

OCEANEERING INTERNATIONAL INC

Form 10-Q

July 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

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: 1-10945

OCEANEERING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-2628227

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

11911 FM 529

77041

Houston, Texas

(Zip Code)

(Address of principal executive offices)

(713) 329-4500

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed from 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 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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of Common Stock outstanding as of July 24, 2015: 97,844,464

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	Jun 30, 2015	Dec 31, 2014
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 190,630	\$ 430,714
Accounts receivable, net of allowances for doubtful accounts of \$287 and \$137	795,891	778,372
Inventory	376,950	375,588
Other current assets	156,529	128,876
Total Current Assets	1,520,000	1,713,550
Property and Equipment, at cost	2,758,145	2,660,788
Less accumulated depreciation	1,447,934	1,354,966
Net Property and Equipment	1,310,211	1,305,822
Other Assets:		
Goodwill	435,610	331,474
Investments in unconsolidated affiliates	32,164	32,624
Other non-current assets	170,349	121,470
Total Other Assets	638,123	485,568
Total Assets	\$ 3,468,334	\$ 3,504,940
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 135,779	\$ 123,688
Accrued liabilities	469,088	490,260
Income taxes payable	58,119	65,189
Total Current Liabilities	662,986	679,137
Long-term Debt	792,917	743,009
Other Long-term Liabilities	414,267	425,024
Commitments and Contingencies		
Shareholders' Equity:		
Common Stock, par value \$0.25 per share; 360,000,000 shares authorized; 110,834,088 shares issued	27,709	27,709
Additional paid-in capital	220,565	229,640
Treasury stock; 12,989,624 and 11,220,682 shares, at cost	(743,852)	(656,917)
Retained earnings	2,321,579	2,240,229
Accumulated other comprehensive loss	(227,837)	(182,891)
Total Shareholders' Equity	1,598,164	1,657,770
Total Liabilities and Shareholders' Equity	\$ 3,468,334	\$ 3,504,940
The accompanying Notes are an integral part of these Consolidated Financial Statements.		

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OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$810,303	\$927,407	\$1,597,075	\$1,767,608
Cost of services and products	642,758	709,192	1,266,081	1,359,902
Gross Margin	167,545	218,215	330,994	407,706
Selling, general and administrative expense	59,605	56,904	116,404	113,533
Income from Operations	107,940	161,311	214,590	294,173
Interest income	51	41	207	120
Interest expense, net of amounts capitalized	(6,212	) (398	) (12,300	) (809
Equity in losses of unconsolidated affiliates	1	8	(254	) (28
Other expense, net	(6,484	) (417	) (5,784	) (123
Income before Income Taxes	95,296	160,545	196,459	293,333
Provision for income taxes	29,828	50,250	61,492	91,813
Net Income	\$65,468	\$110,295	\$134,967	\$201,520
Cash Dividends declared per Share	\$0.27	\$0.27	\$0.54	\$0.49
Basic Earnings per Share	\$0.66	\$1.02	\$1.36	\$1.86
Diluted Earnings per Share	\$0.66	\$1.02	\$1.36	\$1.86

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income	\$ 65,468	\$ 110,295	\$ 134,967	\$ 201,520
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	17,456	(4,627)	(44,946)	9,458
Total other comprehensive income (loss)	17,456	(4,627)	(44,946)	9,458
Total Comprehensive Income	\$ 82,924	\$ 105,668	\$ 90,021	\$ 210,978

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)	Six Months Ended June 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 134,967	\$ 201,520
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	121,486	109,408
Deferred income tax provision	539	17,703
Subsea BOP control systems inventory write-down	9,025	—
Net gain on sales of property and equipment	(76	) (344
Noncash compensation	8,626	10,820
Excluding the effects of acquisitions, increase (decrease) in cash from:		
Accounts receivable	5,259	(73,272
Inventory	1,419	418
Other operating assets	(27,041	) (22,406
Currency translation effect on working capital, excluding cash	(4,483	) 6,518
Current liabilities	(40,949	) 29,141
Other operating liabilities	(8,308	) (5,216
Total adjustments to net income	65,497	72,770
Net Cash Provided by Operating Activities	200,464	274,290
Cash Flows from Investing Activities:		
Purchases of property and equipment	(94,780	) (221,700
Business acquisitions, net of cash acquired	(229,979	) (39,788
Distributions of capital from unconsolidated affiliates	2,001	2,295
Dispositions of property and equipment	177	1,797
Net Cash Used in Investing Activities	(322,581	) (257,396
Cash Flows from Financing Activities:		
Net proceeds (payments) of revolving credit facility	—	80,000
Proceeds of term loan	50,000	—
Net excess tax benefit (deficiency) from employee benefit plans	(781	) 3,083
Cash dividends	(53,618	) (53,002
Purchases of treasury stock	(100,459	) (35,266
Net Cash Used in Financing Activities	(104,858	) (5,185
Effect of exchange rates on cash	(13,109	) 191
Net Increase (Decrease) in Cash and Cash Equivalents	(240,084	) 11,900
Cash and Cash Equivalents—Beginning of Period	430,714	91,430
Cash and Cash Equivalents—End of Period	\$ 190,630	\$ 103,330
The accompanying Notes are an integral part of these Consolidated Financial Statements.		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF MAJOR ACCOUNTING POLICIES

Basis of Presentation. We have prepared these unaudited consolidated financial statements pursuant to instructions for quarterly reports on Form 10-Q, which we are required to file with the U.S. Securities and Exchange Commission. These financial statements do not include all information and footnotes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). These financial statements reflect all adjustments that we believe are necessary to present fairly our financial position at June 30, 2015 and our results of operations and cash flows for the periods presented. Except as otherwise disclosed herein, all such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2014. The results for interim periods are not necessarily indicative of annual results.

Principles of Consolidation. The consolidated financial statements include the accounts of Oceaneering International, Inc. and our 50% or more owned and controlled subsidiaries. We also consolidate entities that are determined to be variable interest entities if we determine that we are the primary beneficiary; otherwise, we account for those entities using the equity method of accounting. We use the equity method to account for our investments in unconsolidated affiliated companies of which we own an equity interest of between 20% and 50% and as to which we have significant influence, but not control, over operations. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires that our management make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain amounts from prior periods have been reclassified to conform with the current period presentation.

Cash and Cash Equivalents. Cash and cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less from the date of investment.

Accounts Receivable – Allowances for Doubtful Accounts. We determine the need for allowances for doubtful accounts using the specific identification method. We do not generally require collateral from our customers.

Inventory. Inventory is valued at lower of cost or market. We determine cost using the weighted-average method. During the three- and six-month periods ended June 30, 2015, we recorded an inventory write-down of \$9.0 million upon our decision to cease manufacturing subsea BOP control systems.

Property and Equipment and Long-Lived Intangible Assets. We provide for depreciation of property and equipment on the straight-line method over their estimated useful lives. We charge the costs of repair and maintenance of property and equipment to operations as incurred, while we capitalize the costs of improvements that extend asset lives or functionality. Upon the disposition of property and equipment, the related cost and accumulated depreciation accounts are relieved and any resulting gain or loss is included as an adjustment to cost of services and products. Intangible assets, primarily acquired in connection with business combinations, include trade names, intellectual property and customer relationships and are being amortized over their estimated useful lives.

