,285)
Other income (expense) net	(10,022)	(15,257)	94
Total Other Income (Expense)	(11,111)	(9,236)	17,428
Income from continuing operations before provision for income taxes and noncontrolling interest	303,794	270,113	124,415
Provision for Income Taxes	41,182	60,561	63,567
Income from continuing operations before noncontrolling interest	262,612	209,552	60,848
Loss on disposal of discontinued operations	(123,311)	(7,118)	
Income from discontinued operations, net of tax	88,411	188,016	368,653
Total income (loss) from discontinued operations, net of tax	(34,900)	180,898	368,653
Net Income	227,712	390,450	429,501
Less: net income attributable to noncontrolling interest	(26,046)	(3,394)	(199)
Net Income Attributable to McDermott International, Inc.	\$ 201,666	\$ 387,056	\$ 429,302
Earnings per Common Share:			
Basic:			
Income from continuing operations, less noncontrolling interest	\$ 1.02	\$ 0.90	\$ 0.27
Income (loss) from discontinued operations, net of tax	(0.15)	0.79	1.62
Net Income	\$ 0.87	\$ 1.69	\$ 1.89

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Diluted:

Income from continuing operations, less noncontrolling interest	\$	1.00	\$	0.88	\$	0.26
Income (loss) from discontinued operations, net of tax		(0.15)		0.78		1.60
Net Income	\$	0.85	\$	1.66	\$	1.86

Shares used in the computation of earnings per share (Note 11):

Basic	232,173,362	229,471,020	226,918,776
Diluted	235,622,029	233,626,876	230,393,782

See accompanying notes to consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF EQUITY**

	Common Stock		Capital In	Retained	Treasury	Accumulated	Stockholders	Non-	Total
	Shares	Par Value	Excess of			Other		Controlling	
			Par Value	Earnings	Stock	Loss	Equity	Interest (NCI)	Equity
				(In thousands, except share amounts)					
Balance January 1, 2008	231,722,659	\$ 231,723	\$ 1,145,829	\$ 135,289	\$ (63,903)	\$ (281,933)	\$ 1,167,005	\$ 373	\$ 1,167,378
Comprehensive Income									
Net Income				429,302			429,302	199	429,501
Amortization of benefit plan costs						24,651	24,651		24,651
Unrecognized losses on benefit obligations						(332,687)	(332,687)		(332,687)
Unrealized loss of investments						(8,470)	(8,470)		(8,470)
Realized gains on investments						(1,492)	(1,492)		(1,492)
Translation adjustments and other						(38,370)	(38,370)	80	(38,290)
Unrealized loss on derivatives						(28,929)	(28,929)		(28,929)
Realized gains on derivatives						(5,185)	(5,185)		(5,185)
Total comprehensive income, net of tax				429,302		(390,482)	38,820	279	39,099
Exercise of stock options									
Restricted stock issuances-net	1,687,536	1,688	825		7,111		9,624		9,624
Contributions to thrift plan	350,946	351	(351)						
Purchase of treasury shares	412,947	412	12,194		(6,234)		(6,234)		(6,234)
Stock-based compensation charges			94,351				94,351		94,351
Distributions to NCI								(311)	(311)
Balance December 31, 2008	234,174,088	\$ 234,174	\$ 1,252,848	\$ 564,591	\$ (63,026)	\$ (672,415)	\$ 1,316,172	\$ 341	\$ 1,316,513
Comprehensive Income									
Net Income				387,056			387,056	3,394	390,450
Amortization of benefit plan costs						59,413	59,413		59,413
Unrecognized losses on benefit obligations						(41,066)	(41,066)		(41,066)
Unrealized gains of investments						1,993	1,993		1,993
Realized loss on investments						124	124		124
Translation adjustments and other						29,406	29,406	201	29,607
Unrealized gains on derivatives						11,403	11,403		11,403
Realized gains on derivatives						(1,855)	(1,855)		(1,855)
Total comprehensive income, net of tax				387,056		59,418	446,474	3,595	450,069
Exercise of stock options									
Excess tax benefits on stock options	285,318	285	570		187		1,042		1,042
			(2,324)				(2,324)		(2,324)

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Contributions to thrift plan	941,348	941	14,423				15,364		15,364
Accelerated vesting	1,518,650	1,519	(1,519)						
Stock-based compensation charges			34,914				34,914		34,914
Purchase of treasury shares					(6,531)		(6,531)		(6,531)
Sale of subsidiary shares to NCI			2,086				2,086	(2,086)	
Acquisition of NCI (Note 3)								24,109	24,109
Distributions to NCI								(56)	(56)
Balance December 31, 2009	236,919,404	\$ 236,919	\$ 1,300,998	\$ 951,647	\$ (69,370)	\$ (612,997)	\$ 1,807,197	\$ 25,903	\$ 1,833,100
Comprehensive Income									
Net income				201,666			201,666	26,046	227,712
Amortization of benefit plan costs						44,322	44,322		44,322
Unrecognized losses on benefits obligations						(21,612)	(21,612)		(21,612)
Unrealized gain on investments						2,440	2,440		2,440
Realized losses on investments						91	91		91
Translation adjustments and other						(23,252)	(23,252)		(23,252)
Unrealized gains on derivatives						606	606		606
Realized losses on derivatives						2,229	2,229		2,229
Total Comprehensive Income, net of tax				201,666		4,824	206,490	26,046	232,536
Spin-off of The Babcock & Wilcox Company									
Exercise of stock options	1,039,114	1,040	2,352	(1,441)	(1,052,940)		444,456	(609,925)	(503)
Excess tax on stock options			2,192			(650)		2,742	2,742
Accelerated vesting, net of forfeitures	2,550,933	2,550	(2,528)					22	22
Contributions to thrift plan	282,022	282	6,641					6,923	6,923
Purchase of treasury shares						(15,715)		(15,715)	(15,715)
Stock-based compensation charges			50,888					50,888	50,888
Acquisition of NCI			(1,786)					(1,786)	11,793
Balance at December 31, 2010	240,791,473	\$ 240,791	\$ 1,357,316	\$ 100,373	\$ (85,735)	\$ (163,717)	\$ 1,449,028	\$ 63,239	\$ 1,512,267

See accompanying notes to consolidated financial statements.

Table of Contents**McDERMOTT INTERNATIONAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 227,712	\$ 390,450	\$ 429,501
(Income) loss from discontinued operations, net of tax	34,900	(180,898)	(368,653)
Income from continuing operations	262,612	209,552	60,848
Non-cash items included in net income:			
Depreciation and amortization	76,452	79,867	72,555
Equity in loss of unconsolidated affiliates	7,594	3,557	3,661
(Gains) losses on asset disposals and impairments net	22,220	(914)	(2,599)
Provision for deferred taxes	1,830	5,252	2,180
Amortization of pension and postretirement costs	21,814	27,352	16,758
Tax expense (benefits) from stock-based compensation	(1,393)	912	(9,786)
Other	9,344	44,226	58,749
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(6,457)	25,871	83,197
Net contracts in progress and advance billings on contracts	182,472	(295,110)	(395,818)
Accounts payable	(38,536)	(8,054)	63,180
Income taxes	84,269	5,882	37,015
Accrued and other current liabilities	40,110	(57,311)	(30,024)
Pension liability and accrued postretirement and employee benefits	(106,338)	41,101	(137,621)
Other	(171,666)	103,450	72,809
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES CONTINUING OPERATIONS	384,327	185,633	(104,896)
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in restricted cash and cash equivalents	(142,853)	(10,718)	15,753
Purchases of property, plant and equipment	(186,862)	(186,518)	(205,447)
Net (increase) decrease in available-for-sale securities	(127,526)	177,137	61,211
Proceeds from asset disposals	4,824	2,761	4,018
Investments in unconsolidated affiliates	(32,550)	(13,484)	
Acquisition of businesses, net of cash acquired	(1,954)	(28,293)	(1,062)
Other		(134)	(2,996)
NET CASH USED IN INVESTING ACTIVITIES CONTINUING OPERATIONS	(486,921)	(59,249)	(128,523)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of debt	(8,540)	(4,106)	(4,248)
Debt issuance costs	(17,881)	(105)	(1,756)
Issuance of common stock	1,040	1,042	9,624
Tax (expense) benefits from stock-based compensation	1,393	(912)	9,786
Cash contribution from The Babcock & Wilcox Company	100,000		
Other	80	(127)	(2)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES CONTINUING OPERATIONS	76,092	(4,208)	13,404
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	498	1,096	(998)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(26,004)	123,372	(221,013)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	429,467	306,195	527,208

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CASH AND CASH EQUIVALENTS AT END OF PERIOD CONTINUING OPERATIONS \$ 403,463 \$ 429,467 \$ 306,195

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid (received) during the period for:

Interest (net of amount capitalized)	\$ 2,957	\$ 2,807	\$ 8,328
Income taxes (net of refunds)	\$ 52,946	\$ (7,928)	\$ 53,686

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
CASH FLOWS FROM DISCONTINUED OPERATIONS:			
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (44,153)	\$ 232,441	\$ 55,929
NET CASH USED IN INVESTING ACTIVITIES	(65,084)	(51,598)	(291,849)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(109,600)	(1,728)	52,055
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(578)	10,234	(9,867)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(219,415)	189,349	(193,732)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	469,803	280,454	474,186
TRANSFER OF CASH ATTRIBUTABLE TO B&W	250,388		
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	\$ 469,803	\$ 280,454

See accompanying notes to consolidated financial statements.

Table of Contents

McDERMOTT INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

McDermott International, Inc. (MII), incorporated under the laws of the Republic of Panama, is a leading engineering, procurement, construction and installation (EPCI) company focused on designing and executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services for oil and gas field developments, we deliver fixed and floating production facilities, pipeline and subsea systems from concept to commissioning. We support these activities with comprehensive project management and procurement services. Our customers include national and major energy companies, and we operate in most major offshore oil and gas producing regions throughout the world. In these notes to our consolidated financial statements, unless the context otherwise indicates, we, us and our mean MII and its consolidated subsidiaries.

Basis of Presentation

On July 30, 2010, we completed the spin-off of our previously reported Government Operations and Power Generation Systems segments into an independent, publicly traded company named The Babcock & Wilcox Company (B&W). Additionally, during the quarter ended September 30, 2010, we committed to a plan to sell our charter fleet business which operates 10 of the 14 vessels acquired in our 2007 acquisition of substantially all of the assets of Secunda International Limited (the Secunda acquisition). The consolidated balance sheet as of December 31, 2010 reflects the charter fleet business as held for sale. The consolidated statements of income and the consolidated statements of cash flows reflect the historical operations of B&W and the charter fleet business as discontinued operations. The 2009 consolidated balance sheet and the 2009 and prior consolidated statements of equity contain amounts attributable to the spun-off B&W operations. Accordingly, we have generally presented the notes to our consolidated financial statements on the basis of continuing operations.

In connection with the spin-off of B&W, as discussed in Note 2 Discontinued Operations and Other Charges, we have modified our previous reporting segments, which included the operations of B&W, to reflect our geographic operating segments. We operate in five primary business segments, which consist of Asia Pacific, Atlantic, Caspian, the Middle East and Corporate. The operations of the Caspian and Middle East are aggregated into our Middle East reporting segment due to the proximity of regions, similarities in the nature of services provided, economic characteristics and oversight responsibilities. As a result, we have four segments on which we report financial results. For financial information about our segments, see Note 12 Segment Reporting.

We have presented our consolidated financial statements in U.S. Dollars in accordance with accounting principles generally accepted in the United States (GAAP). These consolidated financial statements include the accounts of McDermott International, Inc., its subsidiaries and controlled entities. We use the equity method to account for investments in entities that we do not control, but over which we have significant influence. We generally refer to these entities as joint ventures. We have eliminated intercompany transactions.

Use of Estimates

We use estimates and assumptions to prepare our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts we report in our financial statements and accompanying notes. Our actual results could differ from these estimates, and variances could materially affect our financial condition and results of operations in future periods.

Revenue Recognition

We determine the appropriate accounting method for each of our long-term contracts before work on the project begins. We generally recognize contract revenues and related costs on a percentage-of-completion

Table of Contents

method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the activity involved. We include revenues and related costs recorded, plus accumulated contract costs that exceed amounts invoiced to customers, under the terms of the contracts, in contracts in progress. We include in advance billings on contracts, billings that exceed accumulated contract costs and revenues and costs recognized under the percentage-of-completion method. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. Certain costs are excluded from the cost-to-cost method of measuring progress, such as significant costs for materials and major third-party subcontractors, if it appears that such exclusion would result in a more meaningful measurement of actual contract progress and resulting periodic allocation of income. Total estimated costs, and resulting contract income, are affected by changes in the expected cost of materials and labor, productivity, scheduling and other factors. Additionally, external factors such as weather, customer requirements and other factors outside of our control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of revenue and income recognition. In addition, change orders, which are a normal and recurring part of our business, can increase (and sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long-term) can have the short term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments proportionate to the percentage-of-completion revenue in income in the period when those estimates are revised.

For contracts as to which we are unable to estimate the final profitability except to assure that no loss will ultimately be incurred, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these contracts, we only recognize gross margin when reasonably estimable, which we generally determine to be when the contract is approximately 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical except to assure that no loss will be incurred, as deferred profit recognition contracts. During the quarter ended September 30, 2010, we determined that one active contract qualified to be accounted for under our deferred profit recognition policy.

Our policy is to account for fixed-price contracts under the completed contract method if we believe that we are unable to reasonably forecast cost to complete at start-up. Under the completed contract method, income is recognized only when a contract is completed or substantially complete. We did not enter into any contracts that we have accounted for under the completed contract method during 2010, 2009 or 2008.

Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. We include claims for extra work or changes in scope of work to the extent of costs incurred in contract revenues when we believe collection is probable. For all contracts, if a current estimate of total contract costs indicates a loss, the projected loss is recognized in full when determined.

Table of Contents**Accounts Receivable Trade, net**

A summary of contract receivables is as follows:

	December 31,	
	2010	2009
	(In thousands)	
Contract receivables ⁽¹⁾ :		
Contracts in progress	\$ 191,216	\$ 184,953
Completed contracts	85,587	74,411
Retainages	63,558	100,676
Unbilled	12,697	5,340
Less allowances	(29,561)	(42,246)
Accounts receivable trade, net continuing operations	323,497	323,134
Discontinued operations, net		319,861
Total	\$ 323,497	\$ 642,995

⁽¹⁾ Contract receivables attributable to the charter fleet business are classified as held for sale and are excluded from the 2010 presentation. We expect to invoice our unbilled receivables once certain milestones or other metrics are reached, and we expect to collect all unbilled amounts. We believe that our provision for losses on uncollectible accounts receivable is adequate for our credit loss exposure.

The following amounts represent retainages on contracts:

	December 31,	
	2010	2009
	(In thousands)	
Retainages expected to be collected within one year	\$ 63,558	\$ 100,676
Retainages expected to be collected after one year	83,143	42,916
Total retainages	\$ 146,701	\$ 143,592

We have included in accounts receivable trade, net, retainages expected to be collected in 2011. Retainages expected to be collected after one year are included in other assets. Of the long-term retainages at December 31, 2010, we anticipate collecting \$59.0 million in 2012, \$22.7 million in 2013 and \$1.4 million in 2014.

Impairment Review

We do not amortize goodwill but instead review goodwill for impairment on an annual basis or more frequently if circumstances indicate that an impairment may exist. The annual impairment review, which is performed as of December 31, involves comparing an estimate of discounted future cash flows to the net book value of each applicable business segment and, therefore, is significantly impacted by estimates and judgments.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation is required on a nonrecurring basis, recent appraisals, the estimated undiscounted future cash flows associated with the assets or other valuation measurements are compared to the assets carrying value to determine if impairment exists, and, if an impairment is determined to exist, an impairment charge is recognized for the difference between the recorded and fair value of the asset.

Table of Contents

Loss Contingencies

We estimate liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed the recorded provision or if such loss is not reasonably estimable. We are currently involved in some significant litigation, as discussed in Note 14. We have accrued our estimates of the probable losses associated with these matters. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

Cash and Cash Equivalents

Our cash equivalents are highly liquid investments, with maturities of three months or less when we purchase them.

We record current cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes. At December 31, 2010, we had restricted cash and cash equivalents totaling \$197.9 million, \$197.7 million of which was held in restricted foreign accounts and \$0.2 million was held to meet reinsurance reserve requirements of our captive insurance subsidiary. It is possible that a portion of restricted cash at December 31, 2010 will not be released within the next 12 months.

Investments

Our investment portfolio consists primarily of government obligations and other highly liquid money market instruments. Our investments are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of tax, reported as a component of other comprehensive loss. Our net unrealized loss on investments was \$4.3 million at December 31, 2010. At December 31, 2009, we had net unrealized losses on our investments totaling \$6.9 million. The major components of our investments are U.S. government and agency securities, asset-backed obligations and corporate bonds. Based on our analysis of these investments, we believe that none of our available-for-sale securities were other than temporarily impaired at December 31, 2010.

We classify investments available for current operations in the balance sheet as current assets, and we classify investments held for long-term purposes as noncurrent assets. We adjust the amortized cost of debt securities for amortization of premiums and accretion of discounts to maturity. That amortization is included in interest income. We include realized gains and losses on our investments in other income (expense) net. The cost of securities sold is based on the specific identification method. We include interest on securities in interest income.

