OCEANEERING INTERNATIONAL INC
Form 10-Q
August 01, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 Houston, Texas	77041
(Address of principal executive offices)	(Zip Code)

(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. þ 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). þ 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	þ	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 þ No

Number of shares of Common Stock outstanding as of July 27, 2012: 107,903,574

Oceaneering International, Inc.
Form 10-Q
Table of Contents

Table of Contents

PART I

Item 1. Financial Statements.

OCEANEERING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$85,588	$106,142
Accounts receivable, net of allowances for doubtful accounts of $563 and $594	593,619	549,812
Inventory	290,141	255,095
Other current assets	70,886	73,073
Total Current Assets	1,040,234	984,122
Property and Equipment, at cost	1,916,310	1,772,017
Less accumulated depreciation	953,907	878,709
Net Property and Equipment	962,403	893,308
Other Assets:		
Goodwill	331,987	333,471
Investments in unconsolidated affiliates	44,921	49,607
Other non-current assets	145,319	140,036
Total Other Assets	522,227	523,114
Total Assets	$2,524,864	$2,400,544
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$136,841	$111,381
Accrued liabilities	366,222	335,161
Income taxes payable	59,163	54,833
Total Current Liabilities	562,226	501,375
Long-term Debt	125,000	120,000
Other Long-term Liabilities	212,990	221,207
Commitments and Contingencies		
Shareholders’ Equity:		
Common Stock, par value $0.25 per share; 180,000,000 shares authorized; 110,834,088 shares issued	27,709	27,709
Additional paid-in capital	206,885	202,619
Treasury stock; 2,930,514 and 2,799,118 shares, at cost	(84,177)	(71,700)
Retained earnings	1,514,866	1,426,525
Accumulated other comprehensive income	(40,635)	(27,191)
Total Shareholders' Equity	1,624,648	1,557,962
Total Liabilities and Shareholders' Equity	$2,524,864	$2,400,544

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2012	2011	2012	2011
Revenue	$672,545	$545,838	$1,267,438	$1,016,258
Cost of services and products	511,387	419,722	982,977	791,341
Gross Margin	161,158	126,116	284,461	224,917
Selling, general and administrative expense	51,111	44,442	98,427	82,176
Income from Operations	110,047	81,674	186,034	142,741
Interest income	194	89	538	256
Interest expense	(1,256)	(212)	(1,801)	(359)
Equity earnings of unconsolidated affiliates	119	1,430	923	1,900
Other expense, net	(3,186)	(217)	(4,659)	(358)
Income before Income Taxes	105,918	82,764	181,035	144,180
Provision for income taxes	33,364	26,071	57,026	45,417
Net Income	$72,554	$56,693	$124,009	$98,763
Cash Dividends declared per Share	$0.18	$0.15	$0.33	$0.15
Basic Earnings per Share	$0.67	$0.52	$1.15	$0.91
Diluted Earnings per Share	$0.67	$0.52	$1.14	$0.91

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Net Income	$ 72,554	$ 56,693	$ 124,009	$ 98,763
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(25,235)	7,311	(13,444)	28,647
Total other comprehensive income	(25,235)	7,311	(13,444)	28,647
Total Comprehensive Income	$ 47,319	$ 64,004	$ 110,565	$ 127,410

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

Table of Contents

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

	Six Months Ended June 30,	
(in thousands)	2012	2011
Cash Flows from Operating Activities:		
Net income	$124,009	$98,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	82,234	73,145
Deferred income tax provision (benefit)	(5,237)	3,824
Gain on sales of property and equipment	(163)	(960)
Noncash compensation	8,225	5,707
Distributions from unconsolidated affiliates greater than earnings	4,686	1,053
Excluding the effects of acquisitions, increase (decrease) in cash from:		
Accounts receivable	(42,584)	(64,468)
Inventory	(35,046)	(23,217)
Other operating assets	(3,000)	(585)
Currency translation effect on working capital	(3,071)	2,620
Current liabilities	56,053	(14,637)
Other operating liabilities	295	4,244
Total adjustments to net income	62,392	(13,274)
Net Cash Provided by Operating Activities	186,401	85,489
Cash Flows from Investing Activities:		
Purchases of property and equipment	(151,591)	(108,204)
Business acquisitions, net of cash acquired	(9,260)	(59,558)
Dispositions of property and equipment and equity investment	444	3,997
Net Cash Used in Investing Activities	(160,407)	(163,765)
Cash Flows from Financing Activities:		
Net proceeds of revolving credit facility, including new loan costs	3,955	—
Excess tax benefits from stock-based compensation	4,523	255
Cash dividends	(35,668)	(16,280)
Purchases of treasury stock	(19,358)	—
Net Cash Used in Financing Activities	(46,548)	(16,025)
Net Decrease in Cash and Cash Equivalents	(20,554)	(94,301)
Cash and Cash Equivalents—Beginning of Period	106,142	245,219
Cash and Cash Equivalents—End of Period	$85,588	$150,918

