OCEANEERING INTERNATIONAL INC
Form 10-Q
May 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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 since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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 √

The number of shares of the registrant s common stock outstanding as of April 30, 2009 was 54,712,602.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands)

	Mar. 31, 2009	Dec. 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 24,795	$ 11,200
Accounts receivable, net of allowances for doubtful accounts of $1,463 and $1,492	400,371	446,719
Inventory	248,353	235,582
Other current assets	49,070	54,204
Total Current Assets	722,589	747,705
Property and equipment, at cost	1,397,062	1,351,839
Less accumulated depreciation	681,109	654,409
Net Property and Equipment	715,953	697,430
Other Assets:		
Goodwill	120,936	118,706
Investments in unconsolidated affiliates	61,961	63,930
Other	40,197	42,249
Total Other Assets	223,094	224,885
TOTAL ASSETS	$ 1,661,636	$ 1,670,020
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 84,759	$ 92,511
Accrued liabilities	206,062	244,035
Income taxes payable	24,629	20,781
Total Current Liabilities	315,450	357,327
Long-term Debt	200,000	229,000
Other Long-term Liabilities	123,747	116,039
Commitments and Contingencies		
Shareholders Equity	1,022,439	967,654

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,661,636	$ 1,670,020

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

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OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands, except per share amounts)

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Revenue	$ 435,100	$ 435,815
Cost of services and products	329,298	337,149
Gross Margin	105,802	98,666
Selling, general and administrative expense	36,422	33,896
Income from Operations	69,380	64,770
Interest income	135	131
Interest expense, net of amounts capitalized	(2,381)	(3,309)
Equity earnings of Medusa Spar LLC	883	841
Other income, net	206	1,074
Income before Income Taxes	68,223	63,507
Provision for income taxes	23,878	22,228
Net Income	$ 44,345	$ 41,279
Basic Earnings per Share	$ 0.81	$ 0.74
Diluted Earnings per Share	$ 0.80	$ 0.73

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

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OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	For the Three Months Ended March 31, 2009	2008
Cash Flows from Operating Activities:		
Net income	$ 44,345	$ 41,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,023	26,499
Deferred income tax provision	11,326	3,312
Loss (gain) on sales of property and equipment	99	(1,001)
Noncash compensation	1,586	1,991
Distributions from Medusa Spar LLC greater than (less than) earnings	1,969	(331)
Excluding the effects of acquisitions, increase (decrease) in cash from:		
Accounts receivable	46,348	2,631
Inventory and other current assets	(8,014)	(16,095)
Other assets	1,420	444
Currency translation effect on working capital	1,201	66
Current liabilities	(39,483)	(14,601)
Other long-term liabilities	(3,312)	1,051
Total adjustments to net income	41,163	3,966
Net Cash Provided by Operating Activities	85,508	45,245
Cash Flows from Investing Activities:		
Business acquisitions, net of cash acquired		(42,269)
Purchases of property and equipment	(45,387)	(45,555)
Dispositions of property and equipment	1,171	1,195
Net Cash Used in Investing Activities	(44,216)	(86,629)
Cash Flows from Financing Activities:		
Net (payments) proceeds from revolving credit facility	(4,000)	45,000
Payments on Term Loan	(25,000)	
Proceeds from issuance of common stock	870	176
Excess tax benefits from stock-based compensation	433	351
Net Cash Provided by (Used in) Financing Activities	(27,697)	45,527

Net Increase in Cash and Cash Equivalents	13,595	4,143
Cash and Cash Equivalents Beginning of Period	11,200	27,110
Cash and Cash Equivalents End of Period	$ 24,795	$ 31,253

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

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OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation and Significant Accounting Policies

We have prepared these unaudited consolidated financial statements pursuant to instructions for the quarterly report 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. These financial statements reflect all adjustments that we believe are necessary to present fairly our financial position at March 31, 2009 and our results of operations and cash flows for the periods presented. 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, 2008. The results for interim periods are not necessarily indicative of annual results.

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.

Certain amounts from prior periods have been reclassified to conform to the current year presentation.