Investments in Unconsolidated Affiliates

We use the equity method of accounting for affiliates in which our investment ownership ranges from 20% to 50%. The equity method is also used for affiliates in which our investment ownership is greater than 50% but we do not have a controlling interest. Currently, most of our significant investments in affiliates that are not consolidated are recorded using the equity method. Investments in affiliates where our ownership interest is less than 20% and where we are unable to exert significant influence are carried at cost.

During the year ended December 31, 2009, we commenced a joint venture to establish a new fabrication facility in Qingdao, Shandong, China. In connection with this joint venture, we contributed \$32.5 million and \$10.6 million in 2010 and 2009, respectively.

Fair Value of Financial Instruments

The carrying amounts that we have reported for financial instruments, including cash and cash equivalents, accounts receivables and accounts payable approximate their fair values. See Note 8 Fair Values of Financial Instruments, for additional fair value measurements.

Table of Contents

Derivative Financial Instruments

Our worldwide operations give rise to exposure to changes in certain market conditions, which may adversely impact our financial performance. When we deem it appropriate, we use derivatives as a risk management tool to mitigate the potential impacts of certain market risks. The primary market risk we manage through the use of derivative instruments is movement in foreign currency exchange rates. We use foreign currency forward-exchange contracts to reduce the impact of changes in foreign currency exchange rates on our operating results. We use these instruments to hedge our exposure associated with revenues or costs on our long-term contracts and other cash flow exposures that are denominated in currencies other than our operating entities' functional currencies. We do not hold or issue financial instruments for trading or other speculative purposes.

In certain cases, contracts with our customers may contain provisions under which payments from our customers are denominated in U.S. Dollars and in a foreign currency. The payments denominated in a foreign currency are designed to compensate us for costs that we expect to incur in such foreign currency. In these cases, we may use derivative instruments to reduce the risks associated with foreign currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows.

Concentration of Credit Risk

Our principal customers are businesses in the offshore oil and natural gas industry. This concentration of customers may impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic or other conditions. In addition, we and many of our customers operate worldwide and are therefore exposed to risks associated with the economic and political forces of various countries and geographic areas. We generally do not obtain any collateral for our receivables. See Note 12 for additional information about our operations in different geographic areas.

Foreign Currency Translation

We translate assets and liabilities of our foreign operations, other than operations in highly inflationary economies, into U.S. Dollars at current exchange rates, and we translate income statement items at average exchange rates for the periods presented. We record adjustments resulting from the translation of foreign currency financial statements as a component of accumulated other comprehensive loss. We report foreign currency transaction gains and losses in income. We have included in other income (expense) net, transaction losses of \$3.5 million, \$9.7 million and \$3.9 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Capitalization of Interest Cost

We incurred total interest of \$14.6 million, \$11.7 million and \$10.3 million in the years ended December 31, 2010, 2009 and 2008, respectively. We capitalized \$12.0 million, \$12.6 million and \$6.0 million of interest cost in the years ended December 31, 2010, 2009 and 2008, respectively.

Earnings per Share

We have computed earnings per common share on the basis of the weighted average number of common shares, and, where dilutive, common share equivalents, outstanding during the indicated periods. See Note 11 Earnings per Share, for our computations.

Table of Contents**Comprehensive Loss**

The components of accumulated other comprehensive loss included in stockholders' equity are as follows:

	December 31,	
	2010	2009
	(In thousands)	
Foreign currency translation adjustments	\$ (6,888)	\$ 16,364
Net loss on investments	(4,330)	(6,861)
Net loss on derivative financial instruments	(855)	(3,690)
Unrecognized losses on benefit obligations ⁽¹⁾	(151,644)	(618,810)
Accumulated other comprehensive loss	\$ (163,717)	\$ (612,997)

- (1) *Amortization of benefit plan costs in the consolidated statement of equity is shown net of \$18.6 million of taxes. Future amortization will not reflect a tax benefit until those benefits can be recognized and the existing deferred tax benefits will not change significantly.*

Stock-Based Compensation

We expense stock-based compensation. The fair value of equity-classified awards, such as restricted stock and stock options, is determined on the date of grant. Grant date fair values for restricted stock are determined using the closing price of our common stock on the date of grant. Grant date fair values for stock options are determined using a Black-Scholes option-pricing model (Black-Scholes), which requires the input of highly subjective assumptions, such as the expected life of the award and stock price volatility. For liability-classified awards, such as cash-settled deferred stock units, fair values are determined at grant date using the closing price of our common stock and are remeasured at the end of each reporting period through the date of settlement.

We recognize expense based on the grant date fair value, for all share-based awards granted on a straight-line basis over the requisite service periods of the awards, which is generally equivalent to the vesting term. We review the estimate for forfeitures periodically and record any adjustments deemed necessary. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period.

Excess tax benefits are reported as a financing cash flow, rather than as a reduction of taxes paid. These excess tax benefits result from tax deductions in excess of the cumulative compensation expense recognized for options exercised and other equity-classified awards. See Note 9 for a further discussion of stock-based compensation.

Property, Plant and Equipment

We carry our property, plant and equipment at depreciated cost, less any impairment provisions. Except for major marine vessels, we depreciate our property, plant and equipment using the straight-line method over estimated economic useful lives of eight to 33 years for buildings and three to 28 years for machinery and equipment. We depreciate major marine vessels using the units-of-production method based on the utilization of each vessel. Our depreciation expense calculated under the units-of-production method may be less than, equal to or greater than depreciation expense calculated under the straight-line method in any period. Our depreciation expense was \$75.8 million, \$79.1 million and \$70.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

We expense the costs of maintenance, repairs and renewals that do not materially prolong the useful life of an asset as we incur them. We depreciate leasehold improvements over the shorter of the remaining lease term or useful life of the asset. We capitalize drydocking costs in other assets when incurred and amortize the costs over the period of time between drydockings, which is generally three to five years.

Table of Contents

Based on market conditions, expected future utilization and pricing on two of the four vessels in our Atlantic segment that we expect to retain from the Secunda acquisition, we recognized an impairment charge of approximately \$24.4 million during the quarter ended September 30, 2010 in our consolidated statements of income. We used appraised values and undiscounted future cash flows associated with the assets to determine the impairment. We consider this nonrecurring fair value measurement as Level 2 in nature.

Additionally, we incurred approximately \$21 million of costs in 2010 to discontinue our development plans for a new fabrication yard in Kazakhstan, including estimated lease termination costs. These costs are reflected in our consolidated statements of income in costs of operations. Also in connection with our plan to sell the charter fleet business, we recognized a \$27.7 million write-down of the carrying value of these assets. See Note 2 Discontinued Operations and Other Charges for further information regarding these charges.

Goodwill and Other Intangible Assets*Goodwill*

In the quarter ended September 30, 2010, we allocated our remaining goodwill to our new operating segments using an income approach fair value measurement, which was based on estimates of future earnings and discount rates. We also completed our annual review of goodwill as of December 31, 2010, which indicated that the fair values for those operating segments was significantly in excess of their carrying amounts, resulting in no goodwill impairment.

The following summarizes the changes in the carrying amount of goodwill:

	Old Basis			New Basis		
	Spun-off B&W Operations ⁽¹⁾	Offshore Oil & Gas Construction ⁽²⁾	Asia Pacific	Atlantic	Middle East	Total
Balance at December 31, 2008	\$ 263,152	\$ 35,113	\$	\$	\$	\$ 298,265
Transaction with Oceanteam ASA		1,904				1,904
B&W de Monterrey asset acquisition	7,442					7,442
Adjustment related to the acquisition of Nuclear Fuel Services, Inc.	(8,066)					(8,066)
Adjustment related to the acquisition of the assets of Secunda International Limited		4,952				4,952
Foreign currency translation adjustments and other	338	1,662				2,000
Balance at December 31, 2009	\$ 262,866	\$ 43,631	\$	\$	\$	\$ 306,497
Adjustment related to the acquisition of Götaverken Miljö AB assets	7,983					7,983
Acquisition of GE Energy assets	9,973					9,973
Purchase price adjustments associated with Oceanteam ASA transaction		(1,904)				(1,904)
Foreign currency translation adjustments and other	(726)	(1,299)	372		402	(1,251)
Segment allocations		(40,428)	19,405		21,023	
B&W Spin-off	(280,096)					(280,096)
Balance at December 31, 2010	\$	\$	\$ 19,777	\$	\$ 21,425	\$ 41,202

(1) Previously reported separately as Government Operations and Power Generation Systems segments.

(2) Previously reported operating segment.

Table of Contents*Other Intangible Assets*

We amortize our intangible assets over their estimated useful lives using the straight-line method. Our intangible assets are primarily composed of customer relationships. The following summarizes the changes in the carrying amount of other intangible assets:

	Year Ended December 31,	
	2010	2009
	(In thousands)	
Balance at beginning of period	\$ 1,139	\$ 1,766
Additions	1,299	
Amortization expense	(680)	(799)
Foreign currency translation adjustments and other	47	172
Balance at end of period continuing operations	\$ 1,805	\$ 1,139
Discontinued operations		103,378
Balance at end of period	\$ 1,805	\$ 104,517

The estimated amortization expense for the next five fiscal years are as follows (in thousands):

Year Ending December 31,	Amount
2011	\$ 456
2012	\$ 456
2013	\$ 456
2014	\$ 437
2015	\$

Other Non-Current Assets

We have included deferred debt issuance costs in other assets. We amortize deferred debt issuance cost as interest expense over the life of the related debt. The following summarizes the changes in the carrying amount of these assets:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Balance at beginning of period	\$ 4,635	\$ 7,431	\$ 8,071
Deferred debt issuance costs and performance guarantees	17,881	105	1,756
Reductions and other transfers	(181)		
Interest expense debt issuance costs	(6,262)	(2,901)	(2,396)
Balance at end of period continuing operations	16,073	4,635	7,431
Discontinued operations		1,898	4,169
Balance at end of period	\$ 16,073	\$ 6,533	\$ 11,600

Warranty Expense

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We estimate warranty costs associated with projects on a case-by-case basis. We include these specific provisions as a component of our total contract cost estimates and we record the associated expense under the percentage-of-completion method of accounting for long-term construction contracts.

Table of Contents

Self-Insurance

We have a wholly owned insurance subsidiary that provides employer's liability, general and automotive liability and workers' compensation insurance and, from time to time, builder's risk insurance, within certain limits and marine hull insurance to our companies.

Reserves related to these insurance programs are based on the facts and circumstances specific to the insurance claims, our past experience with similar claims, loss factors and the performance of the outside insurance market for the type of risk at issue. The actual outcome of insured claims could differ significantly from estimated amounts. We maintain actuarially determined accruals in our consolidated balance sheets to cover self-insurance retentions for the coverages discussed above. These accruals are based on assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted, as required based upon actual claim settlements and reported claims. These loss estimates and accruals recorded in our financial statements for claims have historically been reasonable.

Recently Adopted Accounting Standards

In January 2010, the FASB issued an update to the topic *Fair Value Measurements and Disclosures*. This update adds new fair value disclosures for certain transfers of investments between Level 1 and Level 2 measurements and clarifies existing disclosures regarding valuation techniques. On January 1, 2010, we adopted this revision. The adoption of this revision did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued a revision to the topic *Consolidation*. This revision clarifies the scope of partial sale and deconsolidation provisions related to acquisitions and noncontrolling interests. On January 1, 2010, we adopted this revision. The adoption of this revision did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued a revision to the topic *Consolidation*. This revision was subsequently amended in December 2009 and February 2010. These revisions expand the scope of this topic and amend guidance for assessing and analyzing variable interest entities. On January 1, 2010, we adopted this revision. The adoption of this revision did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued a revision to the topic *Fair Value Measurements and Disclosures*. This revision sets forth new rules on providing enhanced information for Level 3 measurements. On January 1, 2011, we adopted this revision for both interim and annual disclosures. We do not expect the adoption of this revision to have a material impact on our consolidated financial statements.

NOTE 2 DISCONTINUED OPERATIONS AND OTHER CHARGES

Spin-Off of B&W

On July 30, 2010, we completed the spin-off of B&W to our stockholders through a stock distribution. B&W's assets and businesses primarily consisted of those that we previously reported as our Power Generation Systems and Government Operations segments. In connection with the spin-off, our stockholders received 100% (approximately 116 million shares) of the outstanding common stock of B&W. The distribution of B&W common stock occurred by way of a pro rata stock dividend to our stockholders. Each stockholder generally received one share of B&W common stock for every two shares of our common stock held by such stockholder on July 9, 2010, and cash in lieu of any fractional shares. Prior to the completion of the spin-off, B&W made a cash distribution to us totaling \$100 million.

In order to effect the distribution and govern MII's relationship with B&W after the distribution, MII and B&W entered into a master separation agreement and several other agreements, including a tax sharing agreement and transition services agreements.

Table of Contents*Master Separation Agreement*

The master separation agreement between us and B&W contains the key provisions relating to the separation of the B&W business from MII and the distribution of B&W shares of common stock. The master separation agreement identified the assets transferred to, liabilities assumed by and contracts assigned to B&W by MII or by B&W to MII in the spin-off and provided the mechanisms for these transfers, assumptions and assignments to occur. Under the master separation agreement we agreed to indemnify B&W against various claims and liabilities related to the past operation of MII's business (other than B&W's business) and B&W agreed to indemnify us against various claims and liabilities related to its business.

Tax Sharing Agreement

A subsidiary of MII and a subsidiary of B&W entered into an agreement providing for the sharing of taxes incurred before and after the distribution, various indemnification rights with respect to tax matters and restrictions to preserve the tax-free status of the distribution to MII. Under the terms of the tax sharing agreement, B&W is generally responsible for any taxes imposed on MII or B&W in the event that certain transactions related to the spin-off fail to qualify for tax-free treatment. However, if these transactions fail to qualify for tax-free treatment because of actions or failures to act by MII or its subsidiaries, a subsidiary of MII would be responsible for all such taxes. B&W is also entitled to the historical tax benefits generated by MII's U.S. operations, and these amounts are shown in income (loss) from discontinued operations, net of tax in our consolidated statements of income.

Transition Services Agreements

Under the transition services agreements, MII and B&W may provide each other certain transition services on an interim basis. Such services include, among others, accounting, human resources, information technology, legal, risk management, tax and treasury services. In consideration for such services, MII and B&W each pay fees to the other for the services provided, and those fees are generally in amounts intended to allow the party providing the services to recover its direct and indirect costs incurred in providing those services. The transition services agreements contain customary mutual indemnification provisions.

Financial Information

The following table presents selected financial information regarding the results of operations of our former B&W business:

	2010 ⁽¹⁾	Year Ended December 31, 2009 (In thousands)	2008
Revenues	\$ 1,524,424	\$ 2,854,632	\$ 3,398,574
Loss on disposal of discontinued operations, before taxes	(95,621)	(7,118)	
Income before provision for income taxes	105,796	260,834	449,867
	10,175	253,716	449,867
Provision for income taxes	(22,755)	(67,751)	(91,681)
Income (loss) from discontinued operations, net of tax	\$ (12,580)	\$ 185,965	\$ 358,186

(1) Includes the B&W operations through July 30, 2010.

Table of Contents

Loss on disposal of discontinued operations for the years ended December 31, 2010 and 2009 includes approximately \$95.6 million and \$7.1 million, respectively, in costs related to the spin-off of B&W. The following table presents the significant categories of these costs:

	Total (In thousands)
Severance and employee-related costs	\$ 49,379
Professional services fees	37,339
Asset disposals and write-offs	9,245
Other costs	6,776
Total spin-off costs	\$ 102,739

The following table presents the carrying values of the major accounts of discontinued operations related to B&W that are included in our December 31, 2009 consolidated balance sheet:

	December 31, 2009 (In thousands)
Cash and cash equivalents	\$ 469,803
Accounts receivable trade, net	319,861
Contracts in progress	245,998
Inventory	98,644
Other current assets	267,784
Total current assets	\$ 1,402,090
Net property, plant and equipment	\$ 396,822
Goodwill	262,866
Other long-term assets	375,933
Total long-term assets	\$ 1,035,621
Total assets attributable to discontinued operations	\$ 2,437,711
Accounts payable and accrued liabilities	\$ 698,496
Advance billings on contracts	537,448
Total current liabilities	\$ 1,235,944
Pension and other post-retirement benefits	\$ 573,763
Other long-term liabilities	122,808
Total long-term liabilities	\$ 696,571
Total liabilities associated with discontinued operations	\$ 1,932,515

Charter Fleet Business

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During the quarter ended September 30, 2010, we committed to a plan to sell our charter fleet business, which has been classified as discontinued operations. We measured the associated assets to be sold, using the estimated fair value of consideration expected from the sale less estimated selling costs. Accordingly, we recognized a \$27.7 million write-down of the carrying value of these assets to their estimated net realizable value within loss on disposal of discontinued operations. We consider this fair value measurement as Level 2 in nature.

