NATURE OF THE ACTION

1. This is a securities class action on behalf of a class of all persons who purchased the publicly-traded common stock of Defendant McDermott International, Inc. (hereinafter “McDermott” or the “Company”) between February 27, 2008 and November 5, 2008, inclusive (the “Class” or the “Class Period”), for violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934.

SUMMARY OF CLAIMS

2. As more particularly alleged below, Defendants made a series of material misrepresentations concerning the profitability of the Company’s reported “backlog” in the Offshore Oil and Gas Construction segment of its J. Ray McDermott subsidiary, the business segment responsible for nearly two-thirds of McDermott’s total net income during fiscal year 2007. During the Class Period, Defendants repeatedly reported the amount of its “backlog,” which the Company defined as the amount of revenue that the Company was contractually entitled to recognize as revenue under its existing construction contracts. During the Class Period, Defendants repeatedly represented that...
the Company’s reported backlog for the Offshore Oil and Gas Construction segment was profitable, and that the profit margins for the work underlying that backlog were at least 10% - 12%. As alleged below, however, Defendants concealed the known, material, adverse fact that the pipeline installation work underlying approximately $1.4 billion of that backlog, attributable to three pipeline installation contracts in Qatar – projects referred to as “Ras Gas Phase II,” “Qatar Gas 3 and 4,” and “Shell Pearl GTL” (collectively, the “Three Qatar Projects”), could not be performed profitably due to events that had already taken place.

3. Specifically, when—in 2005, 2006 and 2007—J. Ray fixed its prices for the work to be performed in connection with the Three Qatar Projects, it determined that the only way that J. Ray could derive any profit from the $1.4 billion in revenue under the Three Qatar Projects would be if J. Ray was able to perform its work during certain months in the Spring and Summer of 2008 (the “Peak Season”). Prior to and throughout the Class Period, however, Defendants knew that the work underlying the $1.4 billion in backlog under the Three Qatar Projects could not be performed profitably, because several events had already taken place which made it impossible for J. Ray to perform the work underlying the approximately $1.4 billion of J. Ray’s backlog during the Peak Season.

4. As Defendants acknowledged, and as confirmed by confidential witnesses, as alleged below, J. Ray had already fallen behind on other pipeline installation contracts in 2007 that were monopolizing the pipe-laying derrick barge (“Derrick Barge”) that J. Ray was going to use for the Three Qatar Projects. Moreover, prior to and during the Class Period, J. Ray’s pipe-laying derrick barges were in very poor working condition
and in need of extensive repairs, which the Board of Directors refused to authorize, and the barges were frequently inoperable, causing additional delays. As discussed below, Defendants concealed the fact that these material delays prevented J. Ray from being able to perform the work under the Three Qatar Projects during the Peak Season, and misrepresented that delays in performing its contracts would not affect the profitability of its work on these contracts. As Defendants also admitted, Defendants concealed the fact that the Company was 300 days behind schedule on its work under the Three Qatar Projects.

5. As confirmed by confidential witnesses and discussed below, Defendants also concealed the fact that J. Ray was behind schedule to conduct the pipeline installation work for the Three Qatar Projects during the Peak Season because of manufacturing delays at J. Ray’s Jebel Ali manufacturing facility. As discussed below, these significant manufacturing delays were caused by a material shortage of employees, a lack of manufacturing facilities and space, and pipeline welding defects that further prevented the Company from being able to conduct the pipeline installation work on the Three Qatar Projects during the Peak Season. To make matters even worse, in the Spring of 2008, the profitability of the work underlying the $1.4 billion in backlog and revenue was further undermined when J. Ray experienced significant delays and incurred well over a hundred million dollars of additional costs and expenses caused by undisclosed “pipe-buckling” in connection with the attempted installation of certain Middle East pipelines.

6. As Defendants ultimately disclosed, the failure to perform the Three Qatar Projects during Peak Season dramatically increased J. Ray’s costs of performing the the
Three Qatar Projects, making the projects unprofitable and subjected J. Ray to approximately $100 million of liability for contractual penalties. During the Class Period, however, Defendants

7. Throughout the Class Period, Defendants represented that they accounted for all costs associated with their contracts in accordance with GAAP. However, Defendants failed to take a charge for the losses on the Three Qatar Projects until the end of the Class Period, when GAAP required the Company to take a charge for the losses at the beginning of the Class Period, when the loss first became evident. As Defendants recently disclosed, the Securities Exchange Commission ("SEC") has begun an investigation concerning McDermott’s accounting for the Three Qatar Projects and the contract writedowns associated with them.

8. Defendants’ material misrepresentations caused the price of McDermott stock to trade as high as $66.32 per share during the Class Period, and turned out to be extraordinarily profitable for McDermott’s senior officers; as alleged below, while in possession of this material, adverse information, Defendants sold over $27 million worth of their personal holdings of McDermott stock and securities at artificially inflated prices, and affirmatively misrepresented in SEC filings in connection with each of these stock sales that they did not “know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed.” Other senior McDermott officers also sold approximately $26 million worth of company stock and securities during the Class Period.

9. In November 2008, after making these huge personal profits, Defendants finally disclosed to McDermott investors that $1.4 billion in backlog in its Offshore Oil
and Gas Construction attributable to the Three Qatar Projects was unprofitable due to a "domino effect" of previously concealed work delays and manufacturing problems beginning prior to the Class Period, that J. Ray would suffer at least $100 million in contract losses to complete the $1.4 billion in backlog, and that J. Ray was potentially liable for approximately $100 million in contractual penalties under the Three Qatar Projects. Reaction to Defendants' disclosure was swift and severe, immediately causing the price of McDermott stock to lose one third of its value in one day alone.

**JURISDICTION AND VENUE**

10. The Court has subject matter jurisdiction over this matter pursuant to (i) Section 27 of the Securities Exchange Act of 1934 (the "Exchange Act") and/or (ii) 28 U.S.C. §§ 1331 and 1337. The claims asserted in the Amended Complaint arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b), 78t(a)) and Rule 10b-5 (17 C.F.R. § 240.10b-5) promulgated by the SEC.

11. Although venue is proper in other judicial districts, venue is also proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. §1391(b), as Defendant McDermott has its headquarters in this District.

12. In connection with the wrongs alleged herein, Defendants used the instrumentalities of interstate commerce, including the United States mails, interstate wire and telephone facilities, and the facilities of the national securities markets.

**THE PARTIES**

13. Lead Plaintiffs George R. Adams, Mina J. Adams and George L. Adams ("Plaintiffs") purchased shares of McDermott common stock during the Class Period, as set forth in their Certifications of Named Plaintiff previously filed with the Court, and
have suffered losses and damages as a result of the wrongdoing more particularly
described herein.

14. Defendant McDermott International, Inc. is incorporated under the laws of
the Republic of Panama, and is the parent company of the McDermott group of
companies, including J. Ray McDermott, S.A. ("J. Ray") and The Babcock & Wilcox
Company ("B&W"). McDermott's common stock is publicly-traded, and, at all times
relevant to this litigation was listed on the New York Stock Exchange (the "NYSE")
under the symbol "MDR."

15. Defendant Bruce W. Wilkinson ("Wilkinson") was McDermott's Chief
Executive Officer and Chairman of the Company's Board of Directors from the
beginning of the Class Period until approximately September 30, 2008.

16. Defendant Michael S. Taff ("Taff") was employed throughout the Class
Period as McDermott's Chief Financial Officer and Senior Vice-President.

17. Defendant Robert A. Deason ("Deason") was employed throughout the
Class Period as the president and Chief Executive Officer of McDermott's wholly-owned
subsidiary, J. Ray McDermott, S.A.

SUBSTANTIVE ALLEGATIONS

A. J. Ray's Business And Operations

18. McDermott provides products and services to customers in the energy and
power industries, including utilities and other power generators, major and national oil
companies, and the United States Government. McDermott has operations in more than
20 countries and employs approximately 26,000 employees worldwide. McDermott's
operations are conducted in three business segments: Offshore Oil and Gas Construction; Government Operations; and Power Generation Systems.

19. As more particularly alleged below, the claims in this litigation arise out of Defendants' material misrepresentations during the Class Period concerning McDermott's Offshore Oil and Gas Construction business segment. The business and operations of McDermott's Offshore Oil and Gas Construction segment is conducted through J. Ray, J. Ray McDermott Holdings, LLC and their respective subsidiaries (collectively, "J. Ray"). Through the Offshore Oil and Gas Construction segment, McDermott, *inter alia*, provides services primarily to offshore oil and gas field developments worldwide, including the design, engineering, fabrication and installation of offshore drilling and production facilities, and the installation of marine pipelines and subsea production systems. The Offshore Oil and Gas Construction segment operates in most major offshore oil and gas producing regions, including the Middle East and Asia Pacific.

B. Defendants' Efforts During the Class Period to Inflate the Price of McDermott Stock

20. The Class Period begins on February 27, 2008. On that day, McDermott (i) filed its annual report for the fiscal year ended December 31, 2007 with the Securities and Exchange Commission on Form 10-K (the "2007 10-K"), and (ii) issued a press release concerning its business and financial results for the fourth quarter and fiscal year ended December 31, 2007 (the "February 27, 2008 Press Release").

21. The 2007 10-K reported McDermott's business and financial results for the fiscal year ended December 31, 2007, and was signed by, *inter alia*, Defendants

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1 Defendants and analysts following McDermott's stock referred to the Offshore Oil and Gas Construction segment and J. Ray interchangeably.
Wilkinson and Taff. Among other things, the 2007 10-K reported that the Company’s Offshore Oil and Gas Construction segment had approximately $4.8 billion in backlog as of December 31, 2007, and that out of that $4.8 billion in backlog, the Company was scheduled to perform work to recognize at least $3.0 billion in revenue during calendar year 2008 (consisting of $730 million in revenues for the first quarter ending March 31, 2008, $900 million in revenues for the second quarter ending June 30, 2008, $860 million in revenues for the third quarter ending September 30, 2008, and $510 million in revenues for the fourth quarter ending December 31, 2008).

22. In discussing the Company’s revenue recognition policies and its review of estimates, the 2007 10-K further stated, “We recognize our contract revenues and related costs on a percentage-of-completion basis. Accordingly, we review contract price and cost estimates periodically as the work progresses and reflect adjustments in income proportionate to the percentage of completion in the period when we revise those estimates.”

23. The 2007 10-K stated the following about the Company’s adherence to applicable accounting principles:

We determine the appropriate accounting method for each of our long-term contracts before work on the project begins. We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts under the guidelines of the Statement of Position 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts” (“SOP 81-1”), issued by the American Institute of Certified Public Accountants. The use of this method is based on our experience and history of being able to prepare reasonably dependable estimates of the cost to complete our projects. Under this method, we recognize estimated contract revenue and resulting income based on costs incurred to date as a percentage of total estimated costs. . . . We routinely review estimates related to our contracts, and revisions to profitability are reflected in the quarterly and annual earnings we report. SOP 81-1 provides that the use of percentage-
of-completion accounting requires the ability to make reasonably dependable estimates.

24. The 2007 10-K also stated that, "[i]n accordance with the percentage-of-completion method of accounting, we have provided for our estimated costs to complete all of our ongoing contracts."

25. The February 27, 2008 press release also reported and reiterated that, that as of December 31, 2007, the backlog for Offshore Oil & Gas Construction segment was $4.8 billion. The February 27, 2008 press release contained quotes from Defendant Wilkinson.

26. On February 28, 2008, Defendants conducted a conference call with analysts and investors, to "discuss our financial results which we reported yesterday" (the "February 28, 2008 Conference Call"). Defendants Wilkinson and Taff were the only McDermott employees who made any substantive statements or answered any questions during the February 28, 2008 Conference Call. During the February 28, 2008 Conference Call, Defendants repeated the financial results reported described above that were reported in the 2007 10-K and the February 27, 2008 Press Release. In addition, in response to a question during the question-and-answer portion of the February 28 Conference Call from a securities analyst, Wilkinson represented that the work underlying J. Ray's reported backlog was profitable, and that the profit margins for the work underlying that backlog were at least 10-12 percent:

Q. In the past you've talked about the offshore margins and the — I don't know low mid teen levels and then you seem to do a little better than that. Any update on your comments there?

A. I think you've talked about them in the low and mid teens. We've talked about them 10 to 12%. . . . And people are always tickled when we do. Looking back again at '07, it's about 16%. . . . If we just look at the year, and yet you see wide variation in that quarter-by-quarter.
I think that will continue but really the pricing remains strong. We’re able to book with good margin with considerable contingency. . . . [W]e have the chance to beat all these numbers down in the 10, 12% as we’ve been doing consistently. (emphasis added).


MDR continues to post strong performance and appears primed for excellent earnings growth over at least the next 2-3 years, and probably longer. Our positive view reflects our expectations for solid market fundamentals in each of MDR’s three business lines over the next several years, particularly J. Ray. . . . Management continues to suggest a range of 10-12% as a normalized margin as quarter-to-quarter variability will continue to affect margins in the future due to timing of project closeouts. However, based on solid execution, tight contract terms and very high asset utilization and overhead cost absorption, we continue to believe J Ray margins can hover in the mid-teens over the next few years. The strong operational results were led by robust activities in the Middle East, Caspian and Americas regions.

***

EARNINGS OUTLOOK

We are maintaining out 2008 EPS estimate of $3.00 and introducing our 2009 estimate of $3.50. We believe that as contract terms improve and MDR’s precise execution of its backlog persists, 2008 EPS could surpass expectations as change orders/contract closeouts improve. (emphases added).