We capitalize interest on assets where the construction period is anticipated to be more than three months. We capitalized \$0.5 million and \$0.1 million of interest in the three-month periods ended June 30, 2015 and 2014, respectively, and \$1.1 million and \$0.2 million of interest in the six-month

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periods ended June 30, 2015 and 2014, respectively. We do not allocate general administrative costs to capital projects.

Our management periodically, and upon the occurrence of a triggering event, reviews the realizability of our property and equipment and long-lived intangible assets, which are held and used by us, to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, we base our evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements and other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, we determine whether an impairment has occurred through the use of an undiscounted cash flows analysis of the asset at the lowest level for which identifiable cash flows exist. If an impairment has occurred, we recognize a loss for the difference between the carrying amount and the fair value of the asset. For assets held for sale or disposal, the fair value of the asset is measured using fair market value less cost to sell. Assets are classified as held-for-sale when we have a plan for disposal of certain assets and those assets meet the held for sale criteria.

Business Acquisitions. We account for business combinations using the acquisition method of accounting, and we allocate the acquisition price to the assets acquired and liabilities assumed based on their fair market values at the date of acquisition.

In April 2015, we completed the acquisition of C & C Technologies, Inc. ("C&C"). C&C is a global provider of ocean-bottom mapping services in deepwater utilizing customized autonomous underwater vehicles and provides marine construction surveys for both surface and subsea assets, as well as satellite-based positioning services for drilling rigs and seismic and construction vessels. C&C also provides land and near-shore survey services along the U.S. Gulf Coast and in Mexico, and performs shallow water conventional geophysical surveys in the U.S. Gulf of Mexico. Subject to customary post-closing working capital adjustments, the acquisition price of approximately \$230 million was paid in cash. We have accounted for this acquisition by allocating the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. This purchase price allocation is preliminary and based on information currently available to us, and is subject to change when we obtain final asset and liability valuations. We have included C&C's operations in our consolidated financial statements starting from the date of closing, and its operating results are included in our Subsea Projects segment. The acquisition of C&C did not have a material effect on our operating results, cash flows or financial position.

Goodwill. In our annual evaluation of goodwill for impairment, we first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we are required to perform the first step of the two-step impairment test. We tested the goodwill attributable to each of our reporting units for impairment as of December 31, 2014 and concluded that there was no impairment.

Foreign Currency Translation. The functional currency for several of our foreign subsidiaries is the applicable local currency. Results of operations for foreign subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollars using average exchange rates during the period. Assets and liabilities of these foreign subsidiaries are translated into U.S. dollars using the exchange rates in effect at the balance sheet date, and the resulting translation adjustments are recognized, net of tax, in accumulated other comprehensive income as a component of shareholders' equity. All foreign currency transaction gains and losses are recognized currently in the Consolidated Statements of Income.

New Accounting Standards. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09, as

amended, completes the joint effort by the FASB and International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. ASU 2014-09 applies to all

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companies that enter into contracts with customers to transfer goods or services. ASU 2014-09 is effective for us for interim and annual reporting periods beginning after December 15, 2017. Early application is not permitted and we have the choice to apply ASU 2014-09 either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying ASU 2014-09 at the date of initial application (January 1, 2018) and not adjusting comparative information. We are currently evaluating the requirements of ASU 2014-09 and have not yet determined its impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs." This update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for our financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and we adopted this update in the second quarter of 2015 and reclassified prior period amounts to conform with the new presentation.

2. INVENTORY

The following is information regarding our inventory:

(in thousands)	Jun 30, 2015	Dec 31, 2014
Inventory:		
Remotely operated vehicle parts and components	\$191,178	\$207,885
Other inventory, primarily raw materials	185,772	167,703
Total	\$376,950	\$375,588

3. DEBT

Long-term Debt consisted of the following:

(in thousands)	Jun 30, 2015	Dec 31, 2014
4.650% Senior Notes due 2024:		
Principal of the Notes	\$500,000	\$500,000
Issuance costs, net of amortization	(6,417)	(6,761)
Fair value of interest rate swap on \$100 million of principal	(666)	(230)
Term Loan Facility	300,000	250,000
Revolving Credit Facility	—	—
Long-term Debt	\$792,917	\$743,009

In November 2014, we completed the public offering of \$500 million aggregate principal amount of 4.650% Senior Notes due 2024 (the "Senior Notes"). We pay interest on the Senior Notes on May 15 and November 15 of each year, and we made our first interest payment on May 15, 2015. The Senior Notes are scheduled to mature on November 15, 2024. We may redeem some or all of the Senior Notes prior to maturity at specified redemption prices. We used the net proceeds from the offering for general corporate purposes, including funding the C&C acquisition, other capital expenditures and repurchases of shares of our common stock.

In October 2014, we entered into a new credit agreement (the "Credit Agreement") with a group of banks. The Credit Agreement provides for a \$300 million three-year term loan (the "Term Loan Facility") and a \$500 million five-year revolving credit facility (the "Revolving Credit Facility"). The Credit Agreement replaced a prior credit agreement that was scheduled to mature on January 6, 2017. Subject to certain conditions, the aggregate commitments under the Revolving Credit Facility

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may be increased by up to \$300 million at any time upon agreement between us and existing or additional lenders. Borrowings under the Revolving Credit Facility and the Term Loan Facility may be used for general corporate purposes. Simultaneously with the execution of the Credit Agreement and pursuant to its terms, we repaid all amounts outstanding under, and terminated, our prior principal credit agreement.

The Term Loan Facility is scheduled to mature on October 27, 2017. The Revolving Credit Facility is scheduled to mature on October 25, 2019. Borrowings under the Credit Agreement bear interest at an Adjusted Base Rate or the Eurodollar Rate (both as defined in the Credit Agreement), at our option, plus an applicable margin to be initially based on our Leverage Ratio (as defined in the Credit Agreement) and, at our election, based on the ratings of our senior unsecured debt by both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, thereafter to be based on such debt ratings. The applicable margin varies: (1) in the case of advances bearing interest at the Adjusted Base Rate, from 0.125% to 0.750% for borrowings under the Revolving Credit Facility and from 0% to 0.500% for borrowings under the Term Loan Facility; and (2) in the case of advances bearing interest at the Eurodollar Rate, from 1.125% to 1.750% for borrowings under the Revolving Credit Facility and from 1.000% to 1.500% for borrowings under the Term Loan Facility. The Adjusted Base Rate is the highest of (1) the per annum rate established by the administrative agent as its prime rate, (2) the federal funds rate plus 0.50% and (3) daily one-month LIBOR plus 1%. We pay a commitment fee ranging from 0.125% to 0.300% on the unused portions of the Revolving Credit Facility and the Term Loan Facility, depending on our Leverage Ratio. The commitment fees are included as interest expense in our consolidated financial statements.

The Credit Agreement contains various covenants that we believe are customary for agreements of this nature, including, but not limited to, restrictions on our ability and the ability of each of our subsidiaries to incur debt, grant liens, make certain investments, make distributions, merge or consolidate, sell assets, enter into transactions with affiliates and enter into certain restrictive agreements. We are also subject to a maximum Leverage Ratio of 4.00 to 1.00. The Credit Agreement includes customary events of default and associated remedies. As of June 30, 2015 and December 31, 2014, we were in compliance with all the covenants set forth in the Credit Agreement.

We incurred \$6.9 million of issuance costs related to the Senior Notes and \$1.6 million of new loan costs related to the Revolving Credit Facility and the Term Loan Facility. The issuance costs related to the Revolving Credit Facility and the Term Loan Facility are included on our balance sheet as other non-current assets. The issuance costs are being amortized to interest expense over ten years for the Senior Notes and over five years for the Revolving Credit Facility and the Term Loan Facility.

4. COMMITMENTS AND CONTINGENCIES

Litigation. On June 17, 2014, a purported shareholder filed a derivative complaint against all of the then-current members of our board of directors and one of our former directors, as defendants, and our company, as nominal defendant, in the Court of Chancery of the State of Delaware. Through the complaint, the plaintiff is asserting, on behalf of our company, actions for breach of fiduciary duties and unjust enrichment in connection with prior determinations of our board of directors relating to nonexecutive director compensation. The plaintiff is seeking relief including disgorgement of payments made to the defendants, an award of unspecified damages and an award for attorneys' fees and other costs. We and the defendants filed a motion to dismiss the complaint and a supporting brief on September 5, 2014, asserting that the complaint failed to state a claim on which relief could be granted, and further that the plaintiff did not comply with procedural requirements necessary to allow him to commence litigation against certain directors on our behalf. As of the date of this report, that motion remains pending before the Court. In any event, our company is only a nominal defendant in this litigation, and we do not expect the resolution of this matter to have a material adverse effect on our results of operations, cash flows or financial position.

Various other actions and claims are pending against us, most of which are covered by insurance. Although we cannot predict the ultimate outcome of these matters, we believe the ultimate liability,

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if any, that may result from these other actions and claims will not materially affect our results of operations, cash flows or financial position.

Financial Instruments and Risk Concentration. In the normal course of business, we manage risks associated with foreign exchange rates and interest rates through a variety of strategies, including the use of hedging transactions. As a matter of policy, we do not use derivative instruments unless we have an underlying exposure. Other financial instruments that potentially subject us to concentrations of credit risk are principally cash and cash equivalents and accounts receivable.

The carrying values of cash and cash equivalents approximate their fair values due to the short-term maturity of those instruments. Accounts receivable are generated from a broad group of customers, primarily from within the energy industry, which is our major source of revenue. Due to their short-term nature, carrying values of our accounts receivable and accounts payable approximate fair market values. We had borrowings of \$300 million at June 30, 2015 under our term loan facility. Due to the short-term nature of the associated interest rate periods, the carrying value of our debt under the term loan facility approximates its fair value. This debt is classified as Level 2 in the fair value hierarchy under U.S. GAAP (inputs other than quoted prices in active markets for similar assets and liabilities that are observable or can be corroborated by observable market data for substantially the full term for the assets or liabilities).

We estimated the fair market value of the Senior Notes to be \$495 million at June 30, 2015. We arrived at this estimate by computing the net present value of the future principal and interest payments using a yield to maturity interest rate for securities of similar credit quality and term. The Senior Notes are classified as Level 2 in the fair value hierarchy under U.S. GAAP.

We have an interest rate swap in place on \$100 million of the Senior Notes for the period from November 2014 to November 2024. The agreement swaps the fixed interest rate of 4.650% on \$100 million of the Senior Notes to the floating rate of one month LIBOR plus 2.426%. We estimate the fair value of the interest rate swap to be a liability of \$0.7 million at June 30, 2015, which is reflected on our balance sheet as a component of Other Long-term Liabilities, with the offset as an adjustment to the carrying value of Long-term Debt. This liability value was arrived at using a discounted cash flow model using Level 2 inputs.

In the second quarter of 2015, the exchange rate for the Angolan kwanza relative to the U.S. dollar declined approximately 14%. This caused us to record a foreign currency loss of \$8.9 million related to the kwanza, and that amount is included as a component of Other expense, net in our Consolidated Statements of Income for the three- and six-month periods ended June 30, 2015. The adjustment related primarily to our cash balances in Angola. Conversion of cash balances from kwanza to U.S. dollars is controlled by the central bank in Angola, and the central bank has slowed this process during 2015, causing our cash balances in kwanza to increase. As of June 30, 2015, we had the equivalent of approximately \$53 million of cash in kwanza in Angola on our balance sheet.

5. EARNINGS PER SHARE, SHARE-BASED COMPENSATION AND SHARE REPURCHASE PLAN

Earnings per Share. The table that follows presents our computation of weighted average basic and diluted shares outstanding, which we use in our earnings per share calculations. For each period presented, our net income allocable to both common shareholders and diluted common shareholders is the same as our net income in our consolidated statements of income.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic shares outstanding	98,528	108,002	98,998	108,086
Effect of restricted stock units	365	419	403	485
Diluted shares outstanding	98,893	108,421	99,401	108,571

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We have been paying a quarterly cash dividend of \$0.27 per share to our common shareholders since the second quarter of 2014. Our latest \$0.27 per share quarterly dividend was declared in July 2015 and is payable in September 2015.

Share-Based Compensation. We have no outstanding stock options and no future share-based compensation to be recognized pursuant to stock option grants.

Through 2014, we granted restricted units of our common stock to certain of our key executives, key employees and Chairman of the Board. We also granted shares of restricted stock to our other non-employee directors. The restricted units granted to our key executives and key employees generally vest in full on the third anniversary of the award date, conditional on continued employment. The restricted stock unit grants, including those granted to our Chairman, can vest pro rata over three years, provided the individual meets certain age and years-of-service requirements. The shares of restricted common stock we grant to our other non-employee directors vest in full on the first anniversary of the award date, conditional upon continued service as a director. Each grantee of shares of restricted stock is deemed to be the record owner of those shares during the restriction period, with the right to vote and receive any dividends on those shares. The restricted stock units outstanding have no voting or dividend rights. In 2015, we made corresponding grants to those described above, except we granted restricted shares, rather than restricted stock units, to our Chairman.

For each of the restricted stock units granted in 2013 through 2015, at the earlier of three years after grant or at termination of employment or service, the grantee will be issued a share of our common stock for each unit vested. As of June 30, 2015 and December 31, 2014, respective totals of 849,008 and 814,400 shares of restricted stock or restricted stock units were outstanding.

We estimate that stock-based compensation cost not yet recognized related to shares of restricted stock or restricted stock units, based on their grant-date fair values, was \$24 million at June 30, 2015. This expense is being recognized on a staged-vesting basis over three years for awards attributable to individuals meeting certain age and years-of-service requirements, and on a straight-line basis over the applicable vesting period of one or three years for the other awards.

Share Repurchase Plan. In December 2014, our Board of Directors approved a plan to repurchase up to 10 million shares of our common stock. Under this plan, we had repurchased 2.0 million shares of our common stock for \$100 million through June 30, 2015. We account for the shares we hold in treasury under the cost method, at average cost.

