MCDERMOTT INTERNATIONAL INC
Form DEF 14A
December 12, 2005

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Under 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)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: N/A

(2) Aggregate number of securities to which transaction applies: N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A

(4) Proposed maximum aggregate value of transaction: N/A

(5) Total fee paid: N/A

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

McDermott International, Inc.

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

December 13, 2005

Dear Stockholder:

We invite you to attend a special meeting of stockholders of McDermott International, Inc., which we have called to ask our stockholders to consider and vote on a resolution relating to the proposed settlement of the Chapter 11 proceedings involving The Babcock & Wilcox Company, a significant subsidiary of McDermott. We have scheduled this meeting to take place on Wednesday, January 18, 2006, at 757 N. Eldridge Parkway, Houston, Texas 77079, on the 14th floor, commencing at 10:00 a.m. local time. The accompanying proxy statement provides information about the proposed settlement. You should consider this information, including the discussion of the risks associated with the proposed settlement which appears beginning on page 15, before voting on the proposed resolution. **Our Board of Directors has unanimously approved the proposed settlement and unanimously recommends that you vote FOR the adoption of the proposed resolution.**

If EquiServe Trust Company, N.A., our transfer agent and registrar, holds your shares of record, 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 a broker or other nominee holds your shares in street name, it has enclosed a voting instruction form, which you should use to vote those shares. The voting instruction form indicates whether you have the option to vote those shares by telephone or by using the Internet.

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

Thank you for your interest in our company.

Sincerely yours,

BRUCE W. WILKINSON

Table of Contents

McDermott International, Inc.

Notice of Special Meeting of Stockholders

A special meeting of the stockholders of McDermott International, Inc., a Panamanian corporation, will be held at 757 N. Eldridge Parkway, Houston, Texas 77079, on the 14th floor, on Wednesday, January 18, 2006, at 10:00 a.m. local time, for the following purpose:

To consider and vote on the adoption of a resolution to:

authorize and approve the settlement contemplated by the proposed settlement agreement relating to the Chapter 11 bankruptcy proceedings involving The Babcock & Wilcox Company, a significant subsidiary of McDermott, in substantially the form attached to the accompanying proxy statement, with such modifications or changes as the Board of Directors of McDermott may approve; and

authorize and approve McDermott s execution and delivery of, and performance under, the proposed settlement agreement, in substantially the form attached to the accompanying proxy statement, with such modifications or changes as the Board of Directors of McDermott may approve.

The accompanying proxy statement sets forth the proposed resolution under the caption The Special Meeting General. Appendix A to the accompanying proxy statement includes a copy of the proposed settlement agreement.

If you were a stockholder as of the close of business on December 9, 2005, you are entitled to vote at the meeting and at any adjournment thereof.

Please indicate your vote by following the instructions the enclosed proxy card or voting instruction form provides, whether or not you plan on attending the meeting.

By Order of the Board of Directors,

JOHN T. NESSER, III
Secretary

Dated: December 13, 2005

TABLE OF CONTENTS

Table of Contents

Summary

The following discussion summarizes information relating to the proposed resolution we describe below. You should carefully read this entire proxy statement and the other documents to which it refers you for more complete information relating to that resolution. For instructions on obtaining more information, see Where You Can Find More Information on page 78. As used in this proxy statement, the terms we, us and our refer to McDermott International, Inc. and its subsidiaries, unless the context otherwise indicates or we otherwise state.

The Proposed Resolution (see page 18)

Background. The Board of Directors of McDermott International, Inc., a Panamanian corporation (McDermott), has called a special meeting of stockholders of McDermott (the Special Meeting) and is soliciting proxies of McDermott s stockholders for a vote at the Special Meeting on a resolution relating to a new proposed settlement agreement (the Proposed Settlement Agreement) that would resolve the Chapter 11 proceedings involving The Babcock & Wilcox Company, a Delaware corporation (B&W), an indirect wholly owned subsidiary of McDermott, and three of B&W s subsidiaries, as debtors (collectively with B&W, the Chapter 11 Debtors). Those proceedings are pending in the United States Bankruptcy Court for the Eastern District of Louisiana (the Bankruptcy Court). The Proposed Settlement Agreement reflects several significant changes from the settlement contemplated by the previously negotiated settlement agreement approved by McDermott s stockholders at a special meeting held on December 17, 2003 (the Previously Negotiated Settlement Agreement). Specifically, the Proposed Settlement Agreement:

- reflects substantial changes to the form and amount of consideration to be contributed to a trust (the Asbestos PI Trust) to be formed under the laws of Delaware to pay asbestos-related personal injury claims against B&W and its subsidiaries (the B&W Entities);

- contemplates the implementation of a mechanism that would potentially limit the consideration to be contributed to the Asbestos PI Trust, so that, if the recently proposed U.S. federal asbestos claims-resolution legislation (referred to as the Fairness in Asbestos Injury Resolution Act of 2005 or the FAIR Act) or similar U.S. federal legislation is enacted and becomes law on or prior to a negotiated deadline (November 30, 2006), the Proposed Settlement Agreement would result in cash outflows that we believe are reasonably comparable to the cash outflows we would anticipate, in the absence of a settlement, under the proposed legislation in its current form; and

- provides for B&W and its subsidiaries to remain as indirect subsidiaries of McDermott.

The Chapter 11 Debtors filed for protection under Chapter 11 of the U.S. Bankruptcy Code on February 22, 2000, in response to increases in the amounts being demanded to settle asbestos-related personal injury claims, which put an extraordinary strain on B&W s historical claims resolution process, left B&W with no practicable means of resolving the claims through out-of-court settlement and threatened B&W s financing capability and long-term prospects. The Chapter 11 Debtors took this action as a means to determine and comprehensively resolve all pending and future asbestos-related liability claims against them. After the filing, an asbestos claimants committee (the ACC) was formed to represent the rights of asbestos-related personal injury claimants, and the Bankruptcy Court appointed a future claimants representative (the FCR) to represent the rights of persons who might subsequently assert future asbestos-related personal injury claims.