We Thought We Knew The Tune . . .”), Wachovia raised its earnings estimates and target price range, and Wachovia analyst Brad Handler wrote, *inter alia*, that “J. Ray continues to execute well, in our view, which coupled with the very strong environment, should allow for [EBIT margin] upside in at least select quarters over time, and that:

J. Ray’s expected backlog work-off schedule - $730MM in Q1 2008, $900MM in Q2, $860MM in Q3 and $510MM in Q4 – suggests to us there is at least room/capacity to deliver more in Q4. We would guess there is also enough time to book work for execution in Q4. Therefore, although we raised our revenue forecast to $3.30B (+35% yr./yr.) from $3.1813 (+30%) previously, *we can imagine some upside to this new estimate.*

(emphasis added).

29. On March 3, 2008, Defendant Wilkinson exercised options to buy 140,000 shares of McDermott stock at a price of $4.845 per share, and immediately sold all 140,000 shares at prices ranging from $51.63 to $52.99 per share, for net proceeds in excess of $6,500,000. The options underlying these sales were not set to expire until March 6, 2011. In connection with these sales, Defendant Wilkinson filed a certification with the SEC on Form 144, stating that he did not “know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed.”

30. On March 3, 2008, McDermott Vice-President John T. Nesser, III, exercised options to buy 47,460 shares of McDermott stock at a price of $6.7267 per share, and immediately sold all 140,000 shares at prices ranging from $52.00 to $52.18 per share, for net proceeds in excess of $2,100,000. The options underlying these sales were not set to expire until May 12, 2015.
31. On March 3, 2008, Defendant Deason sold approximately 30 percent of his personal holdings of McDermott stock — 60,000 shares — at prices ranging from $51.69 to $52 per share, for total proceeds in excess of $3,000,000. On March 6, 2008, Defendant Deason sold an additional 20,000 shares (13 percent of his personal holdings) of McDermott stock at prices ranging from $52.91 to $53.62 per share, for total proceeds in excess of $1,000,000. In connection with these sales, Defendant Deason filed a certification with the SEC on Form 144, stating that he did not “know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed.”


33. On March 10, 2008, McDermott Vice President Louis J. Sannino sold 60,000 shares (29 percent) of his personal holdings of McDermott stock at prices ranging from $49.15 to $50.17 per share, for total proceeds of approximately $3,000,000.

34. On March 17, 2008, John Fees exercised options to buy 4,000 shares of McDermott stock at a price of $6.7267 per share, and immediately sold all 4,000 shares for $50 per share, for net proceeds in excess of $173,000. The options underlying these sales were not set to expire until May 12, 2015.
35. On April 28, 2008, McDermott issued a press release entitled, “McDermott Previews First Quarter 2008,” which purported to provide a “preview of the Company’s expected segment financial results, and other major items, for the first quarter of 2008 based upon management’s recent operating reviews” (the “Preview”). In the Preview, McDermott reported that first quarter 2008 revenues in the Offshore Oil & Gas Construction segment would be between $630 million and $650 million, which was less than the $730 million previously reported in the 2007 10-K (see paragraph 21 above). However, the Preview stated that the reason for the difference in first quarter 2008 revenue was bad weather, rather than any performance problems at J. Ray, and that the only effect of the weather delays would be to defer revenue and profits scheduled to be recognized in the first quarter of 2008 to later quarters:

The Offshore Oil & Gas Construction segment was adversely affected by external events in the three month period ending March 31, 2008, which is expected to moderate both segment revenues and segment income for the 2008 first quarter. During the quarter, over one-half of McDermott's planned offshore working days for major construction vessels were unproductive, primarily due to harsh weather in certain parts of the Asia-Pacific and Middle East regions. As a result, the financial impact to McDermott's first quarter is anticipated to be twofold, comprised of an approximate $20 million period expense and the deferral of unrecognized project revenue and income to future periods.

(emphases added).

The Preview also quoted Defendant Wilkinson, who stated that:

[although we are expecting a mixed first quarter from the segments, the outlook for 2008 remains solid... The Offshore Oil & Gas Construction business was negatively affected during the period, but in spite of external events, I continue to anticipate a strong year in this segment... We expect 2008 to be another robust year at McDermott... Our expected first quarter results from Offshore Oil & Gas are not systemic, but related to extraordinary events within the period, which we do not expect to overly impact the balance of the year.”
36. Although the stock price of McDermott decreased to $54.83 on April 29, 2008 from its closing price of $59.80 on April 28, 2008, the securities analysts that covered McDermott appeared to believe Defendants’ representations that the difference in first quarter 2008 revenue was bad weather, rather than any “systemic” or internal performance problems at J. Ray, and that the only effect of the weather delays would be to defer revenue and profits scheduled to be recognized in the first quarter of 2008 to later quarters. For example, a Jefferies & Co. April 29, 2008 analyst report stated, inter alia, that:

Last night’s disappointing pre-announcement by MDR was due to very difficult weather conditions in the Asia Pacific and Middle East regions and does not alter our view on MDR’s outstanding multi-year outlook. We reiterate our Buy rating... Harsh weather in the Asia Pacific and Middle East hurt J. Ray’s 1Q results, with about 50% of planned working days for its fleets being unproductive...[i]s this an opportunity? Yes. We have repeatedly stated that MDR is not a quarterly earnings story, and while 1Q results are disappointing, the MDR story is intact and the underlying fundamentals remain excellent.

(emphasis added).

37. And, a Credit Suisse April 29, 2008 analyst report stated, inter alia, that:

MDR preannounced due to harsh weather in Qatar. As a result, J. Ray lost over 50% of its planned working days in Q1 resulting in ~$20 million in period expenses as well as the deferral of unrecognized project revenue and income into future periods (we estimate about $120 million in revenue).... It is important to note, the harsh weather should be viewed as an isolated first quarter event and does not impact the remaining nine months of the year.”

(emphases added).

38. On May 1, 2008, Defendant Wilkinson exercised options to buy 43,640 shares of McDermott stock at a price of $4.845 per share, and immediately sold all
43,640 shares at prices ranging from $52.76 to $53.80 per share, for net proceeds in excess of $2,000,000. The options were not due to expire until March 6, 2011. In connection with these sales, Defendant Wilkinson filed a certification with the SEC on Form 144, stating that he did not "know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed."

39. On May 12, 2008, Defendants issued a press release reporting McDermott's financial results for the first quarter ended March 31, 2008 (the "May 12, 2008 Press Release"). With respect to the Offshore Oil & Gas Construction segment, the May 12, 2008 Press Release reported, *inter alia*, first quarter 2008 revenues of $645.9 million, and segment income of $52.9 million (compared to $121.2 million in the 2007 first quarter), and stated that "[t]he decrease in segment income was primarily attributable to a high-level of unproductive offshore working days for major construction vessels during the 2008 first quarter, *due to poor weather conditions* in major areas of operation." (emphasis added).

40. On May 12, 2008, McDermott filed its quarterly report for the first quarter ended March 31, 2008 on Form 10-Q with the SEC (the "May 12, 2008 10-Q"), which was signed by, *inter alia*, Defendant Taff. Consistent with Defendants' representations in the Preview, the May 12, 2008 10-Q reported, *inter alia*, that the amount of backlog that was scheduled to be reported as revenue in 2008 had materially *increased* from $3.0 billion to $3.8 billion — *i.e.*, that the Offshore Oil & Gas Construction segment was presently scheduled to report higher 2008 revenues than the amounts reported on February 27 and 28, 2008, as follows:
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41. The May 12, 2008 10-Q also stated, with respect to the Offshore Oil & Gas Construction segment, that "[a]s of March 31, 2008, in accordance with the percentage-of-completion method of accounting, we have provided for our estimated costs to complete all of our ongoing contracts."

42. On May 13, 2008, McDermott conducted a conference call with securities analysts and investors (the "May 13, 2008 Conference Call") to discuss the Company’s financial results reported in the May 12, 2008 Press Release and the May 12, 2008 10-Q. Defendants Wilkinson and Taff were the only McDermott employees who made any substantive statements or answered any questions during the May 13, 2008 Conference Call.

43. During the May 13, 2008 Conference Call, Defendants reiterated and represented that the first quarter 2008 revenue shortfalls for the Offshore Oil & Gas Construction segment were solely due to poor weather, the work underlying the reported backlog in the Offshore Oil & Gas segment was profitable, and that the revenue and profits that would have been recognized in first quarter 2008 but for the weather delays had been deferred to other quarters in 2008. For example, Defendant Taff stated that the first quarter "was adversely affected by harsh weather in a number of our regions in our Offshore Oil and Gas Construction segment, which resulted in a period expense of about
$20 million plus the deferral of project revenue and income to future periods.”

(emphasis added). Similarly, Defendant Wilkinson stated:

I continue to reiterate that quarter-to-quarter McDermott’s results can and will vary. It’s just the nature of the engineering construction business coupled with the vagaries of percentage of completion accounting. . . . Since we view the quarter at Offshore Oil and Gas Construction largely as a period specific issue, we have much higher expectations for it for the rest of the year. I’ll now turn to each segment for greater detail. Offshore Oil and Gas Construction revenues were about $646 million, over 17% better than a year ago but about $85 million short of our expected backlog roll off that we published in the 2007 10-K. *While the missed revenues were largely just pushed to the right*, the impact on operating income was much more significant. Weather is a regular issue in offshore construction. But what we saw in the first quarter was really beyond anything I’ve experienced within one fiscal quarter. Part of it was just bad timing. In other words, being at the wrong field development at the wrong time. . . . In the Middle East, we experienced four times the amount of weather delays in Qatar for example, as we’d typically expect based upon long known historical averages. . . . All of this was compounded by having the DB50 and KPI in dry dock for almost the entire period, collectively working only about seven days in the quarter. As we saw in the quarter, the biggest impact from all of this was the inability to make progress on projects, *which prevented us from recording revenues and profits on those jobs during the quarter*. And in addition, we booked about 20 million period expense, which really was a second hit. So far in April and May, we’ve been operating on a much more traditional weather pattern. While there have been lost days, it is much more in line with expectations. Since the summer months are considered the construction season, we hope to make up for some of the lost time in the second and third quarters. As you look at the 10-Q we just filed, we're expecting revenues to ramp up the rest of the year. Adding our expected backlog roll-off for the rest of 2008 to this quarter's revenues implies a full year, top line exceeding 3.8 billion. We'll have to avoid slippage to get it done, but that's our current forecast. *If there is any slippage in the next two quarters, we see our fourth quarter having capacity to absorb it.* This higher workload in 2008 has more procured items as the recently won jobs have gotten larger and we have an increased number of cost plus and unit rate jobs in the backlog, *which lowers our risk*. Despite the changes in backlog mix we are still targeting operating margins in the 10 to 12% range for the segment on an annual basis. And while a number of items can impact any given quarter, we still believe this is an appropriate range. . . . To summarize Offshore Construction, *it was a disruptive quarter, but the impact should be viewed as a period event*. The market is as strong as ever and we expect another robust year from this segment.
44. In response to a question from a Lehman Brothers analyst, Defendants Wilkinson and Taff again represented that the weather delays had deferred first quarter revenue and profits to later quarters of 2008:

Q: A question on the Offshore segment. So even if we add back the 20 million period expenses for the quarter to the segment operating income, we're still getting sort of 11.3% in operating margins for the segment versus 16.4 on average last year. My question is, is there something else in particular that's keeping margins down in the first quarter?

A. [Wilkinson]: Yes. I think that the period cost is what hit the bottom line essentially for expenses that had no POC or percentage of completion impact, and therefore were 100% fell through and impacted the quarter. In addition to that, it's really the absence of the percentage of completion that was projected or expected for the quarter because of these massive delays on the marine side. So in other words, you had some that was period cost hit immediately, and others that simply we were unable to recognize for failure to meet certain milestones. And so it was really a double hit. And so a lot of the latter really just moves to the right. It is -- we have an opportunity to make it up prospectively.

A. [Taff]: And the other thing to keep in mind is that since we weren't able to perform as much on some of these projects as normal and one of the things we mentioned is what we did in the first quarter of last year of $40 million of close outs. We just weren't able to harvest as much contingency as we normally would and get some of these projects completed that were scheduled to be completed. So, a lot of the income we really bring home is in the latter phase of completing these projects, which just didn't happen in the first quarter, just due to the lack of utilization of our barges.

(emphases added).

45. Defendants Wilkinson and Taff made similar representations in response to questions from analyst Stephen Gengaro:

Q. [Gengaro]: ... I'm going to go back to that J. Ray margin question. When I look at '07 ... [w]e end up with a number kind of like in the 13.5% range for margins at J. Ray last year. And I'm trying to get a
sense, you sound like you have some drag on the margins, which are
coming out of maybe a little more procurement numbers in '08. But I
would think in the second and third quarters because of backlog work off,
you'd have sort of better overhead efficiencies. I mean should we think
about your margin "guidance" range kind of like we did last year where if
you're continuing to be real busy you should be able to kind of consistently
surpass that going forward still?