Table of Contents

The following table presents selected financial information regarding the results of operations of our charter fleet business:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Revenues	\$ 57,528	\$ 56,655	\$ 75,745
Loss on disposal of discontinued operations, before taxes	(27,690)		
Income (loss) before provision for income taxes	8,081	(1,533)	13,032
	(19,609)	(1,533)	13,032
Provision for income taxes	(2,711)	(3,534)	(2,565)
Income (loss) from discontinued operations, net of tax	\$ (22,320)	\$ (5,067)	\$ 10,467

The following table presents the carrying values of the major accounts of held for sale discontinued operations related to our charter fleet business:

	December 31, 2010 (In thousands)
Cash	\$ 1,426
Accounts receivable net	5,253
Other assets	3,482
Total current assets held for sale	\$ 10,161
Property, plant and equipment	\$ 68,595
Other assets	8,555
Total assets held for sale	\$ 87,311
Accounts payable and accrued liabilities	\$ 8,748
Other liabilities	12,154
Total liabilities associated with assets held for sale	\$ 20,902

Fabrication Facility

During the quarter ended September 30, 2010, some of our customers indicated to us they expect substantial delays in their planned projects in the Caspian region of our Middle East reporting segment. Accordingly, we incurred approximately \$21 million of costs to discontinue our development plans for a new fabrication yard in Kazakhstan, including estimated lease termination costs. These costs are reflected in our consolidated statements of income in costs of operations. We believe any remaining costs that may be incurred in connection with the facility closure will not materially exceed the costs already recognized.

NOTE 3 BUSINESS ACQUISITIONS

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We had no significant acquisitions during 2010. In December 2009 we completed a transaction with Oceanteam ASA involving the acquisition of an approximate 50% interest in a vessel-owning company that owns a subsea construction vessel and a 75% interest in another company that has commenced constructing a similar vessel. The acquisition cost to us was approximately \$30.2 million, net of cash acquired. We agreed to charter each vessel from the respective vessel owning companies for a five-year period, after which time we will have the option to purchase Oceanteam's interest in each vessel-owning company. In connection with this acquisition, we recorded property, plant and equipment of approximately \$132.7 million, notes payable of approximately

Table of Contents

\$60.7 million (all of which was acquired with the vessel owning company), minority interest liability of \$25.8 million and other net payables of approximately \$15.9 million. Pro forma results have not been presented for this acquisition, because its operations were not material to our consolidated financial statements.

NOTE 4 LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt obligations are as follows:

	December 31,	
	2010	2009
	(In thousands)	
Long-term debt consists of:		
Oceanteam debt	\$ 51,872	\$ 62,330
<i>North Ocean 105</i> Construction Financing	3,423	
	55,295	62,330
Less: Amounts due within one year	8,547	9,838
Long-term debt continuing operations	46,748	52,492
Long-term debt discontinuing operations		4,222
Total debt	\$ 46,748	\$ 56,714

Maturities of long-term debt during the five years subsequent to December 31, 2010 are as follows:

	(In thousands)
2011	\$ 8,547
2012	6,177
2013	6,379
2014	31,776
2015	403
Thereafter	2,013
Total	\$ 55,295

Long-term debt obligations as of December 31, 2009 attributable to the spun-off B&W operations are as follows:

	December 31,
	2009
	(In thousands)
Spun-off B&W debt consists of:	
Unsecured notes payable	\$ 5,916
Secured notes payable and other	1,672
	7,588
Less: Amounts due within one year	3,366

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Long-term debt	\$	4,222
Notes payable and current maturities of long-term debt consist of:		
Short-term lines of credit	\$	3,066
Current maturities of long-term debt		3,366
Total	\$	6,432

Table of Contents

Credit Facility

On May 3, 2010, MII and J. Ray McDermott, S.A. (JRMSA), a direct, wholly owned subsidiary of MII, entered into a credit agreement (the Credit Agreement) with a syndicate of lenders and letter of credit issuers relating to our credit facility. JRMSA was the initial borrower under the Credit Agreement and, on July 30, 2010, MII replaced JRMSA as the borrower under the Credit Agreement. The Credit Agreement replaced JRMSA s prior \$800 million senior secured revolving credit facility. All amounts outstanding under JRMSA s previous senior secured revolving credit facility were repaid with borrowings under the Credit Agreement, and all letters of credit outstanding under that previous facility are now deemed issued under the Credit Agreement.

The Credit Agreement provides for revolving credit borrowings and issuances of letters of credit in an aggregate outstanding amount of up to \$900 million, and the credit facility is scheduled to mature on May 3, 2014. Proceeds from borrowings under the Credit Agreement are available for working capital needs and other general corporate purposes. The Credit Agreement includes procedures for additional financial institutions to become lenders, or for any existing lender to increase its commitment thereunder, subject to an aggregate maximum of \$1.2 billion for all revolving loan and letter of credit commitments under the Credit Agreement.

Other than customary mandatory prepayments in connection with casualty events, the Credit Agreement requires only interest payments on a quarterly basis until maturity. We may prepay all loans under the Credit Agreement at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements.

The Credit Agreement contains financial covenants relating to leverage and interest coverage and includes covenants that restrict, among other things, debt incurrence, liens, investments, acquisitions, asset dispositions, dividends, prepayments of subordinated debt, mergers and capital expenditures. At December 31, 2010, we were in compliance with these covenant requirements.

Loans outstanding under the Credit Agreement bear interest at the borrower s option at either the Eurodollar rate plus a margin ranging from 2.50% to 3.50% per year or the base rate (the highest of the Federal Funds rate plus 0.50%, the 30-day Eurodollar rate plus 1.0%, or the administrative agent s prime rate) plus a margin ranging from 1.50% to 2.50% per year. The applicable margin for revolving loans varies depending on the credit ratings of the Credit Agreement. We are charged a commitment fee on the unused portions of the Credit Agreement, which varies between 0.375% and 0.625% per year depending on the credit ratings of the Credit Agreement. Additionally, we are charged a letter of credit fee of between 2.50% and 3.50% per year with respect to the amount of each financial letter of credit issued under the Credit Agreement and a letter of credit fee of between 1.25% and 1.75% per year with respect to the amount of each performance letter of credit issued under the Credit Agreement, in each case depending on the credit ratings of the Credit Agreement. Under the Credit Agreement, we also pay customary issuance fees and other fees and expenses in connection with the issuance of letters of credit under the Credit Agreement. In connection with entering into the Credit Agreement, we paid certain up-front fees to the lenders thereunder, and certain arrangement and other fees to the arrangers and agents under the Credit Agreement, which are being amortized to interest expense over the term of the Credit Agreement.

At December 31, 2010, there were no borrowings outstanding, and letters of credit issued under the Credit Agreement totaled \$254.6 million. At December 31, 2010, there was \$645.4 million available for borrowings or to meet letter of credit requirements under the Credit Agreement. Borrowings under this facility during the year ended December 31, 2010, had an applicable interest rate of approximately 5.25% per annum. In addition, MII and its subsidiaries had \$331.0 million in outstanding unsecured letters of credit at December 31, 2010.

Based on the credit ratings at December 31, 2010 applicable to the Credit Agreement, the applicable margin for Eurodollar-rate loans was 3.00%, the applicable margin for base-rate loans was 2.00%, the letter of credit fee for financial letters of credit was 3.00%, the letter of credit fee for performance letters of credit was 1.50%, and the commitment fee for unused portions of the Credit Agreement was 0.50%. The Credit Agreement does not have a floor for the base rate or the Eurodollar rate.

Table of Contents

North Ocean Construction Financing

On September 30, 2010, MII, as guarantor, and North Ocean 105 AS, in which we have a 75% ownership interest, as borrower, entered into a financing agreement to finance a portion of the construction costs of a pipeline construction support vessel to be named the *North Ocean 105*. The agreement provides for borrowings of up to \$69.4 million, bearing interest at 2.76% per year, and requires principal repayment in 17 consecutive semi-annual installments commencing on the earlier of six months after the delivery date of the vessel and October 1, 2012. Borrowings under the agreement are secured by, among other things, a pledge of all of the equity of North Ocean 105 AS, a mortgage on the *North Ocean 105*, and a lien on substantially all of the other assets of North Ocean 105 AS. MII unconditionally guaranteed all amounts to be borrowed under the agreement. As of December 31, 2010, there were \$3.4 million in borrowings outstanding under this agreement.

Oceanteam Debt (Vessel-Ownning Joint Ventures)

In December 2009, we entered into a vessel-owning joint venture transaction with Oceanteam ASA as discussed in Note 3. As a result of this transaction, we included consolidated notes payable of approximately \$51.9 million on our balance sheet, of which approximately \$8.5 million is classified as current. JRMSA has guaranteed approximately 50% of this debt based on its ownership percentages in the vessel-owning companies.

Unsecured Performance Guarantee (Middle East)

In December 2005, JRMSA, as guarantor, and its subsidiary, J. Ray McDermott Middle East, Inc., a subsidiary of JRMSA (JRM Middle East), entered into a \$105.2 million unsecured performance guarantee issuance facility with a syndicate of commercial banking institutions to provide credit support for bank guarantees issued in connection with three major projects. On February 3, 2008, JRM Middle East entered into an \$88.8 million unsecured performance guarantee issuance facility to replace the \$105.2 million facility, which it terminated on February 14, 2008. This facility continues to provide credit support for bank guarantees for the duration of the three projects. At December 31, 2010, the outstanding amount under this facility is included in the \$331.0 million of outstanding letters of credit referenced above. On an annualized basis, the average commission rate of this facility is less than 1.5%. JRMSA is also a guarantor of the new facility.

Surety Bonds (Atlantic)

In 2007, JRMSA executed a general agreement of indemnity in favor of a surety underwriter based in Mexico relating to surety bonds that underwriter issued in support of contracting activities of J. Ray McDermott de Mèxico, S.A. de C.V., a subsidiary of JRMSA. As of December 31, 2010, bonds issued under this arrangement totaled \$5.1 million.

NOTE 5 PENSION PLANS AND POSTRETIREMENT BENEFITS

We historically provided retirement benefits for most of our regular employees through noncontributory defined benefit pension plans. The Retirement Plan for Employees of J. Ray McDermott Holdings, LLC and Participating Subsidiary and Affiliated Companies (the J. Ray Plan) generally provided benefits for certain U.S.-based employees of McDermott s offshore oil and gas construction segment, while the Retirement Plan for Employees of McDermott Incorporated and Participating Subsidiary and Affiliated Companies (the MI Plan) generally provided benefits for certain corporate and other U.S.-based employees. We also provide supplemental defined pension benefits to certain U.S.-based employees. The J. Ray McDermott, S.A. Third Country National Employees Pension Plan (the TCN Plan) provides retirement benefits for certain of our foreign employees.

In 2003, the J. Ray Plan was closed to new entrants and benefit accruals were frozen for existing participants. In 2006, the MI Plan was closed to new entrants and benefit accruals were frozen for certain participants based on years of service. In 2007, other participants in the MI Plan who met certain years of service criteria were given the option of continuing to accrue benefits under the MI Plan or having benefit accruals

Table of Contents

frozen and receiving company contributions under McDermott's qualified defined contribution 401(k) plan. Additionally, on May 31, 2010, the MI Plan was merged into the J. Ray Plan. In connection with the merger of the plans, we made a contribution of \$84 million to fund the anticipated future benefit obligations under the continuing J. Ray Plan, which was renamed the McDermott (U.S.) Retirement Plan (the McDermott Plan). Effective June 30, 2010, in connection with the B&W spin-off, benefit accruals under the McDermott Plan were frozen for all participants. The McDermott Plan and the supplemental defined pension benefits are collectively referred to as the Domestic Plan.

Retirement benefits are based on final average compensation and years of service, subject to the applicable freeze in benefit accruals under the plans. Our funding policy is to fund the plans as recommended by the respective plan actuaries and in accordance with the Employee Retirement Income Security Act of 1974, as amended, or other applicable law. The Pension Protection Act of 2006 modified the funding requirements for single-employer defined benefit pension plans. Funding provisions under the Pension Protection Act of 2006 accelerated funding requirements to ensure full funding of benefits accrued.

Obligations and Funded Status

	Domestic Plan Year Ended December 31,		TCN Plan Year Ended December 31,	
	2010	2009	2010	2009
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 552,854	\$ 572,017	\$ 37,800	\$ 30,313
Service cost	543	888	2,305	2,179
Interest cost	30,639	31,460	2,185	1,984
Actuarial loss (gain)	36,270	(20,036)	5,879	4,106
Transfers	(25,871)	3,680		
Divestitures	(6,863)			
Curtailments	(2,258)			
Benefits paid	(34,083)	(35,155)	(979)	(782)
Benefit obligation at end of year	\$ 551,231	\$ 552,854	\$ 47,190	\$ 37,800
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 416,252	\$ 448,173	\$ 25,634	\$ 19,156
Actual return on plan assets	47,547	(4,856)	2,588	4,960
Company contributions	90,568	6,074	5,300	2,300
Plan merger	(14,431)	2,016		
Benefits paid	(34,083)	(35,155)	(979)	(782)
Fair value of plan assets at end of year	505,853	416,252	32,543	25,634
Funded status	\$ (45,378)	\$ (136,602)	\$ (14,647)	\$ (12,166)
Amounts recognized in balance sheet consist of:				
Accrued pension liability - current	\$ (4,797)	\$ (11,395)	\$ (4,000)	\$ (5,300)
Pension liability	(40,581)	(125,207)	(10,647)	(6,866)
Accrued benefit liability, net	\$ (45,378)	\$ (136,602)	\$ (14,647)	\$ (12,166)
Amounts recognized in accumulated comprehensive loss:				
Net actuarial loss (gain)	\$ 129,830	\$ 143,840	\$ 14,505	\$ 11,552
Prior service cost (credit)		(1,558)	31	47
Total before taxes	\$ 129,830	\$ 142,282	\$ 14,536	\$ 11,599

Supplemental information:

Plans with accumulated benefit obligation in excess of plan assets

Projected benefit obligation	\$ 551,231	\$ 552,854	\$ 47,190	\$ 37,800
Accumulated benefit obligation	\$ 551,231	\$ 547,759	\$ 38,165	\$ 30,869
Fair value of plan assets	\$ 505,852	\$ 416,251	\$ 32,543	\$ 25,634

Table of Contents

	Domestic Plan		TCN Plan	
	Year Ended December 31,		Year Ended December 31,	
	2010	2009	2010	2009
(In thousands)				
Components of periodic benefit cost:				
Service cost	\$ 543	\$ 888	\$ 2,305	\$ 2,179
Interest cost	30,639	31,460	2,185	1,766
Expected return on plan assets	(30,830)	(28,210)	(1,829)	(1,392)
Amortization of net loss	18,071	18,698	2,167	2,390
Amortization of prior service cost (credit)	(268)	(725)	16	16
Recognized (gain) loss due to curtailments and other adjustments	(1,185)			282
Net periodic benefit cost	\$ 16,970	\$ 22,111	\$ 4,844	\$ 5,241

	Domestic Plan		TCN Plan	
	Year Ended December 31,		Year Ended December 31,	
	2010	2009	2010	2009
(In thousands)				
Increase in accumulated other comprehensive loss due to actuarial losses before taxes	\$ 16,492	\$ 13,757	\$ 5,120	\$ 474

We have recognized in 2010, and expect to recognize in 2011, the following amounts in other comprehensive loss as a component of net periodic benefit cost.

	Recognized in 2010		To Be Recognized in 2011	
	Domestic Plan	TCN Plan	Domestic Plan	TCN Plan
(In thousands)				
Pension cost in accumulated other comprehensive loss:				
Net actuarial loss	\$ 18,071	\$ 2,167	\$ 16,500	\$ 2,736
Prior service cost (credit)	(268)	16		16
	\$ 17,803	\$ 2,183	\$ 16,500	\$ 2,752

Assumptions

	Domestic Plan		TCN Plan	
	2010	2009	2010	2009
Weighted average assumptions used to determine net periodic benefit obligations at December 31:				
Discount rate	5.30%	5.90%	5.25%	6.00%
Rate of compensation increase	N/A	N/A	4.50%	4.50%
Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:				
Discount rate	5.85%	5.67%	5.25%	6.00%
Expected return on plan assets	7.05%	6.87%	7.50%	6.80%
Rate of compensation increase	1.49%	2.34%	4.50%	4.50%

The expected rate of return on plan assets assumption is based on the long-term expected returns for the investment mix of assets currently and anticipated in the portfolio. In setting this rate, we use a building-block approach. Historic real return trends for the various asset classes in the plan's portfolio are combined with

Table of Contents

anticipated future market conditions to estimate the real rate of return for each class. These rates are then adjusted for anticipated future inflation to determine estimated nominal rates of return for each class. The expected rate of return on plan assets is determined to be the weighted average of the nominal returns based on the weightings of the classes within the total asset portfolio. We have been using an expected return on plan assets assumption of 5.75% for our Domestic Plan and 7.50% for our TCN Plan, which is consistent with the long-term asset returns of the portfolio.

Investment Goals*General*

The current overall investment strategy of the pension trusts is to avoid excessive risk and minimize the probability of loss of principal over the long term. The current specific investment goals that have been set for the pension trusts in the aggregate are (1) to ensure that plan liabilities are met when due and (2) to achieve an investment return on trust assets consistent with a reasonable level of risk.