The Previously Negotiated Settlement. Following the Chapter 11 filing, we engaged in lengthy negotiations with the ACC, the FCR, the Chapter 11 Debtors and their respective representatives to reach a settlement and a consensual joint plan of reorganization for the Chapter 11 proceedings. By late 2003, those negotiations resulted in the Previously Negotiated Settlement Agreement.

Table of Contents

Under the terms of the Previously Negotiated Settlement Agreement and the related joint plan (the Previously Negotiated Joint Plan), the Asbestos PI Trust would have been funded by contributions of:

- all the capital stock of B&W;
- 4.75 million shares of common stock of McDermott, with a guaranty from McDermott that those shares would have a value of no less than $19 per share on the third anniversary of the date of issuance;
- $92 million aggregate principal amount of promissory notes of one of McDermott s significant subsidiaries, McDermott Incorporated, a Delaware corporation (MI), guaranteed by McDermott, bearing interest at 7.5% annually, with payments to be made ratably over an 11-year term; and
- rights to excess insurance coverage to be assigned by McDermott and most of its subsidiaries, with an aggregate face amount of available limits of coverage of approximately $1.15 billion.

As part of the consideration for these contributions, McDermott and its subsidiaries would have been entitled to the protection of a channeling injunction, which would have channeled all pending and future B&W-related asbestos personal injury claims to the Asbestos PI Trust for resolution and the Asbestos PI Trust would have indemnified McDermott and its subsidiaries from any liabilities associated with those claims.

The Previously Negotiated Settlement Agreement and Previously Negotiated Joint Plan also contemplated the formation of a separate trust for the benefit of holders of claims against B&W for nuclear-related personal injuries allegedly arising from the operation of two nuclear fuel processing facilities in Apollo and Parks Township, Pennsylvania (the Apollo/ Parks Township Claims). That trust would have been funded primarily through a cash contribution of approximately $2.8 million and assignments of applicable insurance rights. McDermott and its subsidiaries would have been entitled to the protection of a channeling injunction, which would have channeled all pending and future Apollo/ Parks Township Claims to that trust for resolution, and that trust would have indemnified McDermott and its subsidiaries from any liabilities associated with those claims.

Although McDermott s stockholders approved the Previously Negotiated Settlement Agreement at the December 17, 2003 special meeting, that approval was expressly conditioned on the subsequent approval of the Previously Negotiated Settlement Agreement by McDermott s Board of Directors within 30 days prior to the effective date of the Previously Negotiated Joint Plan. The McDermott Board s decision on whether to approve the Previously Negotiated Settlement Agreement was to be made after consideration of any developments that might occur prior to the effective date, including any changes in the status of any potential federal legislation concerning asbestos liabilities. McDermott s Board of Directors has not yet taken that requisite approval under consideration because progress towards an effective date for the Previously Negotiated Joint Plan has been impeded by various procedural objections and appeals on the part of: (1) American Nuclear Insurers relating to insurance coverage for Apollo/ Parks Township Claims and (2) insurers whose policies cover asbestos personal injury claims who have not settled with the Chapter 11 Debtors, McDermott, the ACC and the FCR. As a result, the Previously Negotiated Settlement Agreement has not been executed and delivered by the parties to the negotiations, and, beginning in January 2005, we, together with the ACC, the FCR, the Chapter 11 Debtors and their respective representatives, began discussions about alternative means to expedite the resolution of the Chapter 11 proceedings on a mutually acceptable basis. Those discussions led to the Proposed Settlement Agreement.

Key Terms of the Proposed Settlement. Under the terms of the Proposed Settlement Agreement and a related plan of reorganization the Chapter 11 Debtors, the ACC, the FCR and MI, as plan proponents, have jointly proposed (the Proposed Joint Plan), we would retain our ownership of the equity interests in B&W and its subsidiaries and the Asbestos PI Trust would be funded by contributions of:

- $350 million in cash, which would be paid by MI or one of its subsidiaries on the effective date of the Proposed Joint Plan;

Table of Contents

an additional contingent cash payment of $355 million, which would be payable by MI or one of its subsidiaries within 180 days of November 30, 2006, but only if the condition precedent described below is satisfied, which amount would be payable with interest accruing on that amount at 7% per year from December 1, 2006 to the date of payment; and

a note issued by B&W in the aggregate principal amount of $250 million (the B&W Note), bearing interest at 7% annually on the outstanding principal balance from and after December 1, 2006, with a five- year term and annual principal payments of $50 million each, commencing on December 1, 2007, provided that, if the condition precedent described below is not satisfied, only $25 million principal amount of the B&W Note would be payable (with the entire $25 million amount due on December 1, 2007). B&W s payment obligations under the B&W Note would be fully and unconditionally guaranteed by McDermott and Babcock & Wilcox Investment Company, a Delaware corporation (BWICO), a wholly owned subsidiary of MI. The guarantee obligations of BWICO and McDermott would be secured by a pledge of all of B&W s capital stock outstanding as of the effective date of the Proposed Joint Plan.

