

MCDERMOTT INTERNATIONAL INC

Form DEF 14A

April 04, 2003

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

SCHEDULE 14A

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

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

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

McDermott International, Inc.

(Name of Registrant as Specified In Its Charter)

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

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McDermott International, Inc.

Bruce W. Wilkinson
Chairman of the Board and
Chief Executive Officer

1450 Poydras Street
P.O. Box 61961
New Orleans, Louisiana 70161-1961

April 4, 2003

Dear Stockholder:

You are cordially invited to attend this year's annual meeting of stockholders of McDermott International, Inc., which will be held on Wednesday, May 7, 2003, in the Pelican I Room of the Hotel Inter-Continental, 444 St. Charles Avenue, New Orleans, Louisiana, commencing at 9:30 a.m. local time. The notice of annual meeting and proxy statement following this letter describe the matters to be acted on at the meeting.

If your shares are held of record with EquiServe Trust Company, N.A., our transfer agent and registrar, we have enclosed a proxy card for your use. You may vote these shares by completing and returning the proxy card or alternatively, calling a toll-free telephone number or using the Internet as described on the proxy card. If your shares are held by a broker or other nominee (*i.e.*, in street name), they have enclosed a voting instruction form, which you should use to vote those shares. Whether you have the option to vote those shares by telephone or via the Internet is indicated on the voting instruction form.

Your vote is important. Whether or not you plan to attend the meeting, please take a few minutes now to vote your shares. If you attend the meeting, you may change your vote at that time.

Thank you for your interest in our company.

Sincerely yours,

BRUCE W. WILKINSON

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McDERMOTT INTERNATIONAL, INC.

**1450 Poydras Street
P.O. Box 61961
New Orleans, Louisiana 70161-1961**

Notice of 2003 Annual Meeting of Stockholders

The 2003 Annual Meeting of the Stockholders of McDermott International, Inc., a Panama corporation, will be held in the Pelican I Room of the Hotel Inter-Continental at 444 St. Charles Avenue, New Orleans, Louisiana, on Wednesday, May 7, 2003, at 9:30 a.m. local time, for the following purposes:

1. To elect four Directors;
2. To approve the retention of PricewaterhouseCoopers LLP as our independent accountants for fiscal year 2003; and
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

If you were a stockholder as of the close of business on March 28, 2003, you are entitled to vote at the meeting and at any adjournment thereof.

Please indicate your vote as to the matters to be acted on at the meeting by following the instructions provided in the enclosed proxy card or voting instruction form, whether or not you plan on attending the meeting. If you attend the meeting, you may change your vote at that time.

We have enclosed a copy of our 2002 Annual Report to Stockholders with this notice and proxy statement.

By Order of the Board of Directors,

JOHN T. NESSER, III
Secretary

Dated: April 4, 2003

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GENERAL INFORMATION

We are mailing this proxy statement and accompanying proxy card to our stockholders beginning on April 4, 2003. Our Board of Directors is soliciting your proxy to vote your shares at our Annual Meeting to be held on May 7, 2003. We will bear all expenses incurred in connection with this proxy solicitation, which we expect to conduct primarily by mail. We have engaged The Proxy Advisory Group of Strategic Stock Surveillance, LLC to assist in the solicitation for a fee that will not exceed \$7,500, plus out-of-pocket expenses. In addition to solicitation by mail and by The Proxy Advisory Group of Strategic Stock Surveillance, LLC, our officers and regular employees may solicit your proxy by telephone, by facsimile transmission or in person, for which they will not be separately compensated. If your shares are held through a broker or other nominee (*i.e.*, in street name), we have requested that your broker or nominee forward this proxy statement to you and obtain your voting instructions, for which we will reimburse them for reasonable out-of-pocket expenses. If your shares are held through The Thrift Plan for Employees of McDermott Incorporated and Participating Subsidiary and Affiliated Companies (the McDermott Thrift Plan) or The Thrift Plan for Salaried Employees of Babcock & Wilcox Canada, the trustees of those plans have sent you this proxy statement and a voting instruction form, which you can use to direct the trustees on how to vote your plan shares.

VOTING INFORMATION

Record Date and Who May Vote

Our Board of Directors selected March 28, 2003 as the record date (the Record Date) for determining stockholders entitled to vote at the Annual Meeting. This means that if you were a registered stockholder with our transfer agent and registrar, EquiServe Trust Company, N.A., on the Record Date, you may vote your shares on the matters to be considered by our stockholders at the Annual Meeting. If your shares were held in street name on that date, the broker or other nominee that was the record holder of your shares has the authority to vote them at the Annual Meeting. They have forwarded to you this proxy statement seeking your instructions on how you want your shares voted.

On the Record Date, 65,090,509 shares of our common stock were outstanding. Each outstanding share of common stock entitles its holder to one vote on each matter to be acted on at the meeting.

How to Vote

You can vote your shares in person at the Annual Meeting or vote now by giving us your proxy. By giving us your proxy, you will be directing us on how to vote your shares at the meeting. Even if you plan on attending the meeting, we urge you to vote now by giving us your proxy. This will ensure that your vote is represented at the meeting. If you do attend the meeting, you can change your vote at that time. If your shares are held in street name, the broker or nominee that holds your shares has the authority to vote them and has enclosed a voting instruction form with this proxy statement. They will vote your shares as you direct on their voting instruction form. You can vote by completing the enclosed proxy card or voting instruction form and returning it in the enclosed U.S. postage prepaid envelope. If your shares are held in street name and you want to vote your shares in person at the Annual Meeting, you must obtain a valid proxy from your broker or nominee.