A. [Wilkinson]: Let me tell you, I know those of you on the
outside like to talk about margins, because it's what you use to model
things. It's the way you view it. I think as far as I'm concerned if the
quantum of operating income rises dramatically I'm more focused on that
than exactly what the margin is, because it is true that the mix will change.
If you compare us even with the extraordinary results produced here
recently and announced by Fluor or Foster Wheeler or any others. This
quarter at our low ebb we still were the highest margin of the -- what we
consider the peer group. And so when I look at it, if we suddenly were not
able to stay up there I would be more concerned, but so as a practical
matter, I think what I'm saying is that I think the abnormality was the first
quarter, and you should not read anything into that for the rest of the year,
and there's nothing about our experience last year that was fundamentally
different than what we could experience this year. In other words it is a,
you have projects nearing completion, and some just getting started, some
in the fabrication phase, some in the marine phase, and yet we still have a
year I mentioned where we have lower fabrication hours projected in '08
than we did in '07, but we have more marine days expected than in '07. So
from my view, yes, we have more projects with pass-through procurement
and subcontract, but we also have the opportunity, it's not, we don't do that
for free. It's less value added than when we're working in the fab yard or
on a barge, but we make money there as well. So I just, I don't think you
should conclude that anything out in front of us is fundamentally different
than looking back at last year as it's -- is the risk and opportunities in
other words, I would view as not dramatically different one year over the
other.

A. [Taff]: With the full understanding that in any given 90 day
period the results can be lumpy, and they will be lumpy.

Q. [Gengaro]: Yes. I understand that. That makes sense. And
then when you look at, is it fair to say that, I mean the backlog's obviously
enormous, but for the work you as an entity are providing, you know
obviously you're going to have the procurement and the pass-through's,
but for the non pass through type work, is the pricing in that underlying
portion of your business better in the backlog now than it was a year ago?
I would imagine it is, but ...
A. [Taff]: I think it's fair to say, Stephen, that it's certainly just as good. I mean, I think the margins --

A. [Wilkinson]: I mean if you're concerned that that is the problem, I don't believe that is the problem. I think the margin of the work is still good. We're pricing them the way we did before, region-by-region, customer-by-customer. We have, we're still putting significant contingencies in, and I think the challenge is -- the only way I would differentiate maybe year-over-year, is how much of -- when you put contingency in a job it really is an indirect way of adding to what you expect to be cost. And when it doesn't go to cost, it becomes profit and that's where your closeouts and all occur. And so that's still the challenge. We still have significant contingency as well as the comparable margins in the jobs we're bidding. The question is how much of that can we bring to the bottom line which is what the challenge was last year.

Q. [Gengaro]: Okay, That's fine. I was actually not hinting I felt prices were going down. I was hinting I thought prices may be going up.

(emphases added).

46. Defendants continued to represent that revenues and profits that would have been recognized in the First Quarter of 2008 but for weather delays would be recognized in the second and third quarters of 2008 in response to a question from Natixis securities analyst Jeffrey Spittel:

Q. [Spittel]: Just wanted to get some clarification. You talked about the 85 million short of the expected backlog roll off in J. Ray for Q1. Is it safe to assume that, that's fairly evenly distributed in Q2 and Q3 in terms of recapturing that?

A. [Taff]: Jeff, I think that's a fair statement. I think as we indicated in the Q that we filed last night, the roll off's schedules are in there.

Q. [Spittel]: Right.

A. [Taff]: But that's not an unfair statement.

Q. [Spittel]: Okay. And that would be independent of potential contingencies as well, right?
A. [Taff]: Absolutely. I mean as we've always stated, as we complete the jobs, our ultimate goal is to harvest as much of those contingencies as possible in the close-out period.

(emphases added).

47. Securities analysts reacted extremely favorably to Defendants' representations on May 12, 2008 and May 13, 2008 and interpreted Defendants' statements to mean that the work underlying J. Ray's backlog was profitable and would generate profits of at least 10-12 percent. For example, in its May 14, 2008 analyst report, Jefferies & Co. reiterated its "Buy" rating, wrote:

We believe that MDR is very well positioned to post solid EPS growth over the next several years, and despite a disappointing start to 2008, the excellent fundamental story is intact . . . . We expect solid operational performance and continued new awards to push earnings and the stock higher over the next several quarters. We are reiterating our Buy rating.

***

Management continues to suggest a range of 10-12% for a normalized margin as quarter-to-quarter variability will be impacted by revenue mix, the timing of project closeouts, and change orders. Management noted that near term there will be higher procurement revenue and third-party content that weighs on margins a bit owing to the makeup of the backlog. However, importantly, the absolute dollar amount of profit will remain very solid, but it is less likely that percentage margins surge past the mid-teens. In other words, MDR still should post strong profitability driven by man-hours and barges days with higher procurement/third-party revenue adding to both the top line and the operating profit line but acting as a drag on margins. Based on solid execution, tight contract terms, and very high asset utilization and overhead cost absorption, we continue to believe J Ray margins can hover in the low-to-mid teens over the next few years.

EARNINGS OUTLOOK
We are maintaining our 2008-09 EPS estimates of $3.00 and $3.50, respectively. We believe that as contract terms improve and MDR's precise execution of its backlog persists, 2008-09 EPS could surpass expectations as change orders/contract closeouts improve.

(emphases added).
48. Similarly, in its May 13, 2008 report, entitled, “Rocky Quarter Masked By Positive Outlook, analyst Jamie Cook wrote that “Outlook Still Robust,” reiterated its “Outperform” rating and $79 per share target share, and observed that “the future remains bright for MDR . . . We continue to view MDR as one of our favorite names in the E&C space.”

49. Following Defendants’ statements during McDermott’s May 13, 2008 conference call, the price of McDermott stock immediately increased from its May 12, 2008 closing price of $53.95 to close at $57.88 on May 13, 2008, thereby making up most of the stock price decrease on April 28, 2008.

50. Over the next few days, Defendants’ misrepresentations continued to artificially inflate the price of McDermott stock. For example, on May 14, 2008, Defendant Taff gave a presentation concerning McDermott’s business and financial results at the Calyon Energy Conference in New York City. Similarly, on May 15, 2008, Defendant Taff made a presentation concerning McDermott’s business and financial results at the Merrill Lynch Global Engineering & Construction Conference in New York City. Taff’s representations had their intended effect, causing the price of McDermott stock to close at $58.54 on May 15, 2008 (an increase from the $55.90 per share closing price on May 14, 2008), and to close at $60.36 per share on May 16, 2008. Thus, by the end of that week, on Friday, May 16, 2008, the stock closed higher than it had just prior to the issuance of the Preview on April 28, 2008.

51. Having successfully boosted the stock price back, Defendants and other senior McDermott employees then proceeded to go on another selling spree of their shares of McDermott stock.
52. On May 12, 2008, Defendant Deason sold 8,226 McDermott securities in his 401(k) Plan at $53.15 per share, for $437,171, and Defendant Wilkinson sold 21,066 shares of McDermott securities in his 401(k) Plan at $53.15 per share for $1,119,658. Other insiders sold shares of McDermott securities in their 401(k) Plans at $53.15 per share on the same day, including John Fees (9,150 shares, for $486,277), Senior Vice President and General Counsel Liane Hinrichs (870 shares, for $46,241), Vice President John T. Nesser III (6,390 shares, for $339,629); and Executive Vice President Louis J. Sannino (3,912 shares, for $207,923).

53. On May 15, 2008, McDermott Vice-President John T. Nesser, III, exercised options to buy 12,000 shares of McDermott stock at $4.845 per share, and an additional 23,730 shares at $6.7267 per share. Nesser then immediately sold all 35,730 shares at prices ranging from $57.28 to $57.615 per share, for net proceeds in excess of $1,800,000. One week later, on May 23, 2008, Nesser exercised options to purchase 103,200 shares at prices ranging from $3.0033 to $4.8333 per share, which he then immediately sold at prices ranging from $57.00 to $57.34 per share, for net proceeds of approximately $5,500,000. The options underlying these sales were not set to expire until March 20, 2011 at the earliest.

54. On May 15, 2008, McDermott Vice President and General Counsel Liane Hinrichs exercised options to buy 3,600 shares of McDermott stock at $1.05 per share, 12,600 shares at $3.0033 per share, and an additional 9,090 shares at $6.7267 per share. Hinrichs then immediately sold all 25,290 shares at prices ranging from $57.37 to $57.64 per share, for net proceeds in excess of $1,300,000. The options underlying these sales were not set to expire until April 2, 2013 at the earliest.
55. On May 15, 2008, John Fees exercised options to buy 50,955 shares of McDermott stock at $6.7267 per share, which he immediately sold at prices ranging from $57.34 to $57.68 per share for net proceeds of $2,500,000. The options underlying these sales were not set to expire until May 12, 2015.

56. On May 19, 2008, Defendant Deason sold 25,000 shares of his personal holdings of McDermott stock, approximately 24 percent of his then-existing holdings, at prices ranging from $59.34 to $59.74 per share, for total proceeds of approximately $1,500,000. In connection with these sales, Defendant Deason filed a certification with the SEC on Form 144, stating that he did not "know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed."

57. On May 27, 2008, based upon Defendants' representations alleged above, securities analyst KeyBanc Capital Markets initiated coverage of McDermott with a "Buy" recommendation and a price target of $70 per share, and wrote:

J Ray — To Remain Engine of High Growth for Several Years. We believe that MDR's J Ray operations will remain the growth engine for the Company in the medium-to-long term (three years+), driven by offshore development... While J Ray has seen a couple of phenomenal growth years in 2006 and 2007, we think that J Ray's growing expertise and experience in offshore (including deep water) and fabrication positioning in key regions has strongly positioned the company for sustainable growth going forward... We expect J Ray's near term to benefit from its Middle East operations... We are forecasting J Ray revenues to be able to sustain top line growth in the upper to mid-teens over the long term (2009/2010), and for segment operating income to grow by 20%+ year over year during the corresponding period.

* * * *

We believe that J Ray's operating margins carry upside potential in the near and long term; given this, we have conservatively built our margin expectations for 2H08 vs. the likely closeouts... For the rest of 2008, we have assumed an operating margin of 12-13%, which is below J Ray's
2007 trend, but slightly above guidance of 10-12%. Outside of 1Q08, which saw several weather issues culminate together, leading to revenue push-out and charges and a relatively lower level of close-outs, J Ray has beaten guided operating margins two years in a row. We view MDR's operating guidance as partly conservative and partly reflective of a migration to higher mix of cost-plus work in the year and a higher subcontractor element.

Operating margins expanded significantly in 2007 on account of high utilization and favorable closeouts of projects. In contrast, 1Q08 was impacted by low closeout levels and extreme weather. We expect margins to expand progressively in 2008 as utilization rates pick up on higher marine vessel utilization and more closeouts, and to continue to expand in 2009/2010 on higher facilities utilization.

(emphases added).

58. Defendants' representations alleged above concerning the profitability of J. Ray's backlog also had a positive impact on ratings agencies. For example, in a press released dated May 28, 2008, the Standard & Poor's Ratings Services announced that it had raised its corporate credit rating on McDermott and its subsidiaries to "BB+" from "BB," affirmed the "recovery rating" on J. Ray's $800 million of senior secured credit facilities, raised the "issue rating" on J. Ray's bank debt to "BB+," and concluded that "the outlook is positive." The May 28, 2008 press release further stated that:

"The ratings upgrades were driven by McDermott's strong operating performance in 2007, impressive backlog across all three of its business units, and conservative financial leverage," said Standard & Poor's credit analyst David Lundberg. "In addition, we have increased confidence in the company's ability to manage the risk inherent in its fixed price contract bids."

(emphasis added).

59. On May 30, 2008, Defendant Taff, exercised options to buy 22,000 shares of McDermott stock at $7.1933 per share, which he immediately sold at prices ranging from $61.10 to $61.23 per share for net proceeds in excess of $1,100,000. The options underlying these sales were not set to expire until June 8, 2015. In connection with these
sales, Defendant Taff filed a certification with the SEC on Form 144, stating that he did not “know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed.”

60. On June 1, 2008 McDermott Director Ronald Cambre exercised options to buy 18,600 shares of McDermott stock at an average price of $9.49 per share, which he immediately sold for $63.50 per share for net proceeds in excess of $1,000,000. The options underlying these sales were not set to expire until May 14, 2014 at earliest.

61. On June 3, 2008, Defendant Wilkinson exercised options to buy 43,640 shares of McDermott stock at $4.845 per share, which he immediately sold at prices ranging from $62.15 to $63.30 per share, for total proceeds in excess of $2,500,000. The options underlying these sales were not set to expire until March 6, 2011. In connection with these sales, Defendant Wilkinson filed a certification with the SEC on Form 144, stating that he did not “know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed.”

62. On June 5, 2008, Defendant Taff made a presentation at 9:50 am EST concerning McDermott’s business and financial results at the Credit Suisse Engineering & Financial Services Conference in New York City. On June 5, 2008, following the presentation, the price of McDermott stock closed at $65.06 per share, a $3.11 increase from its closing price of $61.85 on June 4, 2008. On June 6, 2008, the next day, Defendant Taff sold 4,500 shares of McDermott securities in his 401(k) Plan at $65.68 per share, for $295,560.

63. On June 9, 2008, the price of McDermott closed at $66.32 per share, its Class Period high.
64. On June 10, 2008, McDermott Executive Vice President Louis J. Sannino exercised options to buy 14,520 shares of McDermott stock for $6.7267 per share, which he immediately sold at prices ranging from $64.05 to $64.46, for net proceeds in excess of $800,000. The options underlying these sales were not set to expire until May 12, 2015. On June 10, 2008, Sannino sold an additional 43,197 shares, 30 percent of his existing holdings of McDermott stock, at prices ranging from $64.10 to $64.28 per share, for total proceeds in excess of $2,750,000.

65. By a press release dated June 12, 2008, Moody’s Investment Service (“Moody’s”) announced that it was placing McDermott and J. Ray under review for possible upgrade. The June 12, 2008 press release stated, inter alia, that:

The review of MDR and J Ray’s corporate family ratings for upgrade is prompted by Moody’s expectation that end market demand for the companies main business segments are likely to remain favorable into the medium term. Coupled with their demonstrated ability to execute on growing backlog levels, Moody’s believes MDR and J Ray are likely to produce continued strong operating results and sustain recent improvements to key credit metrics which are currently supportive of a higher rating.