McDermott and most of its subsidiaries would also contribute to the Asbestos PI Trust substantially the same insurance rights as were to be contributed to the Asbestos PI Trust under the Previously Negotiated Settlement Agreement. Those insurance rights relate to numerous insurance policies that have an aggregate face amount of available limits of coverage of approximately $1.15 billion. See Description of the Proposed Settlement Agreement Creation of the Asbestos PI Trust and Contribution of Assets. As a result, the proposed settlement would eliminate substantially all of our excess insurance coverage for the period from April 1, 1979 to April 1, 1986, which we would only partially surrender under the proposed FAIR Act.

The Proposed Settlement Agreement includes a mechanism that would potentially limit the consideration to be contributed to the Asbestos PI Trust if the FAIR Act or similar U.S. federal legislation is enacted and becomes law. Specifically, the Proposed Settlement Agreement provides that the right to receive the $355 million contingent payment (the Contingent Payment Right) would vest and amounts under the B&W Note in excess of $25 million would be payable only upon satisfaction of the condition precedent that neither the FAIR Act nor any other U.S. federal legislation designed to resolve asbestos-related personal injury claims through the implementation of a national trust shall have been enacted and become law on or before November 30, 2006 (the Condition Precedent). The Proposed Settlement Agreement further provides that:

if such legislation is enacted and becomes law on or before November 30, 2006 and is not subject to a legal proceeding as of January 31, 2007 which challenges the constitutionality of such legislation (any such proceeding is referred to as a Challenge Proceeding), the Condition Precedent would be deemed not to have been satisfied, and no amounts would be payable under the Contingent Payment Right and no amounts in excess of $25 million would be payable under the B&W Note; and

if such legislation is enacted and becomes law on or before November 30, 2006, but is subject to a Challenge Proceeding as of January 31, 2007, the Condition Precedent would be deemed not to have been satisfied and any rights with respect to the Contingent Payment Right and payments under the B&W Note in excess of $25 million would be suspended until either:

(1) there has been a final, nonappealable judicial decision with respect to the Challenge Proceeding to the effect that such legislation is unconstitutional as generally applied to debtors in Chapter 11 proceedings whose plans of reorganization have not yet been confirmed and become substantially consummated (*i.e.*, debtors that are similarly situated to B&W as of September 1, 2005), so that such debtors would not be subject to such legislation, in which event the Condition Precedent would be deemed to have been satisfied, and the Contingent Payment Right would vest and the B&W Note would become fully payable pursuant to its terms (in each case subject to the protection against double payment provisions described below); or

Table of Contents

(2) there has been a final nonappealable judicial decision with respect to the Challenge Proceeding which resolves the Challenge Proceeding in a manner other than as contemplated by the immediately preceding clause, in which event the Condition Precedent would be deemed not to have been satisfied and no amounts would be payable under the Contingent Payment Right and no amounts in excess of $25 million would be payable under the B&W Note.

The Proposed Settlement Agreement also includes provisions to provide some protection against double payment so that, if the FAIR Act or similar U.S. federal legislation is enacted and becomes law after November 30, 2006, or the Condition Precedent is otherwise satisfied (in accordance with the provisions described in clause (1) above), any payment McDermott or any of its subsidiaries may be required to make pursuant to the legislation on account of asbestos-related personal injury claims against any of the B&W Entities would reduce, by a like amount:

first, the amount, if any, then remaining payable pursuant to the Contingent Payment Right; and

next, any then remaining amounts payable pursuant to the B&W Note.

Under the Proposed Settlement Agreement and the Proposed Joint Plan, the Apollo/ Parks Township Claims will not be channeled to a trust, as contemplated by the Previously Negotiated Settlement Agreement and the Previously Negotiated Joint Plan. Rather, the Apollo/ Parks Township Claims would remain the responsibility of the Chapter 11 Debtors and will not be impaired under the terms of the Proposed Joint Plan in its current form. While the Proposed Settlement has been structured in a manner to permit all disputes relating to the Apollo/ Parks Township Claims and the associated insurance coverage to be resolved after the Proposed Joint Plan has been confirmed and becomes effective, B&W, representatives of the claimants in the pending litigation related to the Apollo/ Parks Township Claims and ARCO have negotiated an agreement in principle that reflects a proposed settlement of present Apollo/Parks Township Claims, including those that are the subject of the Hall Litigation (as defined in The Proposed Settlement Background of the Proposed Settlement Apollo/Parks Township Claims). The agreement in principle, which has been memorialized in a term sheet, contemplates, among other things, that: (1) B&W and ARCO will be provided full and complete releases from each of the Apollo/ Parks Township Releasors (which will be defined in a definitive settlement agreement generally to mean the existing claimants in this litigation and related pending litigation); (2) ARCO will make a $27.5 million cash payment to the Apollo/ Parks Township Releasors upon the effective date of the Proposed Joint Plan; (3) B&W will make a $47.5 million cash payment to the Apollo/ Parks Township Releasors upon the effective date of the Proposed Joint Plan; (4) B&W will make a $12.5 million payment to the Apollo/ Parks Township Releasors upon the third anniversary of the effective date of the Proposed Joint Plan; and (5) B&W and ARCO will retain all insurance rights, including without limitation with respect to the claims of the Apollo/ Parks Township present claimants who are not Apollo/ Parks Township Releasors and with respect to any future Apollo/ Parks Township Claims. We intend to seek reimbursement from our nuclear insurers for all amounts that would be paid by B&W under the proposed settlement. Our nuclear insurers have refused to fund the proposed settlement of this litigation and have indicated that, while they do not anticipate objecting to the terms of the Proposed Joint Plan, they will object to the proposed settlement of this litigation unless the settlement does not prejudice our nuclear insurers in any subsequent litigation brought by us seeking reimbursement from them.