If your shares are held of record, you also will be able to give us your proxy by calling a toll-free telephone number or using the Internet 24 hours a day, seven days a week. If your shares are held in street name, the availability of telephone or Internet voting depends on the voting process used by the broker or nominee that holds your shares. In either case, you should refer to the instructions provided in the enclosed proxy card or voting instruction form. Telephone and Internet voting procedures have been designed to verify your identity through a personal identification or control number and to confirm that your voting instructions have been properly recorded. If you vote using either of these electronic means, you will save us return mail expense.

You may receive more than one proxy statement and proxy card or voting instruction form if your shares are held through more than one account (*e.g.*, through different brokers or nominees). Each proxy card or voting

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instruction form only covers those shares of common stock held in the applicable account. If you hold shares in more than one account, you will have to provide voting instructions as to all your accounts to vote all your shares.

How to Change Your Vote

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

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

Quorum

The Annual Meeting will be held only if a quorum exists. The presence at the meeting, in person or by proxy, of holders of a majority of our outstanding shares of common stock as of the Record Date will constitute a quorum. If you attend the meeting or vote your shares using the enclosed proxy card or voting instruction form (including any telephone or Internet voting procedures provided), your shares will be counted toward a quorum, even if you abstain from voting as to a particular matter. Broker non-votes (*i.e.*, shares held by brokers and other nominees as to which they have not received voting instructions from the beneficial owners and lack the discretionary authority to vote on a particular matter) also will count for quorum purposes.

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

We are asking you to vote on the following:

the election of Philip J. Burguieres, Ronald C. Cambre, Bruce DeMars and Bruce W. Wilkinson to Class I of our Board of Directors; and

to retain PricewaterhouseCoopers LLP as our independent accountants for fiscal year 2003.

Each proposal, including the election of directors, requires the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the matter. In the election of directors, you may vote FOR all director nominees or withhold your vote for any one or more of the director nominees. For the proposal to retain PricewaterhouseCoopers LLP as our independent accountants for fiscal year 2003, you may vote FOR or AGAINST or abstain from voting. Because abstentions are counted for purposes of determining whether a quorum is present but are not affirmative votes for a proposal, they have the same effect as an AGAINST vote. Broker non-votes will have no effect on the vote on any of the proposals.

If you submit a signed proxy card without specifying your vote, your shares will be voted FOR the election of all director nominees and the retention of PricewaterhouseCoopers as our independent accountants for fiscal year 2003. If you hold your shares in street name and you do not instruct your broker or nominee how to vote those shares, they may vote your shares as they decide as to matters for which they have discretionary authority under New York Stock Exchange rules. Shares held by a broker or other nominee as to which they have not received voting instructions from the beneficial owners and lack the discretionary authority to vote on a particular matter are called broker non-votes. While broker non-votes will be counted toward a quorum, they are not entitled to vote on, or considered present for purposes of, any matters for which the broker or nominee lacks the authority to vote. Therefore, they will have no effect on the vote on any such matter.

We are not aware of any other matters that may be presented or acted on at the meeting. If you vote by signing and returning the enclosed proxy card or using its telephone or Internet voting procedures, the individuals

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named as proxies on the card may vote your shares, in their discretion, on any other matter requiring a stockholder vote that comes before the meeting.

Confidential Voting

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

to meet any legal requirements;

in limited circumstances such as a proxy contest in opposition to our Board of Directors;

to permit independent inspectors of election to tabulate and certify your vote; or

to adequately respond to your written comments on your proxy card.

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ELECTION OF DIRECTORS

(ITEM 1)

Earlier this year our Board of Directors fixed the number of directors constituting the entire board at eight directors. Our Articles provide that if the number of directors is reduced to seven or eight, Class III shall be eliminated and the directors distributed between Classes I and II. Accordingly, our Board of Directors has been reclassified from three classes to two classes. The term of office for our Class III directors was scheduled to expire at our 2003 Annual Meeting. In connection with the reclassification, we have determined to hold the election of our Class I directors at our 2003 Annual Meeting. The term of office for our Class I directors was previously scheduled to expire at our 2004 Annual Meeting. We will hold the election of our Class II directors at our 2004 Annual Meeting. The term of office for our Class II directors was previously scheduled to expire at our 2005 Annual Meeting.

As part of the reclassification of directors, Bruce W. Wilkinson, who was appointed as a Class III Director in August 2000, was re-designated by the Board of Directors as a Class I Director, and Robert L. Howard, who was elected as a Class III Director at our 2000 Annual Meeting, was re-designated by the Board of Directors as a Class II Director. Messrs. Wilkinson and Howard were re-designated by the Board to establish an equal number of directors in each of the two classes of the Board of Directors.

