BlackRock Inc.
Form 4
June 03, 2015

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
Fairbairn Robert W

(Last) (First) (Middle)

BLACKROCK, INC., 55 EAST 52ND STREET

(Street)

NEW YORK, NY 10055

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
BlackRock Inc. [BLK]

3. Date of Earliest Transaction (Month/Day/Year)
06/02/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Managing Director

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Shares Of Common Stock (par Value $0.01 Per Share)	06/02/2015		G	V	560	D	$ 0	76,662 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Fairbairn Robert W BLACKROCK, INC. 55 EAST 52ND STREET NEW YORK, NY 10055			Senior Managing Director	

Signatures

/s/ Daniel R. Waltcher as Attorney-in-Fact for Robert W. Fairbairn	06/03/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes (i) 1,612 Restricted Stock Units vesting on 1/31/16, (ii) 3,500 Restricted Stock Units vesting in installments on 1/31/16 and 1/31/17, (iii) 4,653 Restricted Stock Units vesting in installments on 1/31/16, 1/31/17 and 1/31/18 (iv) 21,844 Restricted Stock Units awarded on 1/20/12 that will vest in whole or in part only on the satisfaction of one or more previously-disclosed Common Stock price targets, but which may not vest before 1/31/16 and will expire on 1/31/18 to the extent not then vested (v) 17,158 Restricted Stock Units awarded on 1/18/13 that will vest in whole or in part only on the satisfaction of one or more previously-disclosed Common Stock price targets, but which may not vest before 1/31/17 and will expire on 1/31/19 to the extent not then vested and (vi) 8,960 Restricted Stock Units awarded on 1/17/14 that will vest in whole or in part only on the satisfaction of one or more previously-disclosed Common Stock price targets, but which may not vest before 1/31/18 and will expire on 1/31/20 to the extent not then vested. Each Restricted Stock Unit is payable solely by delivery of an equal number of shares of Common Stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. In accordance with SFAS No. 142, Goodwill and Indefinite-Lived Intangibles ("SFAS No. 142"), the Company tests for the impairment of goodwill and other intangible assets with indefinite lives on at least an annual basis. The Company's goodwill impairment test involves a comparison of the fair value of each of the Company's reporting units, as defined under SFAS No. 142, with its carrying amount. The Company's indefinite-lived asset impairment test involves a comparison of the fair value of the intangible and its carrying value. The fair value is

determined using discounted cash flows and other market-related valuation models, such as earnings multiples and comparable asset market values. These tests are influenced significantly by management estimates of future cash flows and the related expected utilization of assets. Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight line basis over 25 years. In conjunction with the adoption of this statement, the Company has discontinued the amortization of goodwill. PROPERTY AND EQUIPMENT Property and equipment, both owned and under capital leases, are recorded at cost. Depreciation is provided primarily on the straight-line method over the estimated useful lives of the assets. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), long-lived assets, excluding goodwill and indefinite-lived intangibles, to be held and used by the Company are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. SFAS No. 144 modifies SFAS No. 121, Accounting for the Impairment or Disposal of Long-Lived Assets to be Disposed of ("SFAS No. 121"). For long-lived assets to be held and used, the Company bases its 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 my 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, the Company determines 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, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, is based on management's estimate of discounted cash flows. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria of SFAS No. 144. FOREIGN CURRENCY The functional currency for the Company's foreign subsidiary Well Ops (U.K.) Limited is the applicable local currency (British Pound). Results of operations for this subsidiary are translated into U.S. dollars using average exchange rates during the period. Assets and liabilities of this foreign subsidiary are translated into U.S. dollars using the exchange rate in effect at the balance sheet date and the resulting translation adjustment which was a gain of $2.5 million, net of taxes, in 2002 is accumulated as a component of shareholders' equity. All foreign currency transaction gains and losses are recognized currently in the statements of operations. Canyon Offshore, the Company's ROV subsidiary, has operations in the United Kingdom and Southeast Asia sectors. Canyon conducts the majority of its affairs in these regions in U.S. dollars which it considers the functional currency. When currencies other than the U.S. dollar are to be paid or received the resulting gain or loss from translation is recognized in the statements of operations. These amounts for the year ended December 31, 2002 were not material to the Company's results of operations or cash flows. 28 ACCOUNTING FOR PRICE RISK MANAGEMENT ACTIVITIES The Company's price risk management activities involve the use of derivative financial instruments to hedge the impact of market price risk exposures primarily related to our oil and gas production. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, all derivatives are reflected in our balance sheet at their fair market value. Under SFAS No. 133 there are two types of hedging activities: hedges of cash flow exposure and hedges of fair value exposure. The Company engages primarily in cash flow hedges. Hedges of cash flow exposure are entered into to hedge a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. Changes in the derivative fair values that are designated as cash flow hedges are deferred to the extent that they are effective and are recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are recognized in earnings. The ineffective portion of a cash flow hedge's change in value is recognized immediately in earnings in oil and gas production revenues. As required by SFAS No. 133, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking various hedge transactions and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment or forecasted transaction. We also assess, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. We discontinue hedge accounting prospectively if we determine that a derivative is no longer highly effective as a hedge. The market value of hedging instruments reflects our best estimate and is based upon exchange or over-the-counter quotations whenever they are available. Quoted valuations may not be available due to location differences or terms that extend beyond the period for which quotations are available. Where quotes are not available, we utilize other valuation techniques or models to estimate market values. These modeling techniques require us to make estimations of future prices, price correlation and market volatility and liquidity. Our actual results may differ from our estimates, and these differences can be positive or negative. During the second half of 2002, the Company entered into various cash flow hedging swap contracts to fix cash flows relating to a portion of the Company's oil and gas production. All of these qualified for hedge accounting and none extended beyond a year and a half. The aggregate fair market value of the swaps was a liability of $4.1 million as of December 31, 2002. The Company recorded $2.6 million of loss, net of taxes, in other comprehensive loss within shareholders' equity as these hedges were highly effective. NEW ACCOUNTING PRONOUNCEMENTS In July 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 143, Accounting for Asset Retirement Obligations, which is required to be adopted no later than January 1, 2003. SFAS 143 addresses the financial accounting and reporting obligations and retirement costs related to the retirement of tangible long-lived assets. Among other things, SFAS 143 will require oil and gas companies to reflect decommissioning liabilities on the face of the balance sheet at fair value on a discounted basis. Historically, ERT has reflected this liability on the balance sheet on an undiscounted basis. The Company will adopt this standard, as required, effective January 1, 2003. Management currently believes adoption of this standard will result in additional diluted earnings per share in the first quarter of 2003 of between $0.01 and $.03 and adjustments to certain balance sheet accounts including a decrease in Decommissioning Liabilities of approximately $30 million due to discounting. In November 2002, FASB interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN No. 45") was issued. FIN No. 45 requires a guarantor to recognize at the inception of a guarantee a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or 29 modified. The disclosure requirements are effective immediately. The Company does not expect FIN No. 45 to have a material effect on its consolidated financial statements. In January 2003, FIN No. 46, Consolidation of Variable Interest Entities was issued which requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and applies in the first interim period beginning after June 15, 2003 to variable interest entities created before February 1, 2003. The related disclosure requirements are effective immediately. The Company does not believe that the adoption of this interpretation will have a material impact on its consolidated financial statements. RESULTS OF OPERATIONS COMPARISON OF YEARS ENDED 2002 AND 2001 Revenues. During the year ended December 31, 2002, the Company's revenues increased $75.6 million, or 33%, to $302.7 million compared to $227.1 million for the year ended December 31, 2001 with the Subsea and Salvage segment contributing all of the increase. Subsea and Salvage revenues increased to $239.9 million for the year ended December 31, 2002 as compared to $163.7 million in the prior year. Our acquisitions of Canyon Offshore and Well Ops UK Ltd added $37.5 million and $21.4 million, respectively. The remainder of the increase is due to the addition of three deepwater construction vessels: the Q4000, the Intrepid and the Eclipse. Oil and Gas Production revenue for the year ended December 31, 2002 decreased less than 1% to $62.8 million from $63.4 million during the prior year. An increase in production, lead by the significant Shell and Hess acquisitions made late in the third quarter of 2002, was offset by lower average realized commodity prices. Oil and gas production increased 19% to 16.6 Bcfe in 2002 from 13.9 Bcfe during 2001, while our average realized commodity price declined 15% to $3.71 per Mcfe ($3.39 per Mcf of natural gas and $25.54 per barrel of oil) in 2002 as compared to $4.37 per Mcfe ($4.44 per Mcf of natural gas and $24.54 per barrel of oil) in the prior year. Oil and condensate represented 38% of ERT revenue in 2002 compared to 30% in 2001. Gross Profit. Gross profit of $53.8 million for the year ended December 31, 2002 was $13.1 million, or 20%, below the $66.9 million gross profit recorded in the prior year with both segments contributing to the decline. Subsea and Salvage gross profit decreased $9.6 million, or 26%, to $27.0 million during the year ended December 31, 2002 compared to $36.7 million during 2001. Our DP vessels generated $8.6 million of gross profit, only 43% of the $20.1 million generated in the prior year, due in part to the charges recorded in the fourth quarter related to a contract dispute. Margins for this segment decreased to 11% for the year ended December 31, 2002 compared to 22% in 2001. While Aquatica margins held strong at 30% due to a large amount of shelf repair work following Hurricane Lili, the DP fleet only contributed 7% margins in 2002 compared to 25% in the prior year. Oil and Gas Production gross profit decreased $3.5 million from $30.2 million in the year ended December 31, 2001 to $26.7 million for the year ended December 31, 2002 due mainly to the aforementioned decrease in average realized commodity prices. Margins declined to 43% during 2002 from 48% during 2001 due to platform repairs and the time necessary for pipelines to return to full production following Hurricane Lili. Selling and Administrative Expenses. Selling and administrative expenses of $32.8 million in 2002 were $11.5 million, or 54%, higher than the $21.3 million incurred during 2001. The increase is primarily due to the acquisitions of Canyon and Well Ops UK Ltd. and a charge taken for the settlement of litigation in the fourth quarter of 2002. Net Interest (Income) Expense and Other. The Company reported net interest expense and other of $2.0 million for the year ended December 31, 2002 in contrast to $1.3 million for the prior year. This increase is due to the increase in debt from our capital program, which resulted in an additional $2.2 million in interest expense, offset by a $1.1 million gain on our foreign currency hedge related to the Well Ops (U.K.) Limited acquisition included in other income in the third quarter of 2002. 