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

Table of Contents

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 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, 2012 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, 2011. 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 these 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 accounting principles generally accepted in the United States 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 year presentation.

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.

Property and Equipment. 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.

We capitalize interest on assets where the construction period is anticipated to be more than three months. We capitalized no interest in the six-month periods ended June 30, 2012 and 2011. We do not allocate general administrative costs to capital projects.

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

On December 20, 2011, we purchased AGR Field Operations Holdings AS and subsidiaries (collectively, "AGR FO"), which we believe is Norway's largest asset integrity management service provider on offshore production platforms, onshore facilities, and pipelines, for $220 million. AGR FO employs subsea technology to perform internal and external inspections of subsea hardware. AGR FO also has a substantial operating presence in Australia where it operates and maintains offshore and onshore oil and gas production facilities for customers and provides subsea engineering services and operates an offshore logistics supply base.

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. Our goodwill, all nondeductible for income tax purposes, associated with the acquisition was $165 million, and other intangible assets were $32 million. 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. The results of AGR FO's operations are included in our

Table of Contents

consolidated statements of income from the date of acquisition. Generally, AGR FO's Norwegian assets and operations are in our Asset Integrity segment and its Australian assets and operations are in our Subsea Projects segment.

On December 27, 2011, we purchased Mechanica AS, a design and fabrication company specializing in remotely operated subsea tools for the offshore oil and gas industry, for $17 million. 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. Our goodwill, all nondeductible for income tax purposes, associated with the acquisition was $9 million, and other intangible assets were $5 million. 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. The results of operations of Mechanica AS are included in our consolidated statements of income from the date of acquisition. These operations are in our Subsea Products segment.

In January 2012, we acquired Metacor Holdings Limited and subsidiaries, which specialize in offshore coating maintenance analysis, for $9 million. 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. The results of operations of Metacor Holdings Limited and subsidiaries are included in our consolidated statements of income from the date of acquisition. These operations are in our Asset Integrity business segment.

Goodwill and Intangible Assets. In September 2011, the Financial Accounting Standards Board ("FASB") issued an update regarding goodwill impairment testing. Under the update, an entity has the option to 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. Our reporting units are the operating units one level below our business segments, except for ROVs and Asset Integrity, which are tested as single reporting units. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is no less than its carrying amount, performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test. We adopted this update in 2011. The provisions of the update have not had a material effect on our financial position or results of operations. The only changes in our reporting units' goodwill during the periods presented are from business acquisitions, as discussed above, and currency exchange rate changes.

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.

New Accounting Standards. In June 2011, the FASB issued an update, which was amended in December 2011, to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or two separate but consecutive statements. Under either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. These updates eliminate the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These updates do not change the items that are required to be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income and is required to be applied retrospectively. We adopted these updates in 2011. We are reporting the total of comprehensive income, the components of net income, and the components of other comprehensive income in two separate consecutive statements.

In May 2011, the FASB issued an update to converge U.S. GAAP and International Financial Reporting Standards (IFRS). This update defines certain requirements for measuring fair value and for disclosing information about fair value measurements. This update is applied prospectively and was effective for us January 1, 2012. The provisions of this update have not had a material effect on our financial position or results of operations, and we have included the required disclosures in the Notes to Consolidated Financial Statements.