(emphasis added).

66. On July 1, 2008, Defendant Wilkinson exercised options to buy 27,180 shares of McDermott stock at $4.845 per share, and an additional 16,460 shares at $6.7267 per share. Wilkinson then immediately sold all 43,640 shares at prices ranging from $60.16 to 61.51 per share, for net proceeds in excess of $2,300,000. The options underlying these sales were not set to expire until March 6, 2011 at earliest. In connection with these sales, Defendant Wilkinson filed a certification with the SEC on Form 144, stating that he did not “know any material adverse information in regard to the
current and prospective operations of [McDermott] which has not been publicly disclosed.

67. In a July 15, 2008 press release, Moody’s announced, *inter alia*, that it had upgraded the corporate family ratings of both McDermott and J Ray with “positive outlook,” and stated:

The upgrade of MDR and J. Ray’s corporate family ratings with positive outlook reflects Moody’s expectation that end market demand for the companies’ respective business segments are likely to remain favorable into the medium term. Moody’s believes MDR and J Ray are likely to produce continued strong operating results and sustain key credit metrics at levels supportive of the outlook direction. Ratings could be moved higher should the companies continue to execute on their strong backlogs and maintain ample amounts of liquidity and conservative balance sheets as they pursue strategic growth initiatives.

(emphases added).

68. On July 15, 2008, Chicago Bridge & Iron Co., NV (“CBI”), a construction company like McDermott that focused on overseas energy projects, including Liquefied Natural Gas (LNG) facilities, announced poor financial results stemming from a several hundred million dollar charge for cost overruns under two of its fixed-price construction contracts for LNG projects. According to CBI, the two LNG projects were behind schedule due to weather delays and poor productivity. This report of these financial results by CBI immediately caused a significant decline in the price of CBI stock, resulting in a drop of $5.74 to 30.65 per share on July 16, 2008, down from its closing price of $36.39 per share on July 15, 2008. The stock market analysts covering CBI — many of whom also covered McDermott — attributed these poor results to the fact that CBI had a historical preference for performing work under fixed-price contracts; as Chris
Hussey from Goldman Sachs stated, such contracts were more risky and "made [CBI] vulnerable to profit shortfalls especially in the current environment."

69. The price of McDermott stock was dragged down by the news from CBI that a material portion of CBI's backlog had not been profitable due to CBI's reliance on fixed-price contracts. McDermott stock, which closed at $57.79 on July 14, 2008, dropped to $55.67 on July 15, 2008, and to $54.35 on July 16, 2008.

70. In an attempt to halt the decline in McDermott's stock price, on July 16, 2008 McDermott issued a press release concerning McDermott's recent credit upgrades:

   both of the major corporate credit rating services, Standard & Poor's Rating Services ("S&P") and Moody's Investors Service ("Moody's"), have upgraded their respective ratings of McDermott and its rated subsidiaries. "These credit ratings upgrades are further external recognition of our strong operating performance, record backlog, and conservative balance sheet," said Michael S. Taff, Senior Vice President and Chief Financial Officer.

   (emphasis added).

71. On July 16, 2008, in response, securities analysts Calyon Securities announced that McDermott had been upgraded to "Buy," with a target price of $71.00 per share.

72. On July 18, 2008, KeyBanc Capital Markets issued an analyst report entitled, "MDR: Compelling Entry Point, Sell-Off Overdone," addressing the recent decrease in the price of McDermott stock caused by CBI's July 15, 2008 financial results. The report stated that KeyBanc viewed "the extent of the recent softness as unwarranted" and expressed its view, based upon Defendants' representations alleged above, that the work underlying J. Ray's reported backlog was profitable notwithstanding J. Ray's use of fixed price contracts:
In this note, we try to place in context the key concerns that we believe are negatively impacting [McDermott] stock . . . . We think CBI's project losses have raised concerns over shops with fixed price exposure, but we believe that fixed price contracts carry material risk largely when a company is taking on a project that is materially larger in scope vs. its historical experience, in vastly different regions, and/or when the dependency on subcontractors is materially increased – we believe that none of these factors are pertinent to MDR . . . . While we are strong believers of contractual terms being important, we think it is not entirely correct to view all fixed priced contracts as being very risky. In this respect we believe that concern around MDR's fixed price exposure is overdone. We view fixed price contracts as being incrementally risky when a firm is taking on a project that is materially different in scope or type from its historical experience, when the region of work is relatively foreign, and/or there is a material dependency on subcontractors. In our opinion, none of these are really pertinent to MDR. Since suffering huge losses in the 2003/2004 time frame when MDR took on spar-related hull work the first time, we think that MDR has been very strict in adhering to its area of expertise and experience. We believe that J Ray's consistent performance since then, despite an environment of rising costs, is evidence of this.

(emphases added).

73. On July 18, 2008, following McDermott's July 15, 2008 press release and the release of the analysts' reports from Calyon Securities and KeyBanc, the price of McDermott stock increased to close at $53.98 per share, and on July 21, 2008, the price of McDermott stock again increased, closing at $54.68 per share.

74. On August 1, 2008, Defendant Wilkinson exercised options to buy 43,640 shares of McDermott stock for $6.7267 per share, which he immediately sold at prices ranging from $47.11 to $48.55, for net proceeds in excess of $1,750,000. The options underlying these sales were not set to expire until May 12, 2015. In connection with these sales, Defendant Wilkinson filed a certification with the SEC on Form 144, stating that he did not "know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed."

76. On August 11, 2008, McDermott also filed its quarterly report for the second quarter ended June 30, 2008 on Form 10-Q with the SEC (the “August 11, 2008 10-Q”). The August 11, 2008 10-Q was signed by, inter alia, Defendant Taff. The August 11, 2008 10-Q repeated that the Offshore Oil & Gas Construction segment had backlog of $5.272 billion, and, with respect to that $5.272 billion of backlog, stated that J. Ray was scheduled to report revenue of $1.180 billion in the third quarter ended September 30, 2008, and $850 million in the fourth quarter ended December 31, 2008.

77. The August 11, 2008 10-Q stated that with respect to the Offshore Oil & Gas Construction segment, “[a]s of June 30, 2008, in accordance with the percentage-of-completion method of accounting, we have provided for our estimated costs to complete all of our ongoing contracts.”

78. On August 12, 2008, McDermott conducted a conference call with securities analysts and investors (the “August 12, 2008 Conference Call”). Defendants Wilkinson and Taff were the only McDermott employees that made any substantive presentations or answered questions. At the outset of the August 12, 2008 Conference Call Defendant Wilkinson made the following statements:
I'm very pleased with McDermott's second quarter overall, but it is fair to say that it played out differently than some of you might have expected. As is somewhat the nature of the engineering and construction business, coupled with the vagaries of percentage of completion accounting, but most importantly it demonstrates the benefit of McDermott's diversified energy E&C business... Beginning with Offshore Oil and Gas Construction, revenues of 872 million were a quarterly record for this segment, but it was about 150 million below the amount we had expected to roll off from backlog. Operating income of 98 million in the Offshore Oil and Gas Construction segment was largely in line with what we'd expect, all things considered. The total amount was lower than we anticipated due to the revenue shortfall, but the margin was right in the middle of the 10 to 12% range we've consistently suggested. Since we beat this target range throughout 2007, the obvious question may be, why didn't we exceed it again this quarter. And there are a number of factors contributing to this. First, as we discussed in the last call, our 2008 backlog has more procured items and higher number of less risky cost plus and unit rate components in our contracts meaning that the portfolio of projects has changed. Secondly, we have been outstanding in managing material escalation like steel but there have been inflationary effects felt elsewhere namely fuel, labor and subcontractors which have eaten somewhat into our contingency that a year ago we where consistently harvesting to profit and now more of it is becoming cost... Finally, some of the project delays we have encountered have added cost to certain projects such as extra marine days and also have potentially exposed us to penalties on some contracts, otherwise known as liquidated damages. You probably noted we recorded about 4 million of these penalties in the second quarter of this year. The accounting for liquidated damages often increases the already lumpy nature of the E&C business. Frequently, customers tell you verbally they do not plan to assess any penalty or history will indicate they don't enforce the charge. We also may have an offset to LD claims such as contractually excusable delays. However, unless we get agreements in writing which customers are normally reluctant to provide until the project is complete, the accounting rules usually require we record the expense once contractually incurred often only to reverse the charge down the road. ... Bob Deason and his team have not been sitting idly by. The group is actively addressing current execution issues, pursuing operational improvement initiatives for some of our projects and working with customers to limit schedule-driven penalties, pursuing growth opportunities and adding new work. We are far from alone in dealing with cost increases and schedule delays but in spite of this, we are still leading the margin pack. And truthfully, most companies in our peer group would relish having what I say may sound like challenging problems if they could have our segment’s 11% operating margins this quarter while continuing to position for growth.
In response to a question from analyst Stephen Gengaro, Defendant Wilkinson made the following representations concerning the profitability of the Company's backlog:

Q. [Gengaro]: I guess, I guess two things and the first is on the J. Ray side. Your backlog roll off in the third quarter is lower than it was three months ago. Can you help us in more detail understand what went on exactly? I mean the first quarter you had a lot of weather disruptions and this quarter it seemed like there were some other issues? Did you just book too much work? We're just trying to get a grasp on how to think about it in more detail and how to think about the margins going forward at J. Ray?

A. [Wilkinson]: Well, I think weakly I've touched some of this with [Andrew Kaplowitz's] question. I think it looks like it happens all at once but in fact in reality it sort of - it happens sequentially a step at a time and in fact some slippages on a contract or two going all the way back to '07. . . . But what we have really described to you is in a full construction market like this, it is not a steady state, it is very, very dynamic and there are constant shifts and changes. So it is not a case of, I mean the great irony is right now, we, if you take our fab business, we have, I can count 11 to 13 million man hours of under utilized capacity as we sit here today, in a very busy marketplace. As well as, there are even some places where we have a few days here or there where the marine barges are not fully utilized. It is just in the various areas of the world where we work, it's a constantly changing marketplace, and we're trying to change with it. So I think it's compounded as I said, right in the Mideast right now, and I think we're working through it and it will improve.

Q. [Gengaro]: But isn't that - so is it a contracting issue? Is it an execution issue? Is it both?

A. [Wilkinson]: I don't think it's a - again, I don't think it's a - I would consider it a contracting issue if you price something too low, not enough margin, not enough contingency or when you're fully booked, that's clearly a contracting issue. None of that is happening or has happened. What it really is, it's the construction industry is a challenge on any day and in the water it's more challenging than it is onshore. I think what we've had here is a case where certain slippages of projects actually where you then are ahead of the game in your onshore activities and you have a full fab yard, overcrowded with product ready to go and a need for all the barge activity to happen at once. Which is sometimes fortuitously at the request of the customer to move the schedule and in some cases it
has been execution as well. . . . I would say too that I think you know the way to look at this is that the as bid, as sold margins, the as bid, the backlog, the way - if you had a looked at it a year or two ago, look at it now, there is really not any sea change at all in that. What is going on is - the phenomenon that all of this have really grown to love is when we don't need the contingency - when we estimate all the cost correctly and we don't need the contingency and the contingency becomes profit. . . .

(emphases added).

80. Defendants Wilkinson and Taff made additional representations concerning the profitability of J. Ray’s backlog in the following question and answer exchange with securities analyst John Rogers of D.A. Davidson:

Q. [Rogers]: Okay. And on a little bit shorter-term basis, as you look at the rest of the year and in the first part of 2009 on the J. Ray business, are there any significant project closeout issues - or timing issues that we should be thinking about?

A. [Wilkinson]: If you're asking about the extraordinary numbers, either way, negative or positive. I don't know of any of that just hit me between the eyes, I think what happens is again if you take - when you take moving schedules, you move the time of closeout, you move the time of those events and so it could very well be, I mean we've got a couple of big projects still going on in Asia that are going very well. I think there is some opportunity, but I don't think you should think of that as determinative one way or the other.

A. [Taff]: And I think, John, those happen just depending on the timing of when those occur. So it's hard to predict those exactly when those projects herein exactly wrap-up and we assess the overall profitability of the job, the amount of contingencies remaining and how much is left and how much is needed, things like that and such things that we assess on a quarterly basis.

Q. [Rogers]: But does the delay in some of the work eliminate the probability of that?

A. [Wilkinson]: No, I would say it would, it would depending on the circumstances of delay, it would just, if it's really a percentage of completion, if it's a POC issue only then you still have the remaining part of the profit to recognize as well as any remaining upside of the contingency if it's there. It's just simply saying that if you start the year and you think you've got X number of projects closing out in the year, but
you've got 20% of them moved to the next year, then it affects all parts of the project.

(emphases added).

81. McDermott securities analysts continued to believe Defendants’ representations alleged above concerning the profitability of McDermott’s reported backlog. For example, on August 13, 2008, Jefferies & Company published a report that stated:

Management continues to suggest 10–12% for normalized margins for J. Ray. In addition, management reiterated that near term there will likely be higher procurement revenue and third-party content that weighs on margins a bit owing to the makeup of the backlog. We note, however, that based on robust activity levels and over-absorption of overhead, we would expect solid execution to result in margins that consistently surpass management’s guidance. We lowered our margin estimate to about 10.5% in the second half of 2008 and 12% in 2009, but we believe there is upside as execution improves.

(emphases added).