6. INCOME TAXES

During interim periods, we provide for income taxes based on our current estimated annual effective tax rate using assumptions as to (1) earnings and other factors that would affect the tax provision for the remainder of the year and (2) the operations of foreign branches and subsidiaries that are subject to local income and withholding taxes. We conduct business through several foreign subsidiaries and, although we expect our consolidated operations to be profitable, there is no assurance that profits will be earned in entities or jurisdictions that have net operating loss carryforwards available. The primary difference between (1) our effective tax rates of 31.3% in the periods ended June 30, 2015 (2) the federal statutory rate of 35% reflects our intention to indefinitely reinvest in certain of our international operations. As a result, we do not provide for U.S. taxes on that portion of our foreign earnings.

We conduct our international operations in a number of locations that have varying laws and regulations with regard to income and other taxes, some of which are subject to interpretation. We recognize the benefit for a tax position if the benefit is more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that we believe is greater than 50% likely of being realized upon ultimate settlement. We do not believe that the total of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. Including associated foreign tax credits

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and penalties and interest, we have accrued a net total of \$4.6 million in the caption "other long-term liabilities" on our balance sheet for unrecognized tax benefits at June 30, 2015. All additions or reductions to those liabilities would affect our effective income tax rate in the periods of change.

Our tax returns are subject to audit by taxing authorities in multiple jurisdictions. These audits often take years to complete and settle. The following lists the earliest tax years open to examination by tax authorities where we have significant operations:

Jurisdiction	Periods
United States	2011
United Kingdom	2011
Norway	2006
Angola	2010
Brazil	2010
Australia	2011

7. BUSINESS SEGMENT INFORMATION

We are a global oilfield provider of engineered services and products, primarily to the offshore oil and gas industry, with a focus on deepwater applications. Through the use of our applied technology expertise, we also serve the defense, aerospace and commercial theme park industries. Our Oilfield business consists of Remotely Operated Vehicles ("ROVs"), Subsea Products, Subsea Projects and Asset Integrity. Our ROV segment provides submersible vehicles operated from the surface to support offshore oil and gas exploration, development and production activities. Our Subsea Products segment supplies a variety of specialty subsea hardware and related services. Our Subsea Projects segment provides multiservice subsea support vessels and oilfield diving and support vessel operations, primarily for inspection, maintenance and repair and installation activities. Since April 2015, we have also provided survey, autonomous underwater vehicle ("AUV") and satellite-positioning services. Our Asset Integrity segment provides asset integrity management and assessment services and nondestructive testing and inspection. Our Advanced Technologies business provides project management, engineering services and equipment for applications in non-oilfield markets. Unallocated Expenses are those not associated with a specific business segment. These consist of expenses related to our incentive and deferred compensation plans, including restricted stock and bonuses, as well as other general expenses, including corporate administrative expenses.

There are no differences in the basis of segmentation or in the basis of measurement of segment profit or loss from those used in our consolidated financial statements for the year ended December 31, 2014.

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The table that follows presents Revenue and Income from Operations by business segment for each of the periods indicated.

(in thousands)	Three Months Ended			Six Months Ended	
	Jun 30, 2015	Jun 30, 2014	Mar 31, 2015	Jun 30, 2015	Jun 30, 2014
Revenue					
Oilfield					
Remotely Operated Vehicles	\$ 216,426	\$ 268,274	\$ 219,447	\$ 435,873	\$ 524,093
Subsea Products	240,057	327,252	240,729	480,786	587,262
Subsea Projects	172,324	136,199	153,572	325,896	274,389
Asset Integrity	95,509	130,229	98,493	194,002	254,388
Total Oilfield	724,316	861,954	712,241	1,436,557	1,640,132
Advanced Technologies	85,987	65,453	74,531	160,518	127,476
Total	\$ 810,303	\$ 927,407	\$ 786,772	\$ 1,597,075	\$ 1,767,608
Income from Operations					
Oilfield					
Remotely Operated Vehicles	\$ 61,294	\$ 75,825	\$ 62,182	\$ 123,476	\$ 152,565
Subsea Products	42,286	79,497	50,014	92,300	134,013
Subsea Projects	30,607	25,863	22,276	52,883	46,400
Asset Integrity	4,576	15,915	5,025	9,601	30,000
Total Oilfield	138,763	197,100	139,497	278,260	362,978
Advanced Technologies	6,267	198	5,020	11,287	3,153
Unallocated Expenses	(37,090)	(35,987)	(37,867)	(74,957)	(71,958)
Total	\$ 107,940	\$ 161,311	\$ 106,650	\$ 214,590	\$ 294,173

We determine income from operations for each business segment before interest income or expense, other income (expense) and provision for income taxes. We do not consider an allocation of these items to be practical. Our equity earnings of unconsolidated affiliates is part of our Subsea Projects segment.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Certain statements we make in this quarterly report on Form 10-Q are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, statements regarding our expectations about:

third quarter of 2015 and the full year of 2015 operating results and earnings per share, and the contributions from our segments to those results (including anticipated revenue, operating income and utilization information);
demand and business activity levels;
our plans for future operations (including planned additions to and retirements from our remotely operated vehicle ("ROV") fleet, our intent regarding the new multiservice subsea support vessel scheduled for delivery in 2016, and other capital expenditures);
our future cash flows;
the adequacy of our liquidity and capital resources;
our expectations regarding shares to be repurchased under our share repurchase plan;
our anticipated tax rates and underlying assumptions;
seasonality; and
industry conditions.

These forward-looking statements are subject to various risks, uncertainties and assumptions, including those we have referred to under the headings "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements" in Part I of our annual report on Form 10-K for the year ended December 31, 2014. Although we believe that the expectations reflected in such forward-looking statements are reasonable, because of the inherent limitations in the forecasting process, as well as the relatively volatile nature of the industries in which we operate, we can give no assurance that those expectations will prove to have been correct. Accordingly, evaluation of our future prospects must be made with caution when relying on forward-looking information.

The following discussion should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our annual report on Form 10-K for the year ended December 31, 2014.

Executive Overview

We expect our 2015 diluted earnings per share to be in the range of \$2.70 to \$2.90, as compared to our 2014 diluted earnings per share of \$4.00, with lower global demand for deepwater drilling, field development, and inspection, maintenance and repair activities due to the decline in oil prices since June 2014. Additionally, in the current market environment we are faced with customers demanding price concessions and various competitors reducing prices to secure utilization of their assets. We believe our operating income will be lower in 2015 than 2014 for each of our Oilfield operating business segments, notably:

ROVs on lower service demand to support drilling and vessel-based projects and reduced revenue per day;
Subsea Products on lower demand to support field development projects and well abandonment activity and for subsea BOP control system replacements;
Subsea Projects on lower vessel pricing and reduced use of a third vessel on our BP Angola project; and
Asset Integrity on reduced demand for our services and generally lower pricing.

Due to deteriorating demand prospects, we decided to cease manufacturing subsea BOP control systems and, during the quarter ended June 30, 2015, we wrote down the related inventory by \$9.0 million. This write-down is reflected in gross margin and operating income of our Subsea Products segment.

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In the three- and six-month periods ended June 30, 2015, we incurred foreign exchange losses of \$8.9 million and \$9.9 million, respectively, related to Angola and its declining exchange rate relative to the U.S. dollar. These losses are reflected in other income (expense), net.

We added seven new ROVs to our fleet during the six months ended June 30, 2015 and retired seven, resulting in a total of 336 ROVs in our ROV segment fleet. We currently expect to retire, on average, 4% to 5% of our fleet on an annual basis.

We forecast our third quarter 2015 diluted earnings per share to be in the range of \$0.65 to \$0.75. For the third quarter as compared to the second quarter, we anticipate an operating income improvement from our Subsea Products business segment and similar or lower operating income in our other segments. Compared to the corresponding quarter of 2014, we expect lower operating income in the second quarter of 2015 in each of our oilfield business segments, due to oilfield market conditions resulting in lower demand and pricing for many of our services and products.

We generate approximately 90% of our revenue and substantially all of our operating income before Unallocated Expenses from our services and products provided to the oil and gas industry, particularly in the deepwater sector of the offshore market. Consequently, the levels of our customers' capital and operational spending on deepwater exploration, development and production have a significant impact on the demand for many of our services and products.

Critical Accounting Policies and Estimates

For information about our Critical Accounting Policies and Estimates, please refer to the discussion in our annual report on Form 10-K for the year ended December 31, 2014 under the heading "Critical Accounting Policies and Estimates" in Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Liquidity and Capital Resources

At June 30, 2015, we had working capital of \$857 million, including \$191 million of cash and cash equivalents. Additionally, we had \$500 million of remaining borrowing capacity available under our revolving credit facility under a credit agreement with a group of banks (the "Credit Agreement"). The Credit Agreement includes a \$300 million, three-year term loan and a \$500 million, five-year, revolving credit facility. We consider our liquidity and capital resources to be adequate to support our existing operations, capital commitments, and anticipated dividends.

Our capital expenditures were \$325 million during the first six months of 2015, as compared to \$261 million during the first six months of last year. Of the \$325 million of capital expenditures in 2015, \$230 million related to the acquisition of C & C Technologies, Inc. ("C&C"), \$39 million was invested in our ROV segment and \$36 million was invested in our Subsea Products segment. We added seven new ROVs to our fleet during the six months ended June 30, 2015 and retired seven, resulting in a total of 336 ROVs in our ROV segment fleet. We currently expect to retire, on average, 4% to 5% of our fleet on an annual basis. We estimate our capital expenditures for 2015, excluding business acquisitions, will be approximately \$200 million to \$250 million, with approximately \$47 million of construction progress payments for the new multiservice subsea support vessel, to be named the Ocean Evolution, discussed below, which is scheduled for delivery by the end of the third quarter of 2016. Our capital expenditures in the six months ended June 30, 2014 included \$117 million invested in our ROV segment, \$55 million in our Subsea Products segment, and \$40 million for two small business acquisitions.

In April 2015, we completed the acquisition of C&C. C&C is a global provider of ocean-bottom mapping services in deepwater utilizing customized autonomous underwater vehicles and provides marine construction surveys for both

surface and subsea assets, as well as satellite-based positioning services for drilling rigs and seismic and construction vessels. C&C also provides land and near-shore survey services along the U.S. Gulf Coast and in Mexico, and performs shallow water conventional geophysical surveys in the U.S. Gulf of Mexico. Subject to customary post-closing working capital adjustments, the acquisition price of approximately \$230 million was paid in cash. We have included C&C's operations in our consolidated financial statements starting from the date of closing, and its operating results are included in our Subsea Projects segment.

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During the third quarter of 2013, we signed an agreement with a shipyard for the construction of a subsea support vessel, to be named the Ocean Evolution. We expect that vessel to be available for operations in July 2016. Our cash payments for the vessel are spread over the construction period. We intend for the vessel to be U.S.-flagged and documented with a coastwise endorsement by the U.S. Coast Guard. It is expected to have an overall length of 353 feet, a Class 2 dynamic positioning system, accommodations for 110 personnel, a helideck, a 250-ton active heave-compensated crane, and a working moonpool. We expect to outfit the vessel with two of our high specification work-class ROVs. The vessel will also be equipped with a satellite communications system capable of transmitting streaming video for real-time work observation by shore personnel. We anticipate the vessel will be used to augment our ability to provide subsea intervention services in the ultra-deep waters of the U.S. Gulf of Mexico. These services are required to perform inspection, maintenance and repair projects and hardware installations.

We have chartered a multiservice subsea support vessel, the Ocean Intervention III, for a term that extends through January 2016, with an extension option for one additional year. The Ocean Intervention III is working under our contract for field support vessel services offshore Angola. We have chartered the multiservice subsea support vessel Bourbon Oceanteam 101 through January 2017 to work on the same contract. Each of those vessels has been outfitted with two of our high specification work-class ROVs.

We also chartered an additional multiservice subsea support vessel, the Olympic Intervention IV, for a term that currently extends to July 2016. We have outfitted this vessel with two of our high specification work-class ROVs, and we are using this vessel to perform subsea hardware installation and inspection, maintenance and repair projects in the U.S. Gulf of Mexico.

In March 2013, we commenced a five-year charter with five one-year extension options for the use of the Ocean Alliance, a Jones Act-compliant multiservice subsea support vessel. We have outfitted the vessel with two of our high specification work-class ROVs. In January 2015, we commenced a two-year multi-service vessel bareboat charter agreement with a customer for the use of the Ocean Alliance in the U.S. Gulf of Mexico.

In December 2013, we commenced a three-year charter for the Normand Flower, a multi-service subsea marine support vessel. We have made modifications to the vessel, including reconfiguration to accommodate two of our high-specification work-class ROVs. We anticipate we will continue to use the vessel in the U.S. Gulf of Mexico to perform inspection, maintenance and repair projects and hardware installations. We have options to extend the charter for up to three additional years. In November 2014, we commenced a two-year charter for the use of the Island Pride, a multi-service subsea marine support vessel. We have modified the vessel to enhance its service capabilities, including a reconfiguration to accommodate two of our high specification work-class ROVs. We anticipate we will continue to use the vessel in the U.S. Gulf of Mexico to perform inspection, maintenance and repair projects and hardware installations. We have options to extend the charter for up to three additional years.

We also charter or lease dynamically positioned vessels on a short-term basis.

At June 30, 2015, we had long-term debt in the principal amount of \$800 million outstanding and \$500 million available under our revolving credit and term loan facilities provided under the Credit Agreement. The Credit Agreement provides for a three-year \$300 million term loan scheduled to mature in October 2017 and a five-year, \$500 million revolving credit facility scheduled to mature in October 2019. Subject to certain conditions, the aggregate commitments under the revolving credit facility may be increased by up to \$300 million by obtaining additional commitments from existing and/or new lenders.

Borrowings under the Credit Agreement may be used for working capital and general corporate purposes. Borrowings under the Credit Agreement bear interest at an adjusted base rate or the Eurodollar Rate (as defined in the agreement),

at our option, plus an applicable margin. Depending on our debt to Consolidated EBITDA (as defined) ratio, the applicable margin varies: (1) in the case of adjusted base rate advances, from 0.125% to 0.750% for the revolving credit facility, 0% to

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0.500% for the term loan; and (2) in the case of Eurodollar Rate advances, from 1.125% to 1.750% for the revolving credit facility, 1.000% to 1.500% for the term loan. The adjusted base rate is the highest of (1) the per annum rate established by the administrative agent as its prime rate, (2) the federal funds rate plus 0.50% and (3) the daily one-month LIBOR plus 1%. We have a one-time option to change from the debt to Consolidated EBITDA pricing grid to a grid based on our debt rating.