Each class will continue to be as nearly equal in number as possible. The term of office for each class will expire on the date of the second annual stockholders meeting for the election of directors following the most recent election of directors for that class. Our amended and restated By-Laws also provide that (1) a person shall not be nominated for election or re-election to our Board of Directors if such person shall have attained the age of 70 prior to the date of election or re-election and (2) any director elected or re-elected at or after that Annual Meeting who attains the age of 70 during his or her term shall be deemed to have resigned and retired at the first Annual Meeting following his or her attainment of the age of 70, unless the application of this mandatory retirement provision is waived by the full Board of Directors, provided that any such waiver may only extend for one year. Although John W. Johnstone, Jr. has reached the mandatory retirement age of 70 for directors under our By-Laws, our Board of Directors waived the application of the mandatory retirement provision for a one-year period, allowing Mr. Johnstone to continue serving as a director until our Annual Meeting in 2004.

Currently, our Class I Directors are Philip J. Burguieres, Ronald C. Cambre, Bruce DeMars and Bruce W. Wilkinson. On the nomination of our Board of Directors, Messrs. Burguieres, Cambre, DeMars and Wilkinson will stand for re-election as Class I Directors at this year's Annual Meeting.

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

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Set forth below is certain information (ages are as of May 7, 2003) with respect to each nominee for election as a director and each director of our company.

Name and Principal Occupation	Age	Director Since
Class I Nominees		
Philip J. Burguieres	59	1990
<p>Mr. Burguieres is Chief Executive Officer of EMC Holdings, LLC, and Vice Chairman of the Houston Texans, a National Football League franchise. He also serves as Chairman Emeritus and as a director of Weatherford International, Inc. (a diversified international energy services and manufacturing company) and formerly served that company as its Chairman of the Board from December 1992 to May 1998 and as its President and Chief Executive Officer from April 1991 to October 1996. He is also a director of J. P. Morgan Chase Bank (formerly Chase Bank of Texas, N.A., a national banking organization) and Newfield Exploration Company.</p>		
Ronald C. Cambre	64	2000
<p>Until December 2001, Mr. Cambre was Chairman of the Board of Newmont Mining Corporation (an international mining company) from January 1995, and served as its Chief Executive Officer from November 1993 until his retirement in December 2000. He was also President of Newmont Mining Corporation from June 1994 to July 1999. Mr. Cambre is also a director of Cleveland-Cliffs Inc., W. R. Grace & Co. and Inco Limited.</p>		
Bruce DeMars	67	1997
<p>Admiral DeMars has been a Partner in RSD, LLC, a firm that introduces new products and services to industry and government, since August 2001. Previously, he was a Partner in the Trident Merchant Group and also Chief Executive Officer of the Non-Proliferation Trust, Inc. from February 1998 to June 2001. From 1988 until his retirement from the Navy in October 1996, Admiral DeMars was Director, Naval Nuclear Propulsion, a joint Department of the Navy/ Department of Energy program responsible for the design, construction, maintenance, operation and final disposal of reactor plants for the United States Navy. He is also a director of Exelon Corporation.</p>		
Bruce W. Wilkinson	58	2000
<p>Mr. Wilkinson has been Chairman of the Board and Chief Executive Officer of McDermott since August 2000. Mr. Wilkinson also served as President and Chief Operating Officer of McDermott from April 2000 to August 2002 and President and Chief Operating Officer of our subsidiary J. Ray McDermott, S.A. from July 2002 to February 2003. Previously, he was: Principal of Pinnacle Equity Partners, L.L.C. (a private equity group) from May 1999 to April 2000; Chairman and Chief Executive Officer of Chemical Logistics Corporation (a company formed to consolidate chemical distribution companies) from April 1998 to April 1999; President and Chief Executive Officer of Tyler Corporation (a diversified manufacturing and service company) from April 1997 to October 1997; Interim President and Chief Executive Officer of Proler International, Inc. (a ferrous metals recycling company) from July 1996 to December 1996; Chairman and Chief Executive Officer of CRSS, Inc. (a global engineering and construction services company) from October 1989 to March 1996; and President and Chief Executive Officer of CRSS, Inc. from 1982 to 1989. He is also a director of Cooper Cameron Corporation.</p>		

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Name and Principal Occupation	Age	Director Since
Class II Directors		
Joe B. Foster	68	1999
<p>Mr. Foster has been Nonexecutive Chairman of the Board of Newfield Exploration Company (an oil and gas exploration company) since 1989. He served as Chief Executive Officer of Newfield Exploration Company from January 1989 to January 2000. From January 2000 to August 2000, he served as Interim Chairman of the Board, President and Chief Executive Officer of Baker Hughes Incorporated (an oilfield services company). He was also Executive Vice President of Tenneco Inc. from 1981 to 1988 and a director of Tenneco Inc. from 1983 to 1988. Mr. Foster is a past Chairman of the National Petroleum Council and has been a member of the Offshore Committee of the Independent Petroleum Association of America. Mr. Foster is also a director of New Jersey Resources Corporation.</p>		
Robert L. Howard	66	1997
<p>Until his retirement in March 1995, Mr. Howard was Vice President Domestic Operations, Exploration and Production of Shell Oil Company, and President of Shell Western Exploration and Production Inc. from 1992, and President of Shell Offshore, Inc. from 1985. He is also a director of Southwestern Energy Company and Ocean Energy, Inc.</p>		
John W. Johnstone, Jr.	70	1995
<p>Until his retirement in May 1996, Mr. Johnstone was Chairman of the Board from 1988 and Chief Executive Officer from 1987 of Olin Corporation (a manufacturer and supplier of chemicals, metals, defense-related products and services, and ammunition). He is also a director of Fortune Brands, Inc., The Phoenix Companies, Inc. and Arch Chemicals, Inc.</p>		
Richard E. Woolbert	69	1996
<p>Until his retirement in January 1999, Mr. Woolbert was Executive Vice President and Chief Administrative Officer of McDermott from February 1995. Previously, he was Senior Vice President and Chief Administrative Officer of McDermott from August 1991.</p>		

Board of Directors and Its Committees

Our Board of Directors maintains the following committees:

Audit Committee. Our Audit Committee currently consists of Messrs. Foster (Chairman), Cambre, DeMars and Johnstone, all of whom meet the independence requirements of the New York Stock Exchange. During fiscal year 2002, the Audit Committee met seven times. The Audit Committee's role is financial oversight. Our management is responsible for preparing financial statements, and our independent auditors are responsible for auditing those financial statements. The Audit Committee is not providing any expert or special assurance as to our financial statements or any professional certification as to the independent auditor's work. The following functions are the key responsibilities of the Audit Committee in carrying out its oversight:

recommending the appointment of our independent auditors to the Board of Directors;

reviewing the scope of the independent auditors' examination and the scope of activities of our internal audit department;

reviewing our financial policies and accounting systems and controls and our audited financial statements and interim financial statements;

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preparing a report for inclusion in our proxy statement regarding its review of our audited financial statements for the last fiscal year, which report includes a statement on whether it recommended that the Board include those financial statements in our Annual Report on Form 10-K for such fiscal year;

approving and ratifying the duties and compensation of our independent auditors, both for audit and non-audit services; and

reviewing and assessing, on an annual basis, the adequacy of the Audit Committee's charter and recommending revisions to the Board.

The committee also reviews our compliance with its guidelines and policies relative to business conduct and ethics. The committee meets separately with the independent auditors and with members of the internal audit staff, outside the presence of management or other employees of ours, to discuss matters of concern, to receive recommendations or suggestions for change and to exchange relevant views and information. The Audit Committee and the Board of Directors are ultimately responsible for the selection, evaluation and replacement of the independent auditors.

Our Board has adopted a written charter for the Audit Committee. A copy of the Charter, which was amended and restated earlier this year, is attached as an appendix to this proxy statement.

Nominating & Governance Committee. Our Nominating & Governance Committee currently consists of Messrs. Burguieres (Chairman), Foster, Howard and Woolbert. During fiscal year 2002, the Nominating & Governance Committee met two times. This committee recommends to our Board of Directors (1) for approval and adoption, the qualifications, term limits and nomination and election procedures relating to our directors, and (2) nominees for election to our Board of Directors. This committee will consider individuals recommended by stockholders for nomination as directors in accordance with the procedures described under "Stockholders' Proposals."

Compensation Committee. Our Compensation Committee currently consists of Messrs. Howard (Chairman), Cambre, DeMars and Johnstone. During fiscal year 2002, the Compensation Committee met five times. The Compensation Committee (1) determines the salaries of all our officers elected to their positions by our Board of Directors, and reviews and makes recommendations regarding the salaries of officers of our subsidiaries, (2) administers and makes awards under our stock, incentive compensation and supplemental compensation plans and programs, and (3) monitors and makes recommendations relating to our and our subsidiaries' various employee benefit plans, such as retirement and pension plans, thrift plans, health and medical plans, and life, accident and disability insurance plans.

Directors' Attendance and Compensation

Directors' Attendance and Fees; Insurance. During fiscal year 2002, our Board of Directors held ten meetings. Each incumbent director attended 75% or more of the aggregate number of meetings of the Board and of the committees on which he served. Employee directors are not paid for their services as directors or as members of any committee of the Board. All other directors are compensated as follows:

an annual stipend of \$28,000;

a fee of \$2,500 for each Board meeting personally attended and a fee of \$1,000 for each Board meeting in which such director participates by telephone;

the chairman of each Board committee receives an annual fee of \$3,000;

each other member of a Board committee receives an annual fee of \$2,500; and

each committee member also receives a fee of \$1,650 for each committee meeting personally attended and a fee of \$1,000 for each committee meeting in which such director participates by telephone.

We also provide travel accident insurance and health care benefits to nonemployee directors under the same terms and conditions applicable to our employees.

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Directors Stock Plans. In addition to the fees and benefits provided to our directors described above, we currently have a directors stock plan under which we have granted stock options and issued restricted stock to our nonemployee directors. A maximum of 100,000 shares of our common stock may be issued under the 1997 Director Stock Program, which we adopted and our stockholders approved in 1997. Under this directors stock plan:

each nonemployee director is granted options to purchase 900 shares of our common stock on the first day of the first year of such director's term and 300 shares on the first day of any subsequent year of such term;

the options are granted at the fair market value of our common stock (average of high and low trading price) on the date of grant, become fully exercisable six months after the date of grant, and remain exercisable for ten years after the date of grant;

each nonemployee director is also granted rights to purchase 450 restricted shares of our common stock on the first day of the first year of such director's term and 150 restricted shares on the first day of any subsequent year of such term at \$1.00 per share;

the shares of restricted stock are subject to transfer restrictions and forfeiture provisions, which generally lapse at the end of a director's term;

if a change in control of our company occurs, all transfer restrictions and forfeiture provisions on the shares of restricted stock will lapse and all outstanding stock options will become immediately exercisable; and

we granted 4,200 options to acquire common stock and 1,950 shares of restricted stock during fiscal year 2002.