82. Analysts at Credit Suisse similarly continued to believe Defendants’ representations alleged above concerning the profitability of McDermott’s backlog. In a report published on August 13, 2008, Credit Suisse concluded that the slight decline in J. Ray’s second quarter 2008 profit margins was due to a higher mix of revenue from less profitable, but also less risky, cost-plus contracts within the second quarter – not any lack of profitability with respect to McDermott’s fixed-price contracts:

Weakness Overdone; Compelling Risk/Reward

Despite posting solid results, investors were disappointed w/ J. Ray as revs (up 50% y/y) and op margins (11.4% vs. 15.9% last year) muted strong results in power gen and govt. However, it is important to note two key points: 1) $150M in J. Ray revs were pushed to the right in 2Q (~$0.06/share); and 2) the decline in J. Ray margins (though still in-line w/ MDR’s target of 10-12%)
should not come as a surprise as MDR had previously indicated that margins would be slightly lower given more cost-plus work.

(emphasis added).

83. Defendants subsequently travelled to New York City in September 2008 to meet in person with analysts, and continued to misrepresent the profitability of McDermott’s backlog. For example, while in New York City for the Lehman Brothers 2008 CEO Energy/Power Conference on September 2, 2008, Defendants Wilkinson and Taff, together with John Fees (who had been appointed to succeed Wilkinson as CEO on October 1, 2008), had a series of meetings with analysts during which they continued to represent that the work underlying J. Ray’s backlog was profitable and would realize profit margins of at least 10% - 12%. On September 3, 2008, analysts at Credit Suisse published a report following their meetings with management in New York City, entitled “Management Meeting Takeaways,” in which Credit Suisse stated:

We believe investors should expect margins at the low end of the 10-12% range (still 2x that of peers) reflecting productivity issues related to 3 out of the 35-40 projects within JRay as well as unfavorable mix related to project close outs and more cost-plus work. The 3 jobs are expected to be completed in late ’08-early ’09 and remain profitable.

We believe recent weakness reflects concerns over JRay and lower crude prices although projects are still very economical at these levels. We continue to believe MDR remains the best way to play the energy mkts and believe recent weakness is overdone.

(emphases added).

84. Similarly, on September 8, 2008, KeyBanc published a positive report concerning their meetings with Defendants in New York:

MDR: Discussion with Management - Key Takeaways

We met with McDermott International's (MDR-NYSE) management last week on its visit to New York and, based on our
discussion, we continue to view MDR's valuation and story as exceptionally compelling at the current trading levels.

We met with MDR's management last week in New York, including outgoing CEO, Bruce Wilkinson, incoming CEO, John Fees, and CFO, Michael Taft. Based on our discussions, we believe that visibility around MDR's offshore and power segment opportunities remains intact.

Continue to See Margin Expansion in 2009 — Based on our discussion, we believe that there is considerable margin expansion potential for MDR on account of operating leverage from JRay, and an increasing mix of higher margin maintenance/services work, on account of market share gains. We estimate that MDR is currently operating at close to 50% of its fabrication capacity (see below), but given its focus list in JRay is largely concentrated on fabrication related work, we expect JRay's mix shift to migrate back to fabrication in 2009, positively impacting margins as utilization ramps up once more.

(emphases added).

85. On September 16, 2008, following Defendants' meetings in New York, UBS initiated coverage of McDermott with a “buy” rating.

86. On October 6, 2008, Defendant Taft gave a presentation at the Johns Rice Energy Infrastructure Conference in New Orleans, during which he represented that the Company’s backlog created a “luxury” for McDermott. The next day, American Technology Research initiated coverage of McDermott with a “buy” rating.

C. Defendants’ Statements Were Materially False or Misleading

87. Defendants’ statements, alleged in paragraphs 21-26, 29, 31, 35, 38-41, 43-46, 56, 59, 61, 66, 70, 74-80, 83 and 86 above, were materially false or misleading. First, as more particularly alleged in paragraph 93-100, 105-06, and 113-119 below, Defendants’ representations concerning the amount of the backlog in the Company’s Offshore Oil and Gas Construction segment (specifically alleged in paragraphs 21, 25,
26, 40, 70, 75 and 76 above), were materially false or misleading because Defendants
failed to disclose that approximately $1.4 billion of that backlog was unprofitable.

88. Second, as more particularly alleged in paragraphs 93-100, 105-06, and
113-119 below, Defendants’ representations concerning the profitability of the backlog
in the Company’s Offshore Oil and Gas Construction Segment (specifically alleged in
paragraphs 26, 35, 43-46, 78, 80 and 83 above) were materially false or misleading
because approximately $1.4 billion of that backlog was unprofitable.

89. Third, as more particularly alleged in paragraphs 93-100, 105-06, and 113-
119 below, Defendants’ representations that delays did not adversely affect the
profitability of the contracts affected by the delays (specifically alleged in paragraphs 35,
40, 43, 44, 46, 79 and 80 above) were materially false or misleading because the failure
to perform the Three Qatar Projects during the Peak Season rendered the work underlying
these projects unprofitable, and subjected McDermott to liquidated damages of as much
as $100 million.

90. Fourth, as more particularly alleged in paragraphs 93-100, 105-06, and
113-119 below, Defendants’ representations that pipeline installation delays in the
Offshore Oil and Gas Construction Segment were due to poor weather, and not due to
any “systemic” issues concerning J. Ray (specifically alleged in paragraphs 35, 39, 43, 70
and 78 above), were materially false or misleading because these pipeline installation
delays were caused by material manufacturing delays at J. Ray’s Jebel Ali manufacturing
facility and J. Ray’s failure to complete pipeline installation projects prior to the Class
Period.
91. Fifth, as more particularly alleged in paragraphs 93-100, 105-06, 113-119, and 128-34 below, Defendants' representations on Forms 144 filed with the SEC that they did not “know any material adverse information in regard to the current and prospective operations of [McDermott] which has not been publicly disclosed,” (specifically alleged in paragraphs 29, 31, 38, 56, 59, 61, 66 and 74 above), were materially false or misleading, because Defendants were aware of the material adverse information alleged in paragraphs 93-100, 105-06, and 113-19 that had not been publicly disclosed.

92. Finally, as more particularly alleged in paragraphs 93-100, 105-06, 113-119, and 120-127 below, Defendants' representations that McDermott had already recognized and accounted for all of the costs required to complete its ongoing contracts (specifically alleged in paragraphs 22-24, 41 and 77 above), were materially false or misleading because J. Ray had not recognized and accounted for approximately $90 million of contract costs to complete Three Qatar Projects.

D. The Defendants Begin to Disclose the True Facts Concerning the Lack of Profitability of McDermott's Backlog

93. On November 5 and 6, 2008, Defendants made several disclosures which revealed, for the first time, that their representations concerning J. Ray’s Offshore Oil & Gas Construction segment, alleged in paragraphs 21-26, 29, 31, 35, 38-41, 43-46, 56, 59, 61, 66, 70, 74-80, 83 and 86 above, had been materially false or misleading when made.

94. For example, after the market closed on November 5, 2008, McDermott issues a press release which revealed that, far from realizing profits of at least 10-12 percent, J. Ray’s work to complete three pipeline installation projects in Qatar (which collectively represented approximately $1.4 billion of revenues, or one-third of J. Ray’s
reported backlog), would not generate any profits, and would result in contract losses of at least $90 million just to complete the projects. The November 5, 2008 Press Release stated:

The Company reported net income of $85.6 million, or $.37 per diluted share, for the third quarter of 2008. The Company’s operating income was $92.0 million for the third quarter. A $44.4 million combined improvement from the Government Operations and Power Generation Systems segments was more than offset by a $107.8 million decline in the Offshore Oil & Gas Construction segment, primarily as a result of increased costs experienced and expected on three marine pipeline installation projects in Qatar.

We have experienced continued deterioration, and are forecasting lower productivity, on a number of Offshore Oil & Gas Construction contracts, primarily Middle East marine pipeline installation projects. We have spent significant time analyzing these projects, which is reflected in our revised project estimates. Our Offshore Oil & Gas Construction segment’s profitability over the next year will be affected by these projects, as we now expect to generate segment margins in the 6-8% range over the next 4-5 quarters.

Segment loss for the 2008 third quarter was $19.7 million, compared to segment income of $88.1 million in the 2007 third quarter. The 2008 third quarter loss is attributable to recognizing approximately $90 million of contract losses on the expected costs to complete various projects, primarily in the Middle East region. These losses, derived from revised cost estimates due to lower experienced and forecasted productivity, combined with increased downtime and third-party costs, primarily on the Middle East marine pipeline installation projects.

( emphases added).

95. On November 5, 2008 after the close of the market, McDermott also filed its report for the third quarter of 2008 with the SEC (the “November 5, 2008 10-Q”), which revealed additional facts concerning the losses attributable to J. Ray’s previously reported backlog in the Offshore Oil & Gas Construction segment:

Segment operating income decreased $107.4 million in the three months ended September 30, 2008 from income of $88.7 million
for the three months ended September 30, 2007 to a loss of $18.7 million. This decrease was primarily attributable to recognition of approximately $90 million of contract losses in the three months ended September 30, 2008 on the expected costs to complete various projects, primarily in the Middle East region. These losses are attributable to revised cost estimates due to lower experienced and forecasted productivity, combined with an increase in downtime on our marine vessels and third-party costs, primarily on the Middle East pipeline installation projects. Because of these project delays we expect to experience scheduling issues and increased costs due to vessel mobilization in future periods.

( emphases added).

96. In the November 5, 2008 10-Q, Defendants also acknowledged that disclosure of profitability of backlog, or the lack thereof, was material to a reasonable investor’s understanding the amounts reported as backlog. In fact, the November 5, 2008 10-Q disclosed, for the first time, that approximately $1.3 billion of the amounts reported as backlog for the Offshore Oil & Gas Construction segment was unprofitable:

At September 30, 2008 the Offshore Oil and Gas Construction backlog included approximately $1.3 billion related to contracts in or near loss positions, which are estimated to recognize future revenues with approximately one percent gross margins on average.

97. The November 5, 2008 10-Q also disclosed that J. Ray could be liable for as much as an additional $110 million in contractual penalties as a result of its delays in the completion of its pipeline installation work under the Three Qatar Project:

Some of our contracts have milestone due dates that must be met or we may be subject to penalties for liquidated damages if claims are asserted and we are ultimately responsible for the delays. These penalties relate to specified activities within a project that must be completed by a set contractual date. The applicable contracts define the conditions under which our customers may make claims against us for liquidated damages. In most cases in which we have had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. We have not accrued for potential liquidated damages totaling approximately $110 million at September 30, 2008, all in our Offshore Oil and Gas Construction segment, that we could incur based upon
completing certain projects as currently forecasted, as we do not believe that claims for these liquidated damages are probable of being assessed. The trigger dates for the majority of these liquidated damages presently occur in the fourth quarter of 2008. For certain other projects, all in our Offshore Oil and Gas Construction segment, we have currently provided for approximately $25 million in liquidated damages in our estimates of revenues and gross profit, of which approximately $17 million has been recognized in our financial statements to date through percentage of completion accounting, as we believe, based on the individual facts and circumstances, they are probable.

98. On November 6, 2008, CEO John Fees and Defendant Taff conducted a conference call with investors and analysts concerning the results reported on November 5, 2008. After acknowledging that “no one outside the company expected” the poor results reported by the Company on November 5, 2008, Fees made the following disclosures concerning the unprofitability of the Company’s Offshore Oil & Gas Construction segment backlog:

The vast majority of the segment shortfall this quarter relates to just three projects out of an active oil and gas portfolio of about 30 major jobs. The problems with these three contracts all relate to the pipeline installation phase. The pipelines are in Qatar’s north filed: two are for LNG developments and the other for a gas to liquids project. When originally bid, we expected about 1.4 billion in revenues combined, which also included the engineering and construction scope and each of the contracts were bid with normal margin characteristics. We still have about $1 billion of revenue left to recognize on our backlog of these projects as of September 30. However, with our increased estimated cost to complete, virtually all the gross margin has been eliminated. The majority of the cost increases on these jobs relate to three issues: namely, productivity, schedule delays and excessive downtime.

First, productivity. The estimates used in our bid for all three projects were based upon similar completed successful projects. These reference projects were performed during peak summer construction months so they experienced high productivity and few downtime days. Productivity is measured in how many joints of pipe a day we expect to accomplish. In hindsight this joints per day, or what we call lay rates, were proved to be too aggressive and we’ve not been able to achieve production at these levels. As is
typically the case in the Construction business, when you start a project with a poor bid assumption it's hard to recover.

The next common problem is schedule. These projects were affected by delays from preceding jobs in the queue. The delays on earlier jobs has caused us to start projects later than the bid schedules proposed and we are prioritizing our resources to minimize the schedule effect on the customers by using a different vessel than what we assumed in the bid. Neither situation has or will really mitigate the financial impact as this change in assumptions increased our cost.

The final common problem is excessive downtime. We spoke about weather being a problem in the first quarter and it was. In the two quarters since we've continued to experience additional delays due to weather, mechanical issues, support vessel availability and some customer ordered stand-bys. Any of these problems alone would be a concern, but how they compound when taken together is really the issue. Let me provide some examples. Because our productivity is less than anticipated we're spending more days in the field, which increases our exposure to weather and mechanical downtime. These extra days spent on the job also mean the next projects in the queue have schedule impacts as well. With the schedule being compromised we found ourselves starting projects in historically bad weather windows, which further hampered productivity and increased our downtime days. And every time a vessel goes down, and what we mean by that is it stops laying pipe, for whatever the reason, the interruption impacts productivity because starts and stops never permit our crews to build any type of momentum. There are other issues as well including significant inflation in the region, welding issues and regional congestion to name just a few. The cumulative effect for this quarter is we are now forecasting almost 300 more days in total on these projects than originally bid with the financial impact fairly evenly spread between productivity, scheduled downtime and all other issues.