The Proposed Settlement Agreement contemplates that the Proposed Joint Plan must become effective, on a final, nonappealable basis, no later than February 22, 2006 or such later date as we, the ACC and the FCR may agree to (the Effective Date Deadline). The Proposed Settlement Agreement further contemplates that, if the effective date of the Proposed Joint Plan has not occurred by that date, and is not extended by the ACC, the FCR and us, acting together, then the settlement contemplated by the Proposed Settlement Agreement will be abandoned and the parties will resume their efforts to effect the settlement contemplated by the Previously Negotiated Settlement Agreement and the Previously Negotiated Joint Plan.

Table of Contents

Benefits of the Proposed Settlement. The benefits we expect to obtain from the proposed settlement include the following:

B&W and its subsidiaries would remain as indirect subsidiaries of McDermott, and we would include the results of their operations in our consolidated results of operations, and (subject to ordinary restrictions on accessing cash flows of subsidiaries) we would regain access to the cash flows of B&W and its subsidiaries and be in a position to benefit from the strengths of the B&W Entities, as described under Information About B&W and Its Subsidiaries Business ;

the Asbestos PI Trust would indemnify McDermott and its subsidiaries against asbestos-related personal injury claims (other than workers compensation claims) attributable to the business and operations of the B&W Entities;

McDermott and its subsidiaries, including the B&W Entities, would receive the protection of a channeling injunction under Section 524(g) of the U.S. Bankruptcy Code, which would channel all pending and future asbestos-related personal injury claims (other than workers compensation claims) attributable to the business and operations of the B&W Entities to the Asbestos PI Trust;

McDermott s captive insurance subsidiaries, which provided insurance coverage to the B&W Entities for specified risks, and/or reinsured against specified risks, would generally be entitled to the same indemnification and channeling injunction protections as described above;

the ACC and the FCR would terminate their appeal of a favorable ruling by the Bankruptcy Court validating a corporate reorganization we completed in 1998, which involved B&W s cancellation of a $313 million intercompany note receivable and transfers of substantial assets from B&W to BWICO, including transfers of all the capital stock of several operating subsidiaries; and

the likely acceleration of B&W s emergence from bankruptcy, because the proposed settlement does not involve some of the complexities that were reflected in the previously negotiated settlement and removes the bases for objection by various parties.

The protections to be provided to us with regard to asbestos-related liabilities would apply only to liabilities attributable to the business and operations of the B&W Entities and would not apply to any asbestos-related liabilities for which McDermott or any of its other subsidiaries may otherwise have responsibility. See Description of the Proposed Settlement Agreement.

U.S. Federal Income Tax Considerations of the Proposed Settlement. We have provided a description of the material U.S. federal income tax consequences to MI and its subsidiaries of the proposed settlement under the caption The Proposed Settlement Material U.S. Federal Income Tax Considerations Relating to the Proposed Settlement, beginning on page 37 of this proxy statement.

As discussed more fully in that section, the proposed settlement should generate significant U.S. federal income tax deductions associated with the contributions to be made by MI and its subsidiaries to the Asbestos PI Trust. The Asbestos PI Trust is expected to qualify as a qualified settlement fund under Section 468B of the Internal Revenue Code, as was contemplated by the prior settlement. In order to qualify as a qualified settlement fund, the Asbestos PI Trust must be:

established pursuant to an order of, or approved by, the United States, any state, territory, possession, or political subdivision thereof, or any agency or instrumentality (including a court of law) of any of the foregoing and be subject to the continuing jurisdiction of that governmental authority;

established to resolve or satisfy one or more contested or uncontested claims that have resulted or may result from an event (or related series of events) that has occurred and that has given rise to at least one claim asserting liability arising out of, among other things, a tort, breach of contract, or violation of law; and

a trust under applicable state law, or its assets must otherwise be physically segregated from other assets of the transferor (and related persons).

Table of Contents

Assuming that qualification, with respect to the initial $350 million to be contributed to the Asbestos PI Trust on or after the effective date of the Proposed Joint Plan, the associated U.S. federal income tax deductions will be taken as and when such payment to the Asbestos PI Trust is made. Similarly, with respect to the $355 million to be paid pursuant to the Contingent Payment Right and payments of principal on the B&W Note, the associated U.S. federal income tax deductions will be taken as and when such payments to the Asbestos PI Trust are made.

Neither MI nor any of its subsidiaries will be entitled to a deduction to the extent that the Asbestos PI Trust is funded through insurance proceeds or the proposed transfer of rights under insurance policies.

Any deductions for payments made to the Asbestos PI Trust first would reduce or eliminate the U.S. federal taxable income of MI s consolidated group for the taxable year in which the payments are made. To the extent these deductions created a taxable loss for such year, the loss would constitute a net operating loss. In general, net operating losses may be carried back and deducted two years and carried forward 20 years. To the extent a net operating loss is a specified liability loss, however, it may be carried back and deducted ten years. A taxpayer may elect to waive the entire carryback period with respect to a net operating loss or may elect to waive only the additional eight years of carryback afforded net operating losses attributable to specified liability losses.

A net operating loss constitutes a specified liability loss to the extent it is attributable to products liability or to expenses incurred in the investigation or settlement of, or opposition to, claims against the taxpayer on account of products liability. Any net operating loss resulting from payments to the Asbestos PI Trust should constitute a specified liability loss and accordingly would qualify for the ten-year carryback period.

For a discussion of how these tax consequences contrast to the U.S. federal income tax consequences of the previously negotiated settlement, see The Proposed Settlement Material U.S. Federal Income Tax Considerations Relating to the Proposed Settlement.