2. Investments in Unconsolidated Affiliates

Our investments in unconsolidated affiliates consisted of the following:

	Mar. 31, 2009	Dec. 31, 2008
	(in thousands)	
Medusa Spar LLC	$ 60,614	$ 62,583
Other	1,347	1,347
Total	$ 61,961	$ 63,930

We own a 50% equity interest in Medusa Spar LLC. Medusa Spar LLC owns a 75% interest in a production spar platform in the 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. 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 $61 million investment. Medusa Spar LLC is a variable interest entity. We are not the primary beneficiary of Medusa Spar LLC because we own 50%, we do not manage the operations of the asset it owns, and another owner guaranteed the revenue stream necessary for Medusa Spar LLC to repay its debt. As we are not the primary beneficiary, we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Equity earnings from Medusa Spar LLC reflected in our financial statements are after amortization of our initial acquisition costs.

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The following are condensed 100% statements of income of Medusa Spar LLC:

	For the Three Months Ended March 31, 2009	2008
	(in thousands)	
Revenue	$ 4,180	$ 4,416
Depreciation	(2,369)	(2,369)
General and administrative	(18)	(17)
Interest		(288)
Net Income	$ 1,793	$ 1,742
Equity earnings reflected in our financial statements	$ 883	$ 841

3. Inventory

Our inventory consisted of the following:

	Mar. 31, 2009	Dec. 31, 2008
	(in thousands)	
Parts and components for remotely operated vehicles	$ 114,568	$ 104,892
Other inventory, primarily raw materials	133,785	130,690
Total	$ 248,353	$ 235,582

We state our inventory at the lower of cost or market. We determine cost using the weighted-average method.

4. Debt

Our long-term debt consisted of the following:

	Mar.31, 2009	Dec. 31, 2008
	(in thousands)	
6.72% Senior Notes	$ 40,000	$ 40,000
Term Loan	60,000	85,000
Revolving credit	100,000	104,000
Total	$ 200,000	$ 229,000

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Scheduled maturities of our long-term debt as of March 31, 2009 were as follows:

	6.72% Notes	Term Loan	Revolving Credit	Total
		(in thousands)		
Remainder of 2009	$ 20,000	$ 60,000	$	$ 80,000
2010	20,000			20,000
2011				
2012			100,000	100,000
Total	$ 40,000	$ 60,000	$ 100,000	$ 200,000

Maturities through March 31, 2010 are not classified as current as of March 31, 2009 because we are able and intend to extend the maturity by reborrowing under our revolving credit facility, which has a maturity date beyond one year. We capitalized interest charges of less than $0.1 million in the three-month period ended March 31, 2009 as part of construction-in-progress. We did not capitalize any interest in the three-month period ended March 31, 2008.

We have interest rate hedges in place on $100 million of floating rate debt under our revolving credit facility for the period August 2008 to August 2011, designated as cash flow hedges. The hedges fix three-month LIBOR at 3.07% until August 2009 and at 3.31% for the period August 2009 to August 2011. We estimated the fair value of the interest rate hedges and reflected it on our balance sheet as a liability of $3.8 million at March 31, 2009. This liability valuation was arrived at using a discounted cash flow model, which we believe uses Level 2 inputs. Of this liability, $1.5 million relates to maturities before March 31, 2010.

5. Shareholders Equity, Earnings per Share and Comprehensive Income

Our shareholders equity consisted of the following:

	Mar. 31, 2009	Dec. 31, 2008
	(in thousands)	
Common Stock, par value $0.25; 180,000,000 shares authorized; 55,417,044 and 55,417,044 shares issued	$ 13,854	$ 13,854
Treasury Stock, 704,842 and 941,600 shares, at cost	(39,239)	(52,419)
Additional paid-in capital	216,347	224,245
Retained earnings	895,035	850,690
Accumulated other comprehensive loss	(63,558)	(68,716)
Total	$ 1,022,439	$ 967,654

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1).
FSP EITF 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, need to be included in the earnings allocation in computing earnings per share. Certain of our share-based payments contain such rights to dividends or dividend equivalents and are considered participating securities under FSP EITF 03-6-1. We adopted FSP EITF 03-6-1 as of January 1, 2009, as required. Prior period earnings per share data have been adjusted to conform to FSP EITF 03-6-1.

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The following is a summary of the quarterly and full year changes to our 2008 earnings per share to conform to FSP EITF 03-6-1: