HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
July 27, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011

or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from__________ to__________

Commission File Number 001-32936

HELIX ENERGY SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	95–3409686 (I.R.S. Employer Identification No.)
400 North Sam Houston Parkway East Suite 400 Houston, Texas (Address of principal executive offices)	77060 (Zip Code)

(281) 618–0400
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [√] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [√] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [√] Accelerated filer [ ] Non-accelerated filer [ ]

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

As of July 21, 2011, 105,943,676 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 414,189	$ 391,085
Accounts receivable —		
Trade, net of allowance for uncollectible accounts of $4,395 and $4,527, respectively	212,406	177,293
Unbilled revenue	18,325	33,712
Costs in excess of billing	1,978	15,699
Other current assets	110,334	123,065
Total current assets	757,232	740,854
Property and equipment	4,586,583	4,486,077
Less — accumulated depreciation	(2,111,273)	(1,958,997)
	2,475,310	2,527,080
Other assets:		
Equity investments	188,772	187,031
Goodwill	62,902	62,494
Other assets, net	76,421	74,561
Total assets	$ 3,560,637	$ 3,592,020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 148,142	$ 159,381
Accrued liabilities	190,226	198,237
Current maturities of long-term debt	7,759	10,179
Total current liabilities	346,127	367,797
Long-term debt	1,239,893	1,347,753
Deferred income taxes	431,821	413,639
Asset retirement obligations	166,458	170,410
Other long-term liabilities	5,432	5,777
Total liabilities	2,189,731	2,305,376
Convertible preferred stock	1,000	1,000
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par, 240,000 shares authorized, 105,948 and 105,592 shares issued, respectively	911,393	906,957
Retained earnings	459,875	392,705

Accumulated other comprehensive loss	(27,956)	(39,058)
Total controlling interest shareholders’ equity	1,343,312	1,260,604
Noncontrolling interests	26,594	25,040
Total equity	1,369,906	1,285,644
Total liabilities and shareholders’ equity	$ 3,560,637	$ 3,592,020

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Net revenues:		
Contracting services	$ 165,861	$ 196,676
Oil and gas	172,458	102,586
	338,319	299,262
Cost of sales:		
Contracting services	116,521	140,126
Oil and gas	98,879	94,092
Oil and gas property impairments	22,721	159,862
	238,121	394,080
Gross profit (loss)	100,198	(94,818)
Gain on oil and gas derivative contracts	—	2,482
Gain (loss) on the sale or acquisition of assets, net	(22)	(14)
Selling and administrative expenses	(23,758)	(24,546)
Income (loss) from operations	76,418	(116,896)
Equity in earnings of investments	5,887	1,656
Net interest expense	(25,278)	(20,523)
Other income (expense)	1,253	(1,676)
Income (loss) before income taxes	58,280	(137,439)
Provision (benefit) for income taxes	16,171	(52,366)
Net income (loss), including noncontrolling interests	42,109	(85,073)
Less net income applicable to noncontrolling interests	(786)	(444)
Net income (loss) applicable to Helix	41,323	(85,517)
Preferred stock dividends	(10)	(34)
Net income (loss) applicable to Helix common shareholders	$ 41,313	$ (85,551)
Earnings (loss) per share of common stock:		
Basic	$ 0.39	$ (0.82)
Diluted	$ 0.39	$ (0.82)
Weighted average common shares outstanding:		
Basic	104,673	104,125
Diluted	105,140	104,125

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net revenues:		
Contracting services	$ 288,609	$ 307,531
Oil and gas	341,317	193,301
	629,926	500,832
Cost of sales:		
Contracting services	223,428	226,374
Oil and gas	206,503	172,446
Oil and gas property impairments	22,721	170,974
	452,652	569,794
Gross profit (loss)	177,274	(68,962)
Gain on oil and gas derivative contracts	—	2,482
Gain (loss) on sale or acquisition of assets, net	(6)	6,233
Selling and administrative expenses	(48,739)	(65,047)
Income (loss) from operations	128,529	(125,294)
Equity in earnings of investments	11,537	6,711
Gain on sale of Cal Dive common stock	753	—
Net interest expense	(49,514)	(36,158)
Other income (expense)	3,160	(7,261)
Income (loss) before income taxes	94,465	(162,002)
Provision (benefit) for income taxes	25,721	(59,927)
Net income (loss), including noncontrolling interests	68,744	(102,075)
Less net income applicable to noncontrolling interests	(1,554)	(1,273)
Net income (loss) applicable to Helix	67,190	(103,348)
Preferred stock dividends	(20)	(94)
Net income (loss) applicable to Helix common shareholders	$ 67,170	$ (103,442)
Earnings (loss) per share of common stock:		
Basic	$ 0.63	$ (1.00)
Diluted	$ 0.63	$ (1.00)
Weighted average common shares outstanding:		
Basic	104,573	103,610
Diluted	105,024	103,610