Allocations to each asset class for both the Domestic Plan and TCN Plan are reviewed periodically and rebalanced, if appropriate, to assure the continued relevance of the goals, objectives and strategies. The pension trusts for both our Domestic Plan and our TCN Plan employ a professional investment advisor and a number of professional investment managers whose individual benchmarks are, in the aggregate, consistent with the plan's overall investment objectives. The goals of each investment manager are (1) to meet (in the case of passive accounts) or exceed (for actively managed accounts) the benchmark selected and agreed upon by the manager and the Trust and (2) to display an overall level of risk in its portfolio that is consistent with the risk associated with the agreed upon benchmark. The estimated allocations discussed below are periodically reviewed to assess the appropriateness of the particular funds in which they are invested and these estimated allocations are subject to change.

The investment performance of total portfolios, as well as asset class components, is periodically measured against commonly accepted benchmarks, including the individual investment manager benchmarks. In evaluating investment manager performance, consideration is also given to personnel, strategy, research capabilities, organizational and business matters, adherence to discipline and other qualitative factors that may impact the ability to achieve desired investment results.

Domestic Plan

The following is a summary of the Domestic Plan's asset allocations at December 31, 2010 and 2009 by asset category. The changes in the allocation of assets at December 31, 2010 compared to December 31, 2009 are primarily a result of the B&W spin-off. The funds from the J. Ray Plan and the MI Plan were combined in July 2010 and invested primarily in fixed income funds, which was the historical asset allocation of the J. Ray Plan.

	2010	2009
Asset Category:		
Fixed Income	99%	32%
Equity Securities	%	25%
Commingled and Mutual Funds	%	15%
U.S. Government Securities	%	12%
Partnerships with Security Holdings	%	10%
Real Estate	%	4%
Other	1%	2%
Total	100%	100%

Table of Contents

The estimated allocation for 2011 for the domestic plans, by asset class, is as follows:

	Domestic Plans
Asset Class:	
Fixed Income	90%
Equity Securities	10%

TCN Plan

The weighted average asset allocations of this plan at December 31, 2010 and 2009 by asset category was as follows:

	2010	2009
Asset Category:		
Equity Securities	70%	70%
Fixed Income	30%	30%
Total	100%	100%

The estimated allocation for 2011 for the TCN Plan, by asset class, is as follows:

	2011 Estimate
Asset Class:	
Equity	70%
Fixed Income	30%

Fair Value

The following is a summary of total investments for our plans, measured at fair value at December 31, 2010 and 2009. See Note 8 for a detailed description of fair value measurements and the hierarchy established for valuation inputs.

	12/31/10	Level 1	Level 2	Level 3
		(In thousands)		
Pension Benefits:				
Fixed Income	\$ 514,594	\$ 514,594	\$	\$
Equities	23,424	23,424		
Cash and Accrued Items	378	378		
Total Investments	\$538,396	\$ 538,396	\$	\$

	12/31/09	Level 1	Level 2	Level 3
		(In thousands)		
Pension Benefits:				
Fixed Income	\$ 285,398	\$ 285,398	\$	\$
Equities	135,345	113,005	22,340	
Commingled and Mutual Funds	7,698		7,698	
U.S. Government Securities				
Partnerships with Security Holdings				
Real Estate	13,175			13,175

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Cash and Accrued Items	270	270		
Total Investments	\$ 441,886	\$ 398,673	\$ 30,038	\$ 13,175

Table of Contents

The following is a summary of the changes in the Plans Level 3 instruments measured on a recurring basis for the years ended December 31, 2010 and 2009 (In thousands):

	2010	2009
Balance at beginning of period	\$ 13,175	\$ 19,062
Issuances and acquisitions		200
Dispositions and B&W spin-off	(13,175)	(936)
Realized loss		(91)
Unrealized gain		(5,061)
Balance at end of period	\$	\$ 13,175

Cash Flows

	Domestic Plan	TCN Plan
	(In thousands)	
Expected employer contributions to trusts of defined benefit plans:		
2011	\$ 3,150	\$ 4,000
Expected benefit payments:		
2011	\$ 34,718	\$ 3,750
2012	\$ 35,395	\$ 3,508
2013	\$ 36,078	\$ 4,582
2014	\$ 36,778	\$ 4,164
2015	\$ 37,304	\$ 3,995
2016-2020	\$ 194,782	\$ 40,290

The expected employer contributions to trusts for 2011 are included in current liabilities at December 31, 2010.

Defined Contribution Plans

We provide benefits under the McDermott International, Inc. Director and Executive Deferred Compensation Plan (Deferred Compensation Plan), which is a defined contribution plan. Expense associated with the Deferred Compensation Plan was not material to the consolidated financial statements for the years presented.

We also provide benefits under the McDermott Thrift Plan, (f/k/a the Thrift Plan for Employees of McDermott Incorporated and Participating Subsidiary and Affiliated Companies (Thrift Plan)). The Thrift Plan generally provides for matching employer contributions of 50% of participants' contributions up to 6 percent of compensation. The Thrift Plan provides for unmatched employer cash contributions to certain hourly employees as well as service-based contributions to salaried corporate employees. Amounts charged to expense for employer contributions under the Thrift Plan totaled approximately \$6.7 million, \$7.3 million and \$7.6 million in the years ended December 31, 2010, 2009 and 2008, respectively.

Table of Contents**NOTE 6 INVESTMENTS**

The following is a summary of our available-for-sale securities at December 31, 2010:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 269,154	\$ 8	\$ (1)	\$ 269,161
Money market instruments and short-term investments	1,975	32		2,007
Asset-backed securities and collateralized mortgage obligations ⁽¹⁾	14,248		(4,379)	9,869
Corporate and foreign government bonds and notes	4,167	1		4,168
Total	\$ 289,544	\$ 41	\$ (4,380)	\$ 285,205

(1) Included in our asset-backed securities and collateralized mortgage obligations is approximately \$7.4 million of commercial paper secured by mortgaged-backed securities. These investments originally matured in August 2007 but were extended.

We believe the decline in fair value is generally attributable to the collapse in the residential mortgage market. We currently do not have the intent to sell these asset-backed and collateralized mortgage securities before their anticipated recovery. We do not consider these securities to be other than temporarily impaired at December 31, 2010.

The 2009 and prior amounts, presented below include B&W operations, which were spun-off on July 30, 2010. The following is a summary of our available-for-sale securities at December 31, 2009:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 163,310	\$ 166	\$ (10)	\$ 163,466
Money market instruments and short-term investments	7,445	21		7,466
Asset-backed securities and collateralized mortgage obligations ⁽¹⁾	17,677		(7,122)	10,555
Corporate and foreign government bonds and notes	47,147	89	(5)	47,231
Total⁽²⁾	\$ 235,579	\$ 276	\$ (7,137)	\$ 228,718

(1) Included in our asset-backed securities and collateralized mortgage obligations is approximately \$7.5 million of commercial paper secured by mortgaged-backed securities. These investments originally matured in August 2007 but were extended. We changed our investment policy effective in August 2007 to no longer make new investments in asset-backed securities or asset-backed commercial paper. These investments represented approximately 1.0% of our total cash and cash equivalents and investments at December 31, 2009.

(2) Fair value of \$32.5 million pledged to secure payments under certain reinsurance agreements.

At December 31, 2010, our available-for-sale debt securities had contractual maturities primarily in 2011 and 2012.

Table of Contents

Proceeds, gross realized gains and gross realized losses on sales of available-for-sale securities were as follows:

	Proceeds	Gross Realized Gains (In thousands)	Gross Realized Losses
Year Ended December 31, 2010	\$ 1,363,803	\$	\$ 91
Year Ended December 31, 2009	\$ 331,474		\$ 94
Year Ended December 31, 2008	\$ 1,161,960	\$ 1,345	\$

NOTE 7 DERIVATIVE FINANCIAL INSTRUMENTS

We enter into derivative financial instruments primarily as hedges of certain firm purchase and sale commitments denominated in foreign currencies. We record these contracts at fair value on our consolidated balance sheets. Depending on the hedge designation at the inception of the contract, the related gains and losses on these contracts are either (1) deferred in stockholders' equity as a component of accumulated other comprehensive loss until the hedged item is recognized in earnings or (2) offset against the change in fair value of the hedged firm commitment through earnings. At the inception and on an ongoing basis, we assess the hedging relationship to determine its effectiveness in offsetting changes in cash flows attributable to the hedged risk. We exclude from our assessment of effectiveness the portion of the fair value of the forward contracts attributable to the difference between spot exchange rates and forward exchange rates. The ineffective portion of a derivative's change in fair value and any portion excluded from the assessment of effectiveness are immediately recognized in earnings. Gains and losses on derivative financial instruments that are immediately recognized in earnings are included as a component of other income (expense) net in our consolidated statements of income. At December 31, 2010, we had designated the majority of our foreign currency forward-exchange contracts as cash flow hedging instruments.

At December 31, 2010, we had deferred approximately \$0.9 million of net losses on these derivative financial instruments in accumulated other comprehensive loss, and we expect to reclassify the net losses on the derivative financial instruments in the periods that we reclassify the net gains on the forecasted transactions. We expect to reclassify out of accumulated other comprehensive loss approximately \$1.9 million, of the net deferred losses over the next 12 months.

At December 31, 2010, the majority of our derivative financial instruments consisted of foreign currency forward-exchange contracts. The notional value of our forward contracts totaled \$366.7 million at December 31, 2010, with maturities extending to December 2013. These instruments consist primarily of contracts to purchase or sell foreign-denominated currencies. The fair value of these contracts was in a net asset position totaling \$1.4 million at December 31, 2010. The fair value of outstanding derivative instruments is determined using observable financial market inputs, such as quoted market prices and is classified as Level 2 in nature.

Table of Contents

The following tables summarize our derivative financial instruments at December 31, 2010. 2009 balance sheet data below includes the spun-off B&W operations:

Asset and Liability Derivatives

	December 31, 2010	December 31, 2009
	(In thousands)	
Derivatives Designated as Hedges:		
<i>Foreign Exchange Contracts:</i>		
Location		
Accounts receivable other	\$ 6,066	\$ 3,527
Other assets	3,225	
Total asset derivatives	\$ 9,291	\$ 3,527
Accounts payable	\$ 2,207	\$ 4,313
Other liabilities	5,733	
Total liability derivatives	\$ 7,940	\$ 4,313
Derivatives Not Designated as Hedges:		
<i>Foreign Exchange Contracts:</i>		
Location		
Accounts receivable other	\$	\$ 458
Accounts payable		65
Total derivatives not designated as hedges	\$	\$ 523
Total derivatives	\$ 17,231	\$ 8,363

The Effects of Derivative Instruments on our Financial Statements

	December 31, 2010	December 31, 2009
	(In thousands)	
Derivatives Designated as Hedges:		
Cash Flow Hedges:		
<i>Foreign Exchange Contracts:</i>		
Amount of gain (loss) recognized in other comprehensive income	\$ (3,236)	\$ 3,267
Income (loss) reclassified from accumulated other comprehensive loss into income: effective portion		
Location		
Cost of operations	\$ 2,474	\$ (304)
Gain (loss) recognized in income: ineffective portion and amount excluded from effectiveness testing		
Location		
Other income (expense) net	\$ (3,434)	\$ 3,745
Derivatives Not Designated as Hedges:		
Foreign Exchange Contracts:		

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Gain (loss) recognized in income

Location

Other income (expense) net	\$	\$ (6,055)
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Table of Contents

Credit Risk

We are exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. However, when possible, we enter into International Swaps and Derivative Association, Inc. agreements with our hedge counterparties to mitigate this risk. We also attempt to mitigate this risk by using major financial institutions with high credit ratings and limiting our exposure to hedge counterparties based on their credit ratings. The counterparties to all of our derivative financial instruments are financial institutions included in our credit facilities. Our hedge counterparties have the benefit of the same collateral arrangements and covenants as described under those facilities.

NOTE 8 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition to defining fair value, the authoritative accounting guidance expands disclosures about fair value measurements and establishes a hierarchy for valuation inputs that emphasizes the use of observable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy established by this topic is broken down as follows:

Level 1 inputs are based upon quoted prices for identical instruments traded in active markets.

Level 2 inputs are based upon quoted prices for similar instruments in active markets, quoted prices for similar or identical instruments in inactive markets and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3 inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar valuation techniques.

The following sections describe the valuation methodologies we use to measure the fair values of our available-for-sale securities and derivatives. 2009 amounts presented below include the spun-off B&W operations.

Available-for-Sale Securities

Investments other than derivatives primarily include U.S. Government and agency securities, money-market funds, mortgage-backed securities and corporate notes and bonds.

In general, and where applicable, we use a pricing service that principally uses a composite of observable prices and quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to our Level 1 and 2 investments. Our Level 3 investment consists of asset-backed commercial paper notes backed by a pool of mortgage-backed securities. The fair value of this Level 3 investment was based on the calculation of an overall weighted-average valuation, using the prices of the underlying individual securities. Individual securities in the pool were valued based on market observed prices, where available. If market prices were not available, prices of similar securities backed by similar assets were used.

Our net unrealized loss on investments was approximately \$4.3 million at December 31, 2010. At December 31, 2009, we had net unrealized losses on our investments totaling approximately \$6.9 million. The major components of our investments in an unrealized loss position are asset-backed obligations and commercial paper. Based on our analysis of these investments, we believe that none of our available-for-sale securities were other than temporarily impaired at December 31, 2010.

Table of Contents**Derivatives**

Level 2 derivative assets and liabilities primarily include over-the-counter forwards, primarily consisting of foreign exchange rate derivatives. Where applicable, the value of these derivative assets and liabilities is computed by discounting the projected future cash flow amounts to present value using market-based observable inputs, including foreign exchange forward and spot rates, interest rates and counterparty performance risk adjustments.

At December 31, 2010, we had forward contracts outstanding to purchase or sell foreign currencies with a total notional value of \$366.7 million and a total fair value of \$1.4 million.

Fair Value Measurements Recurring Basis

The following is a summary of our available-for-sale securities measured at fair value at December 31, 2010:

	12/31/10	Level 1	Level 2	Level 3
	(In thousands)			
Mutual funds ⁽¹⁾	\$ 2,007	\$	\$ 2,007	\$
Certificates of deposit				
U.S. Government and agency securities ⁽²⁾	269,161	269,161		
Asset-backed securities and collateralized mortgage obligations ⁽³⁾	9,869		2,497	7,372
Corporate notes and bonds ⁽⁴⁾	4,168		4,168	
Total	\$ 285,205	\$ 269,161	\$ 8,672	\$ 7,372

The following is a summary of our available-for-sale securities measured at fair value at December 31, 2009:

	12/31/09	Level 1	Level 2	Level 3
	(In thousands)			
Mutual funds	\$ 4,944	\$	\$ 4,944	\$
Certificates of deposit	2,522		2,522	
U.S. Government and agency securities	163,466	148,683	14,783	
Asset-backed securities and collateralized mortgage obligations	10,555		3,061	7,494
Corporate notes and bonds	47,231		47,231	
Total	\$ 228,718	\$ 148,683	\$ 72,541	\$ 7,494

- (1) Various U.S. equities and other investments managed under mutual funds.
- (2) Investments in U.S. Treasury securities with maturities of two years or less.
- (3) Asset-backed and mortgage-backed securities with maturities of up to 26 years.
- (4) Corporate notes and bonds with maturities of three years or less.

Table of Contents**Changes in Level 3 Instrument**

The following is a summary of the changes in our Level 3 instrument measured on a recurring basis for the years ended December 31, 2010 and 2009:

	Year ended December 31,	
	2010	2009
	(In thousands)	
Balance at beginning of period	\$ 7,494	\$ 7,456
Instruments attributable to discontinued operations	(168)	
Total realized and unrealized gains	1,821	2,402
Purchases, issuances, and settlements	172	
Principal repayments	(1,947)	(2,364)
Balance at end of period	\$ 7,372	\$ 7,494

Other Financial Instruments

We used the following methods and assumptions in estimating our fair value disclosures for our other financial instruments, as follows:

Cash and cash equivalents and restricted cash and cash equivalents. The carrying amounts that we have reported in the accompanying consolidated balance sheets for cash and cash equivalents approximate their fair values.

Long- and short-term debt. We base the fair values of debt instruments on quoted market prices. Where quoted prices are not available, we base the fair values on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt issues of similar quality and terms.

The estimated fair values of our financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Balance Sheet Instruments				
Cash and cash equivalents	\$ 403,463	\$ 403,463	\$ 899,270	\$ 899,270
Restricted cash and cash equivalents	\$ 197,861	\$ 197,861	\$ 69,920	\$ 69,920
Investments	\$ 285,205	\$ 285,205	\$ 228,718	\$ 228,718
Debt	\$ 55,295	\$ 56,180	\$ 72,984	\$ 73,505
Forward contracts	\$ 1,352	\$ 1,352	\$ (394)	\$ (394)
Foreign currency options	\$	\$	\$ 4,747	\$ 4,747

NOTE 9 CAPITAL STOCK AND STOCK BASED COMPENSATION**Capital Stock**

The Panamanian regulations that relate to acquisitions of securities of companies registered with the Panamanian National Securities Commission, such as MII, require, among other matters, that detailed disclosure concerning an offeror be finalized before that person acquires beneficial ownership of more than 5% of the outstanding shares of any class of our stock. The detailed disclosure is subject to review by either the Panamanian National Securities Commission or our Board of Directors. Transfers of shares of common stock in violation of these regulations are invalid and cannot be registered for transfer.