30 Income Taxes. Income taxes decreased to $6.7 million for the year ended December 31, 2002, compared to $15.5 million in the prior year due to decreased profitability. Federal income taxes were provided at the statutory rate of 35% in 2002. However, our deduction of Q4000 construction costs as Research and Development expenditures for federal tax purposes resulted in CDI paying no federal income taxes in 2002 and 2001. Since the deduction of Q4000 construction costs affects financial and taxable income in different years, the entire 2002 and 2001 provisions for federal taxes were reflected as deferred income taxes. Net Income. Net income of $12.4 million for the year ended December 31, 2002 was $16.6 million, or 57%, less than the $28.9 million earned in 2001 as a result of factors described above. COMPARISON OF YEAR ENDED DECEMBER 31, 2001 AND 2000 Revenues. During the year ended December 31, 2001, the Company's revenues increased 25% to $227.1 million compared to $181.0 million for the year ended December 31, 2000 with the Subsea and Salvage segment contributing all of the increase. Aquatica revenues increased 80% to $37.0 million for 2001 from $20.6 million in the prior year due, in part, to added capacity as a result of our acquisition of Professional Divers of New Orleans, Inc. in February 2001 and improved OCS activity. Revenues generated from our DP fleet increased 54% to $79.3 million during 2001 compared to $51.4 million in 2000 due mainly to vessel utilization improving from 56% during 2000 to 87%. This increased utility reflects improved CDI market share, an expansion in the scope of Deepwater services provided and expansion into other regions (Mexico and Trinidad). Oil and Gas Production revenue for the year ended December 31, 2001 decreased 10% to $63.4 million from $70.8 million during the prior year due to a 10% decrease in production from 15.5 Bcfe in 2000 compared to 13.9 Bcfe during 2001. ERT received an average of $4.44 per Mcf for natural gas and $24.54 per Bbl for oil during 2001 compared to $4.04 per Mcf and $28.91 per Bbl in 2000. Oil and condensate represented 30% of ERT's revenues in 2001 versus 27% in 2000. Gross Profit. Gross profit of $66.9 million for the year ended December 31, 2001 was 21% greater than the $55.4 million gross profit recorded in the prior year with Subsea and Salvage contracting gross profit providing all of the increase and offsetting a $9.1 million decline in oil and gas production gross profit. Subsea and Salvage margins improved from 15% for the year ended December 31, 2000 to 22% during the year ended December 31, 2001 due mainly to the increase in utilization due to increased marine construction activity, even though we earned only 5% margins on $15 million of Nansen/Boomvang volume that was mostly pass-through revenue. Oil and Gas Production gross profit decreased $9.1 million from $39.3 million in the year ended December 31, 2000 to $30.2 million for the year ended December 31, 2001 due mainly to the aforementioned 10% decline in production, higher amortization rates in 2001 than 2000 and a $1.0 million charge for accounts receivable exposure related to the Enron bankruptcy. Selling and Administrative Expenses. Selling and administrative expenses were $21.3 million in 2001, which is relatively flat (3% increase) with the $20.8 million incurred during 2000. Given the increased revenues, this tight cost control provided a two point margin improvement (i.e., 9% margin for the year ended December 31, 2001 as compared to 11% for the year ended December 31, 2000). Net Interest (Income) Expense and Other. The Company reported net interest expense and other of $1.3 million for the year ended December 31, 2001 in contrast to $554,000 for the prior year as average cash balances (net of MARAD financing) declined during 2001 as compared to 2000 due mainly to costs associated with construction of the Q4000 and the Intrepid conversion. Income Taxes. Income taxes increased to $15.5 million for the year ended December 31, 2001, compared to $11.6 million in the prior year due to increased profitability. Federal income taxes were provided at the statutory rate of 35% in 2001. However, our deduction of Q4000 construction costs as Research and Development expenditures for federal tax purposes resulted in CDI paying no federal income taxes in 2001 and 2000. Since the deduction of Q4000 construction costs affects financial and taxable income in different years, the entire 2001 and 2000 provisions for federal taxes were reflected as deferred income taxes. In 31 addition, the balance sheet includes a $10.0 million income tax receivable as of December 31, 2000 which reflects our amending prior year tax returns to reflect the deduction of such costs (these tax refunds were received in January 2001). Net Income. Net income of $28.9 million for the year ended December 31, 2001 was $5.6 million, or 24%, more than 2000 as a result of factors described above. LIQUIDITY AND CAPITAL RESOURCES During the three years following our initial public offering in 1997, internally generated cash flow funded approximately $164 million of capital expenditures and enabled us to remain essentially debt-free. In August 2000, we closed the long-term MARAD financing for construction of the Q4000. This U.S. Government guaranteed financing is pursuant to Title XI of the Merchant Marine Act of 1936 which is administered by the Maritime Administration. We refer to this debt as MARAD Debt. In January 2002, the Maritime Administration agreed to expand the facility to $160 million to include the modifications to the vessel which had been approved during 2001. Through December 31, 2002, we have drawn $143.5 million on this facility. In January 2002, we acquired Canyon Offshore, Inc., in July 2002 we acquired the Well Operations Business Unit of Technip-Coflexip and in August 2002, ERT made two significant property acquisitions (see further discussion below). These acquisitions have significantly increased our debt to total book capitalization ratio from 31% at December 31, 2001 to 40% at December 31, 2002. Additionally, increased operations coupled with depressed market conditions have caused our working capital to decrease from $48.6 million at December 31, 2001 to $4.4 million at December 31, 2002. In order to reduce this leverage, on January 8, 2003, CDI completed the private placement of $25 million of a newly designated class of cumulated convertible preferred stock (Series A-1 Cumulative Convertible Preferred Stock, par value $0.01 per share) which is convertible into 833,334 shares of Cal Dive common stock at $30 per share. Operating Activities. Net cash provided by operating activities was $65.2 million during the year ended December 31, 2002, as compared to $89.1 million during 2001. This decrease was due mainly to decreased profitability and to last year's collection of a $10 million tax refund from the Internal Revenue Service relating to the deduction of Q4000 construction costs as research and development expenditures for federal tax purposes. Depreciation and amortization also increased $10.2 million to $44.8 million due to the depreciation of new vessels placed in service during 2002 and to increased depletion related to increased production levels from ERT. This was offset by an increase in funding required for accounts receivable collections during 2002 compared to 2001. Net cash provided by operating activities was $89.1 million during the year ended December 31, 2001, as compared to $53.7 million during 2000. This increase was due mainly to increased profitability and collection of the $10 million tax refund from the Internal Revenue Service noted above. Timing of accounts payable payments provided $22.3 million of the increase due mainly to expenses accrued at December 31, 2001 on the Nansen/Boomvang project which carries a large component of pass-through costs. This project also accounted for the significant increase in unbilled revenue at December 31, 2001 ($10.7 million versus $1.9 million at December 31, 2000), as the next scheduled invoicing milestone was achieved in January 2002. This was offset by a $20.3 million decrease in funding from accounts receivable collections during 2001 compared to 2000 as we have extended payment terms to Horizon Offshore. In addition, depreciation and amortization increased $3.8 million to $34.5 million for 2001 due mainly to the depreciation of newly acquired vessels in service. Investing Activities. Capital expenditures have consisted principally of strategic asset acquisitions related to the purchase of DP vessels, the Eclipse and Mystic Viking; construction of the Q4000 and conversion of the Intrepid; acquisition of Aquatica, Professional Divers, Canyon Offshore, Inc. and Well Ops (U.K.) Limited; improvements to existing vessels and the acquisition of oil and gas properties. As a result of our anticipation of an acceleration in Deepwater demand over the next several years, we incurred $316.4 million of capital expenditures (including the acquisitions of Canyon and Well Ops (U.K.) Limited and investments in 32 the two Deepwater developments, Gunnison and Deepwater Gateway L.L.C.) during 2002, $151.3 million during 2001 and $95.1 million in 2000. We incurred $161.8 million of capital expenditures during the year ended December 31, 2002, compared to $151.3 million during the prior year. Included in the capital expenditures in 2002 is $29.1 million for the construction of the Q4000 and $20.8 million relating to the Intrepid DP conversion and Eclipse upgrade. Also included is over $25 million in ERT offshore property acquisitions (see discussion below) as well as approximately $53 million related to Gunnison development costs, including the spar. Included in the $151.3 million of capital expenditures in 2001 is $53 million for the construction of the Q4000, $33 million for the conversion of the Intrepid, $40 million relating to the purchase of two DP vessels (the 240-foot by 52-foot Mystic Viking and the 370-foot by 67-foot Eclipse), and production partnering expenditures of $20 million for initial Gunnison development costs and the ERT 2001 Well Enhancement Program. In addition, in March 2001, CDI acquired substantially all of the assets of Professional Divers of New Orleans in exchange for $11.5 million. The assets purchased included the 165-foot four-point moored DSV the Mr. Sonny, three utility vessels and associated diving equipment including two saturation diving systems. This acquisition was accounted for as a purchase with the acquisition price of $11.5 million being allocated to the assets acquired and liabilities assumed based upon their estimated fair values with the balance of the purchase price ($2.8 million) being recorded as goodwill. On August 30, 2002, ERT acquired the 74.8% working interest of Shell Exploration & Production Company in the South Marsh Island 130 (SMI 130) field. ERT paid $10.3 million in cash and assumed Shell's pro-rata share of the related decommissioning liability. ERT also completed the purchase of interests in seven Gulf of Mexico fields from Amerada Hess including its 25% ownership position in SMI 130 for $9.3 million in cash and assumption of Amerada Hess' pro-rata share of the related decommissioning liability. As a result, ERT is the operator with an effective 100% working interest in that field. In July 2002, CDI purchased the Subsea Well Operations Business Unit of CSO Ltd., a wholly owned subsidiary of Technip-Coflexip, for approximately $72.0 million ($68.6 million cash and $3.4 million deferred tax liability assumption). Well Ops (U.K.) Limited performs life of field well operations and marine construction tasks primarily in the North Sea. The assets purchased include the Seawell, a 368-foot DPDSV capable of supporting manned diving, ROVs and well operations. The acquisition was accounted for as a business purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. During the fourth quarter of 2002 the Company completed its purchase price allocation, including obtaining an appraisal of the Seawell, resulting in $50 million allocated to this vessel, $1.5 million allocated to patented technology (to be amortized over 20 years) and goodwill of approximately $20.6 million as of December 31, 2002. The results of Well Ops (U.K.) Limited are included in the accompanying statements of operations since the date of the purchase, July 1, 2002. In January 2002, CDI purchased Canyon, a supplier of remotely operated vehicles (ROVs) and robotics to the offshore construction and telecommunications industries. CDI purchased Canyon for cash of $52.8 million, the assumption of $9.0 million of Canyon debt (offset by $3.1 million of cash acquired), 181,000 shares of our common stock (143,000 shares of which we purchased as treasury shares during the fourth quarter of 2001) and a commitment to purchase the redeemable stock in Canyon at a price to be determined by Canyon's performance during the years 2002 through 2004 from continuing employees at a minimum purchase price of $13.53 per share. As they are employees, amounts paid, if any, in excess of the $13.53 per share will be recorded as compensation expense. No such expense was recorded in 2002. These remaining shares have been classified as redeemable stock in subsidiary in the accompanying balance sheet and will be adjusted to their estimated redemption value at each reporting period based on Canyon's performance. The acquisition was accounted for as a purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. The allocation of the $70.5 million purchase price was as follows: ROVs and equipment ($22.9 million); net working capital assumed ($4.0 million) and goodwill ($43.6 million). The results of Canyon are included in the accompanying statements of operations since the date of the purchase, January 2, 2002. 33 In April 2002, ERT acquired a 100% interest in East Cameron Block 374, including existing wells, equipment and improvements. The property, located in 425 feet of water, was jointly owned by Murphy Exploration & Production Company and Callon Petroleum Operating Company. Terms included a cash payment of approximately $3 million to reimburse the owners for the inception-to-date cost of the subsea wellhead and umbilical and an overriding royalty interest in future production. Cal Dive completed the temporarily abandoned number one well and performed a subsea tie-back to host platform. The cost of completion and tie-back was approximately $7 million with first production occurring in August 2002. In June 2002, ERT acquired a package of offshore properties from Williams Exploration and Production. ERT paid $4.9 million and assumed the pro-rata share of the abandonment obligation for the acquired interests. The blocks purchased represent an average 30% net working interest in 26 Gulf of Mexico leases. In early 2002, CDI, along with El Paso Energy Partners, formed Deepwater Gateway L.L.C. (a 50/50 venture) to design, construct, install, own and operate a tension leg platform ("TLP") production hub primarily for Anadarko Petroleum Corporation's Marco Polo field discovery in the Deepwater Gulf of Mexico. Our share of the construction costs is estimated to be approximately $110 million (approximately $43 million of which had been incurred as of December 31, 2002). In August 2002, the Company along with El Paso, completed a non-recourse project financing for this venture, terms of which include a minimum equity investment for CDI of $33 million, all of which had been paid as of December 31, 2002 and is recorded as Investment in Deepwater Gateway L.L.C. in the accompanying consolidated balance sheet. Terms of the financing also require CDI to guarantee a balloon payment at the end of the financing term in 2008 (estimated to be $22.5 million). The Company has not recorded any liability for this guarantee as management does not believe performance is likely to occur. In April 2000, ERT acquired a 20% working interest in Gunnison, a Deepwater Gulf of Mexico prospect of Kerr-McGee Oil & Gas Corporation. Consistent with CDI's philosophy of avoiding exploratory risk, financing for the exploratory costs of approximately $20 million was provided by an investment partnership (OKCD Investments, Ltd.), the investors of which are CDI senior management, in exchange for an overriding royalty interest of 25% of CDI's 20% working interest. CDI provided no guarantees to the investment partnership. The Board of Directors established three criteria to determine a commercial discovery and the commitment of Cal Dive funds: 75 million barrels (gross) of reserves, total development costs of $500 million consistent with 75 MBOE, and a CDI estimated shareholder return of no less than 12%. Kerr-McGee, the operator, drilled several exploration wells and sidetracks in 3,200 feet of water at Garden Banks 667, 668 and 669 (the Gunnison prospect) and encountered significant potential reserves resulting in the three criteria being achieved during 2001. With the sanctioning of a commercial discovery, the Company is funding ongoing development and production costs. Cal Dive's share of such project development costs is estimated in a range of $100 million to $110 million ($63.3 million of which had been incurred by December 31, 2002) with over half of that for construction of the spar. See footnote 10 to the Company's Consolidated Financial Statements included herein for discussion of financing relating to the spar construction. Financing Activities. We have financed seasonal operating requirements and capital expenditures with internally generated funds, borrowings under credit facilities, the sale of common stock and project financings. In August 2000, we closed a $138.5 million long-term financing for construction of the Q4000. In January 2002, the Maritime Administration agreed to expand the facility to $160 million to include the modifications to the vessel which had been approved during 2001. During 2001 and 2002, we borrowed $59.5 million and $43.9 million, respectively, on this facility bringing the total to $142.1 million at December 31, 2002. The MARAD debt is payable in equal semi-annual installments beginning in August 2002 and maturing 25 years from such date. It is collateralized by the Q4000, with Cal Dive guaranteeing 50% of the debt, and bears an interest rate which currently floats at a rate approximating AAA Commercial Paper yields plus 20 basis points (approximately 2% as of December 31, 2002). For a period up to ten years from delivery of the vessel in April 2002, the Company has options to lock in a fixed rate. In accordance with the MARAD debt agreements, we are required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of December 31, 2002, we were in compliance with these covenants. 