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income (loss), including noncontrolling interests	$ 68,744	$ (102,075)
Adjustments to reconcile net income (loss), including noncontrolling interests to net cash provided by operating activities		
Depreciation and amortization	167,170	146,268
Asset impairment charge and dry hole expense	29,352	170,784
Amortization of deferred financing costs	4,777	3,768
Stock compensation expense	4,938	4,589
Amortization of debt discount	4,414	4,136
Deferred income taxes	23,864	(54,749)
Excess tax benefit from stock-based compensation	1,196	2,163
Gain on investment in Cal Dive common stock	(753)	—
(Gain) loss on sale or acquisition of assets	6	(6,233)
Unrealized (gain) loss on derivative contracts	(34)	2,813
Changes in operating assets and liabilities:		
Accounts receivable, net	(18,207)	(30,591)
Other current assets	12,712	16,477
Income tax payable	(4,154)	(10,811)
Accounts payable and accrued liabilities	(27,070)	28,027
Oil and gas asset retirement costs	(16,073)	(28,727)
Other noncurrent, net	(309)	(9,439)
Net cash provided by operating activities	250,573	136,400
Cash flows from investing activities:		
Capital expenditures	(106,122)	(135,612)
Investments in equity investments	(2,699)	(6,307)
Distributions from equity investments, net	1,593	8,132
Proceeds from sale of Cal Dive common stock	3,588	—
Insurance recovery for capital items	—	16,106
Decrease in restricted cash	863	109
Net cash used in investing activities	(102,777)	(117,572)
Cash flows from financing activities:		
Borrowing under revolving credit facility	109,400	—
Repayment of revolving credit facility	(109,400)	—

Repayment of Helix Term Loan	(111,191)	(2,163)
Repayment of MARAD borrowings	(2,294)	(2,403)
Loan notes repayment	(1,213)	(1,167)
Deferred financing costs	(9,014)	(2,792)
Preferred stock dividends paid	(20)	(94)
Repurchases of common stock	(1,012)	(9,127)
Excess tax benefit from stock-based compensation	(1,196)	(2,163)
Exercise of stock options, net	1,672	163
Net cash used in financing activities	(124,268)	(19,746)
Effect of exchange rate changes on cash and cash equivalents	(424)	246
Net increase (decrease) in cash and cash equivalents	23,104	(672)
Cash and cash equivalents:		
Balance, beginning of year	391,085	270,673
Balance, end of period	$ 414,189	$ 270,001

The accompanying notes are an integral part of these condensed consolidated financial statements.

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Helix Energy Solutions Group, Inc. and its majority-owned subsidiaries (collectively, "Helix" or the "Company"). Unless the context indicates otherwise, the terms "we," "us" and "our" in this report refer collectively to Helix and its majority-owned subsidiaries.   All material intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission (“SEC”), and do not include all information and footnotes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and are consistent in all material respects with those applied in our 2010 Annual Report on Form 10-K (“2010 Form 10-K”). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. Management has reflected all adjustments (which were normal recurring adjustments unless otherwise disclosed herein) that it believes are necessary for a fair presentation of the condensed consolidated balance sheets, results of operations, and cash flows, as applicable. The operating results for the periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. Our balance sheet as of December 31, 2010 included herein has been derived from the audited balance sheet as of December 31, 2010 included in our 2010 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2010 Form 10-K.

Certain reclassifications were made to previously reported amounts in the condensed consolidated financial statements and notes thereto to make them consistent with the current presentation format, including reclassifying the previously recorded results associated with our discontinued operations. The discontinued operations results are now reflected as a component of other income (expense) in the accompanying condensed consolidated statement of operations as such amounts are immaterial for all the periods presented in this Quarterly Report on Form 10-Q.

Note 2 – Company Overview

We are an international offshore energy company that provides reservoir development solutions and other contracting services to the energy market as well as to our own oil and gas properties. Our Contracting Services segment utilizes our vessels, offshore equipment and methodologies to deliver services that may reduce finding and development costs and encompass the complete lifecycle of an offshore oil and gas field. Our Contracting Services are located primarily in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions. Our Oil and Gas segment engages in exploration, development and production activities. Our oil and gas operations are exclusively located in the Gulf of Mexico.