The Credit Agreement contains various covenants that we believe are customary for agreements of this nature, including, but not limited to, restrictions on our ability and the ability of each of our subsidiaries to incur debt, grant liens, make certain investments, make distributions, merge or consolidate, sell assets, enter into transactions with affiliates and enter into certain restrictive agreements. We are also subject to a maximum Leverage Ratio (as defined) of 4.00 to 1.00. The Credit Agreement includes customary events of default and associated remedies. As of June 30, 2015, we were in compliance with all the covenants set forth in the Credit Agreement.

Our principal source of cash from operating activities is our net income, adjusted for the non-cash effects of, among other things, depreciation and amortization, deferred income taxes and noncash compensation under our share-based compensation plans. Our \$200 million and \$274 million of cash provided from operating activities in the six-month periods ended June 30, 2015 and 2014, respectively, were principally affected by cash increases (decreases) of:

\$9.0 million in 2015 from an inventory write-down upon our decision to cease manufacturing subsea BOP control systems;

\$5 million and \$(73) million, respectively, from changes in accounts receivable;

\$(27) million and \$(22) million, respectively, from changes in other operating assets; and

\$(41) million and \$29 million, respectively, from changes in current liabilities.

The decrease in cash related to accounts receivable in 2014 reflected higher business levels in 2014 as compared to 2013. The 2015 decrease in cash related to changes in other operating assets was largely attributable to a prepayment we made to a steel tube vendor in exchange for more favorable pricing from the vendor for material we intend to use to assemble a steel tube umbilical under a contract for a customer. This customer contract is reflected in our Subsea Products backlog at June 30, 2015. The 2014 decrease in cash related to other operating assets reflected higher business levels in 2014 as compared to 2013. The 2015 decrease in cash related to current liabilities reflected lower business levels than we had during 2014, and the increase in cash related to current liabilities reflected higher business levels in 2014 as compared to 2013.

In the six months ended June 30, 2015, we used \$323 million of cash in investing activities. The cash used in investing activities related to the capital expenditures, including the C&C acquisition described above. We also used \$105 million in financing activities, which included repurchases of 2.0 million shares of our common stock for \$100 million and the payment of cash dividends of \$54 million, and we borrowed the remaining \$50 million under our term loan facility. In the six months ended June 30, 2014, we used \$257 million of cash in investing activities. The cash used in investing activities was used for the capital expenditures described above. We also used \$5 million in financing activities, which included net borrowings under our revolving credit facility of \$80 million and uses of cash for repurchases of 500,000 shares of our common stock for \$35 million and the payment of cash dividends of \$53 million.

We have not guaranteed any debt not reflected on our consolidated balance sheet, and we do not have any off-balance sheet arrangements, as defined by SEC rules.

In December 2014, our Board of Directors approved a plan to repurchase up to 10 million shares of our common stock. Under this plan, we had repurchased 2.0 million shares of our common stock for \$100 million through June 30, 2015, all during the six months ended June 30, 2015. We account for the shares we hold in treasury under the cost

method, at average cost. The timing and amount of any future repurchases will be determined by our management. We expect that any additional shares repurchased under the plan will be held as treasury stock for possible future use. The plan does not obligate us to repurchase any particular number of shares.

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We have been paying a quarterly cash dividend of \$0.27 per share to our common shareholders since the second quarter of 2014. Our latest \$0.27 per share quarterly dividend was declared in July 2015 and is payable in September 2015.

Results of Operations

We operate in five business segments. The segments are contained within two businesses — services and products provided to the oil and gas industry ("Oilfield") and all other services and products ("Advanced Technologies"). Our Unallocated Expenses are those not associated with a specific business segment.

Consolidated revenue and profitability information is as follows:

(dollars in thousands)	Three Months Ended			Six Months Ended		
	Jun 30, 2015	Jun 30, 2014	Mar 31, 2015	Jun 30, 2015	Jun 30, 2014	
Revenue	\$810,303	\$927,407	\$786,772	\$1,597,075	\$1,767,608	
Gross Margin	167,545	218,215	163,449	330,994	407,706	
Gross Margin %	21	% 24	% 21	% 21	% 23	%
Operating Income	107,940	161,311	106,650	214,590	294,173	
Operating Income %	13	% 17	% 14	% 13	% 17	%

We generate a material amount of our consolidated revenue from contracts for services in the U.S. Gulf of Mexico in our Subsea Projects segment, which is usually more active from April through October, as compared to the rest of the year. The European operations of our Asset Integrity segment are also seasonally more active in the second and third quarters. Revenue in our ROV segment is subject to seasonal variations in demand, with our first quarter generally being the low quarter of the year. The level of our ROV seasonality primarily depends on the number of ROVs we have engaged in vessel-based subsea infrastructure inspection, maintenance, repair and installation, which is more seasonal than drilling support. The current year reflects an exception, as there has been a general decline in offshore drilling, which caused a decrease in our ROV days on hire and utilization during the second quarter as compared to the first quarter. Revenue in our Subsea Products and Advanced Technologies segments has generally not been seasonal.

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Oilfield

The following table sets forth the revenues and margins for our Oilfield business segments for the periods indicated. In the ROV section of the table that follows, "Days available" includes all days from the first day that an ROV is placed into service until the ROV is retired. All days during this period are considered available days, including periods when an ROV is undergoing maintenance or repairs. Our ROVs do not have scheduled maintenance or repair that requires significant time when the ROVs are not available for utilization.

(dollars in thousands)	Three Months Ended			Six Months Ended		
	Jun 30, 2015	Jun 30, 2014	Mar 31, 2015	Jun 30, 2015	Jun 30, 2014	
Remotely Operated Vehicles						
Revenue	\$216,426	\$268,274	\$219,447	\$435,873	\$524,093	
Gross Margin	70,132	86,685	71,311	141,443	173,875	
Operating Income	61,294	75,825	62,182	123,476	152,565	
Operating Income %	28	% 28	% 28	% 28	% 29	%
Days available	30,465	29,059	30,131	60,596	56,910	
Days utilized	21,710	24,510	22,139	43,849	48,379	
Utilization	71	% 84	% 73	% 72	% 85	%
Subsea Products						
Revenue	240,057	327,252	240,729	480,786	587,262	
Gross Margin	62,465	99,558	69,767	132,232	174,687	
Operating Income	42,286	79,497	50,014	92,300	134,013	
Operating Income %	18	% 24	% 21	% 19	% 23	%
Backlog at end of period	703,000	850,000	788,000	703,000	850,000	
Subsea Projects						
Revenue	172,324	136,199	153,572	325,896	274,389	
Gross Margin	36,989	30,122	26,900	63,889	54,531	
Operating Income	30,607	25,863	22,276	52,883	46,400	
Operating Income %	18	% 19	% 15	% 16	% 17	%
Asset Integrity						
Revenue	95,509	130,229	98,493	194,002	254,388	
Gross Margin	11,750	23,207	12,799	24,549	45,073	
Operating Income	4,576	15,915	5,025	9,601	30,000	
Operating Income %	5	% 12	% 5	% 5	% 12	%
Total Oilfield						
Revenue	\$724,316	\$861,954	\$712,241	\$1,436,557	\$1,640,132	
Gross Margin	181,336	239,572	180,777	362,113	448,166	
Operating Income	138,763	197,100	139,497	278,260	362,978	
Operating Income %	19	% 23	% 20	% 19	% 22	%

In general, our Oilfield business focuses on supplying services and products to the deepwater sector of the offshore market. For 2015, we have experienced, and expect to continue to experience, lower global demand for deepwater drilling, field development, and inspection, maintenance and repair activities due to the decline in oil prices since June 2014.

