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Short Term Update Report **August 13, 2003**

UPDATE McDermott International Inc. (NYSE) MDR $4.19

Company Data

52-Week Range	$2.15-$7.75
Market Cap	$274.1M
Shares Outstanding	65.4M
Book Value	-$5.79
Price/Book	N/A
Average Daily Vol.	715.2K
Target Price	$10.00
Target Percentage	138%

Yesterday**, McDermott** reported second quarter results which were disappointing and below expectations. For the quarter ended June 30,2003 the company reported an operating loss of $0.95 per share as compared with an expectation of a profit of $0.05-$0.10 per share.

The primary reasons for the operating loss was an unexpected $39.9 million charge related to a construction project in Argentina due to severe weather condition. **If this unexpected weather related charge were not to occur, McDermott would have shown a profit of $.31 per share and before a non-cash charge of $40 Million related to the Babcock and Wilcox asbestos suit.**

With regard to the Argentina project, the company has employed force majeure in its contract, and has resulted in a renegotiation of the contract terms, which will reduce, significantly, any future risks to the company.

In the company's press release, the management expressed the view that a liquidity problem could develop for its J. Ray McDermott subsidiary should current negotiation for an extended bank credit facility be unproductive. While this would appear quite negative on the surface, the management spent a lot of time explaining this comment. At the current time, **McDermott** has sufficient liquidity of over a $145 million. The required back facility is primarily for performance letters of credit in order for the company to continue to move forward on its backlog. While the letter of credit is not generally utilized, it is a credit, which the banks will treat as if it were a direct loan. Essentially, the management indicated that as they continued to perform successfully, they anticipate a successful conclusion. It should be noted **McDermott International** recently secured $125 million line of credit for it's BWX subsidiary

Basically, the company outlined that its backlog no longer contains fixed priced project such as Argentina and the SPAR contracts, which have caused most of the companies recent problems. Other than the unexpected Argentina situation, McDermott has been successfully fulfilling its obligations under its current projects and its backlog continues to be at a healthy $1.4 Billion (net).

In conclusion, while we are disappointed with the quarterly results, it appears the company has taken the proper steps to return to profitable growth. Consequently we would maintain a position in the stock.

Our target price remains at $10.00 per share.