Contracting Services Operations

We seek to provide services and methodologies which we believe are critical to finding and developing offshore reservoirs and maximizing production economics. Our “life of field” services are segregated into four disciplines: subsea construction, well operations, robotics and production facilities. We have disaggregated our contracting services operations into two reportable segments: Contracting Services and Production Facilities. Our Contracting

Services business primarily includes subsea construction, deepwater pipelay, well operations and robotics activities. Our Production Facilities business includes our investments in Deepwater Gateway, L.L.C. ("Deepwater Gateway") and Independence Hub, LLC ("Independence Hub") as well as our majority ownership of the Helix Producer I ("HP I") vessel. We have developed a response system that has been referenced as a designated spill response solution in Gulf of Mexico permit applications (see "Events in Gulf of Mexico" below).

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Oil and Gas Operations

We began our oil and gas operations to provide a more efficient solution to offshore abandonment, to expand our off-season utilization of our contracting services assets and to achieve incremental returns. We have evolved this business model to include not only mature oil and gas properties but also proved and unproved reserves yet to be developed and explored. This has led to the assembly of services that allows us to create value at key points in the life of a reservoir from exploration through development, life of field management and operating through abandonment.

Events in Gulf of Mexico

In April 2010, an explosion occurred on the Deepwater Horizon drilling rig located on the site of the Macondo well at Mississippi Canyon Block 252. The resulting events included loss of life, the complete destruction of the drilling rig and an oil spill, the magnitude of which was unprecedented in U.S. territorial waters. In May 2010, the U.S. Department of Interior ("DOI") announced a total moratorium on new drilling in the Gulf of Mexico. In October 2010, the DOI lifted the drilling moratorium and instructed the Bureau of Ocean Energy Management, Regulation and Enforcement ("BOEMRE") that it could resume issuing drilling permits conditioned on the requesting company's compliance with all revised drilling, safety and environmental requirements. No deepwater drilling permits were issued in the period from October 2010 through late February 2011. In late February 2011, the BOEMRE commenced issuing deepwater permits. At the time of this filing 24 deepwater permits have been issued, 14 of which were issued referencing the Helix Fast Response System as further discussed below.

We developed the Helix Fast Response System ("HFRS") as a culmination of our experience as a responder in the Macondo oil spill response and containment efforts. The HFRS centers on two vessels, the HP I and the Q4000, both of which played a key role in the Macondo oil spill response and containment efforts and are presently operating in the Gulf of Mexico. In 2011, we signed an agreement with Clean Gulf Associates ("CGA"), a non-profit industry group, allowing, in exchange for a retainer fee, the HFRS to be named as a response resource in permit applications to federal and state agencies and making the HFRS available for a two-year term to certain CGA participants who have executed utilization agreements with us. In addition to the agreement with CGA, we currently have signed separate utilization agreements with 24 CGA participant member companies specifying the day rates to be charged should the HFRS solution be deployed in connection with a well control incident. The retainer fee for the HFRS became effective April 1, 2011 and is a component of our Production Facilities business segment. A total of 14 permits have been granted to CGA participants for deepwater drilling operations identifying the HFRS to fulfill the BOERME requirement to have a spill response solution included in the submitted permit applications.

New Accounting Pronouncement

In June 2011, the Financial Accounting Standards Board ("FASB") issued an update to existing guidance on the presentation of comprehensive income. This update will require the presentation of the components of net income and other comprehensive income either in a single continuous statement or in two separate but consecutive statements. In addition, companies are also required to present reclassification adjustments for items that are reclassified from other comprehensive income to net income on the face of the financial statements. The update is effective for fiscal years and interim periods beginning after December 15, 2011. We will adopt the new disclosure requirements for comprehensive income beginning January 1, 2012 and are currently evaluating the provisions of this update.

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Note 3 – Details of Certain Accounts

Other current assets consisted of the following as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
	(in thousands)	
Other receivables	$ 854	$ 1,247
Prepaid insurance	12,141	12,375
Other prepaids	12,692	11,623
Spare parts inventory	21,850	25,333
Current deferred tax assets	37,533	49,200
Hedging assets	5,988	5,472
Gas imbalance	5,961	6,001
Income tax receivable	9,059	6,099
Investment held for sale (a)	—	2,835
Other	4,256	2,880
	$ 110,334	$ 123,065

a. In March 2011, we sold our remaining 500,000 shares of Cal Dive common stock. These sales transactions resulted in net proceeds of approximately $3.6 million and a pre-tax gain of $0.8 million. In the fourth quarter of 2010, we recognized a $2.2 million other than temporary loss on our investment in Cal Dive common shares (see Notes 2 and 3 of our 2010 Form 10-K for additional information regarding our former Investment in Cal Dive common stock).

Other assets, net, consisted of the following as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
	(in thousands)	
Restricted cash	$ 34,476	$ 35,339
Deferred drydock expenses, net	7,616	11,086
Deferred financing costs, net	30,127	25,697
Intangible assets with finite lives, net	602	636
Other	3,600	1,803
	$ 76,421	$ 74,561

Accrued liabilities consisted of the following as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
	(in thousands)	
Accrued payroll and related benefits	$ 33,148	$ 38,026
Royalties payable	17,115	15,008
Current asset retirement obligations	64,349	64,526
Unearned revenue	8,504	4,094
Billing in excess of cost	6,346	3,869

Accrued interest		27,347		27,308
Hedge liability		17,212		30,606
Other		16,205		14,800
	$	190,226	$	198,237

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Note 4 – Oil and Gas Properties

We follow the successful efforts method of accounting for our interests in oil and gas properties. Under the successful efforts method, the costs of drilling and equipping successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Costs incurred relating to unsuccessful exploratory wells are charged to expense in the period in which the drilling is determined to be unsuccessful.

Depletion expense is determined on a field-by-field basis using the units-of-production method, with depletion rates for leasehold acquisition costs based on estimated total remaining proved reserves. Depletion rates for well and related facility costs are based on estimated total remaining proved developed reserves associated with each individual field. The depletion rates are changed whenever there is an indication of the need for a revision but, at a minimum, are evaluated annually. Any such revisions are accounted for prospectively as a change in accounting estimate.

Impairments

During the three-month period ended June 30, 2011, we recorded impairment charges totaling $22.7 million, including $4.1 million for our only non-domestic oil and gas property (see "United Kingdom Property" below), and for six of our Gulf of Mexico oil and gas properties. These impairment charges primarily reflect a premature end of these fields' production life either through actual depletion or as a result of capital allocation decisions affecting our third party operated fields. We did not have any impairment of our oil and gas properties in the first quarter of 2011. Following the determination of a significant reduction in our estimates of proved reserves at June 30, 2010, we recorded oil and gas property impairment charges totaling $159.9 million which affected the carrying value of 15 of our Gulf of Mexico oil and gas properties.

In the first quarter of 2010, we recorded $7.0 million of impairment charges primarily resulting from natural gas price declines since year end 2009. The three properties subject to these impairment charges produce natural gas almost entirely. Separately, we also recorded a $4.1 million impairment charge for our U.K oil and gas property.

Exploration and Other

As of June 30, 2011, we capitalized approximately $3.6 million of costs associated with ongoing exploration and/or appraisal activities. Such capitalized costs may be charged against earnings in future periods if management determines that commercial quantities of hydrocarbons have not been discovered or that future appraisal drilling or development activities are not likely to occur.

The following table details the components of exploration expense for the three and six month periods ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Delay rental and geological and geophysical costs	$ 1,299	$ 1,182	$ 1,654	$ 1,528
Impairment of unproved properties (a)	6,640	—	6,640	—
Dry hole expense	—	(10)	(9)	(190)
Total exploration expense	$ 7,939	$ 1,172	$ 8,285	$ 1,338

a. Reflects costs associated with a deepwater lease in which the term expired during the second quarter of 2011.

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United Kingdom Property

Since 2006, we have maintained an ownership interest in the Camelot field, located offshore in the North Sea. In 2007, we sold half of our 100% working interest in Camelot to a third party with whom we agreed to jointly pursue future development and production of the field. In February 2010, we acquired this third party, including $10.2 million of cash, and thereby assumed the obligations, most notably the asset retirement obligation, related to its 50% working interest in the field. We recorded an approximate $6.0 million gain on the acquisition of the remaining working interest in Camelot (see Note 5 of 2010 Form 10-K).

Also in connection with this acquisition, we reassessed the fair value associated with our original 50% interest in the field. Based on these evaluations, we concluded that the Camelot field was impaired based on the unlikely probability of our expending the additional capital necessary to further develop the field. As a result, we recorded a $4.1 million impairment charge to fully impair the property in the first quarter of 2010. We are currently abandoning the field in accordance with applicable United Kingdom regulations. In connection with these activities, during the second quarter of 2011 we revised our estimated future field abandonment costs for the field, which resulted in our recording an incremental $4.1 million impairment charge to increase our asset retirement obligation to $12.1 million at June 30, 2011. We have incurred approximately $3.7 million of costs related to our reclamation activities at the Camelot field through June 30, 2011.

Asset retirement obligations

The following table describes the changes in our asset retirement obligations (both long term and current) since December 31, 2010 (in thousands):

Asset retirement obligation at December 31, 2010	$ 234,936
Liability incurred during the period	672
Liability settled during the period	(25,273)
Revision in estimated cash flows	12,842
Accretion expense (included in depreciation and amortization)	7,630
Asset retirement obligations at June 30, 2011	$ 230,807

Insurance

In September 2008, we sustained damage to certain of our oil and gas production facilities from Hurricanes Gustav and Ike. We carried comprehensive insurance on all of our operated and non-operated producing and non-producing properties. We record our hurricane-related costs as incurred. Insurance reimbursements are recorded when the realization of the claim for recovery of a loss is deemed probable. We incurred $0.1 million of hurricane-related costs in the first half of 2011, which were totally offset by $4.7 million of insurance reimbursements. Our hurricane-related costs, net of reimbursements totaled $1.6 million and $3.6 million for the three-month and six-month periods ended June 30, 2010. Expense related to our hurricane catastrophic bond windstorm coverage was immaterial for all periods presented in this Quarterly Report on Form 10-Q. On June 30, 2011, we renewed our hurricane catastrophic bond for the period July 1, 2011 to June 30, 2012 and made a payment of $10.6 million. We will charge approximately $8.4 million of this payment to insurance expense in the third quarter of 2011 and $2.0 million in the fourth quarter of 2011 based upon the bond's contractual intrinsic value at the end of each of those quarterly periods.

Note 5 – Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. We had restricted cash totaling $34.5 million at June 30, 2011 and $35.3 million at December 31, 2010, all of which was related to funds required to be escrowed to cover the future asset retirement obligations associated with our South Marsh Island Block 130 field. We have fully satisfied the escrow requirements under the escrow agreement. We have used a small portion of these escrowed funds to pay for the initial reclamation activities at the South Marsh Island Block 130 field. Reclamation activities at the field will occur over many years and will be funded with these escrowed amounts. These amounts are reflected in other assets, net in the accompanying condensed consolidated balance sheets.

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The following table provides supplemental cash flow information for the six-month period ended June 30, 2011 and 2010 (in thousands):

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest paid, net of capitalized interest(1)	$ 40,220	$ 27,847
Income taxes paid	$ 7,236	$ 6,642

Non-cash investing activities for the six-month periods ended June 30, 2011 and 2010 included $33.7 million and $32.0 million, respectively, of accruals for capital expenditures. The accruals have been reflected in the condensed consolidated balance sheet as an increase in property and equipment and accounts payable.

Note 6 – Equity Investments

As of June 30, 2011, we have three investments that we account for using the equity method of accounting: Deepwater Gateway, Independence Hub, and the Clough Helix Joint Venture Pty Ltd. ("Clough Helix JV"). Deepwater Gateway and Independence Hub are included in our Production Facilities segment while the Clough Helix joint venture is a component of our Contracting Services segment.

- Deepwater Gateway, L.L.C. In June 2002, we, along with Enterprise Products Partners L.P. ("Enterprise"), formed Deepwater Gateway, each with a 50% interest, to design, construct, install, own and operate a tension leg platform production hub primarily for Anadarko Petroleum Corporation's Marco Polo field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled $98.3 million and $99.8 million as of June 30, 2011 and December 31, 2010, respectively (including capitalized interest of $1.4 million and $1.5 million at June 30, 2011 and December 31, 2010, respectively). Distributions from Deepwater Gateway, net to our interest, totaled $1.8 million and $3.6 million for the respective three-month and six-month periods ended June 30, 2011.

- Independence Hub, LLC. In December 2004, we acquired a 20% interest in Independence Hub, an affiliate of Enterprise. Independence Hub owns the "Independence Hub" platform located in Mississippi Canyon Block 920 in a water depth of 8,000 feet. First production through the facility commenced in July 2007. Our investment in Independence Hub was $81.0 million and $82.4 million as of June 30, 2011 and December 31, 2010, respectively (including capitalized interest of $5.1 million and $5.2 million at June 30, 2011 and December 31, 2010, respectively). Distributions from Independence Hub, net to our interest, totaled $5.2 million and $9.6 million for the three-month and six-month periods ended June 30, 2011, respectively.

- Clough Helix JV. In February 2010, we announced the formation of the Clough Helix JV with Australian-based engineering and construction company, Clough Projects Australia Pty Ltd ("Clough"), to provide a range of subsea services to offshore operators in the Asia Pacific region. The Clough Helix JV combines our well intervention equipment with Clough's 12-man saturation diving system, which are deployed from the 118 meter long DP2 multiservice vessel, Normand Clough. In the first quarter of 2011, the Clough Helix JV commenced an approximate six- to nine-month day rate project located offshore China. Our 50% share of the earnings from the Clough Helix JV totaled $0.7 million and $1.1 million for the three- and six-month periods ended June 30, 2011, respectively as compared to losses of $4.3 million and $5.7 million in the three- and six-month periods ended June 30, 2010, respectively. The loss in the 2010 periods primarily represented the mobilization costs of transporting the Normand Clough from the Gulf of Mexico to Singapore and other start up costs. Our investment in the Clough Helix JV was $9.5 million at June 30, 2011 and $4.9 million at December 31, 2010.

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Note 7 – Long-Term Debt

Scheduled maturities of long-term debt outstanding as of June 30, 2011 were as follows (in thousands):

	Term Loan	Revolving Loans	Senior Unsecured Notes	Convertible Senior Notes (1)	MARAD Debt	Total
Less than one year	$ 3,000	$	$	$	$ 4,759	$ 7,759
One to two years	3,000				4,997	7,997
Two to three years	3,000				5,247	8,247
Three to four years	3,000				5,508	8,508
Four to five years	287,250		550,000		5,783	843,033
Over five years				300,000	86,222	386,222
Total debt	299,250		550,000	300,000	112,516	1,261,766
Current maturities	(3,000)				(4,759)	(7,759)
Long-term debt, less current maturities	$ 296,250	$	$ 550,000	$ 300,000	$ 107,757	$ 1,254,007
Unamortized debt discount (2)				(14,114)		(14,114)
Long-term debt	$ 296,250	$	$ 550,000	$ 285,886	$ 107,757	$ 1,239,893

(1) Beginning in December 2012, the holders may require us to repurchase the notes or we may at our own option elect to repurchase the notes. The notes will mature in March 2025.
(2) The notes will increase to the $300 million face amount through accretion of non-cash interest charges through 2012.

At June 30, 2011, unsecured letters of credit issued totaled approximately $48.8 million (see "Credit Agreement" below). These letters of credit primarily guarantee various contract bidding, contractual performance, including asset retirement obligations, and insurance activities. The following table details our interest expense and capitalized interest for the three and six month periods ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Interest expense	$ 26,029	$ 24,597	$ 50,796	$ 48,946
Interest income	(499)	(199)	(975)	(397)
Capitalized interest	(252)	(3,875)	(307)	(12,391)
Interest expense, net	$ 25,278	$ 20,523	$ 49,514	$ 36,158

Included below is a summary of certain components of our indebtedness. For additional information regarding our debt see Note 9 of our 2010 Form 10-K.

Senior Unsecured Notes

In December 2007, we issued $550 million of 9.5% Senior Unsecured Notes due 2016 ("Senior Unsecured Notes"). Interest on the Senior Unsecured Notes is payable semiannually in arrears on each January 15 and July 15, commencing July 15, 2008. The Senior Unsecured Notes are fully and unconditionally guaranteed by substantially all of our existing restricted domestic subsidiaries, except for Cal Dive I-Title XI, Inc. In addition, any future restricted domestic subsidiaries that guarantee any of our indebtedness and/or our restricted subsidiaries' indebtedness are required to guarantee the Senior Unsecured Notes. Our foreign subsidiaries are not guarantors.

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Credit Agreement

In July 2006, we entered into a credit agreement (the “Credit Agreement”) containing both a term loan (the “Term Loan”) and a revolving credit facility (the “Revolving Credit Facility”). The $835 million term loan was used to fund the cash portion of the acquisition of Remington Oil and Gas Corporation in July 2006. The original borrowing capacity under the Revolving Credit Facility was $300 million. In June 2011, we amended our Credit Agreement as further discussed below. For additional information regarding the previous terms of our Credit Agreement see Note 9 of our 2010 Form 10-K.

The fourth amendment to our Credit Agreement, among other things:

· increases the Revolving Credit Facility to $600.0 million (capacity was $435 million prior to the closing of the fourth amendment);

· extends the maturity date of the Term Loan from July 1, 2013 to a maturity date that is the earlier of (A) July 1, 2016, or (B), if our currently outstanding Senior Unsecured Notes due in 2016 are not fully re-financed or repaid by July 1, 2015, July 1, 2015;

· provided for the repayment of $109.4 million of the outstanding principal portion of the Term Loan together with accrued interest thereon and related costs;

· extends the maturity date of the Revolving Credit Facility from November 30, 2012 to a maturity date that is the earlier of (A) January 1, 2016, or (B), if our currently outstanding Senior Unsecured Notes due in 2016 are not fully re-financed or repaid by July 1, 2015, July 1, 2015;

· relaxes limitations on our right to dispose of certain Contracting Services assets comprising collateral to the Credit Agreement;

· increases the amount of restricted payments in the form of stock repurchases or redemptions that we are permitted to repurchase or redeem up to $50 million of our common stock;

· permits us to repurchase or redeem all or part of our Convertible Senior Notes or Senior Unsecured Notes assuming certain conditions are met pro forma for any such transaction, including maintaining minimum levels of liquidity (defined as cash on hand and availability under our Revolving Credit Facility) of (A) $400 million with respect to the Convertible Senior Notes, and (B) $500 million with respect to the Senior Unsecured Notes; and

· increases the maximum amount of all investments permitted in subsidiaries that are neither loan parties nor whose equity interests are pledged from $150 million to $200 million.

With the closing of the fourth amendment, the Term Loan currently bears interest either at the one-, two-, three- or six-month LIBOR or Base Rates at our election plus a margin of between 3.25% and 3.5% (LIBOR margin) or 2.25%

to 2.5% (Base Rate margin) depending on current leverage ratios. Our average interest rate on the Term Loan for the six-month periods ended June 30, 2011 and 2010 was approximately 3.2% and 2.9%, respectively, including the effects of our interest rate swaps (Note 16).

The full amount of the Revolving Credit Facility may be used for issuances of letters of credit. At June 30, 2011, we had no amounts drawn on the Revolving Credit Facility and our availability under the Revolving Credit Facility totaled $551.2 million, net of $48.8 million of letters of credit issued.

With the closing of the fourth amendment, the borrowings outstanding under the Revolving Credit Facility will bear interest based on one-, two-, three- or six-month LIBOR rates or on Base Rates at our election plus an applicable margin. The LIBOR margin ranges from 2.5% to 3.5% and the Base Rate margin rates from 1.5% to 2.5%, depending on our consolidated leverage ratio. In connection with the closing of the fourth amendment to our Credit Agreement (as noted above), we borrowed $109.4 million under the Revolving Credit Facility and prepaid a portion of the Term Loan. We subsequently repaid all borrowings under our Revolving Credit Facility with our available cash on hand at June 30, 2011.

The Credit Agreement contains various covenants regarding, among other things, collateral, capital expenditures, investments, dispositions, indebtedness and financial performance that are customary for this type of financing and for companies in our industry.

As the rates for our Term Loan are subject to market influences and will vary over the term of the Credit Agreement, we may enter into various cash flow hedging interest rate swaps to stabilize cash flows relating to a portion of our interest payments for our Term Loan. In January 2010, we entered into $200 million, two-year interest rate swaps to stabilize cash flows relating to a portion of our interest payments on our Term Loan (Note 16).

Convertible Senior Notes

In March 2005, we issued $300 million of our Convertible Senior Notes at 100% of the principal amount to certain qualified institutional buyers. The Convertible Senior Notes are convertible into cash and, if applicable, shares of our common stock based on the specified conversion rate, subject to adjustment.

The Convertible Senior Notes can be converted prior to the stated maturity (March 2025) under certain triggering events specified in the indenture governing the Convertible Senior Notes. To the extent we do not have long-term financing secured to cover the conversion, the Convertible Senior Notes would be classified as a current liability in the accompanying condensed consolidated balance sheet. No conversion triggers were met during either the three or six-month periods ended June 30, 2011 or June 30, 2010. The first dates for early redemption of the Convertible Senior Notes are in December 2012, with the holders of the Convertible Senior Notes being able to put them to us on December 15, 2012 and our being able to call the Convertible Senior Notes at any time after December 20, 2012 (see Note 9 of our 2010 Form 10-K). Effective January 1, 2009 we adopted certain new required accounting standards that required us to discount the principal amount of our Convertible Senior Notes. Following adoption of these accounting standards, the effective interest rate for the Convertible Senior Notes is 6.6%.