34 The Company has a revolving credit facility which was increased from $40 million to $70 million during 2002 and the term extended for three years. This facility is collateralized by accounts receivable and most of the remaining vessel fleet, bears interest at LIBOR plus 125-250 basis points depending on CDI leverage ratios (approximately 4.2% as of December 31, 2002) and, among other restrictions, includes three financial covenants (cash flow leverage, minimum interest coverage and fixed charge coverage). As of December 31, 2002, the Company had drawn $52.6 million under this revolving credit facility and was in compliance with these covenants with the exception of the cash flow leverage covenant, for which the Company obtained a waiver. In November 2001, ERT entered into a five-year lease transaction with an entity owned by a third party to fund CDI's portion of the construction costs ($67 million) of the spar for the Gunnison field. As of December 31, 2001 and June 30, 2002, the entity had drawn down $5.6 million and $22.8 million, respectively, on this facility. Accrued interest cost on the outstanding balance is capitalized to the cost of the facility during construction and is payable monthly thereafter. In August 2002, CDI acquired 100% of the equity of the entity and converted the notes into a term loan ("Gunnison Term Loan"). The total commitment of the loan was reduced to $35 million and will be payable in quarterly installments of $1.75 million for three years after delivery of the spar with the remaining $15.75 million due at the end of the three years. The facility bears interest at LIBOR plus 225-300 basis points depending on CDI leverage ratios (approximately 4.4% as of December 31, 2002) and includes, among other restrictions, three financial covenants (cash flow leverage, minimum interest coverage and debt to total book capitalization). The Company was in compliance with these covenants as of December 31, 2002 with the exception of the cash flow leverage covenant, for which the Company obtained a waiver. The debt ($29.3 million at December 31, 2002) and related asset have been reflected on CDI's balance sheet beginning in the third quarter of 2002. The purchase price was allocated entirely to construction in progress. In May 2002, CDI sold 3.4 million shares of primary common stock for $23.16 per share, along with 517,000 additional shares to cover over-allotments. Net proceeds to the Company of approximately $87.2 million were used for the Coflexip Well Operation acquisition, ERT acquisitions and to retire debt under the Company's revolving line of credit. During 2002, we made payments of $5.2 million on capital leases assumed in the Canyon acquisition. The only other financing activity during 2002, 2001 and 2000 involved the exercise of employee stock options. In January 2003, CDI completed the private placement of $25 million of preferred stock which is convertible into 833,334 shares of CDI common stock at $30 per share. The preferred stock was issued to a private investment firm. The preferred stock holder has the right to purchase as much as $30 million in additional preferred stock for a period of two years beginning in July, 2003. The conversion price of the additional preferred stock will equal 125% of the then prevailing price of Cal Dive common stock, subject to a minimum conversion price of $30 per common share. After the second anniversary, the holder may redeem the value of its original investments in the preferred shares to be settled in common stock or cash at the discretion of the Company. Under certain conditions, the holder could redeem its investment prior to the second anniversary. Prior to the conversion, shares will be included in the Company's fully diluted earnings per share under the if converted method based on the Company's average common share price during the applicable period. Subsequent to year-end the Company filed a registration statement registering approximately 7.5 million shares of common stock relating to this transaction, the maximum potential total number of shares of common stock redeemable under certain circumstances, subject to the Company's ability to redeem with cash, under the terms of the agreement. 35 The following table summarizes our contractual cash obligations as of December 31, 2002 and the scheduled years in which the obligation are contractually due: LESS THAN (IN THOUSANDS) TOTAL 1 YEAR 2-3 YEARS 4-5 YEARS THEREAFTER ------------- -------- --------- --------- --------- ---------- MARAD debt........................ $142,128 $ 2,766 $ 6,093 $ 6,925 $126,344 Gunnison term debt................ 29,270 -- 14,000 15,270 -- Revolving debt.................... 52,591 -- 52,591 -- -- Gunnison development.............. 46,700 41,000 5,700 -- -- Investments in Deepwater Gateway L.L.C.(A)...................... -- -- -- -- -- Operating Leases.................. 19,018 8,848 9,231 552 387 Redeemable stock in subsidiary..... 7,528 2,509 5,019 -- -- Canyon capital leases and other.... 3,788 1,435 1,967 386 -- -------- ------- ------- ------- -------- Total Cash Obligation............. $301,023 $56,558 $94,601 $23,133 $126,731 ======== ======= ======= ======= ======== --------------- (A) Excludes CDI guarantee of balloon payment due in 2008 on non-recourse project financing (estimated to be $22.5 million). In addition, in connection with our business strategy, we evaluate acquisition opportunities (including additional vessels as well as interest in offshore natural gas and oil properties). We believe that internally-generated cash flow, borrowings under existing credit facilities and use of project financings along with other debt and equity alternatives will provide the necessary capital to meet these obligations and achieve our planned growth. ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK The Company is currently exposed to market risk in two major areas: commodity prices and foreign currency. Because all of the Company's debt at December 31, 2002 was based on floating rates, changes in interest would, assuming all other things equal, have a minimal impact on the fair market value of the debt instruments. Assuming December 31, 2002 debt levels, every 100 basis points move in interest rates would result in $2.3 million of annualized interest expense or savings, as the case may be, to the Company. COMMODITY PRICE RISK The Company has utilized derivative financial instruments with respect to a portion of 2002 and 2003 oil and gas production to achieve a more predictable cash flow by reducing its exposure to price fluctuations. The Company does not enter into derivative or other financial instruments for trading purposes. As of December 31, 2002, the Company has the following volumes under derivative contracts related to its oil and gas producing activities: INSTRUMENT AVERAGE MONTHLY WEIGHTED PRODUCTION PERIOD TYPE VOLUMES AVERAGE PRICE ---------------- ---------- -------------- ------------ Crude Oil: January -- December 2003................ Swap 46 MBbl $26.50 January -- December 2003................ Swap 30 MBbl $26.82 Natural Gas: January -- March 2003.................. Swap 800,000 MMBtu $ 4.21 April -- December 2003................. Swap 400,000 MMBtu $ 4.02 April -- December 2003................. Swap 200,000 MMBtu $ 4.21 Changes in NYMEX oil and gas strip prices would, assuming all other things being equal, cause the fair market value of these instruments to increase or decrease. 36 Subsequent to December 31, 2002, the Company entered into natural gas swaps for the period April through December 2003. The contracts cover 200,000 MMBtu per month at $4.97. FOREIGN CURRENCY EXCHANGE RATES 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 (primarily with respect to Well Ops (U.K.) Limited). The functional currency for Well Ops (U.K.) Limited is the applicable local currency. Although the revenues are denominated in the local currency, the effects of foreign currency fluctuations are partly mitigated because local expenses of such foreign operations also generally are denominated in the same currency. The impact of exchange rate fluctuations during the twelve months ended December 31, 2002 did not have a material effect on reported amounts of revenues or net income. Assets and liabilities of Well Ops (U.K.) Limited are translated using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected in accumulated other comprehensive loss in the stockholders' equity section of our balance sheet. Approximately 12% of our net assets are impacted by changes in foreign currencies in relation to the U.S. dollar. We recorded a $2.5 million adjustment, net of taxes, to our equity account for the twelve months ended December 31, 2002 to reflect the net impact of the decline of the British Pound against the U.S. dollar. Canyon Offshore, the Company's ROV subsidiary, has operations in the United Kingdom and Southeast Asia sectors. Canyon conducts the majority of its affairs in these regions in U.S. dollars which it considers the functional currency. When currencies other than the U.S. dollar are to be paid or received the resulting gain or loss from translation is recognized in the statements of operations. These amounts for the year ended December 31, 2002 were not material to the Company's results of operations or cash flows. 37 ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA INDEX TO FINANCIAL STATEMENTS PAGE ---- Report of Independent Auditors............................. 39 Report of Independent Public Accountants.................... 40 Consolidated Balance Sheets -- December 31, 2002 and 2001... 41 Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000.......................... 42 Consolidated Statements of Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000.............. 43 Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000.......................... 44 Notes to Consolidated Financial Statements................. 45 38 REPORT OF INDEPENDENT AUDITORS To the Board of Directors and Shareholders of Cal Dive International, Inc.: We have audited the accompanying consolidated balance sheet of Cal Dive International, Inc. and Subsidiaries as of December 31, 2002 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Cal Dive International, Inc. as of December 31, 2001 and for each of the years in the two year period ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated February 18, 2002 before the reclassification adjustments and conforming disclosures described in Note 10. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cal Dive International, Inc. and Subsidiaries at December 31, 2002 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States. As discussed in Note 1 to the accompanying consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" in 2002. As described above, the consolidated financial statements of Cal Dive International, Inc. and Subsidiaries as of December 31, 2001 and 2000, and for the years then ended were audited by other auditors who have ceased operations. As described in Note 10, the consolidated financial statements as of and for the year ended December 31, 2001 have been revised. We audited the reclassification adjustments and conforming disclosures described in Note 10 applied to revise the 2001 financial statements. In our opinion, such reclassification adjustments and conforming disclosures are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 consolidated financial statements of the Company other than with respect to such reclassification adjustments and conforming disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole. /s/ ERNST & YOUNG LLP Houston, Texas February 17, 2003 39 NOTE: THE REPORT OF ARTHUR ANDERSEN LLP PRESENTED BELOW IS A COPY OF A PREVIOUSLY ISSUED ARTHUR ANDERSEN LLP REPORT AND SAID REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP NOR HAS ARTHUR ANDERSEN LLP PROVIDED A CONSENT TO THE INCLUSION OF ITS REPORT IN THIS FORM 10-K. REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS To the Board of Directors and Shareholders of Cal Dive International, Inc.: We have audited the accompanying consolidated balance sheets of Cal Dive International Inc. (a Minnesota corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cal Dive International, Inc., and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. ARTHUR ANDERSEN LLP Houston, Texas February 18, 2002 40 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2002 AND 2001 (IN THOUSANDS) DECEMBER 31, ------------------- 2002 2001 --------- -------- ASSETS Current assets: Cash and cash equivalents................................ $ -- $ 37,123 Restricted cash.. 2,506 -- Accounts receivable -- Trade, net of revenue allowance on gross amounts billed of $7,156 and $4,262................................. 52,808 45,527 Unbilled revenue...................................... 22,610 10,659 Other current assets..................................... 28,266 20,055 --------- -------- Total current assets.............................. 106,190 113,364 --------- -------- Property and equipment..................................... 726,878 423,742 Less -- Accumulated depreciation......................... (130,527) (92,430) --------- -------- 596,351 331,312 Other assets: Goodwill, net.. 79,758 14,973 Investment in Deepwater Gateway, L.L.C. .... 32,688 -- Other assets, net.. 52,045 34,647 --------- -------- $ 867,032 $494,296 ========= ======== LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable... $ 62,798 $ 42,252 Accrued liabilities...................................... 34,790 21,011 Income taxes payable..................................... -- -- Current maturities of long-term debt..................... 4,201 1,500 --------- -------- Total current liabilities......................... 101,789 64,763 --------- -------- Long-term debt.. 223,576 98,048 Deferred income taxes...................................... 102,230 75,805 Decommissioning liabilities................................ 92,420 29,331 Other long term liabilities................................ 1,972 -- --------- -------- Total liabilities................................. 521,987 267,947 Redeemable stock in subsidiary............................. 7,528 -- Commitments and contingencies Shareholders' equity: Common stock, no par, 120,000 shares authorized, 51,060 and 46,239 shares issued.............................. 195,405 99,105 Retained earnings.. 145,947 133,570 Treasury stock, 13,602 and 13,783 shares, at cost......... (3,741) (6,326) Accumulated other comprehensive loss...................... (94) -- --------- -------- Total shareholders' equity........................ 337,517 226,349 --------- -------- $ 867,032 $494,296 ========= ======== The accompanying notes are an integral part of these consolidated financial statements. 41 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) YEAR ENDED DECEMBER 31, ------------------------------ 2002 2001 2000 -------- -------- -------- Net revenues: Subsea and salvage....................................... $239,916 $163,740 $110,217 Oil and gas production................................... 62,789 63,401 70,797 -------- -------- -------- 302,705 227,141 181,014 Cost of sales: Subsea and salvage....................................... 212,868 127,047 94,104 Oil and gas production................................... 36,045 33,183 31,541 -------- -------- -------- Gross profit... 53,792 66,911 55,369 Selling and administrative expenses........................ 32,783 21,325 20,800 -------- -------- -------- Income from operations..................................... 21,009 45,586 34,569 Net interest expense and other............................. 1,968 1,290 554 -------- -------- -------- Income before income taxes................................ 19,041 44,296 34,015 Provision for income taxes................................ 6,664 15,504 11,555 Minority Interest.. -- (140) (866) -------- -------- -------- Net income.. $ 12,377 $ 28,932 $ 23,326 ======== ======== ======== Net income per share: Basic.. $ 0.35 $ 0.89 $ 0.74 Diluted.. 0.35 0.88 0.72 ======== ======== ======== Weighted average common shares outstanding: Basic.. 35,504 32,449 31,588 Diluted.. 35,749 33,055 32,341 ======== ======== ======== The accompanying notes are an integral part of these consolidated financial statements. 42 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN THOUSANDS) ACCUMULATED COMMON STOCK TREASURY