A few of the projects are now expecting losses at the gross margin line; one is almost halfway complete and the other is in its infancy. However the expected gross losses on these two projects are fully recorded as of this quarter in our financials to where we should only recognize breakeven gross margin on the associated revenues going forward. On the other project, which is a combination contract including construction and pipeline installation, its profitability dropped significantly but it is still generating positive gross margin. It is almost halfway complete and we expect the mechanical acceptance of the pipeline by March of next year. These issues have caused some ripple impact on other projects in
the Middle East and we have revised our estimates in our backlog to account for this ripple effect.

* * * *

We have a number of takeaways from this experience. . . . We recognize that we got ourselves too tight with no buffer room and when slippage started, regardless of whether it was our fault or at the customer's request or events outside of our control, it produced a domino effect. In a strong market there was no reason to get ourselves into this position. . . . As we disclosed in the 10-Q, we are off schedule on a few projects, including these three, that could expose us to future liquidated damages.

(emphases added).

99. Defendant Taff reiterated many of these same facts in his remarks during the Conference Call on November 6, 2008:

In the 2008 third quarter McDermott reported net income of $85.6 million or $0.37 per diluted share compared to last year's 140.4 million or $0.61 per share. Obviously the $90 million of project losses at the gross margin level in Offshore Construction, which John just discussed, is the main variance between the two periods.

Revenue [of 1.7 billion] was below what we expected from backlog roll-off. . . . The reason we've been challenged to achieve our roll-off schedule of late is primarily due to the issues John mentioned earlier.

Now a high-level review from our segment finds Offshore Oil and Gas Construction had a $19.7 million segment loss, its first negative result in a quarter since early 2004. Increasing our estimated cost to complete and taking the full expected loss on certain projects generated the $90 million charge at the gross margin level, which is before any G&A costs get applied to the projects. With over 20% of the segment's current backlog now expected to earn no margin going forward, I would suggest as a result that you trim your margin expectations in this segment to the 6 to 8% range for the next four to five quarters, assuming no liquidated damages or further project deterioration.

(emphases added).
100. In response to questions from analysts during the November 6, 2008 Conference Call, Fees and Taff disclosed additional facts concerning the reasons for the unprofitability of the Three Qatar Projects at issue:

Q. [Gengaro]: Okay, and then as a follow-up, it seems like, and I'm sure there's more to it than this, but it seems like there was some level of breakdown in the way these projects were bid. And my sense has been the company has done a very good job over the last three plus years bidding this work well. **Is it a breakdown and is it being addressed? How should we think about the bidding process there because it seems like you bid it on pretty clean execution and you didn't get that and there weren't proper contingencies built in. Is that the right way to think about it?**

A. [Fees]: I think the way to think about it is that our assumptions were somewhat aggressive based upon prior successfully completed projects that were executed in fairly good weather windows with not a lot of the complications and the back-to-back scheduling that we see as these projects develop. And so I think that's where the trap came in. . . .

A. [Taff]: And Stephen, I think as John said in his prepared stated comments is that you really can view these issues in kind of three buckets that he mentioned. **One was productivity, which really gets down to how many joints of pipe we can lay a day, but the other two relate to these schedule delays.** There's no doubt we were planning on laying these projects all with the same vessel and we basically had this vessel scheduled out over about a year and a half period with not a lot of slack in it and cushion. And we had cushion built into the bids, but it just proved that we got behind on the first job and then we had that snowball effect and then had to substitute other vessels in and all. And then the third is just excessive downtime. We've had a lot of downtime, some mechanical downtime, some by the customer and then just an inordinate amount of weather in the region as well.

(emphases added).

101. Market analysts reacted very negatively to the Company’s disclosures. On November 6, 2008, KeyBanc published a report that, **inter alia,** stated the information released by McDermott “place[d] management’s credibility at risk.”
102. On November 6, 2008, Credit Suisse downgraded McDermott’s stock from “outperform” to “neutral” and published a report entitled “Fearing the Domino Effect” in which analyst Jamie Cook noted, “we believe there is a risk productivity issues on these projects bleed into other projects at JRay, creating a domino effect,” and that “we believe investors have little appetite for fixed price problem projects creating an overhang on the stock over the next 4-5 quarters (at least).” The Report also stated:

**Q3 Miss On JRay Problem Projects:** MDR reported Q3 EPS of $0.37, well below the consensus estimate of $0.70 per share. The miss reflects $90 million in contract losses at JRay (MDR’s Oil and Gas Segment) stemming from productivity issues on three fixed price marine pipeline contracts in the Middle East. In total, these contracts represent about $1.0 billion or 11% of backlog. Total backlog of $9.4 billion rose 1% y/y but fell 3% sequentially.

**Fearing The Domino Effect:** Scheduled completion for the three projects is forecast in late 2009 but varies by project. MDR is now cutting their JRay margin segment target to 6-8% from 10-12% over the next 4-5 quarters. This suggests at least a $100 million hit on a conservative $2.5 billion revenue assumption for FY’09. While MDR has had stellar execution to date, even the best contractor cannot accurately forecast fixed price contracts gone sour, let alone three. Fixed price contracts always cost considerably more and take longer to complete. Furthermore, we believe there is a risk productivity issues on these projects bleed into other projects at JRay, creating a domino effect.

( emphases added).

103. On November 6, 2008, Jefferies & Company downgraded the stock from “buy” to “hold,” “due to poor 3Q performance and our belief that the problems that plagued J. Ray will persist for at least the next several quarters.” As indicated in the report, prior to the November 5, 2009 announcement Jefferies & Company had accepted Defendants’ representations that any problems had been addressed and were “short-term in nature.”
Three Qatar Contracts Break the Bank . . . As discussed in previous notes, J. Ray has been impacted by a logjam of projects in the Middle East where projects began to overlap due to both customer-driven project delays and weather delays. While management had indicated these problems were behind MDR, J. Ray problems escalated in 3Q and MDR recognized about $90 million in losses mainly on three contracts in Qatar worth about $1.4 billion.

• . . . And Projects Long Way from Complete . . . Of the three problem contracts, two of the jobs are 40% complete and the third has not started. We estimate that there is about $1.2-1.3 billion of J. Ray backlog that will generate zero margin over the next several quarters.

* * *

We are downgrading the shares of MDR to Hold from Buy despite the precipitous decline over the last few months and the likely weak open today. While we generally are opposed to downgrading stocks knowing the shares will likely open very weak, we simply believe there is too much uncertainty to advocate buying the shares on weakness. Over the last few months, we believed that the issues that weighed on MDR's core J. Ray McDermott business were being addressed, and perhaps more importantly, were short term in nature. However, in addition to very disappointing 3Q performance that included recognizing roughly $90 million of charges on three jobs in Qatar, it now appears that problem contracts that account for about $1.2-1.3 billion in revenue will drag J. Ray margins for several quarters.

(emphases added).

104. Plaintiffs and Class Members suffered losses that were caused by Defendants' misrepresentations alleged in paragraphs 21-26, 29, 31, 35, 38-41, 43-46, 56, 59, 61, 66, 70, 74-80, 83 and 86 above, when Defendants' disclosures removed the artificial inflation in the price of McDermott stock. In reaction to the disclosures on November 5 and 6, 2008 McDermott's stock lost one third of its value, dropping $5.17 per share in one day, from $15.56 at the close of the market on November 5, 2008 to $10.39 by the close of the market on November 6, 2008, and approximately $1.2 billion
in market capitalization was eliminated. As reported by Bloomberg News on November 6, 2009, McDermott "fell the most in six years in U.S. trading after saying pipeline project delays in Qatar will lower oil and natural gas unit profits for as much as five quarters. . . . Three pipeline project delays in Qatar that will take 300 days longer than originally expected accounted for the 'vast majority' of the loss, Chief Executive Officer John Fes said in a conference call today."

105. Subsequently, on March 2, 2009, McDermott filed its annual report for the year ended December 31, 2008 with the SEC on Form 10-K, in which it disclosed that the SEC had commenced an inquiry “regarding the three construction contracts in Qatar and the events leading to the related write downs [McDermott] recorded.” Defendant Taff provided some additional information about the SEC’s inquiry on the Company’s March 3, 2009 conference call, admitting that the SEC’s inquiry “[is] specifically related to the accounting related to these three pipeline projects.”

106. During a conference call with investors on May 12, 2009, John Fees confirmed that work on the second of the Three Qatar Projects, Qatar Gas 3 and 4, was only re-started in April of 2009, and the third project, Shell Pearl GTL, had only just been started.

E. Additional Facts Concerning the Three Qatar Projects

107. The Three Qatar Projects discussed on November 5 and 6, 2008, were known as “Ras Gas Phase II,” “Qatar Gas 3 & 4,” and “Shell Pearl GTL.” May 12, 2009 Conference Call Transcript.

*_Ras Gas Phase II_*
108. J. Ray announced that it had been awarded the Ras Gas Phase II project on September 27, 2005. The September 27, 2005 press release stated that the project was for "engineering, procurement, construction and installation services for new facilities in Qatar's North Field" and involved the following work:

The Phase 2 Expansion Project includes two LNG [liquefied natural gas] processing trains, and the development of offshore facilities to supply feed gas produced from the North Field to the onshore LNG Train 6, and subsequently Train 7. J. Ray will perform the engineering, procurement, construction and installation (EPCI) of two sets of topsides for the Train 6 remote unmanned wellhead platforms WH6 and WH8, weighing approximately 2,200ST each; the jackets of which J. Ray recently engineered and installed under the Phase I expansion project. Full engineering services will be provided and managed in-house at the company's Middle East headquarters at Jebel Ali supported by J. Ray's engineering group in Houston. J. Ray's Mentor Subsea division in Jebel Ali will carry out the pipeline engineering with coordination from Mentor's Houston office. The Jebel Ali procurement department will expedite material purchases in order to ensure that fabrication can begin on schedule at the Jebel Ali yard. J. Ray's Gulf based marine vessel DB27 will be used for pipelay installation with support from the DB30 derrick barge normally based in Asia Pacific, which is scheduled to perform WH6 and WH8 topsides installation.

Shell Pearl GTL

109. J. Ray was awarded two contracts in 2006 by Shell Qatar GTL Limited related to the Pearl gas-to-liquids ("GTL") project. The first was announced on August 16, 2006, when J. Ray issued a press release which stated, *inter alia*:

McDermott International, Inc. (NYSE:MDR) ("McDermott") announced today that a subsidiary of J. Ray McDermott, S.A. ("J. Ray") was recently awarded a contract by Shell Qatar GTL Limited to engineer, construct, transport, install hook-up and pre-commission two wellhead platforms in Qatar's North Field, for the Pearl gas-to-liquids ("GTL") project.

FEED verification and detailed design engineering on the topsides has already begun at J. Ray's Jebel Ali engineering office; and construction will begin at J. Ray's Jebel Ali yard later this month. Each platform, Pearl 1 and Pearl 2, weighs an average of 3,600 metric tonnes.
110. J. Ray announced that it had been awarded an additional contract in
connection with the Pearl GTL Project in a November 6, 2006, press release, which
stated, inter alia:

A subsidiary of J. Ray McDermott, S.A. (J. Ray) was awarded a contract
by Qatar Shell GTL Limited to install over 126km of pipelines for the
offshore segment of the Pearl GTL project.

Under the contract J. Ray will engineer, procure, construct and install two
30" diameter pipelines in Qatar's North field.

** **

Mentor Subsea, J. Ray's pipeline engineering division, will commence
work on the project in the fourth quarter of 2006. J. Ray will complete the
Pearl 1 and Pearl 2 pipeline installation once the corresponding well head
jackets have been installed. J. Ray was awarded the contract to engineer,
construct, transport, install hook-up and pre-commission the Pearl 1 and
Pearl 2 wellhead platforms in August this year.

Qatar Gas 3 and 4

111. The Qatar Gas 3 and 4 contract was announced by J. Ray on June 27,
2007. The June 27, 2007 press release indicated that the contract was for "construction,
engineering, transportation and installation of pipelines to connect three wellhead
platforms in Qatar's North Field to onshore facilities at Ras Laffan Industrial City. J.
Ray's press release stated, inter alia:

J. Ray McDermott ("J. Ray") announced today that it has been awarded a
contract by Qatargas 3 and Qatargas 4 for the construction engineering,
transportation and installation of two 38" diameter pipelines, totaling 130
kilometers in length, and two 22" diameter interconnecting pipelines, in
Qatar's North Field. The pipelines will connect three wellhead platforms,
WHP7, WHP8 and WHP9, with the onshore facilities at Ras Laffan
Industrial City.

** **

The project will be executed by J. Ray's Jebel Ali (United Arab Emirates)
based project team and marine equipment. The scope of work also
involves laying a total of 138km of combined power and fibre-optic cables
interconnecting the wellhead platforms with the onshore facilities, as well
as two 0.5km long 22" diameter intra-field pipelines. These intra-field pipelines are fabricated with Corrosion Resistant Alloy material.

F. Information Provided by Confidential Witnesses Concerning Undisclosed Manufacturing and Performance Problems at J. Ray

112. Confidential Witness No. 1 ("CW-1") was employed by J. Ray as a Senior Planning Engineer at J. Ray's fabrication facility in Jebel Ali, UAE from March 2008 until January 2009. CW-1's employment responsibilities included project planning and management concerning the fabrication of wellheads; fabrication involves producing, procuring, and assembling the components of wellheads. CW-1's job responsibilities also include the preparation of presentations for management in Houston that measured the percentage of completion and schedule information as they related to J. Ray projects during the Class Period.