Our average share price was below the $32.14 per share conversion price for all the periods presented in this Quarterly Report on Form 10-Q. As a result of our share price being lower than the $32.14 per share conversion price for these periods there are no shares included in our diluted earnings per share calculation associated with the assumed conversion of our Convertible Senior Notes. In the event our average share price exceeds the conversion price, there would be a premium, payable in shares of common stock, in addition to the principal amount, which is paid in cash, and such shares would be issued on conversion. The Convertible Senior Notes are convertible into a maximum 13,303,770 shares of our common stock.

MARAD Debt

This U.S. government guaranteed financing ("MARAD Debt") pursuant to Title XI of the Merchant Marine Act of 1936, which is administered by the Maritime Administration, was used to finance the construction of the Q4000. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and matures in February 2027. The MARAD Debt is collateralized by the Q4000, with us guaranteeing 50% of the debt, and initially bore interest at a floating rate which approximated AAA Commercial Paper yields plus 20 basis points. As provided for in the MARAD Debt agreements, in September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same February 2027 maturity date.

Other

In accordance with our Credit Agreement and our Senior Unsecured Notes, Convertible Senior Notes and MARAD Debt agreements, we are required to comply with certain covenants, including the maintenance of minimum net worth, working capital and debt-to-equity requirements, and restrictions that limit our ability to incur certain types of additional indebtedness. As of June 30, 2011, we were in compliance with these covenants and restrictions.

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Deferred financing costs of $30.1 million and $25.7 million are included in other assets, net as of June 30, 2011 and December 31, 2010, respectively, and are being amortized over the life of the applicable loan agreements. We charged to expense $0.8 million of deferred financing costs associated with the repayment of $109.4 million of our Term Loan balance in June 2011 (see "Credit Agreement" above)

Note 8 – Income Taxes

The effective tax rates for the three-month and six-month periods ended June 30, 2011 were 27.7% and 27.2%, respectively. The effective tax rates for the three-month and six-month periods ended June 30, 2010 reflected benefits of 38.1% and 37.0%, respectively. The variance primarily reflects the increased benefit derived from the effect of lower tax rates in certain foreign jurisdictions.

We believe our recorded assets and liabilities are reasonable. However, because tax laws and regulations are subject to interpretation and tax litigation is inherently uncertain, our assessments can involve a series of complex judgments about future events and rely heavily on estimates and assumptions.

Note 9 – Comprehensive Income (Loss)

The components of total comprehensive income (loss) for the three and six-month periods ended June 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss), including noncontrolling interests	$ 42,109	$ (85,073)	$ 68,744	$ (102,075)
Other comprehensive income (loss), net of tax				
Foreign currency translation gain (loss)	(1,416)	(3,106)	699	(13,808)
Unrealized gain on hedges, net	20,970	2,063	10,403	16,103
Unrealized loss on investment available for sale		(481)		(556)
Total other comprehensive income (loss)	$ 61,663	$ (86,597)	$ 79,846	$ (100,336)

The components of accumulated other comprehensive loss were as follows (in thousands):

	June 30, 2011	December 31, 2010
Cumulative foreign currency translation adjustment	$ (21,563)	$ (22,262)
Unrealized loss on hedges, net	(6,393)	(16,796)
Accumulated other comprehensive loss	$ (27,956)	$ (39,058)

Note 10 – Earnings Per Share

We have shares of restricted stock issued and outstanding, some of which remain subject to certain vesting requirements. Holders of such shares of unvested restricted stock are entitled to the same liquidation and dividend rights as the holders of our outstanding common stock and are thus considered participating securities. Under applicable accounting guidance, the undistributed earnings for each period are allocated based on the participation rights of both the common shareholders and holders of any participating securities as if earnings for the respective periods had been distributed. Because both the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, we are required to compute earnings per share ("EPS") amounts under the two class method in periods in which we have earnings from continuing operations. For periods in which we have a net loss we do not use the two class method as holders of our restricted shares are not contractually obligated to share in such losses.

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The presentation of basic EPS amounts on the face of the accompanying condensed consolidated statements of operations is computed by dividing the net income available to common shareholders by the weighted average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS, except that the denominator includes dilutive common stock equivalents and the income included in the numerator excludes the effects of the impact of dilutive common stock equivalents, if any. The computations of the numerator (Income) and denominator (shares) to derive the basic and diluted EPS amounts presented on the face of the accompanying condensed consolidated statements of operations are as follows (in thousands):

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	Income	Shares	Income	Shares
Basic:				
Net income (loss) applicable to common shareholders	$ 41,313		$ (85,551)	
Less: Undistributed net income allocable to participating securities	(514)			
Net income (loss) applicable to common stock	$ 40,799	104,673	$ (85,551)	104,125