In addition, a maximum of 3,000,000 shares of our common stock may be issued to executives, key employees, nonemployee directors and consultants under our 2001 Directors and Officers Long-Term Incentive Plan (the 2001 LTIP), which we adopted and our stockholders approved in 2002. Under this plan:

options, restricted stock, performance units and deferred stock units may be granted, from time to time, to directors in such number, and on such terms, as the Compensation Committee or the Board of Directors may determine;

any options granted must have an exercise price that is not less than the fair market value of our common stock (average of high and low trading prices) on the date of grant;

the Compensation Committee or the Board of Directors determines when the options become exercisable and the duration of the options, provided that no option may be exercisable later than the tenth anniversary of the date of grant;

any shares of restricted stock, performance units and deferred stock units granted are subject to such vesting restrictions, transfer restrictions and forfeiture provisions as the Compensation Committee or the Board of Directors establishes;

the Compensation Committee or the Board of Directors determines the treatment of awards in the event of a change in control of our company on an individual award basis; and

we granted 500 shares of restricted stock to each nonemployee director during fiscal year 2002.

Grant of Deferred Stock Units to Ronald C. Cambre. On January 31, 2002, we made a one-time grant of 5,000 deferred stock units (DSUs) to Ronald C. Cambre. That grant was identical to DSU grants we made to our other directors in fiscal year 2000. Under the terms of the DSU grant, each DSU represents the right to receive one share of our common stock upon vesting, which is the earlier of the third anniversary of the grant date (if Mr. Cambre is still serving as a member of the Board) or the termination of his service as a Board member due to death, total and permanent disability, or approved retirement; provided that the receipt of shares underlying the DSU grant may be deferred by him for tax reasons. DSUs do not carry voting or cash dividend rights until vested and the underlying shares of common stock are issued; provided that they will accrue dividend equivalents in the form of additional DSUs if and when dividends are declared and paid on our common stock.

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EXECUTIVE OFFICERS

Set forth below is the age (as of May 7, 2003), the principal positions held with McDermott or certain subsidiaries, and certain other business experience information for each of our executive officers who is not a director of McDermott.

Louis W. Burkart, 53, Vice President, Internal Audit of the Company since August 2002. Previously, he was: Director, Internal Audit from April 2002 to August 2002; Director, Environmental Safety, Health & Risk Management from May 1999 to April 2002; and Director, Corporate Insurance and Risk Management from June 1994 to May 1999.

Robert A. Deason, 57, President and Chief Operating Officer of our subsidiary J. Ray McDermott, S.A. since March 2003. Previously, he was: Vice President, Operations for Fluor Corporation from March 1999 to January 2003; and Vice President, Project Management Production, Pipelines & Marine Services for Fluor Corporation from June 1997 to March 1999.

James R. Easter, 46, Vice President, Finance and Treasurer of the Company since September 2002. Previously, he was: Assistant Treasurer of McDermott from May 2002 to September 2002; Vice President in the Retail Energy Solutions Group of Reliant Resources, Inc. from December 2000 to May 2002; associated with Industrial Growth Partners LP, a private equity fund, from January 2000 to December 2000; Vice President, Finance Origination of the Asia Pacific Group of Enron International, Inc., a subsidiary of Enron Corp., from June 1999 to January 2000; and a Director in the Risk Control Group of Enron Corp. from January 1996 to June 1999.

John A. Fees, 45, President and Chief Operating Officer of our subsidiary BWX Technologies, Inc. since September 2002. Previously, he was President and General Manager of BWXT Services, Inc., a subsidiary of BWX Technologies, from September 1997 to November 2002.

Thomas A. Henzler, 49, Vice President and Corporate Controller of McDermott since May 2001 and Vice President and Controller of J. Ray McDermott, S.A. since August 2002. Previously, he was Vice President Tax Administration of McDermott from September 1989 to May 2001.

Francis S. Kalman, 55, Executive Vice President and Chief Financial Officer of McDermott since February 2002. Previously, he was: Senior Vice President and Chief Financial Officer of Vector ESP, Inc. from March 2000 to February 2002; Principal of Pinnacle Equity Partners, LLC from April 1999 to March 2000; Executive Vice President and Chief Financial Officer of Chemical Logistics Corporation from February 1998 to April 1999; and Senior Vice President and Chief Financial Officer of Keystone International, Inc. from May 1996 to September 1997.

David L. Keller, 49, President and Chief Operating Officer of our subsidiary The Babcock & Wilcox Company (B&W) since January 2002. Previously, he was: Executive Vice President and Chief Operating Officer of B&W from March 2001 to January 2002; Senior Vice President, Service Group of B&W from February 2001 to March 2001; President of Diamond Power International, Inc. from March 1998 to February 2001; and General Manager of Diamond Power International from February 1997 to March 1998.