113. According to CW-1, work on the first of the three Qatar projects – the Ras Gas Phase 2 Project announced in September of 2005 – was already materially delayed and behind schedule when CW-1 joined J. Ray in March of 2008. Fabrication on both wellheads in the Ras Gas Phase 2 project – "WH-6" and "WH-8" – was supposed to be completed by March of 2008, at which time they were supposed to be taken off for undersea installation. However, neither wellhead was ready at that time; instead, both were still in the fabrication yard until September of 2008.

114. According to CW-1, one of the primary reasons why all of the manufacturing projects at the Jebel Ali facility were behind schedule was a material lack of employees to perform the work. During the Class Period, J. Ray was not only doing the fabrication work for the three Qatar projects at issue, it was also working on several other major projects at the Jebel Ali facility, including the Al Khaleej Gas Phase 2 project, and the Maersk project. Workers were constantly being taken off one project and
moved to another because there were not enough people to do all the work currently in the facility, causing substantial delays. CW-1 also stated that space constraints at the fabrication facility also caused manufacturing delays. J. Ray had seven wellhead platforms under construction in the Jebel Ali facility during most of the Class Period. These platforms are very large, consisting of an upper and lower deck that are fabricated separately and then assembled by stacking the two decks together. According to CW-1, it was not possible to complete fabrication and stacking on wellhead platforms until platforms for jobs higher up in the queue had been completed and removed. Thus, manufacturing and delivery delays created a domino effect of additional fabrication delays on projects that were scheduled for later in J. Ray’s manufacturing queue.

115. Confidential Witness No. 2 ("CW-2") was employed by J. Ray as a Quality Manager in Houston, Texas from 2006 through mid-February 2009, whose job responsibilities included evaluating the quality of engineering designs for various J. Ray projects. According to CW-2, during the Spring of 2008, an underwater pipeline segment J. Ray was laying “buckled” while in the process of being lowered with weights or concrete into position due to sequencing errors. Accordingly the CW-2, the process of recovering the buckled pipeline segment from the bottom of the sea cost hundreds of millions of dollars.

116. Confidential Witness No. 3 ("CW-3") was employed by J. Ray as a Corporate Project Quality Control Manager in the Company’s headquarters in Houston, Texas from mid-2005 until the end of 2007. CW-3’s his job responsibilities included obtaining and submitting laboratory analysis of “test coupons” for metallurgical tests on pipes for projects. According to CW-3, J. Ray experienced substantial quality control
issues before the Class Period involving poor welding work, which caused significant
cost and delay. CW-3’s job responsibilities included obtaining and submitting laboratory
analysis of “test coupons” for metallurgical tests on pipes for projects. The purpose of
these metallurgical tests was to determine whether pipes that had been welded together
met the requirements for the particular application for which the pipeline was intended.
“Test coupons” for one of J. Ray’s major projects in Qatar showed numerous welding
defects. According to CW-3, the pipes involved were very expensive — approximately
$400 - $500 per foot — and that millions of dollars worth of finished pipe was defective.
As alleged above, in their November 6, 2008 Conference Call, Defendants admitted that
“welding issues” contributed to the unprofitability of backlog in connection with the
Qatar Projects.

117. Confidential Witness No. 4 (CW-4) was employed as a Business
Development Manager with J. Ray McDermott’s Mentor Subsea subsidiary from 2006
throughout the Class Period, and worked in the J. Ray’s Houston headquarters.

118. Confidential Witness No. 5 (“CW-5”), was employed by J. Ray’ Houston
headquarters as a Senior Sub-Contract Specialist from 2005 through August 2008. CW-5’s job responsibilities included managing the relationships with engineering companies and consultants that served as sub-contractors on McDermott projects.

119. According to CW-4 and CW-5, J. Ray’s derrick barges and other support
vessels were in very poor condition throughout the period and caused extensive “down
time” when they were unable to lay pipe. According to CW-5, requests to have the
barges refurbished were submitted to McDermott’s Board of Directors every year that he
was with the Company, but the Board refused to approved the requests.
G. Defendants' GAAP Violations

120. Generally Accepted Accounting Principles ("GAAP") are those generally accepted principles recognized by the SEC and the accounting profession as the conventions, rules and procedures necessary to define accounting practice at a particular time. GAAP is promulgated in part by the American Institute of Certified Public Accountants ("AICPA") and consists of a hierarchy of authoritative literature established by the AICPA.

121. Management is responsible for preparing financial statements that conform to GAAP. As noted by AICPA auditing standards in AU Section 110.02, financial statements are management's responsibility:

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, record, process, summarize, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements. The entity’s transactions and the related assets, liabilities and equity are within the direct knowledge and control of management. ... Thus, the fair presentation of financial statements in conformity with Generally Accepted Accounting Principles is an implicit and integral part of management’s responsibility.

122. The SEC requires that public companies prepare their financial statements in accordance with GAAP. At all relevant times during the Class Period, Defendants represented that McDermott’s financial statements were prepared in conformity with GAAP. SEC Regulation S-X states that financial statements filed with the SEC that are not prepared in compliance with GAAP are presumed to be misleading and inaccurate.

123. The representations that the Company's financial statements were prepared in accordance with GAAP (paragraphs 22-23) were materially false and misleading because Defendants knew, or recklessly ignored that McDermott’s improper accounting
practices, in violation of GAAP and the SEC's financial reporting requirements, misrepresented its operating results and financial condition throughout the Class Period.

124. The GAAP requirements are set forth in Accounting Research Bulletin (ARB) 45: *Long-Term Construction-Type Contracts* and Statement of Position (SOP) 81-1: *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Under these pronouncements, the preferable GAAP accounting for construction contracts is what is known as the Percentage-of-Completion method and it is to be used whenever a company’s estimating procedures for revenue and costs are reasonably dependable. However, if reasonably dependable estimates cannot be made, then the Completed-Contract method of accounting should be used. The Percentage-of-Completion method recognizes income as work on the contract progresses whereas under the Completed-Contract method recognizes income only when the contract is completed. If, as a result of estimating cost to complete the contract indicates a loss, then GAAP requires a charge for the entire loss in the accounting period in which the loss becomes evident. The charge for the loss should be accounted for in the statement of income as an additional contract cost and separately disclosed.

125. As alleged above, throughout the Class Period, Defendants caused the Company to defer recording losses in connection with the Three Qatar Projects (paragraphs 93-100, 105-06, and 113-19, and 128-34). As a result, McDermott’s pre-tax income and earnings were materially misstated in the Company's publicly-reported financial statements throughout the Class Period, alleged above.

126. Throughout the Class Period, Defendants’ misrepresented in each of the 2007 10-K, the May 12, 2008 10-Q, and the August 11, 2008 10-Q, that “in accordance
with the percentage of completion method of accounting, we have provided for our estimated costs to complete all of our ongoing contracts.” (Paragraphs 14, 41 and 77).

As alleged above, Defendants misused facts that existed at the time the 2007 and 2008 financial statements were prepared in connection with the accounting for construction contracts. Had Defendants recorded the contract losses in accordance with GAAP rather than deferring the amounts to a subsequent period, then the earnings in the annual and quarterly financial statements would have been significantly reduced. Based on the facts known to Defendants concerning the mounting losses on the Three Qatar Projects, Defendants should have recorded the losses in an earlier period. See Paragraphs 93-100, 105-06, 113-19, and 128-34.

127. The amount of the unrecognized construction contract losses on the Three Qatar Projects was material in relation to the financial results reported by Defendants throughout the Class Period. For example, the $90 million of unrecognized contract losses represented 90 percent or more of the income before taxes reported by J. Ray in fourth quarter of 2007 ($100 million) and the second quarter of 2008 ($98 million), and 170 percent of J. Ray’s income before taxes for the first quarter of 2008 ($53 million).

H. Defendants’ False or Misleading Statements Were Made With the Requisite State of Mind

128. The following facts, individually and collectively, give rise to a strong inference that Defendants’ misrepresentations, alleged in paragraphs 21-26, 29, 31, 35, 38-41, 43-46, 56, 59, 61, 66, 70, 74-80, 83 and 86 above, were made with scienter.

129. Defendants’ disclosures on November 5, 2008 and November 6, 2008, as alleged in paragraphs 93-100 above, confirmed that that, during the Class Period, Defendants knew, or were deliberately reckless in not knowing, (1) that the Three Qatar
Projects were delayed; (2) the reasons for those delays; (3) that the delays had prevented the Three Qatar Projects from being performed during the Peak Season; (4) that failure to perform the Three Qatar Projects during the Peak Season would render them unprofitable; and (5) that delays in performing the Three Qatar Projects could expose the Company to substantial liquidated damages.

130. Defendants knew, or were deliberately reckless in not knowing, about the problems and delays associated with the Three Qatar Projects because, as announced by the Company in November of 2007, and as confirmed by CW-1 and CW-5, Defendants used a centralized system for tracking progress in meeting contract schedules and problems incurred in meeting those schedules. CW-1 stated that J. Ray used a sophisticated software program called “Primavera” to measure the manufacturing and installation work performed by J. Ray’s projects, including the Three Qatar Projects, prior to and during the Class Period. “Primavera” Contract Management is a software management program developed by Oracle Corp., which describes it as “a document management, job cost and field controls solution that keeps construction projects on schedule and on-budget through complete project control.”

131. In addition, as confirmed by confidential witnesses, Defendants knew, or were deliberately reckless in not knowing, about the problems and delays associated with the Three Qatar Projects and J. Ray’s other projects, and the impact of those delays on J. Ray’s profitability (as specifically alleged in paragraphs 93-100, 105-06, and 113-19 above), because J. Ray employees regularly met to measure the progress in meeting contract schedules and problems incurred in meeting those schedules, and reported the results of those meetings to senior management.
a. CW-1 stated that there were monthly Project Status Review, or “PSR,” meetings between the J. Ray management team in Dubai and the corporate office in Houston for all of J. Ray’s current projects, which included presentations on start and estimated completion dates for critical project tasks and percent of completion. For example, CW-1 prepared slides for projects on which he worked providing this information.

b. According to CW-5, J. Ray project teams meet 3-4 times each week to go over in detail all facets and details of a project, generally with representatives of the client in attendance. Documentation of any problem or issue with the schedule is well-organized and meticulous.

c. According to CW-2 each of the geographic areas in which J. Ray’s Marine Division operated was overseen by an Area Vice President who reported to senior management in Houston, keeping them up-to-date on project scheduling. CW-2 also confirmed that J. Ray President and CEO Deason met frequently with J. Ray personnel and was well-informed at all times concerning J. Ray’s performance.

132. Defendant Wilkinson explained how these sophisticated tracking and reporting systems provided him with extensive and continuous information on problems and progress on all of J. Ray’s projects in response to a question during a conference call with investors on November 11, 2007:

Q. [Handler]: . . . I am going back to J. Ray and I am trying to gauge your sensitivity to this notion of slippage, just coming out from a different angle. The backlog work of outlook that you’ve given in the Q, can you comment on how much if any you factored in the potential for just generically perhaps customer delays and more slippage?
A. [Wilkinson]: I don’t think we do any generic overwrite, we really, we’ve a project review methodology, for every month all the major projects go through a project review that cover productivity, target schedules absolutely everything going on in it and so what you have is the best judgment of management on a month-to-month basis in effect rescheduling every project and recalibrating every project looking at its then reality. And so, what really is, what happens is, in other words when we say 2.8 billion currently believe to be in ’08 that’s based upon the judgment everybody looking at all the backlog then and making that judgment. Now at the end of the year that number could go up or down, depending upon again what we’ve gone through three months and what is happening on these projects.

I think the way to think about it is that there, it’s not any one project, it’s like a lot of moving parts, all the externalities because anyone, we’ve [got] projects that are impacted by other projects. It’s not what’s going on within one project, it’s the fact that we need DB 30 [one of the pipe-laying vessels] on a date certain moving from Asia to say the Mideast and if that date is certain gets moved two weeks later because [the] customer isn’t ready for something or wants extra work done, then there you go and so it kind of has a way careening from one to the other, but I come back to it on the basis of, we already have the order [and] we’ve sold it.

133. As specifically alleged in paragraph 119 above, McDermott’s Board of Directors was specifically made aware of the poor condition of J. Ray’s pipe-laying derrick barges, which contributed significantly to the delays in performance of the Three Qatar Projects. According to CW-5, requests were made to the Board of Directors every year, from 2005 until 2008, to refurbish the derrick barges, but that the Board refused to do so each time. Defendant Wilkinson was the Chairman of the Board of Directors during almost all of the Class Period.

134. Defendants and other insiders, obtained specific, concrete benefits from sales of Company stock and securities during the Class Period which were suspicious in both timing and amount, giving rise to a strong inference of scienter. During the Class
Period, insiders sold in excess of $50 million of McDermott stock and securities as follows:

(a) Defendant Deason sold over 132,000 of his Company shares during March, April, and May 2008. This represented over 65% of his total non-option McDermott stock holdings at the time. Deason sold 60,000 shares on March 3, 2008, 20,000 shares on March 6, 2008, and 27,338 shares on April 2, 2008, following the Defendants’ materially false and misleading statements on February 27 and 28, 2008. On May 19, 2008, immediately after Defendants’ materially false and misleading statements on May 12 and 13, 2008 succeeded in bringing the stock price back to over $57 per share, Deason sold an additional 25,000 shares. Deason also sold 8,226 shares of McDermott securities in his 401(k) Plan on May 12, 2008, for an additional $537,171. All told, Defendant Deason sold McDermott stock and securities worth over $6 million during the Class Period.