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We believe we are the world's largest provider of ROV services, and this business segment typically is the largest contributor to our Oilfield business operating income. Our ROV segment revenue reflects the utilization percentages, fleet sizes and average pricing of the respective periods. Our ROV operating income decreased in the three- and six-month periods ended June 30, 2015 compared to the corresponding periods of the prior year, as a result of lower demand, largely for drilling support, and lower average revenue per day-on-hire. We added seven new ROVs to our fleet during the six months ended June 30, 2015 and retired seven, resulting in a total of 336 ROVs in our ROV segment fleet. We currently expect to retire, on average, 4% to 5% of our fleet on an annual basis. We expect our full-year 2015 ROV operating income to decrease from that of 2014, due to decreases in days on hire and average revenue per day-on-hire. For the second half of 2015, we expect lower ROV operating income than that of the first half, primarily due to decreases in days on hire and average revenue per day on hire.

Our Subsea Products revenue and operating income were lower in the three- and six-month periods ended June 30, 2015 than the corresponding periods of the prior year, primarily due to lower demand for tooling and subsea work systems and BOP control systems, as well as a reduction in umbilical plant throughput. Due to deteriorating demand prospects, we decided to cease manufacturing subsea BOP control systems and, during the quarter ended June 30, 2015, we wrote down the related inventory by \$9.0 million. Compared to the immediately preceding quarter, our Subsea Products operating income in the second quarter of 2015 was lower due to that inventory write-down. Our Subsea Products backlog was \$703 million at June 30, 2015 compared to \$690 million at December 31, 2014. We believe Subsea Products operating income will be lower in 2015 compared to 2014, largely as a result of lower demand for tooling and subsea work systems and BOP control systems. For the second half of 2015, we expect higher Subsea Products operating income than that of the first half, primarily due to an increase in umbilical plant throughput and umbilical-related hardware sales, higher tooling and subsea work system sales, and due to the fact that the first half included the \$9.0 million inventory write-down.

Our Subsea Projects operating income was higher in the three- and six-month periods ended June 30, 2015 than the corresponding periods of the prior year, as a result of the commencement of seasonal diving services in Angola in the fourth quarter of 2014 and improvement in U.S. Gulf of Mexico diving results in the second quarter of 2015 compared to the corresponding quarter of 2014. Our Subsea Projects operating income was higher in the quarter ended June 30, 2015 than the immediately preceding quarter due to U.S. Gulf of Mexico diving. In addition, the preceding quarter results included regulatory inspection expenses on one of our vessels. We expect lower Subsea Projects operating income in 2015 compared to 2014, as a result of decreased demand, lower vessel pricing and the completion during April 2015 of work associated with the Bourbon Evolution 803, a vessel we chartered on a short-term basis during 2014. We expect a decrease in Subsea Projects operating income in the second half of 2015 compared to the first half, primarily due to a reduction of work offshore Angola, including the release of the Bourbon Evolution 803, lower pricing for deepwater intervention services in the U.S. Gulf of Mexico and lower demand and pricing for diving services in the U.S. Gulf of Mexico.

For the three- and six-month periods ended June 30, 2015, our Asset Integrity operating income was lower than the corresponding periods of the prior year, as a result of lower demand and pricing for our services globally. In 2015, we expect Asset Integrity to generate lower operating income than 2014, due to decreased service revenue in most of the geographic areas in which we operate. We expect second half of 2015 results for Asset Integrity to approximate those of the first half.

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Advanced Technologies

Revenue and margin information was as follows:

(dollars in thousands)	Three Months Ended			Six Months Ended		
	Jun 30, 2015	Jun 30, 2014	Mar 31, 2015	Jun 30, 2015	Jun 30, 2014	
Revenue	\$85,987	\$65,453	\$74,531	\$160,518	\$127,476	
Gross Margin	10,945	5,597	9,400	20,345	13,324	
Operating Income	6,267	198	5,020	11,287	3,153	
Operating Income %	7	% —	% 7	% 7	% 2	%

Advanced Technologies operating income for the three- and six-month periods ended June 30, 2015 was higher than that of the corresponding periods of 2014, mainly due to a higher level of demand for engineering services by the U.S. Navy and higher activity and better execution on commercial theme park projects. Advanced Technologies operating income for the second quarter of 2015 was higher than that of the immediately preceding quarter, primarily due to higher demand for engineering services by the U.S. Navy. We expect a significant improvement in our Advanced Technologies operating income in 2015, due to the resolution of execution issues on certain U.S. Navy and commercial projects that hampered our results in 2014, an increase in theme park activity, and additional engineering service work for the U.S. Navy. For the second half of 2015, we expect Advanced Technologies operating income to exceed that of the first half, primarily due to higher commercial theme park activity.

Unallocated Expenses

Our Unallocated Expenses, i.e., those not associated with a specific business segment, within gross profit consist of expenses related to our incentive and deferred compensation plans, including restricted stock units, performance units and bonuses, as well as other general expenses. Our Unallocated Expenses within operating income consist of those expenses within gross profit plus general and administrative expenses related to corporate functions.

The following table sets forth our Unallocated Expenses for the periods indicated.

(dollars in thousands)	Three Months Ended			Six Months Ended		
	Jun 30, 2015	Jun 30, 2014	Mar 31, 2015	Jun 30, 2015	Jun 30, 2014	
Gross margin expenses	\$24,736	\$26,954	\$26,728	\$51,464	\$53,784	
Operating income expenses	37,090	35,987	37,867	74,957	71,958	
% of revenue	5	% 4	% 5	% 5	% 4	%

Other

The following table sets forth our significant financial statement items below the income from operations line.

(in thousands)	Three Months Ended			Six Months Ended		
	Jun 30, 2015	Jun 30, 2014	Mar 31, 2015	Jun 30, 2015	Jun 30, 2014	
Interest income	\$51	\$41	\$156	\$207	\$120	
Interest expense, net of amounts capitalized	(6,212)	) (398)	) (6,088)	) (12,300)	) (809))
Equity in losses of unconsolidated affiliates	1	8	(255)	) (254)	) (28))
Other income (expense), net	(6,484)) (417)) 700	(5,784)) (123))
Provision for income taxes	29,828	50,250	31,664	61,492	91,813	

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In addition to interest on borrowings, interest expense includes amortization of loan costs, fees for lender commitments under our revolving credit agreement and fees for standby letters of credit and bank guarantees that banks issue on our behalf for performance bonds, bid bonds and self-insurance requirements.

Foreign currency transaction gains and losses is the principal component of Other income (expense), net. In the three- and six-month periods ended June 30, 2015, we incurred foreign exchange losses of \$8.9 million and \$9.9 million, respectively, related to Angola and its declining exchange rate relative to the U.S. dollar. The foreign exchange losses related primarily to our cash balances in Angola. Conversion of cash balances from kwanza to U.S. dollars is controlled by the central bank in Angola, and the central bank has slowed this process during 2015, causing our cash balances in kwanza to increase.