STOCK OTHER TOTAL ---------------- RETAINED ---------------- COMPREHENSIVE SHAREHOLDERS' SHARES AMOUNT EARNINGS SHARES AMOUNT LOSS EQUITY ------ -------- -------- ------- ------- ------------- ------------ Balance, December 31, 1999.... 44,790 $ 73,311 $ 81,312 (13,640) $(3,751) $ -- $150,872 Net income................... -- -- 23,326 -- -- -- 23,326 Activity in company stock plans, net................. 485 5,740 -- -- -- -- 5,740 Sale of common stock, net..... 610 14,787 -- -- -- -- 14,787 ------ -------- -------- ------- ------- ------- -------- Balance, December 31, 2000.... 45,885 93,838 104,638 (13,640) (3,751) -- 194,725 Net income................... -- -- 28,932 -- -- -- 28,932 Activity in company stock plans, net................. 354 5,267 -- -- -- -- 5,267 Purchase of treasury shares... -- -- -- (143) (2,575) -- (2,575) ------ -------- -------- ------- ------- ------- -------- Balance, December 31, 2001.... 46,239 99,105 133,570 (13,783) (6,326) -- 226,349 Comprehensive income Net income................. -- -- 12,377 -- -- -- 12,377 Foreign currency translation adjustments.............. -- -- -- -- -- 2,548 2,548 Unrealized loss on commodity hedges................... -- -- -- -- -- (2,642) (2,642) -------- Comprehensive income.......... 12,283 -------- Sale of common stock, net..... 3,961 87,219 -- -- -- -- 87,219 Activity in company stock plans, net................. 860 7,376 -- -- -- -- 7,376 Issuance of shares in business acquisition................ -- 1,705 -- 181 2,585 -- 4,290 ------ -------- -------- ------- ------- ------- -------- Balance, December 31, 2002.... 51,060 $195,405 $145,947 (13,602) $(3,741) $ (94) $337,517 ====== ======== ======== ======= ======= ======= ======== The accompanying notes are an integral part of these consolidated financial statements. 43 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN THOUSANDS) YEAR ENDED DECEMBER 31, ------------------------------- 2002 2001 2000 --------- --------- -------- Cash flows from operating activities: Net income.. $ 12,377 $ 28,932 $ 23,326 Adjustments to reconcile net income to net cash provided by operating activities -- Depreciation and amortization........................ 44,755 34,533 30,730 Deferred income taxes............................... 6,130 15,504 21,085 Gain on sale of assets............................... (10) (1,881) (3,292) Changes in operating assets and liabilities: Accounts receivable, net........................... (1,728) (13,594) 6,723 Other current assets.............................. (7,086) 2,760 (4,298) Accounts payable and accrued liabilities............ 14,730 21,263 (1,030) Income taxes receivable/payable.................... 1,476 10,014 (7,256) Other noncurrent, net.............................. (5,443) (8,424) (12,287) --------- --------- -------- Net cash provided by operating activities........ 65,201 89,107 53,701 --------- --------- -------- Cash flows from investing activities: Capital expenditures.................................... (161,766) (151,261) (95,124) Acquisition of businesses, net of cash acquired.......... (118,331) (11,500) -- Investment in Deepwater Gateway, L.L.C. .... (32,688) -- -- Restricted cash... (2,506) 2,624 6,062 Prepayments and deposits related to salvage operations... -- 782 826 Proceeds from sales of property.......................... 483 1,530 3,124 Insurance proceeds from loss of vessel.................. -- -- 7,118 --------- --------- -------- Net cash used in investing activities............ (314,808) (157,825) (77,994) --------- --------- -------- Cash flows from financing activities: Sale of common stock, net of transaction costs........... 87,219 -- 14,787 Borrowings under MARAD loan facility..................... 43,899 59,494 40,054 Repayment of MARAD borrowings........................... (1,318) -- -- Borrowing on line of credit............................. 52,591 -- -- Borrowings on term loan................................. 29,270 -- -- Repayment of capital leases............................. (5,183) -- -- Exercise of stock options, net.......................... 5,900 4,084 2,980 Purchase of treasury stock.............................. -- (2,575) -- --------- --------- -------- Net cash provided by financing activities........ 212,378 61,003 57,821 --------- --------- -------- Effect of exchange rate changes on cash and cash equivalents.. 106 -- -- Net increase (decrease) in cash and cash equivalents....... (37,123) (7,715) 33,528 Cash and cash equivalents: Balance, beginning of year.............................. 37,123 44,838 11,310 --------- --------- -------- Balance, end of year.................................... $ -- $ 37,123 $ 44,838 ========= ========= ======== The accompanying notes are an integral part of these consolidated financial statements. 44 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 1. ORGANIZATION Cal Dive International, Inc. (Cal Dive, CDI or the Company), headquartered in Houston, Texas, is an energy services company specializing in subsea construction and well operation. CDI operates primarily in the Gulf of Mexico (Gulf), and recently in the North Sea, with services that cover the lifecycle of an offshore oil or gas field. CDI's current diversified fleet of 23 vessels and 21 remotely operated vehicles (ROVs) and trencher systems perform services that support drilling, well completion, intervention, construction and decommissioning projects involving pipelines, production platforms, risers and subsea production systems. The Company also has a significant investment in oil and gas properties and related production facilities as part of its Production Partnering business. CDI's customers include major and independent oil and gas producers, pipeline transmission companies and offshore engineering and construction firms. 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES PRINCIPLES OF CONSOLIDATION The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company accounts for its 50% interest in Deepwater Gateway L.L.C. using the equity method of accounting as the Company does not have voting or operational control of this entity. USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis the Company evaluates its estimates including those related to bad debts, investments, intangible assets and goodwill, property plant and equipment, income taxes, workers' insurance and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. GOODWILL AND INDEFINITE-LIVED INTANGIBLES In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Indefinite-Lived Intangibles ("SFAS No. 142"), the Company tests for the impairment of goodwill and other intangible assets with indefinite lives on at least an annual basis. The Company's goodwill impairment test involves a comparison of the fair value of each of the Company's reporting units, as defined under SFAS No. 142, with its carrying amount. The Company's indefinite-lived asset impairment test involves a comparison of the fair value of the intangible and its carrying value. The fair value is determined using discounted cash flows and other market-related valuation models, such as earnings multiples and comparable asset market values. Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight line basis over 25 years. In conjunction with the adoption of this statement, the Company has discontinued the amortization of goodwill. PROPERTY AND EQUIPMENT Property and equipment, both owned and under capital leases, are recorded at cost. Depreciation is provided primarily on the straight-line method over the estimated useful lives of the assets. 45 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) All of the Company's interests in oil and gas properties are located offshore in United States waters. The Company follows the successful efforts method of accounting for its interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Energy Resource Technology, Inc. ("ERT") acquisitions of producing offshore properties are recorded at the value exchanged at closing together with an estimate of its proportionate share of the undiscounted decommissioning liability assumed in the purchase based upon its working interest ownership percentage. In estimating the decommissioning liability assumed in offshore property acquisitions, the Company performs detailed estimating procedures, including engineering studies. All capitalized costs are amortized on a unit-of- production basis (UOP) based on the estimated remaining oil and gas reserves. Properties are periodically assessed for impairment in value, with any impairment charged to expense. The following is a summary of the components of property and equipment (dollars in thousands): ESTIMATED USEFUL LIFE 2002 2001 ----------- -------- -------- Construction in progress............................ N/A $ 32,943 $221,916 Vessels.. 15 to 30 465,158 103,929 Offshore leases and equipment....................... UOP 210,542 82,334 Machinery, equipment and leasehold improvements...... 5 18,235 15,563 -------- -------- Total property and equipment...................... $726,878 $423,742 ======== ======== In July 1999, the CDI Board of Directors approved the construction of the Q4000, a newbuild, ultra-deepwater multi-purpose vessel, for a total estimated cost of $150 million and, in June 2001, approved modification to the original construction contract increasing the total estimated costs to $182 million. Amounts incurred on this project and the conversion of the Intrepid pipelay vessel were included in Construction in Progress as of December 31, 2001. Both of these vessels were placed in service during 2002 and are included in Vessels as of December 31, 2002. Construction in progress as of December 31, 2002 includes costs incurred relating to construction of the spar at Gunnison (see note 9). The Company capitalized interest totaling $4.4 million and $1.9 million during the years ended December 31, 2002 and 2001, respectively. During 2001, the Company acquired two additional DP marine construction vessels (the Mystic Viking and the Eclipse). The total cost of the two vessels acquired and related upgrades was approximately $40 million, the majority of which was expended and capitalized as of December 31, 2001. The cost of repairs and maintenance of vessels and equipment is charged to operations as incurred, while the cost of improvements is capitalized. Total repair and maintenance charges were $11,489,000, $8,501,000 and $4,343,000 for the years ended December 31, 2002, 2001 and 2000, respectively. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets, excluding goodwill and indefinite-lived intangibles, to be held and used by the Company are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. SFAS No. 144 modifies SFAS No. 121, Accounting for the Impairment or Disposal of Long-Lived Assets to be Disposed of. For long-lived assets to be held and used, the Company bases its 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 my 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, the Company determines 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, the Company recognizes a loss for the difference between the 46 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) carrying amount and the fair value of the asset. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, is based on an estimate of discounted cash flows. Assets are classified as held for sale when the Company has a plan for disposal of certain assets and those assets meet the held for sale criteria of SFAS No. 144. FOREIGN CURRENCY The functional currency for the Company's foreign subsidiary Well Ops (U.K.) Limited is the applicable local currency (British Pound). Results of operations for this subsidiary are translated into U.S. dollars using average exchange rates during the period. Assets and liabilities of this foreign subsidiary are translated into U.S. dollars using the exchange rate in effect at the balance sheet date and the resulting translation adjustment, which was a gain of $2.5 million, net of taxes of $1.4 million, in 2002 is included as accumulated other comprehensive loss, as a component of shareholders' equity. All foreign currency transaction gains and losses are recognized currently in the statements of operations. These amounts for the year ended December 31, 2002 were not material to the Company's results of operations or cash flows. Canyon Offshore, the Company's ROV and robotics subsidiary, has operations in the United Kingdom and Southeast Asia sectors. Canyon conducts the majority of its affairs in these regions in U.S. dollars which it considers the functional currency. When currencies other than the U.S. dollar are to be paid or received the resulting gain or loss from translation is recognized in the statements of operations. These amounts for the year ended December 31, 2002 were not material to the Company's results of operations or cash flows. ACCOUNTING FOR PRICE RISK MANAGEMENT ACTIVITIES The Company's price risk management activities involve the use of derivative financial instruments to hedge the impact of market price risk exposures primarily related to our oil and gas production. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, all derivatives are reflected in our balance sheet at their fair market value. Under SFAS No. 133 there are two types of hedging activities: hedges of cash flow exposure and hedges of fair value exposure. The Company engages primarily in cash flow hedges. Hedges of cash flow exposure are entered into to hedge a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. Changes in the derivative fair values that are designated as cash flow hedges are deferred to the extent that they are effective and are recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are recognized in earnings. The ineffective portion of a cash flow hedge's change in value is recognized immediately in earnings in oil and gas production revenues. As required by SFAS No. 133, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking various hedge transactions and our methods for assessing and testing correlation and hedge ineffectiveness. All hedging instruments are linked to the hedged asset, liability, firm commitment or forecasted transaction. We also assess, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in our hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. We discontinue hedge accounting prospectively if we determine that a derivative is no longer highly effective as a hedge. The market value of hedging instruments reflects our best estimate and is based upon exchange or over-the-counter quotations whenever they are available. Quoted valuations may not be available due to location differences or terms that extend beyond the period for which quotations are available. Where quotes are not available, we utilize other valuation techniques or models to estimate market values. These modeling techniques require us to make estimations of future prices, price correlation and market volatility and liquidity. Our actual results may differ from our estimates, and these differences can be positive or negative. 47 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) During the second half of 2002, the Company entered into various cash flow hedging swap contracts to fix cash flows relating to a portion of the Company's oil and gas production. All of these qualified for hedge accounting and none extended beyond a year and a half. The aggregate fair value of the hedges was a liability of $4.1 million as of December 31, 2002. The Company recorded $2.6 million of loss, net of taxes of $1.4 million, in other comprehensive loss within shareholders' equity as these hedges were highly effective. As of December 31, 2002, the Company has the following volumes under derivative contracts related to its oil and gas producing activities: INSTRUMENT AVERAGE WEIGHTED PRODUCTION PERIOD TYPE MONTHLY VOLUMES AVERAGE PRICE ----------------- ---------- --------------- ------------- Crude Oil: January -- December 2003........................ Swap 46 MBbl $26.50 January -- December 2003........................ Swap 30 MBbl $26.82 Natural Gas: January -- March 2003.......................... Swap 800,000 MMBtu $ 4.21 April -- December 2003......................... Swap 400,000 MMBtu $ 4.02 April -- December 2003......................... Swap 200,000 MMBtu $ 4.21 Subsequent to December 31, 2002, the Company entered into additional natural gas hedges for the period April through December 2003. The contracts cover 200,000 MMBtu per month at $4.97. In June 2002, CDI signed an agreement with Coflexip to acquire the Subsea Well Operations Business Unit for 44.8 million British pounds (which at the time equaled $67.5 million) which subsequently closed in July. CDI entered into a foreign currency forward contract to lock in the British pound to U.S. dollar exchange rate. Under SFAS No. 133, we accounted for this transaction with changes in its fair value reported in earnings. Accordingly, a $1.1 million gain was recorded in other income for the year ended December 31, 2002 as a result of the change in market value of the contract as of June 30, 2002. This contract settled in July 2002 for $1.1 million. EARNINGS PER SHARE The Company computes and presents earnings per share in accordance with SFAS No. 128, Earnings Per Share. SFAS 128 requires the presentation of "basic" EPS and "diluted" EPS on the face of the statement of operations. Basic EPS is computed by dividing the net income available to common shareholders by the weighted-average shares of outstanding common stock. The calculation of diluted EPS is similar to basic EPS except that the denominator includes dilutive common stock equivalents, which were stock options, less the number of treasury shares assumed to be purchased from the proceeds with the exercise of stock options. STOCK BASED COMPENSATION PLANS In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure("SFAS No. 148") to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. As permitted under SFAS No. 123, the Company continues to use the intrinsic value method of accounting established by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, to account for its stock-based compensation programs. Accordingly, no compensation expense is recognized when the exercise price of an employee stock option is equal to the Common Share market price on the grant date. If SFAS No. 123 had been used for the accounting of these plans, the Company's pro forma net income for 2002, 2001 and 2000 would have been $7.9 million, $25.9 million and $21.7 million, respectively, and the Company's pro forma diluted earnings per share would have been $0.22, 48 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) $0.79 and $0.67, respectively. These pro forma results exclude consideration of options granted prior to January 1, 1995, and therefore may not be representative of that to be expected in future years. For the purposes of pro forma disclosures, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used: expected dividend yields of 0 percent; expected lives ranging from three to ten years, risk-free interest rate assumed to be 5.0 percent in 2000, 4.5 percent in 2001 and 4.0 percent in 2002, and expected volatility to be 62 percent in 2000, 61 percent in 2001 and 59 percent in 2002. The fair value of shares issued under the Employee Stock Purchase Plan was based on the 15% discount received by the employees. The weighted average per share fair value of the options granted in 2002, 2001 and 2000 was $15.20, $14.47, and $8.05, respectively. The estimated fair value of the options is amortized to pro forma expense over the vesting period. REVENUE RECOGNITION The Company earns the majority of its subsea service and salvage contracting revenues during the summer and fall months. Revenues are derived from billings under contracts (which are typically of short duration) that provide for either lump-sum turnkey charges or specific time, material and equipment charges which are billed in accordance with the terms of such contracts. The Company recognizes revenue as it is earned at estimated collectible amounts. Revenue on significant turnkey contracts is recognized on the percentage-of-completion method based on the ratio of costs incurred to total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments are reflected in the period in which such estimates are revised. Provisions for estimated losses on such contracts are made in the period such losses are determined. Unbilled revenue represents revenue attributable to work completed prior to year-end which has not yet been invoiced. All amounts included in unbilled revenue at December 31, 2002 are expected to be billed and collected within one year. The Company records revenues from the sales of crude oil and natural gas when delivery to the customer has occurred and title has transferred. This occurs when production has been delivered to a pipeline or a barge lifting has occurred. The Company may have an interest with other producers in certain properties. In this case the Company used the entitlements method to account for sales of production. Under the entitlements method the Company may receive more or less than its entitled share of production. If the Company receives more than its entitled share of production, the imbalance is treated as a liability. If the Company receives less than its entitled share, the imbalance is recorded as an asset. REVENUE ALLOWANCE ON GROSS AMOUNTS BILLED The Company bills for work performed in accordance with the terms of the applicable contract. The gross amount of revenue billed will include not only the billing for the original amount quoted for a project but also include billings for services provided which the Company believes are allowed under the terms of the related contract but are outside the scope of the original quote. The Company establishes a revenue allowance for these additional billings based on its collections history if conditions warrant such a reserve. MAJOR CUSTOMERS AND CONCENTRATION OF CREDIT RISK The market for the Company's products and services is primarily the offshore oil and gas industry. Oil and gas companies make capital expenditures on exploration, drilling and production operations offshore, the level of which is generally dependent on the prevailing view of the future oil and gas prices, which have been characterized by significant volatility in recent years. The Company's customers consist primarily of major, well-established oil and pipeline companies and independent oil and gas producers. The Company performs ongoing credit evaluations of its customers and provides allowances for probable credit losses when necessary. The percent of consolidated revenue of major customers was as follows: 2002 -- BP Trinidad & Tobago LLC (11%); Horizon Offshore, Inc. (10%); 2001 -- Horizon Offshore, Inc. (18%), Enron Corp. (10%); and 2000 -- Enron Corp. (13%). 49 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) In March 2001, CDI and Horizon Offshore, Inc. announced that the Alliance Agreement covering operation on the Outer Continental Shelf was extended for a three-year period. Principal features of the Alliance are that CDI provides Dive Support Vessel services behind Horizon pipelay barges while Horizon supplies pipelay, derrick barge and heavy lift capacity to Cal Dive. The Alliance was also expanded to include CDI providing the diving personnel working from Horizon barges, a service Horizon handled internally in 2000. During 2001 and 2002 the Company also provided dynamically positioned vessels to support Horizon projects for Pemex in Mexican waters of the Gulf of Mexico. INCOME TAXES Deferred income taxes are based on the differences between financial reporting and the tax bases of assets and liabilities in accordance with SFAS No. 109, Accounting for Income Taxes. The statement requires, among other things, the use of the liability method of computing deferred income taxes. The liability method is based on the amount of current and future taxes payable using tax rates and laws in effect at the balance sheet date. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. DEFERRED DRYDOCK CHARGES The Company accounts for regulatory (U.S. Coast Guard, American Bureau of Shipping and Det Norske Veritas) related drydock inspection and certification expenditures by capitalizing the related costs and amortizing them over the 30-month period between regulatory mandated drydock inspections and certification. During the years ended December 31, 2002, 2001 and 2000, drydock amortization expense was $4.9 million, $3.1 million and $2.2 million, respectively. This predominant industry practice provides appropriate matching of expenses with the period benefitted (i.e., certification to operate the vessel for a 30-month period). STATEMENT OF CASH FLOW INFORMATION The Company defines cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. The Company had $2.5 million of restricted cash as of December 31, 2002 representing amounts securing a performance bond which management believes will be released during 2003. During the years ended December 31, 2002, 2001 and 2000, the Company made cash payments for interest charges, net of interest capitalized, of $811,000, $662,000 and $-0-, respectively, and made cash payments for federal income taxes of approximately $-0-, $-0- and $1,800,000 respectively. RECLASSIFICATIONS Certain reclassifications were made to previously reported amounts in the consolidated financial statements and notes to make them consistent with the current presentation format. NEW REPORTING REQUIREMENTS In July 2001, the FASB released SFAS No. 143, Accounting for Asset Retirement Obligations, which is required to be adopted no later than January 1, 2003. SFAS 143 addresses the financial accounting and reporting obligations and retirement costs related to the retirement of tangible long-lived assets. Among other things, SFAS 143 will require oil and gas companies to reflect decommissioning liabilities on the face of the balance sheet at fair market value on a discounted basis. Historically, ERT has reflected this liability on the balance sheet on an undiscounted basis. The Company will adopt this standard, as required, effective January 1, 2003. Management currently believes adoption of this standard will result in a cumulative effect adjustment in the first quarter of 2003 of between $0.01 and $0.03 per share and adjustments to certain balance sheet accounts including a decrease in Decommissioning Liabilities of approximately $30 million due to discounting. 50 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) In November 2002, FASB interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN No. 45") was issued. FIN No. 45 requires a guarantor to recognize at the inception of a guarantee a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately. Adoption of FIN No. 45 did not have a material effect on CDI's consolidated financial statements. In January 2003, FIN No. 46, Consolidation of Variable Interest Entities was issued. FIN No. 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and applies in the first interim period beginning after June 15, 2003 to variable interest entities created before February 1, 2003. The related disclosure requirements are effective immediately. The Company does not believe that the adoption of this interpretation will have a material impact on its consolidated financial statements. 3. OFFSHORE PROPERTY TRANSACTIONS In August 2002 ERT, a wholly owned subsidiary of Cal Dive International, Inc. acquired the 74.8% working interest of Shell Exploration & Production Company in the South Marsh Island 130 (SMI 130) field (Shell acquisition). ERT paid $10.3 million in cash and assumed Shell's pro-rata share of the related decommissioning liability. SMI 130 consists of two blocks, located in approximately 215 feet of water, with approximately 155 wells on five 8-pile platforms. Unaudited pro forma combined operating results of CDI and the Shell acquisition for the twelve months ended December 31, 2002 and 2001, respectively are summarized as follows (in thousands, except per share data): 2002 2001 -------- -------- (UNAUDITED) Net revenues... $321,186 $259,762 Income before taxes....................................... 23,690 54,892 Net income.. 15,399 35,828 Earnings per share: Basic... $ 0.43 $ 1.10 Diluted... 0.43 1.08 In August 2002, ERT also completed the purchase of seven Gulf of Mexico fields from Amerada Hess (including its 25% ownership position in SMI 130) for $9.3 million in cash and assumption of Amerada Hess's pro-rata share of the related decommissioning liability. As a result, ERT took over as operator with an effective 100% working interest in that field. In June 2002, ERT acquired a package of offshore properties from Williams Exploration and Production. ERT paid $4.9 million and assumed the pro-rata share of the abandonment obligation for the acquired interests. The blocks purchased represent an average 30% net working interest in 26 Gulf of Mexico leases. In April 2002, ERT acquired a 100% interest in East Cameron Block 374, including existing wells, equipment and improvements. Terms included a cash payment of approximately $3 million to reimburse the owners for the inception-to-date cost of the subsea wellhead and umbilical, and an overriding royalty interest in future production. Cal Dive completed the temporarily abandoned number one well and performed a subsea tie-back to a host platform. The cost of completion and tie-back was approximately $7 million, with first production occurring in August 2002. 