Table of Contents

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Our investments in unconsolidated affiliates consisted of the following:

(in thousands)	Jun 30, 2012	Dec 31, 2011
Medusa Spar LLC	$44,833	$49,480
Other	88	127
	$44,921	$49,607

In 2003, we purchased a 50% equity interest in Medusa Spar LLC for $43.7 million. Medusa Spar LLC owns a 75% interest in a production spar platform in the U.S. Gulf of Mexico. Medusa Spar LLC's revenue is derived from processing oil and gas production for a fee based on the volumes processed through the platform (throughput). Medusa Spar LLC financed its acquisition of its 75% interest in the production spar platform using approximately 50% debt and 50% equity from its equity holders. The debt was repaid in 2008. We believe our maximum exposure to loss from our investment in Medusa Spar LLC is our $45 million investment. Medusa Spar LLC is a variable interest entity. We are not the primary beneficiary of Medusa Spar LLC, since we do not own a controlling interest, nor do we manage the operations of the asset it owns. As we are not the primary beneficiary, we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Our 50% share of the underlying equity of the net assets of Medusa Spar LLC is approximately equal to its carrying value. The following are condensed 100% statements of operations of Medusa Spar LLC.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Medusa Spar LLC				
Condensed Statements of Operations				
Revenue	$2,655	$5,277	$6,678	$8,631
Depreciation	(2,370)	(2,370)	(4,739)	(4,739)
General and Administrative	(18)	(18)	(37)	(36)
Net Income	$267	$2,889	$1,902	$3,856

3. INVENTORY

Our inventory consisted of the following:

(in thousands)	Jun 30, 2012	Dec 31, 2011
Inventory:		
Inventory for remotely operated vehicles	$135,045	$135,297
Other inventory, primarily raw materials	155,096	119,798
Total	$290,141	$255,095

Inventory is valued at lower of cost or market. We determine cost using the weighted-average method.

4. DEBT

Long-term Debt consisted of the following:

(in thousands)	Jun 30, 2012	Dec 31, 2011
Revolving credit facility	$125,000	$120,000
Long-term Debt	$125,000	$120,000

On January 6, 2012, we entered into a new credit agreement with a group of banks (the "2012 Credit Agreement"). The 2012 Credit Agreement provides for a five-year, $300 million revolving credit facility. Subject to certain conditions, the aggregate commitments under the facility may be increased by up to $200 million by obtaining additional commitments from existing and/or new lenders. Borrowings under the facility may be used for working capital and general corporate purposes. The facility expires on January 6, 2017. Revolving borrowings under the

Table of Contents

facility 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 capitalization ratio, the applicable margin varies (1) in the case of adjusted base rate advances, from 0.125% to 0.750% and (2) in the case of eurodollar advances, from 1.125% to 1.750%. The adjusted base rate is the greater of (1) the per annum rate established by administrative agent as its prime rate, (2) the federal funds rate plus 0.50% and (3) the one-month Eurodollar Rate plus 1%.

Due to the short maturity of the associated interest rate periods, the carrying value of our debt under the 2012 Credit Agreement approximates its fair value. Our debt is classified as Level 2 in the fair value hierarchy (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).

The 2012 Credit Agreement contains various covenants which we believe are customary for agreements of this nature, including, but not limited to, restrictions on the ability of each of our restricted subsidiaries to incur unsecured debt, as well as restrictions on our ability and the ability of each of our restricted subsidiaries to incur secured 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 an interest coverage ratio and a debt to capitalization ratio. The 2012 Credit Agreement includes customary events and consequences of default.

5. COMMITMENTS AND CONTINGENCIES

Litigation. Various 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 actions and claims will not materially affect our results of operations, cash flow 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 value due to the short 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 value.

One customer in Angola owed us $30 million at June 30, 2012 and $40 million at December 31, 2011, respectively, all of which is overdue. We completed the work on the contracts related to this receivable in the first quarter of 2010. Based on our past history with this customer, we believe this receivable ultimately will be collected. During 2011, based on our estimate of when the receivable will be collected, we reduced the carrying value of the receivable by $3 million to reflect a present value estimate. We have classified $22 million as Other non-current assets on our balance sheets at June 30, 2012 and December 31, 2011.

Table of Contents

6. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2012	2011	2012	2011
Basic shares outstanding	108,097	108,533	108,126	108,445
Effect of restricted stock units	566	614	580	630
Diluted shares outstanding	108,663	109,147	108,706	109,075

We had been paying a quarterly cash dividend of $0.15 per share to our common shareholders since the second quarter of 2011. In April 2012, our Board of Directors increased our dividend to $0.18 per share, commencing with the dividend paid in June 2012.

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

We grant restricted units of our common stock to certain of our key executives, key employees and Chairman of the Board. We also grant 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 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 grants to our other non-employee directors vest in full on the first anniversary of the award date, conditional upon continued service as a director.

For each of the restricted stock units granted in 2010 through 2012, 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 common stock unit vested. As of June 30, 2012 and December 31, 2011, totals of 1,041,860 and 1,090,850 shares of restricted stock or restricted stock units were outstanding. 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.

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 $21.5 million at June 30, 2012. 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 February 2010, our Board of Directors approved a plan to repurchase up to 12 million shares of our common stock. Through June 30, 2012, under this plan, we had repurchased 3.1 million shares of our common stock for $86 million, including 400,000 shares for $19 million during the six-month period ended June 30, 2012.

7. 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 our effective tax rate of 31.5% in the six-month periods ended June 30, 2012 and 2011 and the federal statutory rate of 35% reflects our intention to indefinitely reinvest in certain of our international operations; therefore, we do not provide for U.S. taxes on a portion of our foreign earnings.

Table of Contents

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 is greater than 50% likely of being realized upon ultimate settlement.
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 and penalties and interest, we have accrued a net total of $5.1 million in the caption "other long-term liabilities" on our balance sheet for unrecognized tax benefits at June 30, 2012. All additions or reductions to those liabilities affect our effective income tax rate in the periods of change.
We do not believe that the total of unrecognized tax benefits will significantly increase or decrease in the next 12 months.
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. Our management believes that adequate provisions have been made for all taxes that will ultimately be payable, although final determination of tax liabilities may differ from our estimates.
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	2007
United Kingdom	2009
Norway	2002
Angola	2007
Nigeria	2006
Brazil	2006
Australia	2008
Canada	2008

8. 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 and aerospace industries. Our Oil and Gas 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 built-to-order specialty subsea hardware. Our Subsea Projects segment provides multiservice vessels, oilfield diving and support vessel operations, which are used primarily in inspection, maintenance and repair and installation activities, and a mobile offshore production system, through a 50% interest in an entity which holds a 75% interest in the system. With the acquisition of AGR FO in December 2011, we also operate and maintain offshore and onshore oil and gas production facilities, provide subsea engineering services, and operate an offshore logistics supply base in Australia. 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, 2011.

11

Table of Contents

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

	Three Months Ended			Six Months Ended	
(in thousands)	Jun 30, 2012	Jun 30, 2011	Mar 31, 2012	Jun 30, 2012	Jun 30, 2011
Revenue					
Oil and Gas					
Remotely Operated Vehicles	$208,802	$189,097	$193,971	$402,773	$353,425
Subsea Products	191,783	195,800	172,081	363,864	353,118
Subsea Projects	90,448	34,733	72,676	163,124	72,302
Asset Integrity	113,660	69,768	93,456	207,116	128,118
Total Oil and Gas	604,693	489,398	532,184	1,136,877	906,963
Advanced Technologies	67,852	56,440	62,709	130,561	109,295
Total	$672,545	$545,838	$594,893	$1,267,438	$1,016,258
Income from Operations					
Oil and Gas					
Remotely Operated Vehicles	$64,168	$58,145	$56,933	$121,101	$105,551
Subsea Products	36,742	36,269	29,510	66,252	63,952
Subsea Projects	15,969	1,874	7,567	23,536	4,910
Asset Integrity	16,444	9,349	6,538	22,982	15,229
Total Oil and Gas	133,323	105,637	100,548	233,871	189,642
Advanced Technologies	6,645	3,160	3,509	10,154	5,677
Unallocated Expenses	(29,921)	(27,123)	(28,070)	(57,991)	(52,578)
Total	$110,047	$81,674	$75,987	$186,034	$142,741

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.