The provisions for income taxes were related to U.S. income taxes that we provided at estimated annual effective rates using assumptions as to earnings and other factors that would affect the tax provision for the remainder of the year, and to the operations of foreign branches and subsidiaries that were subject to local income and withholding taxes. We anticipate our effective tax rate for 2015 will be 31.3%. The primary difference between our current 2015 estimated effective tax rate of 31.3% and the federal statutory tax rate of 35% reflects our intention to indefinitely reinvest in certain of our international operations. As a result, we do not provide for U.S. taxes on that portion of our foreign earnings.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are currently exposed to certain market risks arising from transactions we have entered into in the normal course of business. These risks relate to interest rate changes and fluctuations in foreign exchange rates. We do not believe these risks are material. We have not entered into any market risk sensitive instruments for speculative or trading purposes. When we have a significant amount of borrowings, we typically manage our exposure to interest rate changes through the use of a combination of fixed- and floating-rate debt. See Note 3 of Notes to Consolidated Financial Statements included in this report for a description of our revolving credit facility and interest rates on our borrowings. We have an interest rate swap in place on \$100 million in principal amount of our 4.650% Senior Notes due 2024 for the period from November 2014 to November 2024. The agreement swaps the fixed interest rate of 4.650% on \$100 million of the Senior Notes to the floating rate of one month LIBOR plus 2.426%. We believe significant interest rate changes would not have a material near-term impact on our future earnings or cash flows. Because we operate in various oil and gas exploration and production regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. The functional currency for several of our international operations is the applicable local currency. A stronger U.S. dollar against the U.K. pound sterling, the Norwegian kroner and the Brazilian real may result in lower operating income. We manage our exposure to changes in foreign exchange rates principally through arranging compensation in U.S. dollars or freely convertible currency and, to the extent possible, by limiting compensation received in other currencies to amounts necessary to meet obligations denominated in those currencies. We use the exchange rates in effect as of the balance sheet date to translate assets and liabilities as to which the functional currency is the local currency, resulting in translation adjustments that we reflect as accumulated other comprehensive income or loss in the shareholders' equity section of our Consolidated Balance Sheets. We recorded adjustments of \$17.5 million and \$(4.6) million to our equity accounts for the six-month periods ended June 30, 2015 and 2014, respectively. Negative adjustments reflect the net impact of the strengthening of the U.S. dollar against various foreign currencies for locations where the functional currency is not the U.S. dollar. Conversely, positive adjustments reflect the effect of a weakening U.S. dollar.

We recorded foreign currency transaction losses of \$6.0 million and \$5.3 million in the three- and six-month periods ended June 30, 2015, and \$0.8 million and \$1.0 million in the three- and six-month periods ended June 30, 2014, respectively, that are included in Other expense, net in our Consolidated Statements of Income.

In the second quarter of 2015, the exchange rate for the Angolan kwanza relative to the U.S. dollar declined approximately 14%. This caused us to record a foreign currency loss of \$8.9 million related to the kwanza, and that amount is included as a component of Other expense, net in our Consolidated Statements of Income for the three- and six-month periods ended June 30, 2015. The adjustment related primarily to our cash balances in Angola. Conversion of cash balances from kwanza to U.S. dollars is controlled by the central bank in Angola, and the central bank has slowed this process during 2015, causing our cash balances in kwanza to increase. As of June 30, 2015, we had the equivalent of approximately \$53 million of cash in kwanza in Angola on our balance sheet.

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Item 4. Controls and Procedures.

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2015 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal control over financial reporting that occurred during the three months ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

On June 17, 2014, Peter L. Jacobs, a purported shareholder, filed a derivative complaint against all of the then-current members of our board of directors (John R. Huff, T. Jay Collins, Jerold J. DesRoche, D. Michael Hughes, Harris J. Pappas, Paul B. Murphy and M. Kevin McEvoy) and one of our former directors (David S. Hooker), as defendants, and our company, as nominal defendant, in the Court of Chancery of the State of Delaware. Through the complaint, the plaintiff is asserting, on behalf of our company, actions for breach of fiduciary duties and unjust enrichment in connection with prior determinations of our board of directors relating to nonexecutive director compensation. The plaintiff is seeking relief including disgorgement of payments made to the defendants, an award of unspecified damages and an award for attorneys' fees and other costs. We and the defendants filed a motion to dismiss the complaint and a supporting brief on September 5, 2014, asserting that the complaint failed to state a claim on which relief could be granted, and further that the plaintiff did not comply with procedural requirements necessary to allow him to commence litigation against certain directors on our behalf. We are awaiting a ruling on that motion. In any event, our company is only a nominal defendant in this litigation, and we do not expect the resolution of this matter to have a material adverse effect on our results of operations, cash flows or financial position.

Various other actions and claims are pending against us, most of which are covered by insurance. Although we cannot predict the ultimate outcome of these matters, we believe the ultimate liability, if any, that may result from these other actions and claims will not materially affect our results of operations, cash flows or financial position.

In the ordinary course of business, we are subject to actions for damages alleging personal injury under the general maritime laws of the United States, including the Jones Act, for alleged negligence. We report actions for personal injury to our insurance carriers and believe that the settlement or disposition of those claims will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Purchases of equity securities by the issuer and affiliated purchasers.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 2015	—	N/A	—	8,900,161
May 2015	—	N/A	—	8,900,161
June 2015	900,161	49.6084	900,161	8,000,000
Total	900,161	\$ 49.6084	900,161	8,000,000

Note: The above table reflects our activity under our plan to repurchase up to 10 million shares, which was authorized by our Board of Directors and announced in December 2014. The plan has no expiration date.

Item 6. Exhibits.

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		Registration or File Number	Form of Report	Report Date	Exhibit Number
3.01	* Restated Certificate of Incorporation	1-10945	10-K	Dec. 2000	3.01
3.02	* Certificate of Amendment to Restated Certificate of Incorporation	1-10945	8-K	May 2008	3.1
3.03	* Certificate of Amendment to Restated Certificate of Incorporation	1-10945	8-K	May 2014	3.1
3.04	* Amended and Restated Bylaws	1-10945	8-K	Dec. 2007	3.1
12.01	Computation of Ratio of Earnings to Fixed Charges				
31.01	Rule 13a – 14(a)/15d – 14(a) certification of principal executive officer				
31.02	Rule 13a – 14(a)/15d – 14(a) certification of principal financial officer				
32.01	Section 1350 certification of principal executive officer				
32.02	Section 1350 certification of principal financial officer				
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				

* Exhibit previously filed with the Securities and Exchange Commission, as indicated, and incorporated herein by reference.

+ Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

July 30, 2015
Date

/S/ M. KEVIN MCEVOY
M. Kevin McEvoy
Chief Executive Officer and Director
(Principal Executive Officer)

July 30, 2015
Date

/S/ MARVIN J. MIGURA
Marvin J. Migura
Executive Vice President
(Principal Financial Officer)

July 30, 2015
Date

/S/ W. CARDON GERNER
W. Cardon Gerner
Senior Vice President and Chief Financial
Officer
(Principal Accounting Officer)

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