51 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) ERT purchased working interests of 3% to 75% in four offshore blocks during 2001 in exchange for assumption of the pro-rata share of the decommissioning obligations. In addition, during 2001 ERT purchased a working interest of 55% in Vermilion 201 for $2.5 million (see footnote 4). In the first quarter of 2000, ERT acquired interests in six offshore blocks with working interests from 40% to 75% in five platforms, one caisson and 13 wells. ERT agreed to a purchase price of $4.9 million and assumed the prorated share of the abandonment obligation for the acquired interests, and entered into a two-year contract to manage certain properties. Additionally, in April 2000, ERT acquired a 20% interest in Gunnison. See further discussion in footnote 4. In connection with 2002, 2001 and 2000 offshore property acquisitions, ERT assumed net abandonment liabilities estimated at approximately $63.6 million, $3.1 million and $4.2 million respectively. ERT production activities are regulated by the federal government and require significant third-party involvement, such as refinery processing and pipeline transportation. The Company records revenue from its offshore properties net of royalties paid to the Minerals Management Service (MMS). Royalty fees paid totaled approximately $9.2 million, $15.2 million and $11.7 million for the years ended 2002, 2001 and 2000, respectively. In accordance with federal regulations that require operators in the Gulf of Mexico to post an area wide bond of $3 million, the MMS has allowed the Company to fulfill such bonding requirements through an insurance policy. During each of the past three years ERT has sold its interests in certain fields as well as the platforms and a pipeline. An ERT operating policy provides for the sale of assets when the expected future revenue stream can be accelerated in a single transaction. The net result of these sales had no impact for the year ended December 31, 2002 and added two cents and four cents to diluted earnings per share for the years ending December 31, 2001 and 2000, respectively. These sales were structured as Section 1031 "Like Kind" exchanges for tax purposes. Accordingly, the cash received was restricted to use for subsequent acquisitions of additional oil and gas properties. 4. RELATED PARTY TRANSACTIONS In April 2000, ERT acquired a 20% working interest in Gunnison, a Deepwater Gulf of Mexico prospect of Kerr-McGee Oil & Gas Corporation. Consistent with CDI's philosophy of avoiding exploratory risk, financing for the exploratory costs of approximately $20 million was provided by an investment partnership (OKCD Investments, Ltd.), the investors of which are CDI senior management, in exchange for an overriding royalty interest of 25% of CDI's 20% working interest. CDI provided no guarantees to the investment partnership. The Board of Directors established three criteria to determine a commercial discovery and the commitment of Cal Dive funds: 75 million barrels (gross) of reserves, total development costs of $500 million consistent with 75 MBOE, and a CDI estimated shareholder return of no less than 12%. Kerr-McGee, the operator, drilled several exploration wells and sidetracks in 3,200 feet of water at Garden Banks 667, 668 and 669 (the Gunnison prospect) and encountered significant potential reserves resulting in the three criteria being achieved during 2001. With the sanctioning of a commercial discovery, the Company is funding ongoing development and production costs. Cal Dive's share of such project development costs is estimated in a range of $100 million to $110 million ($63.3 million of which had been incurred by December 31, 2002) with over half of that for construction of the spar. See footnote 9 for discussion of financing relating to the spar construction. During the fourth quarter of 2000 another investment partnership composed of Company management and industry sources funded the drilling of a deep exploratory well at ERT's Vermilion 201 field. Effective January 1, 2001, ERT acquired approximately 55% of this investment partnership's interest in the reserves discovered for $2.5 million. As part of the process of obtaining funding for the exploratory costs of the above projects, several outside third parties were solicited. Management believes that the structure of these transactions was both consistent 52 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) with the guidelines and at least as favorable to the Company and ERT as could have been obtained from the third parties. During 2002 and 2001, the Company was paid fees of $200,000 and $500,000, respectively, by Ocean Energy, Inc. ("Ocean"), an oil and gas industry customer of subsea services. A member of the Company's board of directors, is a member of senior management of Ocean. 5. ACQUISITION OF BUSINESSES CANYON OFFSHORE, INC. In January 2002, CDI purchased Canyon, a supplier of remotely operated vehicles (ROVs) and robotics to the offshore construction and telecommunications industries. CDI purchased Canyon for cash of $52.8 million, the assumption of $9.0 million of Canyon debt (offset by $3.1 million of cash acquired), 181,000 shares of CDI common stock valued at $4.3 million (143,000 shares of which we purchased as treasury shares during the fourth quarter of 2001) and a commitment to purchase the redeemable stock in Canyon at a price to be determined by Canyon's performance during the years 2002 through 2004 from continuing employees at a minimum purchase price of $13.53 per share (or $7.5 million). As they are employees, amounts paid, if any, in excess of the $13.53 per share will be recorded as compensation expense. No such expense was recorded in 2002. These remaining shares have been classified as redeemable stock in subsidiary in the accompanying balance sheet and will be adjusted to their estimated redemption value at each reporting period based on Canyon's performance. The acquisition was accounted for as a purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. The allocation of the $70.5 million purchase price was as follows: ROVs and equipment ($22.9 million); net working capital assumed ($4.0 million) and goodwill ($43.6 million). The results of Canyon are included in the accompanying statements of operations since the date of the purchase, January 2, 2002. WELL OPS (U.K.) LIMITED In July 2002, CDI purchased the subsea well operations business unit of CSO Ltd., a wholly owned subsidiary of Technip-Coflexip, for approximately $72.0 million ($68.6 million cash and $3.4 million deferred tax liability assumption). Well Ops (U.K.) Limited performs life of field well operations and marine construction tasks primarily in the North Sea. The assets purchased include the Seawell (a 368-foot DPDSV capable of supporting manned diving, ROVs and well operations). The acquisition was accounted for as a business purchase with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. During the fourth quarter of 2002 the Company completed its purchase price allocation, including obtaining an appraisal of the Seawell,resulting in $50 million allocated to this vessel $1.5 million allocated to patented technology (to be amortized over 20 years) and goodwill of approximately $20.6 million as of December 31, 2002. The results of Well Ops (U.K.) are included in the accompanying statements of operations since the date of the purchase, July 1, 2002. PROFESSIONAL DIVERS OF NEW ORLEANS, INC. (PDNO) In March 2001, CDI acquired substantially all of the assets of Professional Divers of New Orleans, Inc. (PDNO) in exchange for $11.5 million. The assets purchased included a 165-foot four-point moored DSV, the Mr. Sonny, three utility vessels and associated diving equipment including two saturation diving systems. This acquisition was accounted for as a purchase with the acquisition price of $11.5 million being allocated to the assets acquired and liabilities assumed based upon their estimated fair values with the balance of the purchase price ($2.8 million) being recorded as goodwill. Total goodwill relating to shallow water diving company acquisitions (i.e., PDNO and Aquatica) was $15 million as of December 31, 2002. 53 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The 2002 and 2001 acquisitions presented above are not material individually or in the aggregate with same year acquisitions, therefore pro forma information is not presented. 6. EQUITY INVESTMENT IN DEEPWATER GATEWAY L.L.C. In June 2002 CDI, along with El Paso Energy Partners, formed Deepwater Gateway L.L.C. (a 50/50 venture) to design, construct, install, own and operate a tension leg platform ("TLP") production hub primarily for Anadarko Petroleum Corporation's Marco Polo field discovery in the Deepwater Gulf of Mexico. CDI's share of the construction costs is estimated to be approximately $110 million. In August 2002 the Company, along with El Paso, completed a non-recourse project financing for this venture, terms of which include a minimum CDI equity investment of $33 million, all of which had been paid as of December 31, 2002. This is recorded as Investment in Deepwater Gateway L.L.C. in the accompanying consolidated balance sheet. Terms of the financing also require CDI to guarantee a balloon payment due at the end of the financing term in 2008 (estimated to be $22.5 million). The Company has not recorded any liability for this guarantee as management believes it is unlikely the Company will be required to pay the balloon payment. 7. GOODWILL In June 2001, the FASB issued SFAS No. 142, which provides for the non-amortization of goodwill and other intangible assets with indefinite lives and requires that such assets be tested for impairment at least on an annual basis. The impact of adopting SFAS No. 142 would have been immaterial to the Company's results of operations for the years ended December 31, 2001 and 2000, respectively. The Company adopted SFAS No. 142 effective January 1, 2002 and has applied the non-amortization provision. During the second quarter of 2002, the Company completed the transitional goodwill impairment test prescribed in SFAS No. 142 with respect to existing goodwill at the date of adoption. In addition, the Company completed its annual goodwill impairment test as of November 1, 2002. The Company's goodwill impairment test involves a comparison of the fair value of each of the Company's reporting units, as defined under SFAS No. 142, with its carrying amount. All of the Company's goodwill as of December 31, 2002 and 2001 related to its subsea and salvage segment. The fair value is determined using discounted cash flows and other market-related valuation models. As both calculations indicated that the fair value of each reporting unit exceeded its carrying amount, none of the Company's goodwill was impaired. The Company will continue to test its goodwill annually on a consistent measurement date unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount. 8. ACCRUED LIABILITIES Accrued liabilities consisted of the following as of December 31, 2002 and 2001 (in thousands): 2002 2001 ------- ------- Accrued payroll and related benefits....................... $ 6,874 $ 6,880 Workers' compensation claims............................... 1,724 1,537 Workers' compensation claims to be reimbursed.............. 5,534 6,276 Royalties payable... 3,238 3,207 Hedging liability... 4,064 -- Other.. 13,356 3,111 ------- ------- Total accrued liabilities................................ $34,790 $21,011 ======= ======= 54 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 9. LONG-TERM DEBT In August 2000, the Company closed a $138.5 million long-term financing for construction of the Q4000. This U.S. Government guaranteed financing is pursuant to Title XI of the Merchant Marine Act of 1936 which is administered by the Maritime Administration ("MARAD Debt"). In January 2002, the Maritime Administration agreed to expand the facility to $160 million to include the modifications to the vessel which had been approved during 2001. To date the Company has drawn $143.5 million on this facility, which approximates the maximum of qualified expenditures. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and maturing 25 years from such date. It is collateralized by the Q4000, with CDI guaranteeing 50% of the debt, and bears interest at a rate which currently floats at a rate approximating AAA Commercial Paper yields plus 20 basis points (approximately 2% as of December 31, 2002). For a period up to ten years from delivery of the vessel in April 2002, CDI has options to lock in a fixed rate. In accordance with the MARAD Debt agreements, CDI is required to comply with certain covenants and restrictions, including the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of December 31, 2002 the Company was in compliance with these covenants. The Company has a revolving credit facility ("Revolver") which was increased from $40 million to $70 million during 2002 and the term extended for three years. This facility is collateralized by accounts receivable and most of the remaining vessel fleet, bears interest at LIBOR plus 125-250 basis points depending on CDI leverage ratios (approximately 4.2% as of December 31, 2002) and, among other restrictions, includes three financial covenants (cash flow leverage, minimum interest coverage and fixed charge coverage). As of December 31, 2002, the Company had drawn $52.6 million under this revolving credit facility and was in compliance with these covenants with the exception of the cash flow leverage covenant, for which the Company obtained a waiver. In November 2001, ERT entered into a five-year lease transaction with an entity owned by a third party to fund CDI's portion of the construction costs ($67 million) of the spar for the Gunnison field. As of December 31, 2001 and June 30, 2002, the entity had drawn down $5.6 million and $22.8 million, respectively, on this facility. Accrued interest cost on the outstanding balance is capitalized to the cost of the facility during construction and is payable monthly thereafter. In August 2002, CDI acquired 100% of the equity of the entity and converted the notes into a term loan ("Gunnison Term Loan"). The total commitment of the loan was reduced to $35 million and will be payable in quarterly installments of $1.75 million for three years after delivery of the spar with the remaining $15.75 million due at the end of the three years. The facility bears interest at LIBOR plus 225-300 basis points depending on CDI leverage ratios (approximately 4.4% as of December 31, 2002) and includes, among other restrictions, three financial covenants (cash flow leverage, minimum interest coverage and debt to total book capitalization). The Company was in compliance with these covenants as of December 31, 2002 with the exception of the cash flow leverage covenant, for which the Company obtained a waiver. The debt ($29.3 million at December 31, 2002) and related asset have been reflected on CDI's balance sheet beginning in the third quarter of 2002. The purchase price was allocated entirely to construction in progress as the purchase price approximated the fair value of the spar. 55 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Scheduled maturities of Long-term Debt outstanding as of December 31, 2002 were as follows (in thousands): GUNNISON MARAD DEBT REVOLVER TERM LOAN OTHER TOTAL ---------- -------- --------- ------- -------- 2003.......................... $ 2,766 $ -- $ -- $ 1,435 $ 4,201 2004.......................... 2,949 -- 7,000 1,395 11,344 2005.......................... 3,144 52,591 7,000 572 63,307 2006.......................... 3,352 -- 15,270 386 19,008 2007.......................... 3,573 -- -- -- 3,573 Thereafter.................... 126,344 -- -- -- 126,344 -------- ------- ------- ------- -------- Long-term debt................ 142,128 52,591 29,270 3,788 227,777 Current maturities............ (2,766) (--) (--) (1,435) (4,201) -------- ------- ------- ------- -------- Long-term debt, less current maturities.................. $139,362 $52,591 $29,270 $ 2,353 $223,576 ======== ======= ======= ======= ======== 10. INCOME TAXES CDI and its subsidiaries, including acquired companies from their respective dates of acquisition, file a consolidated U.S. federal income tax return. The Company conducts its international operations in a number of locations that have varying laws and regulations with regard to taxes. Management believes that adequate provisions have been made for all taxes that will ultimately be payable. $2.5 million of the Company's $19.0 million pre-tax income was derived from foreign operations. Income taxes have been provided based on the statutory rate of 35 percent adjusted for items which are allowed as deductions for federal income tax reporting purposes, but not for book purposes. The primary differences between the statutory rate and the Company's effective rate are as follows: 2002 2001 2000 ---- ---- ----