Table of Contents

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

Certain forward-looking 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 2012 and full year of 2012 operating results and earnings per share, and the contributions from our segments to those results;
- the level of services and products we anticipate;
- our plans for future operations (including planned additions to our remotely operated vehicle ("ROV") fleet and other capital expenditures);
- our cash flows and the adequacy of our liquidity and capital resources;
- our anticipated tax rates;
- 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, 2011. 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, 2011.

Executive Overview

We expect 2012 diluted earnings per share to be in the range of $2.55 to $2.65, as compared to our 2011 diluted earnings per share of $2.16. We believe our operating income will be higher in 2012 than it was in 2011 for each of our operating segments. For our services and products, we anticipate continued international demand growth and a moderate rebound in overall activity in the U.S. Gulf of Mexico. Compared to the first half of 2012, for the second half of 2012 we forecast an increase in operating income, principally from our ROV and Subsea Products business segments. We forecast third quarter 2012 diluted earnings per share of $0.75 to $0.80, with increased operating income over the second quarter of 2012 from our ROV and Subsea Products business segments.

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 level of our customers' capital spending on deepwater exploration and development has 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, 2011 under the heading "Critical Accounting Policies and Estimates" in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operation.

New Accounting Standards

For a discussion of new accounting standards applicable to us, see the discussion in Note 1 to the Consolidated Financial Statements contained in Item 1 of this quarterly report on Form 10-Q.

Table of Contents

Liquidity and Capital Resources

We consider our liquidity and capital resources adequate to support our existing operations and capital commitments. At June 30, 2012, we had working capital of $478 million, including $86 million of cash and cash equivalents. Additionally, we had $175 million of borrowing capacity available under our revolving credit facility.

Our capital expenditures were $161 million during the first six months of 2012, as compared to $168 million during the corresponding period of last year. Of the $161 million, $104 million was invested in our ROV segment. We added 18 new ROVs to our fleet during the six months ended June 30, 2012 and retired five, resulting in a total of 280 ROVs in our fleet. We plan to add approximately seven to twelve more new ROVs during the rest of 2012, and most of these are in the process of being built or installed. Our capital expenditures in the six months ended June 30, 2012 included $9 million for the acquisition of Metacor Holdings Limited, a U.K. company that specializes in offshore coating maintenance analysis. Metacor Holdings Limited is part of our Asset Integrity segment. Our capital expenditures in the six months ended June 30, 2011 included $50 million for the acquisition of Norse Cutting & Abandonment AS ("NCA"), a Norwegian oilfield technology company, and $53 million in our ROV segment. NCA is part of our Subsea Products segment. We estimate our capital expenditures for 2012, excluding acquisitions, will be in the range of $275 million to $300 million, with approximately $175 million for upgrading and adding vehicles to our ROV fleet and $90 million for enhancing our Subsea Products capabilities.

We have chartered a deepwater vessel, the Ocean Intervention III, for a term that extends to February 2014, with annual extension options for up to three additional years. The Ocean Intervention III is working under our contract with BP plc for field support services offshore Angola. We have chartered the Bourbon Oceanteam 101 to February 2015 to work on the same contract. BP plc has the option for us to provide a third vessel and has options to extend the contract for two additional one-year periods. Each of these vessels has been outfitted with two of our high specification work-class ROVs.

We have also chartered an additional deepwater vessel, the Olympic Intervention IV, for an initial five-year term ending in July 2013, with one two-year and three one-year extension options. 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.

We had no material contractual commitments for capital expenditures at June 30, 2012. We believe our cash provided from operating activities will exceed our capital expenditures in 2012.

At June 30, 2012 we had $125 million of long-term debt outstanding and $175 million available on our revolving credit facility, which is scheduled to expire in January 2017. The revolving credit facility has short-term interest rates that float with market rates, plus applicable spreads.