Table of Contents

At December 31, 2010 and 2009, approximately 14.3 million and 16.5 million shares of common stock, respectively, were reserved for issuance in connection with our 2009 McDermott International, Inc. Long-Term Incentive Plan (the 2009 LTIP) and our Thrift Plan.

Stock Plans

B&W Spin-off Changes

In connection with the spin-off of B&W, we made certain adjustments to our stock-based compensation awards. For our employees who held performance shares issued in or prior to May 2009, we cancelled the performance shares and issued restricted stock in an amount equal to the fair value of the shares held immediately prior to the spin-off. For holders of restricted stock granted in or prior to May 2010, the holder received additional units of restricted stock to maintain the total fair value of restricted stock held immediately prior to the spin-off. For stock options granted in or prior to May 2010, we adjusted the number of options held by each holder so that the intrinsic value of the stock options held immediately following the spin-off equaled the intrinsic value of the stock options held immediately prior to the spin-off. The adjustments to stock-based compensation awards were treated as a modification and resulted in total incremental compensation cost of \$14.5 million, of which approximately \$9.3 million was recognized in the year ended December 31, 2010 and the remainder will be expensed in 2011.

2009 McDermott International, Inc. Long-Term Incentive Plan

In May 2009, our shareholders approved the 2009 LTIP. Members of the Board of Directors, executive officers and key employees are eligible to participate in the plan. The Compensation Committee of the Board of Directors selects the participants for the plan. The plan provides for a number of forms of stock-based compensation, including incentive and non-qualified stock options, restricted stock, restricted stock units and performance shares and performance units, subject to satisfaction of specific performance goals. Shares approved under the 2001 Directors and Officers Long-Term Incentive Plan (the 2001 LTIP) that were not awarded as of the date of approval of the 2009 LTIP, or shares that are subject to awards that are cancelled, terminated, forfeited, expired or settled in cash in lieu of shares, are available for issuance under the 2009 LTIP. In addition, 9,000,000 shares were authorized for issuance through the 2009 LTIP. Options to purchase shares are granted at the fair market value (closing trading price) on the date of grant and become exercisable at such time or times as determined when granted and expire not more than seven years after the date of grant. At December 31, 2010, we had a total of 9,484,241 shares of our common stock available for award under the 2009 LTIP.

2001 Directors and Officers Long-Term Incentive Plan

In May 2009, our shareholders approved the 2009 LTIP. As a result we no longer issue awards under the 2001 LTIP. Members of the Board of Directors, executive officers, key employees and consultants were eligible to participate in the 2001 LTIP. The Compensation Committee of the Board of Directors selected the participants for the plan. The plan provided for a number of forms of stock-based compensation, including incentive and nonqualified stock options, stock appreciation rights, restricted stock, deferred stock units, performance shares and performance units, subject to satisfaction of specific performance goals. Options to purchase shares were granted at not less than 100% of the fair market value (average of the high and low trading price) on the date of grant, became exercisable at such time or times as determined when granted and expire not more than seven years after the date of the grant. Options granted prior to May 2009 expire not more than ten years after the date of the grant. Shares of common stock available to be awarded under the 2001 LTIP are available under the terms of the 2009 LTIP and have been included in the amount available for grant discussed above.

1997 Director Stock Program

Until 2007, we also maintained a 1997 Director Stock Program. Under this program, nonmanagement directors were entitled to receive a grant of options to purchase 2,700 shares of our common stock in the first

Table of Contents

year of a director's term and a grant of options to purchase 900 shares in subsequent years of such term at a purchase price equal to the fair market value of one share of our common stock on the date of grant. These options became exercisable, in full, six months after the date of grant and expire ten years from the date of grant. In addition, nonmanagement directors were entitled to receive a grant of 1,350 shares of restricted stock in the first year of a director's term and 450 shares in subsequent years of such term. The shares of restricted stock were subject to payment by the director of a purchase price at par value (\$1.00 per share) and to transfer restrictions that lapse at the end of the director's term. By the terms of the 1997 Director Stock Program, no award may be granted under the program beginning June 6, 2007. As a result, we made our final grants of stock options and restricted stock under the 1997 Directors Stock Program in connection with our Annual Meeting of Stockholders in May 2007. The shares of common stock available to be awarded under the 1997 Director Stock Program are available under the terms of the 2001 LTIP Plan and have been included in the amount available for grant discussed above.

In the event of a change in control of our company, all of these stock-based compensation programs have provisions that may cause restrictions to lapse with respect to restricted stock and accelerate the exercisability of outstanding options.

Total compensation expense recognized for the years ended December 31, 2010, 2009 and 2008 was as follows:

	Compensation Expense	Tax Benefit (In thousands)	Net Impact
Year Ended December 31, 2010			
Stock Options	\$ 2,489	\$ (765)	\$ 1,724
Restricted Stock	4,101	(1,079)	3,022
Restricted Stock Units	12,662	(3,764)	8,898
Performance Shares	3,437	(1,087)	2,350
Performance and Deferred Stock Units	723	(259)	464
Total	\$ 23,412	\$ (6,954)	\$ 16,458
Year Ended December 31, 2009			
Stock Options	\$ 1,078	\$ (319)	\$ 759
Restricted Stock	2,882	(566)	2,316
Restricted Stock Units	2,956	(887)	2,069
Performance Shares	9,217	(2,817)	6,400
Performance and Deferred Stock Units	2,127	(684)	1,443
Total	\$ 18,260	\$ (5,273)	\$ 12,987
Year Ended December 31, 2008			
Stock Options	\$ 423	\$ (181)	\$ 242
Restricted Stock	2,263	(383)	1,880
Performance Shares	12,267	(3,431)	8,836
Performance and Deferred Stock Units	1,760	(545)	1,215
Total	\$ 16,713	\$ (4,540)	\$ 12,173

The impact on basic earnings per share of stock-based compensation expense recognized for the years ended December 31, 2010, 2009 and 2008 was \$0.07, \$0.06 and \$0.05 per share, respectively, and on diluted earnings per share was \$0.07, \$0.06 and \$0.05 per share, respectively.

Table of Contents

As of December 31, 2010, total unrecognized estimated compensation expense related to nonvested awards was \$12.9 million, net of estimated tax benefits of \$7.0 million. The components of the total gross unrecognized estimated compensation expense of \$19.9 million and their expected weighted-average periods for expense recognition are as follows (amounts in millions; periods in years):

	Amount	Weighted-Average Period
Stock options	\$ 4.8	1.9
Restricted stock	\$ 2.6	0.5
Restricted stock units	\$ 12.5	1.5

Stock Options

The fair value of each option grant was estimated at the date of grant using Black-Scholes, with the following weighted-average assumptions:

	Year Ended December 31,		
	2010	2009	2008
Risk-free interest rate	2.12%	2.03%	N/A
Expected volatility	54%	78%	N/A
Expected life of the option in years	4.64	4.63	N/A
Expected dividend yield	0.0%	0.0%	N/A

The risk-free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected life of the option. The expected volatility is based on implied volatility from publicly traded options on our common stock, historical volatility of the price of our common stock and other factors. The expected life of the option is based on observed historical patterns. The expected dividend yield is based on the projected annual dividend payment per share divided by the stock price at the date of grant. This amount is zero because we have not paid cash dividends in recent years and do not expect to pay cash dividends for the foreseeable future.

The following table summarizes activity for our stock options for the year ended December 31, 2010 (share data in thousands):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at beginning of period	2,511	\$ 8.84		
Granted	688	25.39		
Exercised	(1,126)	4.83		
Spin-off adjustment	1,266	6.68		
Cancelled/expired/forfeited	(958)	26.51		
Outstanding at end of period ⁽¹⁾	2,381	\$ 7.42	5.0 Years	\$ 31.2
Exercisable at end of period	987	\$ 4.03	3.9 Years	\$ 16.3

(1) Of the remaining outstanding shares, we expect approximately 1.4 million shares to vest at a weighted-average exercise price of \$9.83. The aggregate intrinsic value included in the table above represents the total pretax intrinsic value that would have been received by the option holders had all option holders exercised their options on December 31,

Table of Contents

2010. The intrinsic value is calculated as the total number of option shares multiplied by the difference between the closing price of our common stock on the last trading day and the exercise price of the options. This amount changes based on the fair market value of our common stock.

The weighted-average fair value of the stock options granted in the years ended December 31, 2010 and 2009 was \$25.39 and \$11.57, respectively. There were no stock options granted in the year ended December 31, 2008. The total fair value of shares vested during the years ended December 31, 2010 and 2008 was \$1.6 million and \$2.2 million, respectively. No stock options vested in 2009.

During the years ended December 31, 2010, 2009 and 2008, the total intrinsic value of stock options exercised was \$4.0 million, \$5.6 million and \$81.5 million, respectively. We recorded cash received in the years ended December 31, 2010, 2009 and 2008 from the exercise of these stock options totaling \$5.4 million, \$1.1 million and \$9.6 million, respectively.

The actual tax benefits realized related to the stock options exercised during the years ended December 31, 2010, 2009 and 2008 were \$0.8 million, \$1.8 million and \$17.2 million, respectively.

Restricted Stock

Nonvested restricted stock awards as of December 31, 2010 and changes during the year ended December 31, 2010 were as follows (share data in thousands):

	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested at beginning of period	222	\$ 40.88
Granted	351	14.16
Vested	(163)	34.25
Spin-off adjustment	39	22.61
Cancelled/forfeited	(72)	32.15
Nonvested at end of period	377	\$ 14.65

The actual tax benefits realized related to the restricted stock lapsed during the years ended December 31, 2010, 2009 and 2008 were \$1.6 million, \$3.4 million and \$3.3 million, respectively.

Restricted Stock Units

Nonvested restricted stock units as of December 31, 2010 and changes during the year ended December 31, 2010 were as follows (share data in thousands):

	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested at beginning of period	1,478	\$ 11.25
Granted	666	25.39
Vested	(1,050)	11.56
Transfers	794	16.55
Spin-off adjustment	996	12.93
Cancelled/forfeited	(771)	17.01
Nonvested at end of period	2,113	\$ 13.26

Table of Contents*Performance Shares and Deferred Stock Units*

Nonvested performance share awards as of December 31, 2010 and changes during the year ended December 31, 2010 were as follows (share data in thousands):

	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested at beginning of period	1,845	\$ 32.57
Granted	393	26.19
Vested	(1,178)	31.22
Cancelled/forfeited	(1,060)	31.68
Nonvested at end of period		\$

Nonvested performance and deferred stock unit awards as of December 31, 2010 and changes during the year ended December 31, 2010 (share data in thousands):

	Number of Units	Aggregate Intrinsic Value
Nonvested at beginning of period	113	
Granted		
Vested	(101)	
Cancelled/forfeited	(12)	
Nonvested at end of period		\$

As discussed above, in connection with the spin-off of B&W, for our employees who held performance shares issued in or prior to May 2009, we cancelled the performance shares and issued restricted stock in an amount equal to the fair value of the shares held immediately prior to the spin-off.

Thrift Plan

On November 12, 1991, 15,000,000 of the authorized and unissued shares of MII common stock were reserved for issuance for the employer match to the Thrift Plan. On October 11, 2002, an additional 15,000,000 of the authorized and unissued shares of MII common stock were reserved for issuance for the employer match to the Thrift Plan. Those employer matching contributions equal 50% of the first 6% of compensation, as defined in the Thrift Plan, contributed by participants, and fully vest and are nonforfeitable after three years of service or upon retirement, death, involuntary termination of employment due to reduction in force or approved disability. During the years ended December 31, 2010, 2009 and 2008, we issued 282,022, 941,348 and 412,947 shares, respectively, of MII's common stock as employer matching contributions pursuant to the Thrift Plan. At December 31, 2010, 4,795,934 shares of MII's common stock remained available for issuance under the Thrift Plan. Effective June 2010, MII began making employer matching contributions in cash, in lieu of MII common stock.

NOTE 10 INCOME TAXES

We provide for income taxes based on the tax laws and rates in the countries in which we conduct our operations. MII is a Panamanian corporation that earns all of its income outside of Panama. As a result, we are not subject to income tax in Panama. We operate in various taxing jurisdictions around the world. Each of these jurisdictions has a regime of taxation that varies, not only with respect to nominal rates, but also with respect to the basis on which these rates are applied. These variations, along with changes in our mix of income from these jurisdictions, contribute to shifts in our effective tax rate.

Table of Contents

We conduct business globally and, as a result, we or one or more of our subsidiaries file income tax returns in a number of jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Indonesia, Malaysia, Singapore, Saudi Arabia, Kuwait, India, Qatar, Azerbaijan and the United States. With few exceptions, we are no longer subject to tax examinations for years prior to 2006.

U.S. state income tax returns are generally subject to examination for a period of three to five years after filing the respective returns. With few exceptions, we do not have any U.S. state returns under examination for years prior to 2006.

A reconciliation of unrecognized tax benefits for the year ended December 31, 2010 was as follows (in thousands). 2009 and 2008 amounts include discontinued operations:

	Year Ended December 31,		
	2010	2009	2008
Balance at beginning of period	\$ 59,113	\$ 57,484	\$ 64,810
Increases based on tax positions taken in the current year	3,511	9,895	13,575
Increases based on tax positions taken in prior years	920	1,322	704
Decreases based on tax positions taken in prior years	(875)	(775)	(6,166)
Unrecognized tax benefits transferred to discontinued operations	(35,920)		
Decreases due to settlements with tax authorities	(95)	(8,813)	(15,027)
Decreases due to lapse of applicable statute of limitation	(242)		(412)
Balance at end of period	\$ 26,412	\$ 59,113	\$ 57,484

The entire balance of unrecognized tax benefits at December 31, 2010 would reduce our effective tax rate if recognized.

During the year ended December 31, 2010, we made additional accruals of \$5.1 million offset by a reduction of \$4.3 million related to the spin-off of B&W resulting in recorded liabilities of approximately \$16.4 million for the payment of tax-related interest and penalties. At December 31, 2009 and 2008, we had recorded liabilities of approximately \$15.6 million and \$15.7 million, respectively, for the payment of tax-related interest and penalties. The additional accrual of \$3.1 million during 2009 was offset by payments of \$3.2 million.

Table of Contents

Deferred income taxes reflect the net tax effects of temporary differences between the financial and tax bases of assets and liabilities. Significant components of deferred tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

	December 31,	
	2010	2009
	(In thousands)	
Deferred tax assets:		
Pension liability	\$ 3,093	\$ 210,288
Accrued liabilities for self-insurance	1,840	53,737
Accrued liabilities for incentive compensation	23,664	40,305
Net operating loss carryforward	60,172	78,401
Accrued warranty expense		41,324
State tax credits and net operating loss carryforward	25,439	49,805
Environmental and products liability	175	11,678
Minimum tax credit carryforward		10,657
Foreign tax credit carryforward		16,062
Long-term contracts	9,820	25,475
Accrued vacation pay	963	12,805
Investments in joint ventures and affiliated companies		2,521
Other	2,651	16,851
Total deferred tax assets	127,817	569,909
Valuation allowance for deferred tax assets	(95,734)	(108,737)
Deferred tax assets	\$ 32,083	\$ 461,172
Deferred tax liabilities:		
Property, plant and equipment	\$ 16,326	\$ 40,275
Intangibles		32,386
Prepaid drydock	7,859	9,468
Investments in joint ventures and affiliated companies	10,630	6,573
Other	2,993	4,873
Total deferred tax liabilities	\$ 37,808	\$ 93,575
Net deferred tax asset (liability)	\$ (5,725)	\$ 367,597
Deferred tax assets and liabilities in the accompanying consolidated balance sheets include:		
Current deferred tax assets	\$ 10,323	\$ 11,223
Noncurrent deferred tax assets		106,360
Total deferred tax assets, net continuing operations	10,323	117,583
Total deferred tax assets, net discontinued operations		258,812
Total	\$ 10,323	\$ 376,395
Current deferred tax liabilities	\$ 12,849	\$ 3,860
Noncurrent deferred tax liabilities	3,199	4,923
Total deferred tax liabilities, net continuing operations	16,048	8,783
Total deferred tax liabilities, net discontinued operations		15
Total	\$ 16,048	\$ 8,798

Net deferred tax asset (liability)	\$ (5,725)	\$ 367,597
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Table of Contents

Income before provision for income taxes was as follows:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
U.S.	\$ (132,673)	\$ (66,688)	\$ (22,332)
Other than U.S.	436,467	336,801	146,747
Income before provision for income taxes	\$ 303,794	\$ 270,113	\$ 124,415

The provision for income taxes consisted of:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Other than U.S.:			
Current	\$ 39,352	\$ 55,309	\$ 61,387
Deferred	1,830	5,252	2,180
Total provision for income taxes⁽¹⁾	\$ 41,182	\$ 60,561	\$ 63,567

(1) We have no income tax provision applicable to U.S. federal, state or local jurisdictions.