John T. Nesser, III, 54, Executive Vice President, General Counsel and Corporate Secretary of McDermott since February 2001. Previously, he was: Senior Vice President, General Counsel and Corporate Secretary of McDermott from January 2000 to February 2001; Vice President and Associate General Counsel of McDermott from June 1999 to January 2000; and Associate General Counsel of McDermott from October 1998 to June 1999. Previously, he served as a managing partner of Nesser, King & LeBlanc, a New Orleans law firm, which he co-founded in 1985.

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Fred R. Oehrlein, 58, Executive Vice President, Western Hemisphere, of our subsidiary J. Ray McDermott, S.A. since December 2002. Previously, he was: Executive Vice President, Operations of J. Ray McDermott from August 2002 to December 2002; Vice President and General Manager, Project Services & Compliance of J. Ray McDermott from February 1999 to July 2002; and Vice President and Group Executive, Western Hemisphere of J. Ray McDermott from April 1998 to January 1999.

Louis J. Sannino, 54, Senior Vice President, Human Resources and Corporate Compliance Officer of McDermott since October 2000. Previously, he was: Vice President, Human Resources of McDermott from November 1998 to October 2000; and Director, Human Resources of McDermott from April 1989 to November 1998.

Table of Contents**SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth the number of shares of our common stock beneficially owned as of March 1, 2003 by each director or nominee as a director, and each Named Executive Officer (as that term is defined under the caption Compensation of Executive Officers) and all our directors and executive officers as a group, including shares which those persons have the right to acquire within 60 days on the exercise of stock options.

Name	Shares Beneficially Owned
Philip J. Burguieres(1)	88,700
Ronald C. Cambre(2)	7,488
Bruce DeMars(3)	12,534
John A. Fees(4)	111,522
Joe B. Foster(5)	23,175
Robert L. Howard(6)	17,560
John W. Johnstone, Jr.(7)	17,705
Francis S. Kalman(8)	124,334
David L. Keller(9)	86,299
John T. Nesser, III(10)	220,796
Robert H. Rawle(11)	283,036
Bruce W. Wilkinson(12)	723,378
E. A. Womack, Jr.(13)	283,624
Richard E. Woolbert(14)	197,449
All directors and executive officers as a group (20 persons)(15)	2,601,824

- (1) Shares owned by Mr. Burguieres include 9,800 shares of common stock that he may acquire on the exercise of stock options, as described above, and 1,100 restricted shares of common stock as to which he has sole voting power but no dispositive power.
- (2) Shares owned by Mr. Cambre include 6,325 shares of common stock that he may acquire on the exercise of stock options, as described above, and 1,100 restricted shares of common stock as to which he has sole voting power but no dispositive power.
- (3) Shares owned by Admiral DeMars include 8,350 shares of common stock that he may acquire on the exercise of stock options, as described above, and 1,100 restricted shares of common stock as to which he has sole voting power but no dispositive power.
- (4) Shares owned by Mr. Fees include 64,591 shares of common stock that he may acquire on the exercise of stock options, as described above, and 41,061 restricted shares of common stock as to which he has sole voting power but no dispositive power. Also includes 3,287 shares of common stock held in the McDermott Thrift Plan.
- (5) Shares owned by Mr. Foster include 7,450 restricted shares of common stock that he may acquire on the exercise of stock options, as described above, and 950 restricted shares of common stock as to which he has sole voting power but no dispositive power.
- (6) Shares owned by Mr. Howard include 9,077 shares of common stock that he may acquire on the exercise of stock options, as described above, and 1,250 restricted shares of common stock as to which he has sole voting power but no dispositive power.
- (7) Shares owned by Mr. Johnstone include 9,800 shares of common stock that he may acquire on the exercise of stock options, as described above, and 1,400 restricted shares of common stock as to which he has sole voting power but no dispositive power.
- (8) Shares owned by Mr. Kalman include 53,334 shares of common stock that he may acquire on the exercise of stock options, as described above, and 60,000 restricted shares of common stock as to which he has sole

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voting power but no dispositive power. Also includes 11,000 shares held by a family limited partnership, of which he and his wife are the two sole general and limited partners. Mr. Kalman disclaims beneficial ownership of the 11,000 shares held by that family limited partnership, except to the extent of his pecuniary interest.