Our principal source of cash from operating activities is our net income, adjusted for the non-cash effects of depreciation and amortization, deferred income taxes and noncash compensation under our restricted stock plans. Our $186 million and $85 million of cash provided from operating activities in the six-month periods ended June 30, 2012 and 2011, respectively, were affected by cash increases/(decreases) of $(43) million and $(64) million, respectively, from changes in accounts receivable and $56 million and $(15) million, respectively, from changes in current liabilities.

In the six-month period ended June 30, 2012, we used $160 million of cash in investing activities. The cash used in investing activities related to the capital expenditures described above. We also used $47 million in financing activities, which included net debt proceeds of $4 million, the payment of cash dividends of $36 million, and the repurchase of 400,000 shares of treasury stock for $19 million. In the six-month period ended June 30, 2011, we used

$164 million of cash in investing activities. The cash used in investing activities was used for the capital expenditures, including the business acquisition, described above.

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 February 2010, our Board of Directors approved a plan to repurchase up to 12 million shares of our common stock. The timing and amount of repurchases will be determined by our management. We expect that any shares repurchased under the new plan will be held as treasury stock for future use. The new plan does not obligate us to repurchase any particular number of shares. Under the plan, we have repurchased a total of 3.1 million shares for

Table of Contents

$86 million through June 30, 2012, including 400,000 shares for $19 million during the six-month period ended June 30, 2012.

We had been paying a quarterly cash dividend of $0.15 per share to our common shareholders since the second quarter of 2011. In April 2012, our Board of Directors increased our dividend to $0.18 per share, commencing with the dividend paid in June 2012.

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 ("Oil and Gas") and all other services and products ("Advanced Technologies"). Our Unallocated Expenses are those not associated with a specific business segment.

Consolidated revenue and margin information is as follows:

	Three Months Ended			Six Months Ended	
(dollars in thousands)	Jun 30, 2012	Jun 30, 2011	Mar 31, 2012	Jun 30, 2012	Jun 30, 2011
Revenue	$672,545	$545,838	$594,893	$1,267,438	$1,016,258
Gross Margin	161,158	126,116	123,303	284,461	224,917
Gross Margin %	24 %	23 %	21 %	22 %	22 %
Operating Income	110,047	81,674	75,987	186,034	142,741
Operating Income %	16 %	15 %	13 %	15 %	14 %

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 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. Revenue in each of our Subsea Products and Advanced Technologies segments has generally not been seasonal.

Table of Contents

Oil and Gas

The following table sets forth the revenues and margins for our Oil and Gas business segments for the periods indicated.

	Three Months Ended						Six Months Ended			
(dollars in thousands)	Jun 30, 2012		Jun 30, 2011		Mar 31, 2012		Jun 30, 2012		Jun 30, 2011	
Remotely Operated Vehicles										
Revenue	$ 208,802		$ 189,097		$ 193,971		$ 402,773		$ 353,425	
Gross Margin	74,177		66,529		66,392		140,569		121,937	
Gross Margin %	36	%	35	%	34	%	35	%	35	%
Operating Income	64,168		58,145		56,933		121,101		105,551	
Operating Income %	31	%	31	%	29	%	30	%	30	%
Days available	25,182		23,729		24,246		49,428		47,003	
Utilization %	81	%	76	%	79	%	80	%	74	%
Subsea Products										
Revenue	191,783		195,800		172,081		363,864		353,118	
Gross Margin	54,612		54,934		46,781		101,393		96,721	
Gross Margin %	28	%	28	%	27	%	28	%	27	%
Operating Income	36,742		36,269		29,510		66,252		63,952	
Operating Income %	19	%	19	%	17	%	18	%	18	%
Backlog at end of period	621,000		405,000		402,000		621,000		405,000	
Subsea Projects										
Revenue	90,448		34,733		72,676		163,124		72,302	
Gross Margin	20,149		4,239		11,911		32,060		9,570	
Gross Margin %	22	%	12	%	16	%	20	%	13	%
Operating Income	15,969		1,874		7,567		23,536		4,910	
Operating Income %	18	%	5	%	10	%	14	%	7	%
Asset Integrity										
Revenue	113,660		69,768		93,456		207,116		128,118	
Gross Margin	23,948		12,945		12,230		36,178		22,342	
Gross Margin %	21	%	19	%	13	%				