(b) On May 30, 2008, within three weeks of Defendants’ materially false or misleading statements on May 12 and 13, 2008, and his own presentations at the Calyon Energy Conference in New York City, Defendant Taff exercised stock options for 22,000 Company shares, which he immediately sold for prices between $61.10 and $61.23. This represented over 73% of Taff’s 30,000 total exercisable options holdings as of December 31, 2007, which were not set to expire until June 8, 2015 as reported in the Company’s Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934, filed by the Company just before the Class Period on February 8, 2008 (the “February 2008 Proxy”). Taff also sold 4,500 shares of McDermott securities in his 401(k) Plan on June 6,
2008. All told, Defendant Taff sold McDermott stock and securities worth over $1.6 million during the Class Period.

(c) Defendant Wilkinson exercised stock options for over 380,000 Company shares over the course of the Class Period, which he immediately sold for prices between $47.11 and $63.30. This represented over 52% of his 734,540 total exercisable options holdings as reported in the Company's February 2008 Proxy. Wilkinson also sold 21,066 shares of McDermott securities in his 401(k) Plan on May 12, 2008. All told, Defendant Wilkinson sold McDermott stock and securities worth over $20 million during the Class Period.

(d) During the Class Period, John T. Nesser III (Executive Vice President and Chief Administrative and Legal Officer of McDermott until October 1, 2008, when he became Executive Vice President and Chief Operating Officer of J. Ray), exercised options for 186,390 shares of Company stock (100% of his exercisable and non-exercisable options listed in the February 2008 Proxy), which he immediately sold for prices between $52.00 and $57.62. These sales occurred on March 3, 2008 (47,460 shares), April 2, 2008 (10,2079 shares), May 15, 2008 (35,730 shares), and May 23, 2008 (103,200 shares), and thus occurred very shortly after Defendants' false or misleading statements on February 27 and 28, and May 12, 13 and 15, 2008. Nesser also sold 6,390 shares of McDermott securities in his 401(k) Plan on May 12, 2008. All told, Nesser sold McDermott stock and securities worth over $10.6 million during the Class Period.

(e) During the Class Period, Louis Sannino (an Executive Vice President), sold 108,772 shares of McDermott stock, representing roughly 52% of his total
non-option stock holdings in the Company at the time. These sales occurred on March 10, 2008 (60,000 shares), April 2, 2008 (5,575 shares), June 10, 2008 (57,717 shares) – all within weeks of Defendants’ false or misleading statements on February 27 and 28, and May 12, 13 and 15, 2008. Sannino also sold 3,912 shares of McDermott securities in his 401(k) Plan on May 12, 2008. All told, Defendant Sannino sold McDermott stock and securities worth over $6.8 million during the Class Period.

(f) On March 17, 2008, shortly after the beginning of the Class Period, John Fees (then the President and CEO of McDermott’s B&W subsidiary) exercised options for 4,000 McDermott shares which he immediately sold for $50 per share. On May 15, 2008, Fees exercised options for 50,955 McDermott shares (100% of his exercisable options at that time) which he immediately sold for prices between $57.18 and $57.68. This massive, single-day exercise by Fees occurred within days of Defendants’ false or misleading statements on May 12 and 13, 2008. Fees also sold 1,850 shares of McDermott securities in his 401(k) Plan on May 12, 2008. All told, Fees sold McDermott stock and securities worth over $4.5 million during the Class Period.

(g) Also on May 15, 2008, McDermott Vice-President and General Counsel Liane Hinrichs exercised options for 25,290 McDermott shares, which he immediately sold for prices ranging from $57.37 to $57.64 per share. None of the options expired earlier than April 2, 2013. Hinrichs also sold 870 shares of McDermott securities in his 401(k) Plan on May 12, 2008. All told, Hinrichs sold McDermott stock and securities worth over $1.5 million during the Class Period.
On June 1, 2008 McDermott Director Ronald Cambre exercised options for 18,600 McDermott shares, which he immediately sold for $63.50 per share. None of the shares expired before May 14, 2014. Cambre sold McDermott stock and securities worth over $1.1 million during the Class Period.

I. Defendants' Misrepresentations are Not Protected By the Statutory Safe-Harbor

135. Defendants' misrepresentations alleged herein in ¶¶ 21-26, 29, 31, 35, 38-41, 43-46, 56, 59, 61, 66, 70, 74-80, 83 and 86 above are not "forward looking statements" under the PSLRA, 15 U.S.C. §78u-5(c)(1), because they were statements of present or past factual matters.

136. Even assuming, arguendo, that any of Defendants' statements were "forward-looking," they are not entitled to PSLRA "safe harbor" protection under 15 U.S.C. §78u-5(c)(1), because (i) Defendants, who had actual knowledge that the statements were false and/or misleading at the time the statements were made; and/or (ii) Defendants' statements were not accompanied by meaningful cautionary statements.

J. Reliance, Loss Causation and Damages

137. Plaintiffs and Class Members are presumed to have relied upon Defendants' materially false or misleading statements, because (1) as set forth in Paragraph 146 below, McDermott stock traded in a highly efficient market, and its price reflects all publicly-available information about the Company, including false or misleading statements made by Defendants; and (2) because many of Defendants' statements were rendered materially false or misleading as a result of the omission of material information.
138. Defendants' wrongful conduct alleged herein directly and proximately caused the losses suffered by Plaintiffs and the Class. Throughout the Class Period, Defendants' materially false or misleading statements caused the price of McDermott's stock to be artificially inflated. But for Defendants' material misrepresentations, McDermott stock would not have traded at the inflated levels that it traded at during the Class Period. As a result, Plaintiffs and the Class purchased McDermott stock at artificially inflated prices.

139. On November 5, 2008, and November 6, 2008, as more particularly alleged in paragraphs 93-100 and 105-06 above, McDermott made a series of disclosures to the public that revealed that Defendants' representations during the Class Period alleged above had been materially false or misleading, which caused the price of McDermott stock to drop in a significant amount, and removed the artificial inflation in the price of McDermott stock caused by Defendants' material misrepresentations.

CLASS ACTION ALLEGATIONS

140. Plaintiffs bring this action as a class action pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of a class consisting of all persons who purchased the publicly-traded common stock of McDermott between February 27, 2008 and November 5, 2008, inclusive (the "Class"). Excluded from the Class are Defendants, members of Defendants' immediate families, any entity in which any Defendant has a controlling interest, and the legal representatives, heirs, successors or assigns of any such excluded person.

141. The members of the Class are so numerous that joinder of all members is impracticable. Although the exact number of Class members is unknown to Plaintiffs at
this time and can only be ascertained through appropriate discovery, Plaintiffs believe
there are, at a minimum, thousands of members of the Class who purchased McDermott
common stock during the Class Period. As set forth in the Company's annual report for
the year ended December 31, 2008, filed with the SEC on Form 10-K on March 2, 2009,
the Company had over 228 million shares of its common stock outstanding as of January
30, 2009, and traded on the NYSE under the symbol “MDR.”

142. Common questions of law or fact exist as to all members of the Class and
predominate over any questions affecting solely individual members of the Class.

Among the questions of law and fact common to the Class are:

a. whether the federal securities laws were violated by Defendants’
   acts as alleged herein;

b. whether Defendants issued false and misleading statements during
   the Class Period;

c. whether Defendants acted knowingly and/or recklessly in issuing
   false and misleading statements;

d. whether the market price of McDermott common stock during the
   Class Period was artificially inflated because of Defendants'
   conduct complained of herein; and

e. whether the members of the Class have sustained damages and, if
   so, what is the proper measure of damages.

143. Plaintiffs’ claims are typical of the claims of the members of the Class, as
the claims of Plaintiffs and members of the Class arise from the same course of conduct
and share the same legal theories (violations of federal securities law).

144. Plaintiffs will fairly and adequately protect the interests of the members of
the Class and have retained counsel competent and experienced in class actions and
securities litigation. Plaintiffs have no interests antagonistic to or in conflict with those of the Class.

145. A class action is superior to other available methods for the fair and efficient adjudication of the controversy. Because the damages suffered by the individual Class members may be relatively small, the expense and burden of individual litigation makes it impracticable for the Class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

146. Issues common to the class will predominate over any purported individual issues. The primary issues affecting liability – whether Defendants made false or misleading statements, whether they did so with scienter, and whether the price of the Company’s stock was affected by these statements – are all common questions. With respect to the question of reliance, Plaintiffs will rely, in part, upon the presumption established by the fraud-on-the-market doctrine in that:

a. Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

b. the omissions and misrepresentations were material;

c. the stock of the Company was listed and traded on the NYSE, a highly efficient market, traded at a high volume, was followed and reported on by securities analysts; the Company filed periodic reports with the SEC and was eligible to file SEC registration Form S-3, and there are empirical facts showing a cause and effect relationship between unexpected corporate events or financial news and an immediate response in the stock price;

d. the Company issued press releases and conducted interviews that were carried by national news wires, which were publicly available and entered the public marketplace;

e. the misrepresentations and omissions alleged would tend to mislead a reasonable investor concerning McDermott’s business and/or financial condition; and
f. the market for McDermott stock promptly digested current information with respect to the Company from publicly available sources and reflected such information in the Company's stock price. Under such circumstances, Plaintiffs and members of the Class purchased their McDermott stock at prices that were artificially inflated due to Defendants' material misrepresentations and omissions.

CLAIMS FOR RELIEF

Count I

Against All Defendants For Violations of Section 10(b) And Rule 10b-5(b) Promulgated Thereunder

147. Plaintiffs repeat and re-allege each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

148. Plaintiffs repeat and re-allege each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

149. This Count is asserted against all Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5(b) promulgated thereunder by the SEC.

150. During the Class Period, Defendants engaged in a plan, scheme, conspiracy, and course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and courses of business which operated as a fraud and deceit upon Plaintiffs and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities.
151. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of Defendants participated directly or indirectly in the preparation and/or issuance of the quarterly reports, SEC filings, press releases and other statements and documents described above, all of which were designed to and did influence the market for McDermott common stock. Such reports, filings, releases, and statements were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about McDermott’s finances and business.

152. As officers, directors, and controlling persons of a publicly held company whose common stock was, and is, registered with the SEC, traded on the New York Stock Exchange during the Class Period, and governed by the provisions of the federal securities laws, the Defendants each had a duty to disseminate accurate and truthful information promptly with respect to, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of McDermott’s stock would be based upon truthful and accurate information. These Defendants’ misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

153. As more particularly alleged above, Defendants acted with scienter in that they knew or recklessly ignored that the public statements alleged above were materially false and misleading when made, knew that such statements or documents would be issued or disseminated to the investing public, and knowingly participated in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.
154. As a result of the dissemination of the aforementioned false and misleading reports, releases and public statements, the market price of McDermott common stock was artificially inflated throughout the Class Period. In ignorance of the adverse facts concerning McDermott, Plaintiffs and the other members of the Class purchased McDermott common stock at artificially inflated prices and relied upon the price of the stock, the integrity of the market for the stock and/or upon statements disseminated by Defendants and were damaged thereby.

155. As more particularly alleged above, the misrepresentations and misconduct by Defendants directly and proximately caused losses, injury and damages to Plaintiffs and the Class. Had Plaintiffs and the other members of the Class known the truth, they would not have purchased said shares or would not have purchased them at the inflated prices that were paid. At the time of the purchases by Plaintiffs and the Class, the true value of McDermott stock was substantially lower than the prices paid by Plaintiffs and the other members of the Class.

156. By reason of the conduct alleged herein, Defendants knowingly or recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act and Rule 10b-5(b) promulgated thereunder and caused losses, injury and damages to Plaintiffs and the other members of the Class.

**Count II**

Against All Defendants

For Violations of Section 20(a) of the Exchange Act

157. Plaintiffs repeat and re-allege each and every allegation contained in the foregoing paragraphs as if fully set forth herein.
158. This count is asserted against all Defendants and is based on Section 20 of the Exchange Act.

159. Because of their position of control and authority as senior officers, directors and/or controlling shareholders of McDermott, the Defendants were able to, and did, control the contents of the various reports, press releases, public statements and public filings that McDermott disseminated in the marketplace during the Class Period. Throughout the Class Period, the Defendants exercised their power and authority to cause McDermott to engage in the wrongful acts complained herein. Therefore, the Defendants were "controlling persons" of McDermott within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged that artificially inflated the market price of McDermott common stock.

160. As controlling persons of McDermott, the Defendants are liable pursuant to Section 20 of the Exchange Act.

WHEREFORE, Plaintiffs demand judgment against Defendants as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23, Federal Rules of Civil Procedure, and certifying the named Plaintiffs as Class Representatives;

B. Requiring Defendants to pay damages sustained by Plaintiffs and the Class by reason of the acts and transactions alleged herein;

C. Awarding Plaintiffs and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys’ fees, expert fees and other costs; and
D. Awarding such other and further relief as this Court may deem just and proper.

JURY DEMAND

Plaintiffs demand a trial by jury.

Date: May 22, 2009

Respectfully submitted,

SCHWARTZ, JUNELL, GREENBERG & OATHOUT, LLP

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Additional Counsel for the Class

CERTIFICATE OF SERVICE

I hereby certify that on May 22, 2009, I electronically filed the foregoing
Consolidated Complaint with the Clerk of the Court using the CM/ECF system which
will send notification of such filing to the email address denoted below, and I hereby
certify that I have mailed the foregoing documents via the United States Postal Service to
the non-CM/ECF participants as indicated below:

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