- (9) Shares owned by Mr. Keller include 57,670 shares of common stock that he may acquire on the exercise of stock options, as described above, and 25,898 restricted shares of common stock as to which he has sole voting power but no dispositive power. Also includes 2,731 shares of common stock held in the McDermott Thrift Plan.
- (10) Shares owned by Mr. Nesser include 133,433 shares of common stock that he may acquire on the exercise of stock options, as described above, and 76,009 restricted shares of common stock as to which he has sole voting power but no dispositive power. Also included 2,354 shares of common stock held in the McDermott Thrift Plan.
- (11) Shares owned by Mr. Rawle include 160,591 shares of common stock that he may acquire on the exercise of stock options, as described above, and 81,621 restricted shares of common stock as to which he has sole voting power but no dispositive power. Also includes 3,311 shares of common stock held in the McDermott Thrift Plan.
- (12) Shares owned by Mr. Wilkinson include 440,167 shares of common stock that he may acquire on the exercise of stock options, as described above, and 221,906 restricted shares of common stock as to which he has sole voting power but no dispositive power. Also includes 1,305 shares of common stock held in the McDermott Thrift Plan.
- (13) Shares owned by Mr. Womack include 162,844 shares of common stock that he may acquire on the exercise of stock options, as described above, and 84,032 restricted shares of common stock as to which he has sole voting power but no dispositive power. Also includes 3,983 shares of common stock held in the McDermott Thrift Plan.
- (14) Shares owned by Mr. Woolbert include 126,027 shares of common stock that he may acquire on the exercise of stock options, as described above, and 950 restricted shares of common stock as to which he has sole voting power but no dispositive power. Also includes 5 shares of common stock held in a custodial account for an immediate family member under the Uniform Gifts to Minors Act as to which Mr. Woolbert disclaims beneficial ownership.
- (15) Shares owned by all directors and executive officers as a group include 1,480,101 shares of common stock that may be acquired on the exercise of stock options, as described above, and 653,173 restricted shares of common stock as to which they have sole voting power but no dispositive power. Also includes 28,303 shares of common stock held in the McDermott Thrift Plan.

Shares beneficially owned in all cases constituted less than one percent of the outstanding shares of common stock, except that the 723,378 shares of common stock beneficially owned by Mr. Wilkinson constituted approximately 1.11% and the 2,601,824 shares of common stock beneficially owned by all directors and executive officers as a group constituted approximately 3.92% of the outstanding shares of common stock on March 1, 2003, in each case as determined in accordance with Rule 13d-3(d)(1) under the Securities Exchange Act of 1934.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following table furnishes information concerning all persons known by us to beneficially own 5% or more of our outstanding shares of common stock, which is our only class of voting stock outstanding:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Common Stock	Merrill Lynch & Co., Inc. World Financial Center, North Tower 250 Vesey Street New York, NY 10381	5,918,998(2)	9.11%
Common Stock	Wellington Management Company, LLP 75 State Street Boston, MA 02109	4,542,700(3)	6.99%
Common Stock	Al A. Gonsoulin 4655 Sweetwater Blvd., Suite 300 Sugar Land, TX 77479	4,000,000(4)	6.16%
Common Stock	Vanguard Fiduciary Trust Company, in its capacity as trustee for certain employee benefit plan(s) 500 Admiral Nelson Blvd. Malvern, PA 19355	3,868,243(5)	5.95%

(1) Percent of class based on the outstanding shares of our common stock on March 1, 2003.

(2) As reported on a Schedule 13G dated January 9, 2003.

(3) As reported on a Schedule 13G dated December 31, 2002.

(4) As reported on an amendment to Schedule 13G dated April 29, 2002.

(5) As reported on a Schedule 13G dated February 10, 2003.

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COMPENSATION COMMITTEE REPORT

To Our Stockholders

The Compensation Committee is comprised of four independent, nonemployee directors who have no interlocking relationships with McDermott. This Committee exists to develop executive compensation policies that support McDermott's strategic business objectives and values. Our duties include:

Reviewing and approving the design of McDermott's executive compensation programs and all salary arrangements that its executives receive;

Assessing the effectiveness of McDermott's executive compensation programs in light of its compensation policies; and

Evaluating executive performance.

Compensation Philosophy

We adhere to an executive compensation philosophy that supports McDermott's business strategies. These strategies are to:

Maximize profits;

Increase stockholder value;

Strengthen cash flow and liquidity;

Resolve B&W's asbestos-related Chapter 11 reorganization proceeding in a timely and effective manner;

Reinforce operating discipline and excellence in each of McDermott's operating groups; and

Pursue internal and external initiatives for growth.

Our philosophy for executive compensation is to:

Manage compensation opportunities from a total compensation perspective that emphasizes at-risk compensation, while balancing short-term and long-term compensation to support McDermott's business and financial strategic goals;

Structure compensation opportunities that are contingent on performance measures that drive growth and, to the extent possible, are fully competitive;

Reflect positive, as well as negative, company and individual performance in pay;

Emphasize equity-based compensation for McDermott executives to reinforce management's focus on stockholder value;

Structure compensation programs that are flexible and focus, as appropriate, on issues that are unique to individuals and business groups; and

Provide pay opportunities that will attract and retain executive talent.

McDermott's executives participate in a comprehensive compensation program built around this philosophy. The key components of this program include base salary, annual bonus opportunities, long-term, equity-based incentives (stock options, restricted stock and performance units) and benefits.

To ensure that its executive compensation levels are comparable to the practices of other similar companies, McDermott annually collects and reviews compensation data from several external sources. This data covers both specific industries in which McDermott competes and

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general industry. The industry-specific comparison is collected using a group of companies that have national and international business operations and sales volumes, market capitalizations, employment levels, and one or more lines of business that are comparable to McDermott s. We review and approve the selection of companies used for this purpose. The general industry comparison

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group includes more companies than the peer group used in the performance graph included in this proxy statement.