Statutory rate... 35% 35% 35% Foreign provision.. 4 -- -- Foreign tax credit.. (4) -- -- Research and development tax credits....................... -- (2) (2) Other.. -- 2 1 -- -- -- Effective rate... 35% 35% 34% == == == Components of the provision for income taxes reflected in the statements of operations consist of the following (in thousands): 2002 2001 2000 ------ ------- ------- Current.. $ 534 $ -- $ -- Deferred... 6,130 15,504 11,555 ------ ------- ------- $6,664 $15,504 $11,555 ====== ======= ======= 56 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 2002 2001 2000 ------ ------- ------- Domestic... $5,996 $15,504 $11,555 Foreign.. 668 -- -- ------ ------- ------- $6,664 $15,504 $11,555 ====== ======= ======= Deferred income taxes result from differences between the tax bases of assets and liabilities and their carrying value. The nature of these differences and the income tax effect of each as of December 31, 2002 and 2001, is as follows (in thousands): 2002 2001 -------- -------- Deferred tax liabilities -- Depreciation and other.......... $102,230 $ 75,805 Deferred tax assets -- Net operating loss carryforward.......................... (28,385) (13,761) R&D credit carryforward................................. (17,087) (15,987) Reserves, accrued liabilities and other.................. (9,929) (7,548) Valuation allowance (R&D credit)......................... 14,450 13,528 -------- -------- Net deferred tax liability............................ $ 61,279 $ 52,037 ======== ======== The detail of deferred tax balances as of December 31, 2001 described above contain reclassification adjustments totaling $21.2 million and conforming disclosures to provide a detail of deferred tax assets that were previously offset against deferred tax liabilities. The Company's consolidated balance sheet as of December 31, 2001 has been adjusted to conform with the above presentation. CDI effectively paid no federal income taxes in 2002 and 2001 due primarily to the deduction of Q4000 construction costs as research and development for federal tax purposes. The Company paid $1.8 million of federal income taxes during 2000, but the amount was refunded in January 2001 upon completing our research and development analysis and filing for the refund. In addition, we filed amended tax returns for 1998 and 1999, deducting such costs, resulting in refunds of $8.2 million which were collected in January 2001. The Company has provided additional taxes for the anticipated repatriation of earnings of its foreign subsidiaries. At December 31, 2002, the Company had $81.1 million of net operating losses. Loss carryforwards, if not utilized, will expire at various dates from 2019 through 2022. 11. COMMITMENTS AND CONTINGENCIES: LEASE COMMITMENTS During 1999, CDI acquired an interest in Cal Dive Aker CAHT I, L.L.C. (CAHT I), the company which owned the Cal Dive Aker Dove (a newbuild DP anchor handling and subsea construction vessel which commenced operations in September 1999) for a total of $18.9 million. CDI effectively owned 56% of CAHT I and, accordingly, results of operations of this company were consolidated in the accompanying financial statements with Aker's share being reflected as minority interest. In December, 1999 CAHT I entered into a sale-leaseback of the Cal Dive Aker Dove. Cal Dive's portion of the sale proceeds received totaled $20 million. The lease was accounted for as an operating lease. Effective April 1, 2001, Coflexip's acquisition of Aker enabled CDI to "put" its interest in CAHT I back to Aker in return for Aker assuming all of CDI's obligations and guarantees under the sale-leaseback. 57 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The Company leases several facilities, ROVs and a vessel under noncancelable operating leases, with the more significant leases expiring in the years 2004 and 2005. Future minimum rentals under these leases are $19,018,000 at December 31, 2002 with $8,848,000 due in 2003, $7,033,000 in 2004, $2,198,000 in 2005, $276,000 in 2006, $276,000 in 2007 and $387,000 thereafter. Total rental expense under these operating leases was $6,885,000, $779,000 and $721,000 for the years ended December 31, 2002, 2001 and 2000, respectively. INSURANCE The Company carries Hull and Increased Value insurance which provides coverage for physical damage to an agreed amount for each vessel. The deductibles are based on the value of the vessel with a maximum deductible of $500,000 on the Q4000. Other vessels carry deductibles between $100,000 and $350,000. The Company also carries Protection and Indemnity insurance which covers liabilities arising from the operation of the vessel and General Liability insurance which covers liabilities arising from construction operations. The deductible on both the P&I and General Liability is $100,000 per occurrence. Onshore employees are covered by Workers' Compensation. Offshore employees, including divers and tenders and marine crews, are covered by an Excess Maritime Employers Liability insurance policy which covers Jones Act exposures and includes a deductible of $100,000 per occurrence plus a $1 million annual aggregate. In addition to the liability policies named above, the Company carries various layers of Umbrella Liability for total limits of $200,000,000 excess of primary for all vessels. The Company's self insured retention on its medical and health benefits program for employees is $100,000 per claim. In June 2000, the DP DSV Balmoral Sea caught fire while dockside in New Orleans, Louisiana as the vessel was being prepared to enter drydock for an extended period. The vessel was deemed a total loss by insurance underwriters. Her book value (approximately $7 million) was fully insured as were all salvage and removal costs. Payments from the insurance companies were received during the fourth quarter of 2000. The Company incurs workers' compensation claims in the normal course of business, which management believes are covered by insurance. The Company, its insurers and legal counsel analyze each claim for potential exposure and estimate the ultimate liability of each claim. Amounts accrued and receivable from insurance companies, above the applicable deductible limits, are reflected in other current assets in the consolidated balance sheet. Such amounts were $5,534,000 and $6,276,000 as of December 31, 2002 and 2001, respectively. See related accrued liabilities at footnote 8. The Company has not incurred any significant losses as a result of claims denied by its insurance carriers. LITIGATION AND CLAIMS The Company is involved in various routine legal proceedings primarily involving claims for personal injury under the General Maritime Laws of the United States and Jones Act as a result of alleged negligence. In addition, the Company from time to time incurs other claims, such as contract disputes, in the normal course of business. During 2002, the Company engaged in a large construction project and, in late September, supports engineered by a subcontractor failed resulting in over a month of downtime for two of CDI's vessels. Management believes that under the terms of the contract the Company is entitled to the contractual stand-by rate for the vessels during their downtime. The customer is currently disputing these invoices along with certain other change orders. Of the amounts billed by CDI for this project, $12.1 million had not been collected as of February 18, 2003. Due to the size of the dispute, inherent uncertainties with respect to an arbitration and relationship issues with the customer, CDI provided a reserve in the fourth quarter of 2002 resulting in a loss for the Company on the project as a whole. In another lengthy commercial dispute, EEX Corporation sued Cal Dive and others alleging breach of fiduciary duty by a former EEX employee and damages resulting from certain construction and property acquisition agreements. Cal Dive had responded alleging EEX Corporation breached various provisions of the same contracts. EEX's acquisition by Newfield during the fourth quarter 2002 enabled CDI to enter meaningful settlement discussions prior to the trial date, 58 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) which was set for February 2003. This resulted in a settlement including CDI making a cash payment, subsequent to yearend, and agreeing to provide work credits for its services over the next three years. The total value of the settlement was recorded in the Company's statement of operations for the year ended December 31, 2002. This settlement combined with the reserves on the project discussed above resulted in approximately $10 million of pre-tax charges recorded in the accompanying statement of operations. In 1998, one of our subsidiaries entered into a subcontract with Seacore Marine Contractors Limited ("Seacore") to provide the Sea Sorceress to a Coflexip subsidiary in Canada ("Coflexip"). Due to difficulties with respect to the sea states and soil conditions the contract was terminated and an arbitration to recover damages was commenced. A preliminary liability finding has been made by the arbitrator against Seacore and in favor of the Coflexip subsidiary. We were not a party to this arbitration proceeding. Seacore and Coflexip settled this matter prior to the conclusion of the arbitration proceeding with Seacore paying Coflexip $6.95 million CDN. Seacore has now made demand on Cal Dive Offshore Ltd. ("CDO"), a subsidiary of Cal Dive, for one-half of this amount. Because only one of the grounds in the preliminary findings by the arbitrator is applicable to CDO, and because CDO holds substantial counterclaims against Seacore, management believes that in the event Seacore continues to seek contribution from our subsidiary, which would require another arbitration, it is anticipated that our subsidiary's exposure, if any, should be less than $500,000. Although the above discussed matters have the potential of significant additional liability, the Company believes that the outcome of all such matters and proceedings will not have a material adverse effect on its consolidated financial position, results of operations or cash flows. 12. EMPLOYEE BENEFIT PLANS DEFINED CONTRIBUTION PLAN The Company sponsors a defined contribution 401(k) retirement plan covering substantially all of its employees. The Company's contributions are in the form of cash and are determined annually as 50 percent of each employee's contribution up to 5 percent of the employee's salary. The Company's costs related to this plan totaled $811,000, $595,000 and $423,000 for the years ended December 31, 2002, 2001 and 2000, respectively. STOCK-BASED COMPENSATION PLANS During 2000, the Board of Directors approved a "Stock Option in Lieu of Salary Program" for the Company's Chief Executive Officer. Under the terms of the program, the participant may annually elect to receive non-qualified stock options (with an exercise price equal to the closing stock price on the date of grant) in lieu of cash compensation with respect to his base salary and any bonus earned under the annual incentive compensation program. The number of options granted is determined utilizing the Black-Scholes valuation model as of the date of grant with a risk premium included. The participant made such election for 2002, 2001 and 2000 resulting in a total of 105,000, 180,000 and 115,000 options being granted during 2002, 2001 and 2000, respectively (which includes bonuses earned under the annual incentive compensation program in 2001 and 2000). During 1995, the Board of Directors and shareholders approved the 1995 Long-Term Incentive Plan (the Incentive Plan). Under the Incentive Plan, a maximum of 10% of the total shares of Common Stock issued and outstanding may be granted to key executives and selected employees who are likely to make a significant positive impact on the reported net income of the Company. The Incentive Plan is administered by a committee which determines, subject to approval of the Compensation Committee of the Board of Directors, the type of award to be made to each participant and sets forth in the related award agreement the terms, conditions and limitations applicable to each award. The committee may grant stock options, stock appreciation rights, or stock and cash awards. Options granted to employees under the Incentive Plan vest 20% 59 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) per year for a five year period or 33% per year for a three year period, have a maximum exercise life of three, five or ten years and, subject to certain exceptions, are not transferable. Effective May 12, 1998, the Company adopted a qualified, non-compensatory Employee Stock Purchase Plan ("ESPP"), which allows employees to acquire shares of common stock through payroll deductions over a six month period. The purchase price is equal to 85 percent of the fair market value of the common stock on either the first or last day of the subscription period, whichever is lower. Purchases under the plan are limited to 10 percent of an employee's base salary. Under this plan 44,158, 38,849 and 25,391 shares of common stock were purchased in the open market at a weighted average share price of $21.86, $22.22 and $21.55 during 2002, 2001 and 2000, respectively. All of the options outstanding at December 31, 2002, have exercise prices as follows: 127,191 shares at $18.00, 111,596 at $18.06, 129,000 shares at $19.63, 100,000 shares at $21.38, 412,000 shares at $21.83, 283,004 shares at $21.88, 120,000 shares at $24.00, 80,000 shares at $26.75 and 627,955 shares ranging from $3.95 to $23.72 and a weighted average remaining contractual life of 6.11 years. Options outstanding are as follows: 2002 2001 2000 ------------------- ------------------- ------------------- WEIGHTED WEIGHTED WEIGHTED AVERAGE AVERAGE AVERAGE EXERCISE EXERCISE EXERCISE SHARES PRICE SHARES PRICE SHARES PRICE --------- -------- --------- -------- --------- -------- Options outstanding, beginning of year.... 2,179,246 $13.66 2,238,600 $11.34 1,957,208 $ 5.59 Granted................ 