The following is a reconciliation of the Panama statutory federal tax rate to the consolidated effective tax rate. Effective January, 2010, the Panama tax rate was reduced to 27.5%:

	Year Ended December 31,		
	2010	2009	2008
Panama federal statutory rate	27.5%	30%	30%
Non-Panama operations	(32.8)	(27.4)	(15.3)
Effect of change in tax rates	12.0		
Valuation allowance for deferred tax assets	2.9	19.2	49.0
Audit settlements	2.8	2.6	(14.2)
Other	1.2	(2.0)	1.6
Effective tax rate attributable to continuing operations	13.6%	22.4%	51.1%

At December 31, 2010, we had a valuation allowance of \$95.7 million for deferred tax assets, which we expect cannot be realized through carrybacks, future reversals of existing taxable temporary differences or based on our estimate of future taxable income. We believe that our remaining deferred tax assets will more likely than not be realized through carrybacks, future reversals of existing taxable temporary differences and future taxable income. Any changes to our estimated valuation allowance could be material to our consolidated financial statements.

We have foreign net operating loss carryforwards of \$193.0 million available to offset future taxable income in foreign jurisdictions. Of the foreign net operating loss carryforwards, \$85.8 million is scheduled to expire in 2011 to 2013. The foreign net operating losses have a valuation allowance of \$38.1 million against the related deferred taxes. We have U.S. federal net operating loss carryforwards of approximately \$65.1 million, which carry a \$22.1 million valuation allowance. These net operating loss carryforwards are scheduled to expire in years 2023 to 2030. We have state net operating losses of \$477.4 million available to offset future taxable income in various states. The state net operating loss carryforwards begin to expire in 2011. We are carrying a valuation allowance of \$25.4 million against the deferred tax asset related to the state

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loss carryforwards. We also have an approximate \$10.1 million valuation allowance against other deferred tax assets.

We would be subject to withholding taxes if we were to distribute earnings from our U.S. subsidiaries and certain foreign subsidiaries. At December 31, 2010, the undistributed earnings of these subsidiaries were \$191.5 million. Unrecognized deferred income tax liabilities, including withholding taxes, of approximately \$12.7 million would be payable upon distribution of these earnings. We have provided \$10.7 million of taxes on earnings we intend to remit. All other earnings are considered permanently reinvested.

Table of Contents**NOTE 11 EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income attributable to McDermott International, Inc. by the weighted average number of common shares outstanding during the period. Diluted earnings per share equals net income attributable to McDermott International, Inc. divided by the weighted average common shares outstanding adjusted for the dilutive effect of our stock options and restricted stock units. The diluted earnings per share calculation excludes 221,731, 144,243 and 22,500 shares underlying outstanding stock-based awards for the years ended December 31, 2010, 2009 and 2008, respectively, as they were antidilutive.

The following table sets forth the computation of basic and diluted earnings per share:

	2010	Year Ended December 31, 2009	2008
	(In thousands, except shares and per share amounts)		
Basic:			
Income from continuing operations less noncontrolling interest	\$ 236,566	\$ 206,158	\$ 60,649
Income (loss) from discontinued operations, net of tax	(34,900)	180,898	368,653
Net income attributable to McDermott International, Inc.	\$ 201,666	\$ 387,056	\$ 429,302
Weighted average common shares	232,173,362	229,471,020	226,918,776
Basic earnings per common share:			
Income from continuing operations less noncontrolling interest	\$ 1.02	\$ 0.90	\$ 0.27
Income (loss) from discontinued operations, net of tax	\$ (0.15)	\$ 0.79	\$ 1.62
Net income attributable to McDermott International, Inc.	\$ 0.87	\$ 1.69	\$ 1.89
Diluted:			
Income from continuing operations less noncontrolling interest	\$ 236,566	\$ 206,158	\$ 60,649
Income (loss) from discontinued operations, net of tax	(34,900)	180,898	368,653
Net income attributable to McDermott International, Inc.	\$ 201,666	\$ 387,056	\$ 429,302
Weighted average common shares (basic)	232,173,362	229,471,020	226,918,776
Effect of dilutive securities:			
Stock options, restricted stock and performance shares	3,448,667	4,155,856	3,475,006
Adjusted weighted average common shares	235,622,029	233,626,876	230,393,782
Diluted earnings per common share:			
Income from continuing operations less noncontrolling interest	\$ 1.00	\$ 0.88	\$ 0.26
Income (loss) from discontinued operations, net of tax	\$ (0.15)	\$ 0.78	\$ 1.60
Net income attributable to McDermott International, Inc.	\$ 0.85	\$ 1.66	\$ 1.86

NOTE 12 SEGMENT REPORTING

In connection with the July 30, 2010 spin-off of B&W, we developed a geographic-based reporting structure, which coincides with how our financial information is reviewed and evaluated on a regular basis by our chief operating decision maker. Accordingly, we now report our financial results under four reporting segments, consisting of Asia Pacific, Atlantic, the Middle East and Corporate. For purposes of the

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following presentation, all prior period segment disclosures have been restated to reflect the new segments and to account for the spin-off of B&W.

Table of Contents

We account for intersegment sales at prices that we generally establish by reference to similar transactions with unaffiliated customers. Reporting segments are measured based on operating income, which is defined as revenues reduced by total costs and expenses and equity in loss of investees.

Summarized financial information is shown in the following table:

1. Information about Operations in our Different Segments:

	2010	2009	2008
Revenues:			
Asia Pacific ⁽¹⁾	\$ 870,410	\$ 997,938	\$ 1,097,230
Atlantic	183,001	230,428	372,246
Middle East ⁽²⁾	1,350,332	2,053,424	1,628,628
Total revenues	\$ 2,403,743	\$ 3,281,790	\$ 3,098,104
<i>Segment revenues include the following intersegment transfers and eliminations:</i>			
Asia Pacific	\$ 154	\$	\$ 17
Atlantic	20,129	71,136	72,876
Middle East	330	4,243	
Eliminations	(20,613)	(75,379)	(72,893)
Total adjustments and eliminations	\$	\$	\$
Operating income⁽³⁾:			
Asia Pacific	\$ 88,012	\$ 141,494	\$ 75,613
Atlantic	(89,692)	(20,942)	10,478
Middle East	316,585	158,797	20,896
Total operating income	\$ 314,905	\$ 279,349	\$ 106,987
Segment assets:			
Asia Pacific	\$ 564,403	\$ 395,102	\$ 496,266
Atlantic	265,607	568,601	463,973
Middle East	1,302,398	885,222	689,805
Corporate	378,969	562,474	530,141
Total continuing operations	\$ 2,511,377	\$ 2,411,399	\$ 2,180,185
Total discontinued operations	\$ 87,311	\$ 2,437,711	\$ 2,421,508
Total assets	\$ 2,598,688	\$ 4,849,110	\$ 4,601,693
Capital expenditures:			
Asia Pacific	\$ 25,345	\$ 47,680	\$ 43,859
Atlantic	100,673	20,122	44,409
Middle East	47,851	90,893	75,095
Corporate	12,993	27,823	42,084
Total continuing operations	\$ 186,862	\$ 186,518	\$ 205,447
Depreciation and amortization:			
Asia Pacific	\$ 19,002	\$ 22,347	\$ 30,051

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Atlantic	17,681	15,688	11,453
Middle East	24,357	21,827	16,908
Corporate	15,412	20,005	14,143
Total continuing operations	\$ 76,452	\$ 79,867	\$ 72,555

Table of Contents

	2010	2009	2008
Investments in unconsolidated affiliates:			
Asia Pacific	\$ 41,471	\$ 10,634	\$
Atlantic	65	4,018	4,234
Corporate	3,480	3,953	4,443
Total continuing operations	\$ 45,016	\$ 18,605	\$ 8,677
Total discontinued operations	\$	\$ 68,327	\$ 61,627
Total Investments in unconsolidated affiliates	\$ 45,016	\$ 86,932	\$ 70,304

(1) Includes revenues from Chevron Corporation and Exxon Mobil Corporation, which account for 15% and 10%, respectively of our 2010 consolidated revenues.

(2) Includes revenues from Saudi Aramco, which accounts for 40% of our 2010 consolidated revenues.

(3) Operating income includes equity in loss of unconsolidated affiliates and (gain) loss on asset disposals and impairment net.

2. Information about our Service Lines:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
REVENUES:			
Offshore Operations	\$ 883,559	\$ 1,107,866	\$ 1,175,385
Fabrication Operations	412,145	499,916	412,615
Project Services and Engineering Operations	255,298	403,845	407,770
Procurement Activities	852,838	1,315,929	1,111,795
Eliminations	(97)	(45,766)	(9,461)
	\$ 2,403,743	\$ 3,281,790	\$ 3,098,104

3. Information about our Operations in Different Geographic Areas:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
REVENUES:			
Saudi Arabia	\$ 966,504	\$ 657,863	\$ 298,167
Australia	373,864	186,164	187,838
Qatar	352,508	1,293,755	804,545
Thailand	351,275	226,981	118,567
United States	108,377	131,622	169,109
Brazil	57,128	243,273	136,060
Malaysia	52,705	98,321	184,856
Vietnam	43,528	166,583	369,016
Trinidad	18,382	37,566	155,892
Azerbaijan	4,899	22,855	146,587
India	3,868	19,520	351,232
Other Countries	70,705	197,287	176,235
	\$ 2,403,743	\$ 3,281,790	\$ 3,098,104

Table of Contents

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
PROPERTY, PLANT AND EQUIPMENT, NET⁽⁴⁾:			
United Arab Emirates	\$ 407,423	\$ 208,061	\$ 176,514
Indonesia	163,111	215,186	210,409
Saudi Arabia	116,289		12,812
United States	114,499	436,130	386,389
Mexico	49,597	39,157	48,871
Trinidad			12,178
Spain	16,376		
Canada	61	126,571	72,443
United Kingdom	58	145,633	46,753
Qatar		108,695	57,556
Other Countries	48,155	58,172	54,934
	\$ 915,569	\$ 1,337,605	\$ 1,078,859

(4) Our marine vessels are included in the country in which they were operating as of year-end.

NOTE 13 RELATED-PARTY TRANSACTIONS

We are a large business organization with worldwide operations, and we engage in numerous purchase, sale and other transactions annually. We have various types of business arrangements with corporations and other organizations in which an executive officer, director or nominee for director may also be a director, executive or investor, or have some other direct or indirect relationship. We enter into these arrangements in the ordinary course of our business, and they typically involve us receiving some good or service on a nonexclusive basis and at arm's-length negotiated rates or in accordance with regularly prepared price schedules.

Certain of our grant agreements for restricted stock and restricted stock units awarded under various long-term incentive plans provide that the withholding obligation of any applicable federal, state or other taxes that may be due on the vesting in the year ending December 31, 2011 of those awards be satisfied by the grantee returning to us the number of such vested shares having a fair market value equal to the amount of such taxes. Additionally, each of Messrs. Stephen M. Johnson, John A. Fees, Perry L. Elders, Gary L. Carlson, Daniel M. Houser, John T. McCormack, Stewart A. Mitchell, John T. Nesser and Steven W. Roll and Ms. Liane K. Hinrichs, each a current or former executive officer, has irrevocably elected to satisfy withholding obligations relating to all or a portion of any applicable federal, state or other taxes that may be due on the vesting in the year ending December 31, 2011 of certain shares of restricted stock and restricted stock units awarded under various long-term incentive plans that do not provide for a withholding method in the same manner. These elections are subject to approval of the Compensation Committee of our Board, which approval was granted. Accordingly, this withholding method will apply to an aggregate of 205,316 shares held by Mr. Johnson, 142,445 shares held by Mr. Fees, 12,886 shares held by Mr. Elders, 13,136 shares held by Mr. Carlson, 12,964 shares held by Mr. Scott V. Cummins, 119,901 shares held by Ms. Hinrichs, 19,452 shares held by Mr. Houser, 29,822 shares held by Mr. McCormack, 14,021 shares held by Mr. Mitchell, 120,469 shares held by Mr. Nesser, and 21,479 shares held by Mr. Roll. In the year ended December 31, 2010, a similar withholding method applied, including with respect to the exercise price and tax withholding on the exercise and hold of stock options prior to the Spin-off, to an aggregate of 30,995 shares held by Mr. Johnson, 566,507 shares held by Mr. Fees, 59,019 shares held by Mr. Taff, 93,810 shares held by Mr. Brandon C. Bethards, 11,805 shares held by Mr. Cummins, 66,862 shares held by Ms. Hinrichs, 19,613 shares held by Mr. Houser, 27,992 shares held by Mr. McCormack, 22,031 shares held by Mr. Mitchell, 162,684 shares held by Mr. Nesser and 20,342 shares held by Mr. Roll, that vested in the year ended December 31, 2010. Those elections were also approved by the Compensation Committee. We expect any transfers reflecting shares of restricted stock returned to us will be reported in the SEC filings made by those

Table of Contents

transferring holders who are obligated to report transactions in our securities under Section 16 of the Securities Exchange Act of 1934.

NOTE 14 COMMITMENTS AND CONTINGENCIES***Investigations and Litigation***

A lawsuit entitled *Coto v. J. Ray McDermott, S.A., et al.* was filed in Civil District Court for the Parish of Orleans, Louisiana in November 1995. The lawsuit arose out of the sinking of the *DLB-269* off the coast of Mexico on October 15, 1995. At the time trial began in 2005, 13 plaintiffs had claims pending, primarily for post traumatic stress disorder allegedly suffered as a result of the incident. Settlement agreements have been executed with 10 of the 13 claimants. Appeals of two outstanding judgments in principal amounts of approximately \$4.3 million and \$5.8 million, respectively, are pending. We intend to continue to vigorously defend the remaining claims and expect that any adverse judgments against us would be covered by available insurance.

On April 9, 2009, two of our subsidiaries, McDermott Gulf Operating Company (MGOC) and J. Ray McDermott Canada, Ltd., through its registered business name, Secunda Marine Services (Secunda), filed a lawsuit in the Supreme Court of Nova Scotia against Oceanografia Sociedad Anonima de Capital Variable (OSA) and Con-Dive, LLC for damages, including unpaid charter hire for the charter of the vessel *Bold Endurance*. On or about April 13, 2009, as security for the unpaid charter hire, MGOC filed suit and obtained seizure orders for a saturation dive system aboard the *Bold Endurance* in the United States District Court for the Southern District of Alabama in a matter entitled *McDermott Gulf Operating Company, et al. v. Con-Dive, LLC et al.* The seizure was vacated on equitable grounds by the court via order dated May 29, 2009. MGOC and Secunda appealed the decision to the United States Court of Appeals for the Eleventh Circuit, which affirmed the order to vacate. On April 13, 2010, OSA filed a lawsuit entitled *Oceanografia S.A. de C.V. v. McDermott Gulf Operating Company, Inc. and Secunda Marine Services, Inc.* in the United States District Court for the Southern District of Alabama, alleging wrongful arrest, wrongful attachment and conversion of the saturation-diving system. OSA claims damages for loss of revenue in excess of \$10 million and physical damage to the equipment and further requests awards for punitive damages, attorneys' fees and costs. We cannot reasonably estimate the extent of a potential adverse judgement against us, if any, and we intend to vigorously defend the wrongful seizure suit and continue to pursue payment of the charter hire in the Supreme Court of Nova Scotia.

On November 17, 2008, December 5, 2008 and January 20, 2009, three separate alleged purchasers of our common stock during the period from February 27, 2008 through November 5, 2008 filed purported class action complaints against MII, Bruce Wilkinson (MII's former Chief Executive Officer and Chairman of the Board), and Michael S. Taff (MII's former Chief Financial Officer) in the United States District Court for the Southern District of New York. Each of the complaints alleges that the defendants violated federal securities laws by disseminating materially false and misleading information and/or concealing material adverse information relating to the operational and financial status of three ongoing construction contracts for the installation of pipelines off the coast of Qatar. Each complaint sought relief, including unspecified compensatory damages and an award for costs and expenses. The three cases were consolidated and transferred to the United States District Court for the Southern District of Texas. In May 2009, the plaintiffs filed an amended consolidated complaint, which, among other things, added Robert A. Deason (JRMSA's former President and Chief Executive Officer) as a defendant in the proceedings. In July 2009, MII and the other defendants filed a motion to dismiss the complaint, which was referred to a Magistrate Judge. In February 2010, the Magistrate Judge issued a Memorandum and Recommendation on the motion, finding that the plaintiffs had failed to state a claim for relief under the securities laws and therefore recommended to the District Court that the motion to dismiss be granted. On March 26, 2010, the Court issued an order adopting the Magistrate Judge's recommendations in full and dismissing the case. However, the order granted the plaintiffs leave to request to amend their complaint and, on April 30, 2010, the plaintiffs filed a motion with the District Court for leave to amend the complaint. The defendants filed their opposition to the plaintiffs' motion in May 2010, and in December 2010 the Magistrate Judge issued a Memorandum and Recommendation that plaintiffs' motion to amend be denied and that the case

Table of Contents

be finally dismissed. In January 2011, the plaintiffs filed their objections to the Memorandum and Recommendation, and the defendants filed their response to those objections. Oral argument was held before the District Court on February 15, 2011, and we await the District Court decision. We cannot reasonably estimate the extent of a potential adverse judgement, if any. We continue to believe the substantive allegations contained in the amended complaint are without merit, and we intend to continue defending against these claims vigorously.