Risks Associated with the Proposed Settlement. Some of the risks associated with the proposed settlement include the following:

- the risk that, if our stockholders adopt the proposed resolution and the Proposed Joint Plan becomes effective, we may not be able to take advantage of any subsequently enacted federal legislation which addresses the resolution of asbestos-related personal injury claims throughout the United States in a manner that would be less costly to us than the proposed settlement, except to the extent we may be relieved of the contingent payment obligations pursuant to the Proposed Settlement Agreement if that legislation becomes law on or prior to November 30, 2006, by virtue of the Condition Precedent failing to be satisfied;

- the risks associated with the Contingent Payment Right and the B&W Note, including the substantial contingent payment obligations and the potential impact of those obligations on our liquidity and our access to capital; and

- the risks associated with continuing ownership of the B&W Entities, including the risk of impairments in our investments in the B&W Entities arising from (1) the operational risks associated with their business, (2) the significant pension liabilities of the B&W Entities (which are described in note 8 to the financial statements of B&W and its subsidiaries included in this proxy statement), or (3) contingent liabilities associated with their operations (including the contingent liabilities discussed in note 10 to the financial statements of B&W and its subsidiaries included in this proxy statement, many of which would not be discharged pursuant to the Proposed Joint Plan).

On the other hand, if our stockholders do not adopt the proposed resolution, or if the Proposed Joint Plan does not become effective, on a final, nonappealable basis, on or before the Effective Date Deadline for any other reason, the Proposed Settlement Agreement contemplates that, unless the ACC, the FCR and we agree to extend that deadline, the settlement contemplated by the Proposed Settlement Agreement

Table of Contents

will be abandoned and those parties will resume their efforts to effect the settlement contemplated by the Previously Negotiated Settlement Agreement and the Previously Negotiated Joint Plan. However, as discussed above, there have been various objections, appeals and uncertainties that have impeded the progress of that previously negotiated settlement, and there is substantial uncertainty as to whether that settlement would be consummated. If neither settlement is consummated, the Bankruptcy Court would be faced with the decision of how the Chapter 11 cases should proceed, and, under those circumstances, the Bankruptcy Court would likely consider the following alternatives:

continuation of the Chapter 11 proceedings until another plan of reorganization is confirmed and becomes effective;

appointment of a trustee to assume the administration of the Chapter 11 proceedings outside of the control of management of the Chapter 11 Debtors, potentially followed by a conversion or dismissal of the Chapter 11 proceedings as described below;

conversion of the Chapter 11 proceedings to liquidation proceedings under Chapter 7 of the U.S. Bankruptcy Code; or

dismissal of the Chapter 11 proceedings.

In the case of each of these alternatives, we would continue to be subject to substantial risks and uncertainties associated with the pending and future asbestos-related liabilities and other liabilities of B&W and the other Chapter 11 Debtors. Any one of these alternatives could ultimately result in the return to the courts of the approximately 300,000 asbestos-related personal injury and related-party claims, as well as a substantial number of asbestos-related property damage claims, which are currently pending and proposed to be resolved through the proposed settlement. Each of these alternatives could also result in the resumption of litigation relating to the corporate reorganization we completed in 1998. As a result of these risks and uncertainties, we cannot predict the outcome if the proposed settlement fails; however, any such outcome could have a material and adverse impact on us and the market value of our common stock. See Risk Factors.

Conditions. There are numerous conditions to the proposed settlement, including that the Proposed Joint Plan must be confirmed and become effective. The Proposed Joint Plan sets forth various conditions to confirmation, including various required findings of fact and conclusions of law by the Bankruptcy Court or the United States District Court for the Eastern District of Louisiana (the District Court), as well as the approval of the proposed resolution by our stockholders, with the requisite vote as described below under The Special Meeting Vote Required for Approval. The Proposed Joint Plan also establishes various conditions that must be satisfied after its confirmation and before it will become effective. These conditions include, among others, the following:

Specified court orders, including a confirmation order and an order or orders entering specified injunctions, including the channeling injunction to channel asbestos-related claims (other than workers compensation claims) attributable to the business or operations of the B&W Entities to the Asbestos PI Trust, must have been entered or affirmed by the District Court, and those orders must have become final and nonappealable and those injunctions must be in full force and effect. The failure to resolve disputes with remaining objectors, including the objecting insurers, could materially hinder satisfaction of this condition.

The District Court must have issued findings to the effect that the Proposed Joint Plan complies with the requirements of the U.S. Bankruptcy Code, including the requirements of Section 524(g) of the U.S. Bankruptcy Code.

The applicable parties to the documents ancillary to the Proposed Joint Plan, to implement the proposed settlement and the other provisions of the Proposed Joint Plan, must have executed and delivered those documents.

Table of Contents

The Chapter 11 Debtors must have obtained new financing arrangements, or an extension of their existing financing arrangements, to support their operations on their exit from the Chapter 11 proceedings.

The ACC and the FCR must have dismissed with prejudice their appeal from the decision in the adversary proceeding relating to the corporate reorganization we completed in 1998.

The Proposed Settlement Agreement must not have been terminated pursuant to its terms, which provide that the agreement may be terminated: (1) by mutual consent of the parties; (2) by the ACC, the FCR or us if McDermott stockholder approval of the Proposed Settlement Agreement has not been obtained on or before January 31, 2006; (3) by McDermott, if its Board of Directors determines that a material adverse change has occurred in either the financial condition, assets or operations of the B&W Entities or national or international general business or economic conditions that obligates the McDermott Board to terminate the Proposed Settlement Agreement to avoid a breach of its fiduciary duties; or (4) by the ACC, the FCR or us if the Proposed Joint Plan has not become effective, on a final, nonappealable basis, on or before the Effective Date Deadline.

While it is possible that conditions to confirmation or effectiveness may be waived, any such waiver would require unanimous agreement among the plan proponents. See Description of the Proposed Settlement Agreement Conditions.

Accordingly, even assuming adoption of the proposed resolution at the Special Meeting, we can provide no assurance that the Proposed Joint Plan will be confirmed and become effective and that the proposed settlement will be consummated.

The Proposed Resolution. We are asking you to consider and vote on the adoption of a resolution relating to the Proposed Settlement Agreement. The proposed resolution would:

authorize and approve the settlement contemplated by the Proposed Settlement Agreement, in substantially the form attached to this proxy statement as Appendix A, with such modifications or changes as our Board of Directors may later approve; and

authorize and approve McDermott s execution and delivery of, and performance under, the Proposed Settlement Agreement, in substantially the form attached to this proxy statement as Appendix A, with such modifications or changes as our Board of Directors may later approve.

The proposed resolution is set forth below under the caption The Special Meeting General. Appendix A to this proxy statement includes a copy of the Proposed Settlement Agreement.

Timetable for Confirmation of the Proposed Joint Plan. The Proposed Joint Plan is subject to ongoing confirmation proceedings, in the following sequence. First, the Bankruptcy Court will oversee the plan confirmation process. As part of that process, on November 10, 2005, the Bankruptcy Court approved the adequacy of a disclosure statement and procedures to be followed in connection with a vote to be taken among various impaired classes of creditors with respect to the Proposed Joint Plan. The balloting will be completed on December 16, 2005. The Bankruptcy Court will begin a hearing on confirmation of the Proposed Joint Plan on December 22, 2005. The Bankruptcy Court will then prepare written proposed factual findings and legal conclusions that would be submitted to the District Court. Thereafter, the District Court may oversee additional hearings and briefing and may issue a plan confirmation order. If the District Court confirms the Proposed Joint Plan, one or more parties may appeal the District Court s confirmation order to the U.S. Court of Appeals for the Fifth Circuit in appellate proceedings that could extend beyond the Effective Date Deadline.

The Special Meeting (see page 18)

Time, Date and Place. We will hold the Special Meeting on January 18, 2006, at 757 N. Eldridge Parkway, Houston, Texas 77079, on the 14th floor, commencing at 10:00 a.m. local time.

Table of Contents

Record Date and Who May Vote. Only holders of record of our common stock as of the close of business on December 9, 2005 will be entitled to notice of and to vote at the Special Meeting. On that date, 71,709,770 shares of our common stock were outstanding. Each share of our common stock entitles its holder to one vote on all matters properly coming before the Special Meeting.

How to Vote. You can vote your shares where indicated by the instructions set forth on the proxy card, including by the Internet or by telephone, or you can attend and vote your shares at the Special Meeting.

How to Change Your Vote. You may change your vote by submitting notice to the Corporate Secretary as described in this proxy statement or by attending the Special Meeting and voting in person. If you have instructed a broker or bank to vote your shares, follow the directions you receive from your broker or bank to change those instructions.

Quorum. A majority of our outstanding shares of common stock must be present in person or represented by proxy to constitute a quorum at the Special Meeting.

Vote Required for Approval. The affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the Special Meeting is required to approve the proposed resolution, provided that, in order for the vote to be effective, the number of shares of our common stock for which votes are cast in favor of the proposed resolution must represent at least 50% of the voting power of all of the shares of our common stock outstanding and entitled to vote on the proposed resolution.

Recommendation of Our Board of Directors (see page 35)

Our Board of Directors has unanimously approved the proposed settlement and recommends that you vote FOR the adoption of the proposed resolution. For a discussion of the factors our Board of Directors considered in determining to make its recommendation, see The Proposed Settlement Recommendation of the Board.

Table of Contents

Questions and Answers About the Proposed Settlement and the Special Meeting

Questions About the Proposal

Q: What are we being asked to approve?

A: You will be asked to consider and vote on the adoption of a resolution relating to the Proposed Settlement Agreement. The proposed resolution would:

authorize and approve the settlement contemplated by the Proposed Settlement Agreement, in substantially the form attached to this proxy statement as Appendix A, with such modifications or changes as our Board of Directors may later approve; and

authorize McDermott s execution and delivery of, and performance under, the Proposed Settlement Agreement, in substantially the form attached to this proxy statement as Appendix A, with such modifications or changes as our Board of Directors may later approve.

The proposed resolution is set forth below under the caption The Special Meeting General.

Q: Is a stockholder vote necessary to consummate the proposed settlement?

A: Yes. The Proposed Settlement Agreement requires, as a condition to its effectiveness, the approval of the Proposed Settlement Agreement by the affirmative vote of a majority of the shares of McDermott common stock present in person or represented by proxy at the Special Meeting and entitled to vote on the matter, provided that, in order for the vote to be effective, the number of shares of McDermott common stock for which votes are cast in favor of the proposal must represent at least 50% of the voting power of all of the shares of McDermott common stock outstanding and entitled to vote on the matter. See The Special Meeting Vote Required and How Votes Are Counted. In the context of negotiating the Proposed Settlement Agreement, we insisted on this stockholder approval condition to the effectiveness of the proposed settlement because the McDermott Board of Directors determined that, given the significance of the proposed settlement, and the substantial differences in the proposed settlement from the previously approved settlement, subjecting the Proposed Settlement Agreement to stockholder approval was appropriate. McDermott s Board also determined that imposing this stockholder approval requirement was consistent with the statement we made in the proxy statement we issued in connection with the December 17, 2003 special meeting, to the effect that we would resolicit the vote of McDermott s stockholders if we amended, or proposed to waive a condition to the effectiveness of, the Previously Negotiated Joint Plan and such amendment or waiver would be material to McDermott s stockholders.

Q: In view of the proposed legislation being considered by the U.S. Senate and House of Representatives to resolve pending and future asbestos-related personal injury claims in the United States, why are we being asked to vote on the proposed resolution now?

A: There is substantial uncertainty as to whether the FAIR Act or similar U.S. federal legislation will ever be presented for a vote or passed by the U.S. Senate or House of Representatives, or whether it will become law. However, with the entire payment obligation under the Contingent Payment Right and all payment obligations in excess of $25 million under the B&W Note being subject to the satisfaction of the Condition Precedent, the settlement contemplated by the Proposed Settlement Agreement includes a mechanism that would potentially limit the consideration to be contributed to the Asbestos PI Trust, so that, if the FAIR Act or similar U.S. federal legislation is enacted and becomes law on or prior to November 30, 2006, the proposed settlement would result in cash outflows that we believe are reasonably comparable to the cash outflows we would anticipate having to make under the FAIR Act in its current form. You should note, however, that the proposed settlement would

eliminate substantially all of our excess insurance coverage for the period from April 1, 1979 to April 1, 1986, which we would only partially surrender under the proposed FAIR Act.

Table of Contents

Although the November 30, 2006 cutoff date for legislative relief under the Proposed Settlement Agreement reflects a negotiated compromise, our management believes that the prospects for enactment of the FAIR Act or similar U.S. federal legislation after that date would be substantially more uncertain than they are currently, particularly given the difficulties associated with passage of significant U.S. federal legislation in the year prior to a Presidential election. This compromise, together with the other compromises embodied in the Proposed Settlement Agreement, reflects the view of McDermott s management and Board of Directors that some of the benefits of the proposed settlement over the previously negotiated settlement might not continue to be available if the prospects for adoption of the FAIR Act or similar U.S. federal legislation begin to fade or if the objections and appeals that have been impeding the progress of the Previously Negotiated Joint Plan toward an effective date are resolved over an extended period of time or in a manner other than through the implementation of the settlement contemplated by the Proposed Settlement Agreement. Given the uncertainty associated with the FAIR Act, McDermott s management and Board of Directors believe the settlement contemplated by the Proposed Settlement Agreement represents an appropriate compromise to ensure that the equity ownership of B&W and its subsidiaries will remain with McDermott, to expedite the resolution of the B&W Chapter 11 proceedings (which have already extended for almost six years) and to enable compensation to flow to claimants who have suffered the impact of asbestos-related injuries.

Q: What will happen if the proposed resolution is not approved?

A: If the proposed resolution is not approved at the Special Meeting, or if the Proposed Joint Plan does not become effective, on a final, nonappealable basis, on or before the Effective Date Deadline for any other reason, the Proposed Settlement Agreement contemplates that, unless the ACC, the FCR and we agree to extend that deadline, the settlement contemplated by the Proposed Settlement Agreement will be abandoned and those parties will resume their efforts to effect the settlement contemplated by the Previously Negotiated Settlement Agreement and the Previously Negotiated Joint Plan. However, there have been various objections, appeals and uncertainties that have impeded the progress of that previously negotiated settlement, and there is substantial uncertainty as to whether that settlement would be consummated. If neither settlement is consummated, the Bankruptcy Court would be faced with the decision of how the Chapter 11 cases should proceed, and, under those circumstances, the Bankruptcy Court would likely consider the following alternatives:

continuation of the Chapter 11 proceedings until another plan of reorganization is confirmed and becomes effective;

appointment of a trustee to assume the administration of the Chapter 11 proceedings outside of the control of management of the Chapter 11 Debtors, potentially followed by a conversion or dismissal of the Chapter 11 proceedings as described below;

conversion of the Chapter 11 proceedings to liquidation proceedings under Chapter 7 of the U.S. Bankruptcy Code; or

dismissal of the Chapter 11 proceedings.

Our Board of Directors considered each of these alternatives in determining to recommend the proposed resolution for adoption by our stockholders. In the case of each of these alternatives, McDermott would continue to be subject to various risks and uncertainties associated with the pending and future asbestos-related liabilities of B&W and the other Chapter 11 Debtors (in the absence of federal legislation that comprehensively resolves those liabilities). These risks and uncertainties include potential future rulings by the Bankruptcy Court, the District Court or other courts that could be adverse to us and the risks and uncertainties associated with appeals from the rulings issued by the Bankruptcy Court relating to the corporate reorganization we completed in 1998,

which involved transfers of substantial assets from B&W to BWICO, and other matters. See Risk Factors and The Proposed Settlement Background of the Proposed Settlement Alternatives to the Proposed Settlement Agreement.

Table of Contents

Q: What factors did the Board of Directors take into consideration in making its determination to recommend the proposed resolution? Why has the Board recommended that I vote to approve the proposed resolution?

A: In determining to approve the proposed settlement and make its recommendation, the Board considered the substantial benefits we would derive from the proposed settlement, including the benefits we have outlined above under Summary The Proposed Resolution Benefits of the Proposed Settlement. The Board also considered the uncertainty as to whether the FAIR Act will ever become law and the Condition Precedent included in the Proposed Settlement Agreement, which would potentially limit the consideration to be contributed to the Asbestos PI Trust if the FAIR Act or similar U.S. federal legislation is enacted and becomes law on or before November 30, 2006. The Board also considered the factors discussed under Risk Factors and the alternatives discussed under The Proposed Settlement Background of the Proposed Settlement Alternatives to the Proposed Settlement Agreement, each of which would result in our continuing to be subject to substantial risks and uncertainties associated with the pending and future asbestos-related liabilities and other liabilities of B&W and the other Chapter 11 Debtors. The Board also considered the exclusion of workers compensation claims from the indemnification and channeling injunction provisions of the proposed settlement, together with management s estimate that the ongoing exposure of the B&W Entities and our captive insurance companies to those claims would not give rise to material losses in the foreseeable future. In addition, the Board considered the need to bring the Chapter 11 proceedings to a close, given the fact that the Chapter 11 proceedings have required significant amounts of attention from our senior management and have resulted in substantial uncertainties for our customers, suppliers and financing sources, as well as in the market for our common stock and other securities.

Q: What are the risks associated with retaining ownership of the B&W Entities?

A: If the proposed settlement is consummated, and as a result we retain our ownership in B&W, our investment in the B&W Entities could be impaired as a result of future incidents arising from operational risks associated with the businesses of the B&W Entities. The B&W Entities also have substantial pension liabilities (as described in note 8 to the financial statements of B&W and its subsidiaries included in this proxy statement). In addition, the B&W Entities are currently subject to claims for various contingent liabilities that would not be discharged pursuant to the Proposed Joint Plan, including present and future Apollo/ Parks Township Claims, the claims by Iroquois Falls Power Corp. and various other claims, as discussed in note 10 to the financial statements of B&W and its subsidiaries included in this proxy statement. In addition, it is possible that certain other contingent liabilities, including any such liabilities to Citgo Petroleum Corporation and PDV Midwest Refinery L.L.C., ultimately may not be discharged pursuant to the Proposed Joint Plan. Citgo Petroleum and PDV Midwest Refinery have asserted that their claims will not be discharged by the Chapter 11 Proceedings. Furthermore, even though asbestos-related personal injury claims in jurisdictions outside the United States are purported to be channeled to, and covered by an indemnification from, the Asbestos PI Trust pursuant to the channeling injunction contemplated by the Proposed Joint Plan and the indemnification provisions of the Proposed Settlement Agreement, it is possible that, if the channeling were not enforced with respect to such claims by courts in such jurisdictions and the assets of the Asbestos PI Trust were insufficient to cover its indemnification with respect to such claims, the B&W Entities could, in the future, become subject to liability for such claims, which liability could be significant. Although the B&W Entities will indemnify McDermott and its other subsidiaries from all the contingent liabilities of the B&W Entities pursuant to the Proposed Settlement Agreement (as would have been the case under the Previously Negotiated Settlement Agreement), any material loss suffered by any of the B&W Entities relating to any of those contingent liabilities (whether directly or as a result of their indemnification obligations to McDermott and its other subsidiaries) could have a material adverse impact on us, particularly by impairing our investment in, or reducing the profitability, cash flows or value

Table of Contents

of, the B&W Entities. See Risk Factors If the proposed settlement is consummated, and as a result we retain our ownership in B&W, our investment in the B&W Entities could be impaired as a result of future incidents arising from (1) operational risks associated with the businesses of the B&W Entities, (2) the significant pension liabilities of the B&W Entities or (3) the contingent liabilities associated with their operations.

Q: What will be the accounting treatment for the proposed settlement?

A: As a result of the Chapter 11 filing, beginning on February 22, 2000, we stopped consolidating the results of operations of the B&W Entities in our financial statements and we began accounting for our investment in B&W under the cost method. The Chapter 11 filing, along with subsequent filings and negotiations, led to increased uncertainty with respect to the amounts, means and timing of the ultimate settlement of B&W s asbestos-related claims and the recovery of our investment in B&W. Due to this increased uncertainty, we wrote off our net investment in B&W in the quarter ended June 30, 2002. The total impairment charge of $224.7 million included our investment in B&W of $187.0 million and other related assets totaling $37.7 million, primarily consisting of accounts receivable from B&W, for which we provided an allowance of $18.2 million.

On December 19, 2002, in connection with the filing of drafts of the third amended joint plan and related settlement agreement in the Chapter 11 proceedings, we determined that a liability related to the previously negotiated settlement was probable and that the amount of that liability was reasonably estimable. Accordingly, as of December 31, 2002, we established an estimate for the cost of the previously negotiated settlement of $110 million, including tax expense of $23.6 million, reflecting the present value of our contemplated contributions to the trusts. The estimate had been adjusted from 2002 through June 30, 2005 based on the provisions of the previously negotiated settlement, and a liability was recorded totaling $146.7 million. As of September 30, 2005, we no longer evaluated our liability based on the previously negotiated settlement, as we feel it is no longer probable. Under the terms of the proposed settlement, MI would be allowed to maintain its equity in B&W and would consolidate its operations as of the effective date of the settlement. Based upon the proposed settlement, upon a reconsolidation of B&W, we intend to account for the difference between the carrying amount of our investment in B&W and B&W s net assets in a manner similar to a step acquisition by applying the guidelines of Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations.* See The Proposed Settlement Accounting Treatment of the Proposed Settlement. For a description of the pro forma effects of the proposed settlement using that accounting treatment, see Unaudited Pro Forma Financial Information of McDermott.

Questions About Voting

Q: When and where is the Special Meeting?

A: The Special Meeting will be held on January 18, 2006 at 757 N. Eldridge Parkway, Houston, Texas 77079, on the 14th floor, commencing at 10:00 a.m. local time.

Q: Who is entitled to vote at the Special Meeting?

A: Only holders of record of our common stock as of the close of business on December 9, 2005 will be entitled to notice of and to vote at the Special Meeting. On that date, 71,709,770 shares of our common stock were outstanding.

Q: How do I vote?

A: If your shares are held of record with EquiServe Trust Company, N.A., our transfer agent and registrar, you can vote your shares where indicated by the instructions set forth on the proxy card, including by the Internet or telephone, or you can attend and vote your shares at the Special Meeting. 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 by using the Internet is indicated on the voting instruction form.

Table of Contents