The Committee engaged the Apogee/ Management Compensation Group, an executive compensation consulting firm, to assist in revising McDermott's executive compensation program to more clearly reflect a total compensation approach. Under this approach, McDermott's executive compensation program focuses on competitive opportunities that are contingent upon the achievement of operational and financial performance goals. Individual opportunities are formulated by giving consideration to the executive's position in the Company, individual accountabilities, corporate and unit objectives and compensation practices in the competitive marketplace.

Base Salary

Generally, salaries reflect an individual's level of responsibility, prior experience, breadth of knowledge, personal contributions, position within McDermott's executive structure and market pay practices. Overall, salaries are targeted at or near the median of market practice, with annual adjustments based on performance. When making annual adjustments, we conduct a qualitative assessment that considers many factors, including individual performance, both past and present. The factors used in making this evaluation may vary by individual and by position.

As part of the review conducted by Apogee/ Management Compensation Group, a thorough analysis was performed to compare current executive salaries with comparable industry benchmarks. The analysis determined that our salaries were generally within 10% of the market median considered to be fully competitive. As a result, we did not grant across-the-board salary increases to McDermott's executives in 2002. Instead, we focused on a new structure for annual cash incentives and an increased emphasis on long-term incentives.

During fiscal year 2002, Bruce W. Wilkinson served as McDermott's Chief Executive Officer. During the year, Mr. Wilkinson's base salary was increased by 20% to \$600,000. Effective January 1, 2003, his salary was increased by 8.3% to \$650,000. These adjustments reflect both assessments of competitive practices and the Compensation Committee's evaluation of Mr. Wilkinson's performance.

Annual Bonus

As part of the short-term component of McDermott's overall executive compensation program for the year ended December 31, 2002, we provided bonus opportunities to officers and key executives through McDermott's Executive Incentive Compensation Plan (the EICP).

For the year ended December 31, 2002, we provided annual bonus opportunities that focused on objectives that drive earnings and growth. Key employees at McDermott's corporate headquarters and business groups whose effective performance can have a reasonable impact on McDermott's tactical and strategic initiatives participated in the EICP. Each participant had a target award, expressed as a percentage (or multiplier) of their base annual salary. Business plan performance measures and individual performance measures were defined at the beginning of the year. A threshold, target and maximum level of performance was defined for each business plan measure. Target performance results in eligibility for payment of 100% of the targeted amount. Performance below the target, but above the threshold amount, and performance above the target, would result in a decreased or increased payout, respectively. Bonuses of up to 200% of individual target awards may be earned under the EICP.

Given the nature of the operating losses encountered by McDermott's J. Ray McDermott marine unit, attainment of the threshold performance and financial measures were not achieved for 2002. However, the resulting management restructuring has consumed much attention and has made satisfactory progress. Consequently, we approved and paid special bonuses to selected corporate staff and J. Ray McDermott executives who, under the terms of the EICP, would not have otherwise received incentive compensation. The awards, which were a fraction of the individuals' target awards, were approved as a result of our assessment that these individuals performed commendably in 2002, relative to their individual performance measures, and their contributions merited recognition. Under this special bonus arrangement, Mr. Wilkinson received a \$144,000 bonus for the year

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ended December 31, 2002. Executives at McDermott's BWXT Group and B&W Group earned and received bonuses greater than their targeted bonus amounts under the EICP.

Long-Term Incentives

McDermott believes that the interests of its stockholders are best served when a significant percentage of officers' compensation opportunities is comprised of equity-based incentives that acquire value contingent upon increases in the share price of McDermott's common stock and other indicators that reflect improvements in business fundamentals. In determining the size and frequency of individual long-term incentive awards, the Committee considers:

market practices among similar companies;

level of responsibility;

individual performance; and

the potential of the grant recipient to affect future outcomes.

The Committee does not apply any specific weighting of these factors in its determinations.

In 2002, McDermott awarded executives and key employees with equity-based incentives through the 1996 Officer Long-Term Incentive Plan and 2001 Directors and Officers Long-Term Incentive Plan (the 2001 LTIP). It is McDermott's intention to review compensation opportunities annually and to make awards under its long-term plans at such times and in such amounts as may be required to accomplish the objectives described above.

Stock Options. Stock options are granted to McDermott's executives to provide an equity-based incentive component to their compensation. In 2002, McDermott granted stock options at exercise prices equal to the fair market value of the underlying common stock on the date of grant.

During the year ended December 31, 2002, McDermott granted Mr. Wilkinson options to acquire 200,000 shares of common stock at an exercise price of \$14.50 per share. These options vest one-third on each of the first three anniversaries of the date of grant and have a term of 10 years.

Performance Shares. In recent years, we granted to McDermott executives performance stock awards of restricted stock (Performance Shares) based on salary multiples corresponding to their titles and positions with McDermott and its subsidiaries. Performance Shares were awarded as notional grants of restricted stock. No shares were issued at the time of the notional grant. The number of shares of restricted stock actually received by a participant, if any, is determined on the second anniversary of the grant date by calculating the difference between the fair market value of a share of our common stock (based on the preceding 30-trading-day average) and the fair market value on the grant date. The difference is multiplied by the number of shares in an executive's notional grant, and the resulting product is divided by the fair market value of our common stock as of the second anniversary of the grant date, calculated as described above. The resulting number is added to (in the case of an increase in share price) or subtracted from (in the case of a decrease in share price) the number of share