On or about August 23, 2004, a declaratory judgment action entitled *Certain Underwriters at Lloyd's London, et al. v. J. Ray McDermott, Inc. et al.*, was filed by certain underwriters at Lloyd's, London and Threadneedle Insurance Company Limited (the London Insurers), in the 23rd Judicial District Court, Assumption Parish, Louisiana, against MII, JRMI and two insurer defendants, Travelers and INA, seeking a declaration that the London Insurers have no obligation to indemnify MII and JRMI for certain bodily injury claims, including claims for asbestos and welding rod fume personal injury which have been filed by claimants in various state courts, and an environmental claim involving Babcock & Wilcox Power Generation Group, Inc., a subsidiary of B&W (B&W PGG). Additionally, Travelers filed a cross-claim requesting a declaration of non-coverage in approximately 20 underlying matters. This proceeding was stayed by the court on January 3, 2005.

In a proceeding entitled *Antoine, et al. vs. J. Ray McDermott, Inc., et al.*, filed in the 24th Judicial District Court, Jefferson Parish, Louisiana, approximately 88 plaintiffs filed suit against approximately 215 defendants, including JRMI and Delta Hudson Engineering Corporation (DHEC), another affiliate of ours, generally alleging injuries for exposure to asbestos, and unspecified chemicals, metals and noise while the plaintiffs were allegedly employed as Jones Act seamen. On January 10, 2007, the District Court dismissed the Plaintiffs' claims, without prejudice to their right to refile their claims. On January 29, 2007, in a matter entitled *Boudreaux, et al. v. McDermott, Inc., et al.*, originally filed in the United States District Court for the Southern District of Texas, 21 plaintiffs originally named in the *Antoine* matter filed suit against JRMI, MI and approximately 30 other employer defendants, alleging Jones Act seaman status and generally alleging exposure to welding fumes, solvents, dyes, industrial paints and noise. *Boudreaux* was transferred to the United States District Court for the Eastern District of Louisiana on May 2, 2007. The District Court entered an order in September 2007 staying the matter until further order of the court due to the bankruptcy filing of one of the co-defendants. Additionally, on January 29, 2007, in a matter entitled *Antoine, et al. v. McDermott, Inc., et al.*, filed in the 164th Judicial District Court for Harris County, Texas, 43 plaintiffs originally named in the *Antoine* matter filed suit against JRMI, MI and approximately 65 other employer defendants and 42 maritime products defendants, alleging Jones Act seaman status and generally alleging personal injuries for exposure to asbestos and noise. On April 27, 2007, the District Court entered an order staying all activity and deadlines in this matter other than service of process and answer/appearance dates until further order of the court. The plaintiffs filed a motion to lift the stay on February 20, 2009, which is pending before the District Court. The plaintiffs seek monetary damages in an unspecified amount in both cases and attorneys' fees in the new *Antoine* case.

Additionally, due to the nature of our business, we are, from time to time, involved in routine litigation or subject to disputes or claims related to our business activities, including, among other things:

performance- or warranty-related matters under our customer and supplier contracts and other business arrangements; and

workers' compensation claims, Jones Act claims, premises liability claims and other claims.

Based upon our prior experience, we do not expect that any of these other litigation proceedings, disputes and claims will have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Environmental Matters

We have been identified as a potentially responsible party at various cleanup sites under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (CERCLA) and other state and foreign CERCLA-type environmental laws. Such laws can impose liability for the entire cost of cleanup on any of the

Table of Contents

potentially responsible parties, regardless of fault or the lawfulness of the original conduct. Generally, however, where there are multiple responsible parties, a final allocation of costs is made based on the amount and type of wastes disposed of by each party and the number of financially viable parties, although this may not be the case with respect to any particular site. We have not been determined to be a major contributor of wastes to any of these sites. On the basis of our relative contribution of waste to each site, we expect our share of the ultimate liability for the various sites will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows in any given year.

At December 31, 2010 and 2009, we had total environmental reserves of \$2.9 million and \$3.2 million, respectively, excluding B&W reserves. Of our total environmental reserves at December 31, 2010 and 2009, \$2.4 million and \$3.2 million, respectively, were included in current liabilities. Inherent in the estimates of those reserves and recoveries are our expectations regarding the levels of contamination, remediation costs and recoverability from other parties, which may vary significantly as remediation activities progress. Accordingly, changes in estimates could result in material adjustments to our operating results, and the ultimate loss may differ materially from the amounts that we have provided for in our consolidated financial statements.

Contracts Containing Liquidated Damages Provisions

Some of our contracts contain penalty provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under these provisions. These contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. As of December 31, 2010 it is possible that we may incur liabilities for liquidated damages aggregating approximately \$82 million, of which \$14 million has been recorded in our financial statements, based on our actual or projected failure to meet certain specified contractual milestone dates. The date range during which these potential liquidated damages could arise is from June 2008 to May 2011. We are in active discussions with our customers on the issues giving rise to delays in these projects, and in January 2011 we reached an agreement with one customer to reduce these potential liquidated damages by approximately \$19 million. We believe we will be successful in obtaining schedule extensions or other customer agreed changes that should resolve the potential for additional liquidated damages being incurred. However, we may not achieve relief on some or all of the issues. We do not believe any amounts for these potential liquidated damages in excess of the amounts recorded in our financial statements are probable of being paid by us.

Other

MII, B&W PGG and McDermott Holdings, Inc., which in connection with the spin-off of B&W was renamed Babcock & Wilcox Holdings, Inc. and merged with B&W, have jointly executed general agreements of indemnity in favor of various surety underwriters relating to surety bonds those underwriters issued in support of B&W PGG's contracting activity. As of December 31, 2010, bonds issued under such arrangements totaled approximately \$82.3 million. Pursuant to the master separation agreement entered into between us and B&W in connection with the spin-off, B&W has agreed to indemnify us with respect to any losses we may incur in connection with these surety bonds. B&W is in the process of obtaining releases of our obligations relating to certain of these surety bonds as it enters into new bonding arrangements with sureties.

Table of Contents**Operating Leases**

Future minimum payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at December 31, 2010 are as follows (in thousands):

Fiscal Year Ending December 31,	Amount
2011	\$ 9,958
2012	\$ 7,791
2013	\$ 7,247
2014	\$ 6,365
2015	\$ 4,208
Thereafter	\$ 121,806

Total rental expense for the years ended December 31, 2010, 2009 and 2008 was \$47.9 million, \$54.1 million and \$67.8 million, respectively. These expense amounts include contingent rentals and are net of sublease income, neither of which is material.

NOTE 15 QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth selected unaudited quarterly financial information for the years ended December 31, 2010 and 2009:

Year Ended December 31, 2010	Quarter Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
	(In thousands, except per share amounts)			
Revenues	\$ 504,882	\$ 627,144	\$ 732,095	\$ 539,622
Operating income	\$ 73,187	\$ 98,142	\$ 84,303	\$ 59,273
Income from continuing operations, less noncontrolling interest	\$ 51,562	\$ 78,691	\$ 60,833	\$ 45,480
Income (loss) from discontinued operations, net of tax	8,379	(2,657)	(40,030)	(592)
Net income ⁽¹⁾	\$ 59,941	\$ 76,034	\$ 20,803	\$ 44,888

	Per Share Data			
Basic earnings per common share:				
Income from continuing operations, less noncontrolling interest	\$ 0.22	\$ 0.34	\$ 0.26	\$ 0.20
Income (loss) from discontinued operations, net of tax	\$ 0.04	\$ (0.01)	\$ (0.17)	\$
Net income	\$ 0.26	\$ 0.33	\$ 0.09	\$ 0.19
Diluted earnings per common share:				
Income from continuing operations, less noncontrolling interest	\$ 0.22	\$ 0.34	\$ 0.26	\$ 0.19
Income (loss) from discontinued operations, net of tax	\$ 0.04	\$ (0.01)	\$ (0.17)	\$
Net income	\$ 0.26	\$ 0.32	\$ 0.09	\$ 0.19

(1) See Note 2 for discussion on discontinued operations and other charges.

Table of Contents

Year Ended December 31, 2009	Quarter Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
	(In thousands, except per share amounts)			
Revenues	\$ 693,748	\$ 818,770	\$ 1,012,474	\$ 756,798
Operating income	\$ 34,076	\$ 56,829	\$ 97,589	\$ 90,855
Income from continuing operations, less noncontrolling interest	\$ 21,328	\$ 35,415	\$ 76,056	\$ 73,359
Income (loss) from discontinued operations, net of tax	56,364	57,140	42,051	25,343
Net income	\$ 77,692	\$ 92,555	\$ 118,107	\$ 98,702

	Per Share Data			
Basic earnings per common share:				
Income from continuing operations, less noncontrolling interest	\$ 0.09	\$ 0.15	\$ 0.33	\$ 0.32
Income from discontinued operations, net of tax	\$ 0.25	\$ 0.25	\$ 0.18	\$ 0.11
Net income	\$ 0.34	\$ 0.40	\$ 0.51	\$ 0.43
Diluted earnings per common share:				
Income from continuing operations, less noncontrolling interest	\$ 0.09	\$ 0.15	\$ 0.32	\$ 0.32
Income from discontinued operations, net of tax	\$ 0.24	\$ 0.25	\$ 0.18	\$ 0.11
Net income	\$ 0.33	\$ 0.40	\$ 0.50	\$ 0.43

Table of Contents

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this annual report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) adopted by the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Our disclosure controls and procedures were developed through a process in which our management applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding the control objectives. You should note that the design of any system of disclosure controls and procedures is based in part upon various assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based on the evaluation referred to above, our Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures are effective as of December 31, 2010 to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and such information is accumulated and communicated to management, including its principal executives and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) and for our assessment of the effectiveness of internal control over financial reporting.

Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2010, based on the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). This assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls. Based on our assessment under the criteria described above, management has concluded that our internal control over financial reporting was effective as of December 31, 2010. Deloitte & Touche LLP has audited our internal control over financial reporting as of December 31, 2010, and their report is included in Item 9A.

Table of Contents

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

McDermott International, Inc.

Houston, Texas

We have audited the internal control over financial reporting of McDermott International, Inc. and subsidiaries (the Company) as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Table of Contents

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2010 of the Company and our report dated March 1, 2011 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company's completed spin-off of its Government Operations and Power Generations Systems segments into an independent, publicly traded company named The Babcock & Wilcox Company.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

March 1, 2011

Table of Contents**PART IV****Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE**

The following documents are filed as part of this annual report or incorporated by reference:

1. CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2010 and 2009

Consolidated Statements of Income for the Years Ended December 31, 2010, 2009 and 2008

Consolidated Statements of Equity for the Years Ended December 31, 2010, 2009 and 2008

Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008

Notes to Consolidated Financial Statements for the Years Ended December 31, 2010, 2009 and 2008

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

Schedule II is filed with this annual report. All other schedules for which provision is made of the applicable regulations of the SEC have been omitted because they are not required under the relevant instructions or because the required information is included in the financial statements or the related footnotes contained in this report.

3. EXHIBITS

Exhibit

Number	Description
3.1	McDermott International, Inc. s Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-08430)).
3.2#	McDermott International, Inc. s Amended and Restated By-laws.
3.3	Amended and Restated Certificate of Designation of Series D Participating Preferred Stock of McDermott International, Inc. (incorporated by reference to Exhibit 3.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (File No. 1-08430)).
4.1	Credit Agreement dated as of June 6, 2006, by and among J. Ray McDermott, S.A., credit lenders, synthetic investors and issuers party thereto, Credit Suisse, Cayman Islands Branch, Credit Suisse Securities (USA), LLC, Bank of America, N.A., Calyon New York Branch, Fortis Capital Corp. and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on June 9, 2006 (File No. 1-08430)).
4.2	First Amendment to Credit Agreement, dated as of August 4, 2006, by and among J. Ray McDermott, S.A., certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto (incorporated by reference to Exhibit 4.8 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-08430)).
4.3	Second Amendment to Credit Agreement, dated as of December 1, 2006, by and among J. Ray McDermott, S.A., certain guarantors thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto (incorporated by reference to Exhibit 4.9 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-08430)).

Table of Contents

Description

guarantors thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, dated as of June 6, 2006 (incorporated by reference to Exhibit 10.2 to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on May 3, 2006 (File No. 1-08430)).

lenders and issuers party thereto, and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent (incorporated by reference to Exhibit 4.3 to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on July 29, 1997 (File No. 1-08430)).

S.A. and certain of their subsidiaries in favor of Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral Agent (incorporated by reference to Exhibit 4.3 to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on July 29, 1997 (File No. 1-08430)).

McDermott, S.A., and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent (incorporated by reference to Exhibit 4.3 to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on July 29, 1997 (File No. 1-08430)).

ities authorized does not exceed 10% of our total consolidated assets. Pursuant to paragraph 4(iii)(A) of Item 601 (b) of Regulation S-K, we agree to furnish a copy of Exhibit 4.3 to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on May 3, 2006 (File No. 1-08430)).

B to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on July 29, 1997 (File No. 1-08430)).

ermott International, Inc.'s Proxy Statement on Schedule 14A filed on July 29, 1997 (File No. 1-08430)).

Table of Contents

Exhibit

Number	Description
10.4*	McDermott International, Inc. s Amended and Restated 2001 Directors & Officers Long-Term Incentive Plan (incorporated by reference to Appendix B to McDermott International, Inc. s Proxy Statement on Schedule 14A filed on May 3, 2006 (File No. 1-08430)).
10.5*	Notice of Grant (Stock Options and Deferred Stock Units) (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).
10.6*	Form of 2001 LTIP Stock Option Grant Agreement (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).
10.7*	Form of 2001 LTIP Deferred Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).
10.8*	Form of 2001 LTIP Stock Option Grant Agreement to Nonemployee Directors (incorporated by reference to Exhibit 10.5 to McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).
10.9*	Form of 2001 LTIP 2007 Performance Shares Grant Agreement (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on May 4, 2007 (File No. 1-08430)).
10.10*	Form of 2001 LTIP 2008 Restricted Stock Grant Agreement (incorporated by reference to Exhibit 10.27 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-08430)).
10.11*	Form of Change-in-Control Agreement entered into between McDermott International, Inc. and John A. Fees (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-08430)).
10.12*	Form of 2001 LTIP 2009 Deferred Stock Grant Agreement (incorporated by reference to Exhibit 10.24 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-08430)).
10.13*	Form of 2001 LTIP 2009 Stock Options Grant Agreement (incorporated by reference to Exhibit 10.26 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-08430)).
10.14*	Form of 2009 LTIP Restricted Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-08430)).
10.15*	Form of 2009 LTIP Performance Shares Grant Agreement (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-08430)).
10.16*	Form of 2009 LTIP Stock Option Grant Agreement (incorporated by reference to Exhibit 10.4 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-08430)).
10.17*	McDermott International, Inc. New Supplemental Executive Retirement Plan, as amended and restated effective December 31, 2008 (incorporated by reference to Exhibit 10.5 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-08430)).

Table of Contents

Exhibit	Description
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10.18*	2009 McDermott International, Inc. Long-Term Incentive Plan (incorporated by reference to Appendix A to McDermott International, Inc. s Proxy Statement on Schedule 14A filed on March 27, 2009 (File No. 1-08430)).
10.19*	Form of Restructuring Transaction Retention Agreement between McDermott International, Inc. and John A. Fees (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on December 11, 2009 (File No. 1-08430)).
10.20*	Form of Restructuring Transaction Retention Agreement between McDermott International, Inc. and Michael S. Taff (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Current Report on Form 8-K filed on December 11, 2009 (File No. 1-08430)).
10.21*	Form of Restructuring Transaction Retention Agreement between McDermott International, Inc. and certain executive officers (other than Messrs. Fees or Taff) (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Current Report on Form 8-K filed on December 11, 2009 (File No. 1-08430)).
10.22*	Form of Restructuring Transaction Retention Agreement between McDermott International, Inc. and certain other officers (incorporated by reference to Exhibit 10.4 to McDermott International, Inc. s Current Report on Form 8-K filed on December 11, 2009 (File No. 1-08430)).
10.23*	Form of 2009 LTIP 2010 Restricted Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.32 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-08430)).
10.24*	Form of 2009 LTIP 2010 Stock Option Grant Agreement (incorporated by reference to Exhibit 10.33 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-08430)).
10.25	Separation Agreement, dated as of March 23, 2010, by and between J. Ray McDermott, Inc. and Robert A. Deason (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on March 29, 2010 (File No. 1-08430)).
10.26	Assumption and Loss Allocation Agreement dated as of May 18, 2010 by and among ACE American Insurance Company and the Ace Affiliates (as defined therein), McDermott International, Inc. and Babcock & Wilcox Holdings, Inc. (incorporated by reference to Exhibit 10.6 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.27	Novation and Assumption Agreement dated as of May 18, 2010 by and among ACE American Insurance Company and the Ace Affiliates (as defined therein), Creole Insurance Company, Ltd. and Boudin Insurance Company, Ltd. (incorporated by reference to Exhibit 10.7 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.28	Novation and Assumption Agreement dated as of May 18, 2010 by and among McDermott International, Inc., Babcock & Wilcox Holdings, Inc., Boudin Insurance Company, Ltd. and Creole Insurance Company, Ltd. (incorporated by reference to Exhibit 10.8 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.29	Tax Sharing Agreement dated as of June 7, 2010 between J. Ray Holdings, Inc. and Babcock & Wilcox Holdings, Inc. (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).

Table of Contents

Exhibit	
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10.30	Transition Services Agreement dated as of July 2, 2010 between McDermott International, Inc. as service provider and The Babcock & Wilcox Company as service receiver (incorporated by reference to Exhibit 10.4 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.31	Transition Services Agreement dated as of July 2, 2010 between The Babcock & Wilcox Company as service provider and McDermott International, Inc. as service receiver (incorporated by reference to Exhibit 10.5 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.32	Employee Matters Agreement, dated as of July 2, 2010, among McDermott International, Inc., McDermott Investments LLC, The Babcock & Wilcox Company and Babcock & Wilcox Investment Company (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on July 2, 2010 (File No. 1-08430)).
10.33	Amendment to Employee Matters Agreement, dated as of August 3, 2010, among McDermott International, Inc., McDermott Investments, LLC, The Babcock & Wilcox Company and Babcock & Wilcox Investment Company (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.34	Amendment No. 2 to Employee Matters Agreement, dated as of August 10, 2010 among McDermott International, Inc., McDermott Investments, LLC, The Babcock & Wilcox Company and Babcock & Wilcox Investment Company (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 1-08430)).
10.35*	Form of Change in Control Agreement to be entered into among McDermott International, Inc., J. Ray McDermott, Inc. and Stephen M. Johnson (incorporated by reference to Exhibit 10.9 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.36*	Form of Change in Control Agreement to be entered into among McDermott International, Inc., J. Ray McDermott, Inc. and each of Perry L. Elders and certain other officers (incorporated by reference to Exhibit 10.10 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.37*	Form of Change in Control Agreement to be entered into among McDermott International, Inc., J. Ray McDermott, Inc. and each of Liane K. Hinrichs and John T. Nesser, III (incorporated by reference to Exhibit 10.11 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.38*	McDermott International, Inc. Director and Executive Deferred Compensation Plan, as amended and restated November 8, 2010 (incorporated by reference to Exhibit 10.10 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 1-08430)).
10.39*#	Form of 2009 LTIP Stock Option Grant Agreement for replacement grants in connection with the B&W spin-off.
10.40*#	Form of 2009 LTIP Restricted Stock Unit Grant Agreement for 2008 performance share replacement grants in connection with the B&W spin-off.
10.41*#	Form of 2009 LTIP Restricted Stock Unit Grant Agreement for 2009 performance share replacement grants in connection with the B&W spin-off

Table of Contents

Exhibit	
Number	Description
10.42*#	Form of 2009 LTIP Restricted Stock Grant Agreement for 2010 retention grants made to Messrs. Johnson and Nesser and Ms. Hinrichs.
10.43#	Rabbi Trust Agreement by and between McDermott International, Inc. and Mellon Bank, N.A., as amended as of November 18, 2010.
10.44*	Summary of Named Executive Officer 2010 Salaries and EICP Award Opportunities (incorporated by reference to Exhibit 10.17 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009)).
10.45*#	McDermott International, Inc. Executive Incentive Compensation Plan (as amended and restated March 1, 2011).
10.46*#	Form of 2009 LTIP 2011 Total Shareholder Return Performance Share Grant Agreement.
10.47*#	Form of 2009 LTIP 2011 Restricted Stock Unit Grant Agreement.
10.48*#	Form of 2009 LTIP 2011 Stock Option Grant Agreement.
10.49*#	Summary of Named Executive Officer 2011 Salaries and EICP Target Award Opportunities.
12.1#	Ratio of Earnings to Fixed Charges.
21.1#	Significant Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP.
31.1	Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer.
32.1	Section 1350 certification of Chief Executive Officer.
32.2	Section 1350 certification of Chief Financial Officer.
101.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan or arrangement.

Previously filed with the original Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDERMOTT INTERNATIONAL, INC.

March 3, 2011

By: */s/* STEPHEN M. JOHNSON
Stephen M. Johnson
President and Chief Executive Officer

Table of Contents**Schedule II****McDERMOTT INTERNATIONAL, INC.****VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at Beginning of Period	Charged to Costs and Expenses ⁽¹⁾	Additions		Balance at End of Period
			Charged to Other Accounts		
Valuation Allowance for Deferred Tax Assets ⁽²⁾					
Year Ended December 31, 2010	\$ (108,737)	\$ (8,155)	\$ 21,158		\$ (95,734)
Year Ended December 31, 2009	\$ (78,249)	\$ (30,776)	\$ 288		\$ (108,737)
Year Ended December 31, 2008	\$ (100,617)	\$ 22,707	\$ (339)		\$ (78,249)

2009 and 2008 amounts presented below include the spun-off B&W operations.

- (1) Net of reductions and other adjustments, all of which are charged to costs and expenses.
(2) Amounts charged to other accounts included in other comprehensive loss (minimum pension liability).

Description	Balance at Beginning of Period	Charged to Costs and Expenses			Balance at End of Period
			Write-offs	Recoveries	
Allowance for Doubtful and Disputed Accounts					
Year Ended December 31, 2010	\$ (42,246)	\$ (8,108)	\$ 11,231	\$ 9,562	\$ (29,561)
Year Ended December 31, 2009	\$ (28,308)	\$ (39,684)	\$ 1,630	\$ 24,116	\$ (42,246)
Year Ended December 31, 2008	\$ (70,569)	\$ (30,048)	\$ 36,385	\$ 35,924	\$ (28,308)

Table of Contents**INDEX TO EXHIBITS**

Exhibit	
Number	Description
3.1	McDermott International, Inc. s Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-08430)).
3.2#	McDermott International, Inc. s Amended and Restated By-laws.
3.3	Amended and Restated Certificate of Designation of Series D Participating Preferred Stock of McDermott International, Inc. (incorporated by reference to Exhibit 3.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (File No. 1-08430)).
4.1	Credit Agreement dated as of June 6, 2006, by and among J. Ray McDermott, S.A., credit lenders, synthetic investors and issuers party thereto, Credit Suisse, Cayman Islands Branch, Credit Suisse Securities (USA), LLC, Bank of America, N.A., Calyon New York Branch, Fortis Capital Corp. and Wachovia Bank, National Association (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on June 9, 2006 (File No. 1-08430)).
4.2	First Amendment to Credit Agreement, dated as of August 4, 2006, by and among J. Ray McDermott, S.A., certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto (incorporated by reference to Exhibit 4.8 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-08430)).
4.3	Second Amendment to Credit Agreement, dated as of December 1, 2006, by and among J. Ray McDermott, S.A., certain guarantors thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto (incorporated by reference to Exhibit 4.9 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-08430)).
4.4	Third Amendment to Credit Agreement, dated as of July 9, 2007, by and among J. Ray McDermott, S.A., certain guarantors thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto (incorporated by reference to Exhibit 4.1 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 1-08430)).
4.5	Fourth Amendment to Credit Agreement, dated as of July 20, 2007, by and among J. Ray McDermott, S.A., certain guarantors thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Current Report on Form 8-K filed on July 26, 2007 (File No. 1-08430)).
4.6	Fifth Amendment to Credit Agreement, dated as of April 7, 2008, by and between J. Ray McDermott, S.A., certain guarantors thereto, certain lenders and issuers party thereto, Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, and other agents party thereto (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on April 8, 2008 (File No. 1-08430)).
4.7	Pledge and Security Agreement by J. Ray McDermott, S.A. and certain of its subsidiaries in favor of Credit Suisse, Cayman Islands Branch, as administrative agent and collateral agent, dated as of June 6, 2006 (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Current Report on Form 8-K filed on June 9, 2006 (File No. 1-08430)).

Table of Contents

Exhibit Number	Description
4.8	Credit Agreement dated as of May 3, 2010, among J. Ray McDermott, S.A., McDermott International, Inc., the lenders and issuers party thereto, and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.1 to McDermott International, Inc.'s Current Report on Form 8-K filed on May 7, 2010 (File No. 1-08430)).
4.9	Pledge and Security Agreement dated as of May 3, 2010, by McDermott International, Inc., J. Ray McDermott, S.A. and certain of their subsidiaries in favor of Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral Agent (incorporated by reference to Exhibit 10.2 to McDermott International, Inc.'s Current Report on Form 8-K filed on May 7, 2010 (File No. 1-08430)).
4.10	New Borrower Joinder Agreement dated as of August 6, 2010, among McDermott International, Inc., J. Ray McDermott, S.A., and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent (incorporated by reference to Exhibit 4.3 to McDermott International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
<p>We and certain of our consolidated subsidiaries are parties to other debt instruments under which the total amount of securities authorized does not exceed 10% of our total consolidated assets. Pursuant to paragraph 4(iii)(A) of Item 601 (b) of Regulation S-K, we agree to furnish a copy of those instruments to the Commission upon its request.</p>	
10.1*	McDermott International, Inc.'s Executive Incentive Compensation Plan (incorporated by reference to Appendix C to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on May 3, 2006 (File No. 1-08430)).
10.2*	McDermott International, Inc.'s 1996 Officer Long-Term Incentive Plan (incorporated by reference to Appendix B to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on July 29, 1997 (File No. 1-08430)).
10.3*	McDermott International, Inc.'s 1997 Director Stock Program (incorporated by reference to Appendix A to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on July 29, 1997 (File No. 1-08430)).
10.4*	McDermott International, Inc.'s Amended and Restated 2001 Directors & Officers Long-Term Incentive Plan (incorporated by reference to Appendix B to McDermott International, Inc.'s Proxy Statement on Schedule 14A filed on May 3, 2006 (File No. 1-08430)).
10.5*	Notice of Grant (Stock Options and Deferred Stock Units) (incorporated by reference to Exhibit 10.1 to

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10.6*	McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).
10.7*	Form of 2001 LTIP Stock Option Grant Agreement (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).
10.8*	Form of 2001 LTIP Deferred Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).
10.8*	Form of 2001 LTIP Stock Option Grant Agreement to Nonemployee Directors (incorporated by reference to Exhibit 10.5 to McDermott International, Inc. s Current Report on Form 8-K filed on May 18, 2005 (File No. 1-08430)).

Table of Contents

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10.9*	Form of 2001 LTIP 2007 Performance Shares Grant Agreement (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on May 4, 2007 (File No. 1-08430)).
10.10*	Form of 2001 LTIP 2008 Restricted Stock Grant Agreement (incorporated by reference to Exhibit 10.27 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-08430)).
10.11*	Form of Change-in-Control Agreement entered into between McDermott International, Inc. and John A. Fees (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-08430)).
10.12*	Form of 2001 LTIP 2009 Deferred Stock Grant Agreement (incorporated by reference to Exhibit 10.24 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-08430)).
10.13*	Form of 2001 LTIP 2009 Stock Options Grant Agreement (incorporated by reference to Exhibit 10.26 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-08430)).
10.14*	Form of 2009 LTIP Restricted Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-08430)).
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10.16*	Form of 2009 LTIP Stock Option Grant Agreement (incorporated by reference to Exhibit 10.4 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-08430)).
10.17*	McDermott International, Inc. New Supplemental Executive Retirement Plan, as amended and restated effective December 31, 2008 (incorporated by reference to Exhibit 10.5 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-08430)).
10.18*	2009 McDermott International, Inc. Long-Term Incentive Plan (incorporated by reference to Appendix A to McDermott International, Inc. s Proxy Statement on Schedule 14A filed on March 27, 2009 (File No. 1-08430)).
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10.20*	Form of Restructuring Transaction Retention Agreement between McDermott International, Inc. and Michael S. Taff (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Current Report on Form 8-K filed on December 11, 2009 (File No. 1-08430)).
10.21*	Form of Restructuring Transaction Retention Agreement between McDermott International, Inc. and certain executive officers (other than Messrs. Fees or Taff) (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Current Report on Form 8-K filed on December 11, 2009 (File No. 1-08430)).

Table of Contents

Exhibit	
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10.22*	Form of Restructuring Transaction Retention Agreement between McDermott International, Inc. and certain other officers (incorporated by reference to Exhibit 10.4 to McDermott International, Inc. s Current Report on Form 8-K filed on December 11, 2009 (File No. 1-08430)).
10.23*	Form of 2009 LTIP 2010 Restricted Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.32 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-08430)).
10.24*	Form of 2009 LTIP 2010 Stock Option Grant Agreement (incorporated by reference to Exhibit 10.33 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 1-08430)).
10.25	Separation Agreement, dated as of March 23, 2010, by and between J. Ray McDermott, Inc. and Robert A. Deason (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on March 29, 2010 (File No. 1-08430)).
10.26	Assumption and Loss Allocation Agreement dated as of May 18, 2010 by and among ACE American Insurance Company and the Ace Affiliates (as defined therein), McDermott International, Inc. and Babcock & Wilcox Holdings, Inc. (incorporated by reference to Exhibit 10.6 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.27	Novation and Assumption Agreement dated as of May 18, 2010 by and among ACE American Insurance Company and the Ace Affiliates (as defined therein), Creole Insurance Company, Ltd. and Boudin Insurance Company, Ltd. (incorporated by reference to Exhibit 10.7 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.28	Novation and Assumption Agreement dated as of May 18, 2010 by and among McDermott International, Inc., Babcock & Wilcox Holdings, Inc., Boudin Insurance Company, Ltd. and Creole Insurance Company, Ltd. (incorporated by reference to Exhibit 10.8 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.29	Tax Sharing Agreement dated as of June 7, 2010 between J. Ray Holdings, Inc. and Babcock & Wilcox Holdings, Inc. (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.30	Transition Services Agreement dated as of July 2, 2010 between McDermott International, Inc. as service provider and The Babcock & Wilcox Company as service receiver (incorporated by reference to Exhibit 10.4 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.31	Transition Services Agreement dated as of July 2, 2010 between The Babcock & Wilcox Company as service provider and McDermott International, Inc. as service receiver (incorporated by reference to Exhibit 10.5 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.32	Employee Matters Agreement, dated as of July 2, 2010, among McDermott International, Inc., McDermott Investments LLC, The Babcock & Wilcox Company and Babcock & Wilcox Investment Company (incorporated by reference to Exhibit 10.1 to McDermott International, Inc. s Current Report on Form 8-K filed on July 2, 2010 (File No. 1-08430)).

Table of Contents

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10.33	Amendment to Employee Matters Agreement, dated as of August 3, 2010, among McDermott International, Inc., McDermott Investments, LLC, The Babcock & Wilcox Company and Babcock & Wilcox Investment Company (incorporated by reference to Exhibit 10.2 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.34	Amendment No. 2 to Employee Matters Agreement, dated as of August 10, 2010 among McDermott International, Inc., McDermott Investments, LLC, The Babcock & Wilcox Company and Babcock & Wilcox Investment Company (incorporated by reference to Exhibit 10.3 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 1-08430)).
10.35*	Form of Change in Control Agreement to be entered into among McDermott International, Inc., J. Ray McDermott, Inc. and Stephen M. Johnson (incorporated by reference to Exhibit 10.9 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.36*	Form of Change in Control Agreement to be entered into among McDermott International, Inc., J. Ray McDermott, Inc. and each of Perry L. Elders and certain other officers (incorporated by reference to Exhibit 10.10 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.37*	Form of Change in Control Agreement to be entered into among McDermott International, Inc., J. Ray McDermott, Inc. and each of Liane K. Hinrichs and John T. Nesser, III (incorporated by reference to Exhibit 10.11 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-08430)).
10.38*	McDermott International, Inc. Director and Executive Deferred Compensation Plan, as amended and restated November 8, 2010 (incorporated by reference to Exhibit 10.10 to McDermott International, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 1-08430)).
10.39*#	Form of 2009 LTIP Stock Option Grant Agreement for replacement grants in connection with the B&W spin-off.
10.40*#	Form of 2009 LTIP Restricted Stock Unit Grant Agreement for 2008 performance share replacement grants in connection with the B&W spin-off.
10.41*#	Form of 2009 LTIP Restricted Stock Unit Grant Agreement for 2009 performance share replacement grants in connection with the B&W spin-off
10.42*#	Form of 2009 LTIP Restricted Stock Grant Agreement for 2010 retention grants made to Messrs. Johnson and Nesser and Ms. Hinrichs.
10.43#	Rabbi Trust Agreement by and between McDermott International, Inc. and Mellon Bank, N.A., as amended as of November 18, 2010.
10.44*	Summary of Named Executive Officer 2010 Salaries and EICP Award Opportunities (incorporated by reference to Exhibit 10.17 to McDermott International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009)).
10.45*#	McDermott International, Inc. Executive Incentive Compensation Plan (as amended and restated March 1, 2011).
10.46*#	Form of 2009 LTIP 2011 Total Shareholder Return Performance Share Grant Agreement.
10.47*#	Form of 2009 LTIP 2011 Restricted Stock Unit Grant Agreement.

Table of Contents**Exhibit**

Number	Description
10.48*#	Form of 2009 LTIP 2011 Stock Option Grant Agreement.
10.49*#	Summary of Named Executive Officer 2011 Salaries and EICP Target Award Opportunities.
12.1#	Ratio of Earnings to Fixed Charges.
21.1#	Significant Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP.
31.1	Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer.
32.1	Section 1350 certification of Chief Executive Officer.
32.2	Section 1350 certification of Chief Financial Officer.
101.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan or arrangement.

Previously filed with the original Annual Report on Form 10-K for the year ended December 31, 2010.