732,670 21.88 589,000 21.84 810,420 19.26 Exercised.............. (862,241) 7.18 (354,838) 9.43 (484,344) 4.24 Terminated............. (58,929) 15.12 (293,516) 15.69 (44,684) 4.10 --------- ------ --------- ------ --------- ------ Options outstanding, December 31.......... 1,990,746 $19.52 2,179,246 $13.66 2,238,600 $11.34 Options exercisable, December 31.......... 704,191 $18.76 732,787 $ 8.97 518,308 $ 7.10 ========= ====== ========= ====== ========= ====== 13. SHAREHOLDERS' EQUITY The Company's amended and restated Articles of Incorporation provide for authorized Common Stock of 120,000,000 shares with no par value per share and 5,000,000 shares of preferred stock in one or more series. In May 2002 CDI sold 3.4 million shares of primary common stock for $23.16 per share, along with 517,000 additional shares to cover over-allotments. During the fourth quarter of 2001, CDI purchased 143,000 shares of its common stock for $2.6 million. In October 2000, the Board of Directors declared a two-for-one split of CDI's common stock in the form of a 100% stock distribution on November 13, 2000 to all holders of record at the close of business on October 30, 2000. All share and per share data in these financial statements have been restated to reflect the stock split. In September 2000, CDI completed a Secondary Stock Offering with Coflexip selling its 7.4 million shares of common stock at $26.31 per share. The over-allotment option was exercised resulting in the Company issuing 609,936 shares of common stock and receiving net proceeds of $14.8 million, and the Chief Executive Officer, selling 500,000 shares receiving net proceeds of $12.1 million. 60 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 14. BUSINESS SEGMENT INFORMATION (IN THOUSANDS) The following summarizes certain financial data by business segment: YEAR ENDED DECEMBER 31, ------------------------------ 2002 2001 2000 -------- -------- -------- Revenues -- Subsea and salvage................................ $239,916 $163,740 $110,217 Oil and gas production............................ 62,789 63,401 70,797 -------- -------- -------- Total.. $302,705 $227,141 $181,014 ======== ======== ======== Income from operations -- Subsea and salvage................................ $ 742 $ 21,705 $ 2,368 Oil and gas production............................ 20,267 23,881 32,201 -------- -------- -------- Total....................................... $ 21,009 $ 45,586 $ 34,569 ========

======== ======== Net interest (income) expense and other -- Subsea and salvage................................ $ 1,359 $ 739 $ (63) Oil and gas production............................ 609 551 617 -------- -------- -------- Total... $ 1,968 $ 1,290 $ 554 ======== ======== ======== Provision for income taxes -- Subsea and salvage................................ $ (793) $ 7,145 $ 436 Oil and gas production............................ 7,457 8,359 11,119 -------- -------- -------- Total... $ 6,664 $ 15,504 $ 11,555 ======== ======== ======== Identifiable assets -- Subsea and salvage................................ $642,579 $457,259 $301,416 Oil and gas production............................ 224,453 37,037 46,072 -------- -------- -------- Total... $867,032 $494,296 $347,488 ======== ======== ======== Capital expenditures -- Subsea and salvage................................ $ 66,297 $131,062 $ 82,697 Oil and gas production............................ 95,469 20,199 12,427 -------- -------- -------- Total... $161,766 $151,261 $ 95,124 ======== ======== ======== Depreciation and amortization -- Subsea and salvage................................ $ 27,220 $ 14,586 $ 11,621 Oil and gas production............................ 17,535 19,947 19,109 -------- -------- -------- Total... $ 44,755 $ 34,533 $ 30,730 ======== ======== ======== During the year ended December 31, 2002, the Company derived $27.1 million of its revenues from the U.K. sector utilizing $91.7 million of its total assets in this region. Additionally, $66.1 million of revenues were derived from the Latin America sector during the year ended December 31, 2002. The majority of the remaining revenues were generated in the U.S. Gulf of Mexico. 61 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 15. SUPPLEMENTAL OIL AND GAS DISCLOSURES (UNAUDITED) The following information regarding the Company's oil and gas producing activities is presented pursuant to SFAS No. 69, "Disclosures About Oil and Gas Producing Activities" (in thousands). CAPITALIZED COSTS Aggregate amounts of capitalized costs relating to the Company's oil and gas producing activities and the aggregate amount of related accumulated depletion, depreciation and amortization as of the dates indicated are presented below. The Company has no capitalized costs related to unproved properties. AS OF DECEMBER 31, ------------------------------ 2002 2001 2000 -------- -------- -------- Gunnison capitalized costs.......................... $ 63,294 $ 10,177 $ -- Proved developed properties being amortized.......... 180,256 72,157 60,679 Less -- Accumulated depletion, depreciation and amortization...................................... (71,151) (54,482) (35,835) -------- -------- -------- Net capitalized costs.......................... $172,399 $ 27,852 $ 24,844 ======== ======== ======== Included in capitalized costs proved developed properties being amortized is the Company's estimate of its proportionate share of decommissioning liabilities assumed relating to these properties which are also reflected as decommissioning liabilities in the accompanying consolidated balance sheets. COSTS INCURRED IN OIL AND GAS PRODUCING ACTIVITIES The following table reflects the costs incurred in oil and gas property acquisition and development activities during the years indicated: YEAR ENDED DECEMBER 31, ---------------------------- 2002 2001 2000 -------- ------- ------- Proved property acquisition costs..................... $ 94,034 $ 4,350 $ 7,635 Development costs..................................... 67,241 18,247 8,160 -------- ------- ------- Total costs incurred................................ $161,275 $22,597 $15,795 ======== ======= ======= RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES YEAR ENDED DECEMBER 31, --------------------------- 2002 2001 2000 ------- ------- ------- Revenues... $62,789 $63,401 $70,797 Production (lifting) costs............................ 19,153 13,236 12,432 Depreciation, depletion and amortization................ 17,535 19,947 19,109 ------- ------- ------- Pretax income from producing activities................ 26,101 30,218 39,256 Income tax expenses................................... 7,457 8,359 11,119 ------- ------- ------- Results of oil and gas producing activities............. $18,644 $21,859 $28,137 ======= ======= ======= ESTIMATED QUANTITIES OF PROVED OIL AND GAS RESERVES Proved oil and gas reserve quantities are based on estimates prepared by Company engineers in accordance with guidelines established by the Securities and Exchange Commission. The Company's estimates of reserves at December 31, 2002, excluding Gunnison, have been reviewed by Miller and Lents, 62 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) Ltd., independent petroleum engineers. Since the Company does not own a license to the geophysical data, reserves attributable to Gunnison (which total 47% of the proved reserves as of December 31, 2002) have been determined based on information provided by the operator. These reserve estimates were reviewed by our engineers, including an assessment of the operator's assumptions and their engineering, geologic and evaluation principles and techniques. All of the Company's reserves are located in the United States. Proved reserves cannot be measured exactly because the estimation of reserves involves numerous judgmental determinations. Accordingly, reserve estimates must be continually revised as a result of new information obtained from drilling and production history, new geological and geophysical data and changes in economic conditions. As of December 31, 2000, -0- Bbls of oil and -0- Mcf of gas of the Company's proven reserves were undeveloped. As of December 31, 2001, 6,829,000 Bbls of oil and 35,525,000 Mcf of gas were undeveloped, all of which is attributable to Gunnison. As of December 31, 2002 6,375,000 Bbls of oil and 51,807,000 Mcf of gas were undeveloped, 82% of which is attributable to Gunnison. OIL GAS RESERVE QUANTITY INFORMATION (MBBLS) (MMCF) --------------------------- ------- ------- Total proved reserves at December 31, 1999................. 1,702 25,381 Revisions of previous estimates.......................... 24 3,024 Production.. (739) (14,959) Purchases of reserves in place........................... 99 9,416 Sales of reserves in place............................... (5) (1,151) ------ ------- Total proved reserves at December 31, 2000................. 1,081 21,711 ------ ------- Revision of previous estimates........................... 623 4,479 Production.. (743) (9,473) Purchases of reserves in place........................... 53 1,644 Sales of reserves in place............................... -- (22) Extensions and discoveries............................... 6,844 35,597 ------ ------- Total proved reserves at December 31, 2001................. 7,858 53,936 Revision of previous estimates........................... (1,442) 11,049 Production.. (922) (11,062) Purchases of reserves in place........................... 6,543 31,302 Sales of reserves in place.............................. -- -- Extensions and discoveries............................... -- -- ------ ------- Total proved reserves at December 31, 2002................. 12,037 85,225 ====== ======= 63 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES The following table reflects the standardized measure of discounted future net cash flows relating to the Company's interest in proved oil and gas reserves as of December 31: 2002 2001 2000 --------- --------- -------- Future cash inflows............................... $ 693,023 $ 261,613 $219,620 Future costs -- Production.................................. (129,375) (46,031) (42,608) Development and abandonment.................. (176,094) (147,885) (27,690) --------- --------- -------- Future net cash flows before income taxes.......... 387,554 67,697 149,322 Future income taxes............................... (106,258) (24,223) (57,018) --------- --------- -------- Future net cash flows............................ 281,296 43,474 92,304 Discount at 10% annual rate....................... (69,569) (22,029) (14,591) --------- --------- -------- Standardized measure of discounted future net cash flows.. $ 211,727 $ 21,445 $ 77,713 ========= ========= ======== CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS Principal changes in the standardized measure of discounted future net cash flows attributable to the Company's proved oil and gas reserves are as follows: 2002 2001 2000 -------- ------- -------- Standardized measure, beginning of year.............. $ 21,445 $77,713 $ 22,843 Sales, net of production costs....................... (43,729) (50,165) (57,720) Net change in prices, net of production costs......... 69,085 (68,811) 87,427 Changes in future development costs.................. 28,958 (2,421) (3,695) Development costs incurred.......................... 67,241 18,247 8,160 Accretion of discount............................... 6,390 3,013 3,785 Net change in income taxes.......................... (62,166) 30,192 (32,996) Purchases of reserves in place....................... 124,322 433 48,229 Extensions and discoveries.......................... -- 16,612 -- Sales of reserves in place.......................... -- 20 2,021 Net change due to revision in quantity estimates...... 899 1,604 20,084 Changes in production rates (timing) and other........ (718) (4,992) (20,425) -------- ------- -------- Standardized measure, end of year.................... $211,727 $21,445 $ 77,713 ======== ======= ======== 64 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) 16. REVENUE ALLOWANCE ON GROSS AMOUNTS BILLED The following table sets forth the activity in the Company's Revenue Allowance on Gross Amounts Billed for each of the three years in the period ended December 31, 2002 (in thousands): 2002 2001 2000 ------- ------- ------- Beginning balance...................................... $ 4,262 $ 1,770 $ 1,789 Additions.. 12,008 6,875 4,535 Deductions.. (9,114) (4,383) (4,554) ------- ------- ------- Ending balance.. $ 7,156 $ 4,262 $ 1,770 ======= ======= ======= See Note 2 for a detailed discussion regarding the Company's accounting policy on the Revenue Allowance on Gross Amounts Billed and Note 11 for a discussion of a large construction project in 2002. 17. QUARTERLY FINANCIAL INFORMATION (UNAUDITED) The offshore marine construction industry in the Gulf of Mexico is highly seasonal as a result of weather conditions and the timing of capital expenditures by the oil and gas companies. Historically, a substantial portion of the Company's services has been performed during the summer and fall months. As a result, historically a disproportionate portion of the Company's revenues and net income is earned during such period. The following is a summary of consolidated quarterly financial information for 2002 and 2001. QUARTER ENDED --- MARCH 31 JUNE 30 SEPTEMBER 30 DECEMBER 31 --------------- ------------ ----------- (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) Fiscal 2002 Revenues.................... $53,928 $72,305 $84,015 $92,457 Gross profit.......................... 11,118 17,185 11,573 13,916 Net income............................ 3,001 7,214 2,952 (790) Net income per share: Basic.............................. .09 .21 .08 (.02) Diluted............................ .09 .21 .08 (.02) Fiscal 2001 Revenues.................... $58,482 $48,786 $51,570 $68,303 Gross profit.......................... 22,258 16,914 13,207 14,532 Net income............................ 10,774 7,546 5,244 5,368 Net income per share: Basic.............................. .33 .23 .16 .17 Diluted............................ .33 .23 .16 .16 18. SUBSEQUENT EVENTS SALE OF CONVERTIBLE PREFERRED STOCK On January 8, 2003, CDI completed the private placement of $25 million of a newly designated class of cumulative convertible preferred stock (Series A-1 Cumulative Convertible Preferred Stock, par value $0.01 per share) that is convertible into 833,334 shares of Cal Dive common stock at $30 per share. The preferred stock was issued to a private investment firm. The preferred stock holder has the right to purchase as much as $30 million in additional preferred stock for a period of two years beginning in July, 2003. The conversion price of the additional preferred stock will equal 125% of the then prevailing price of Cal Dive common stock, subject to a minimum conversion price of $30 per common share. 65 CAL DIVE INTERNATIONAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) The preferred stock will have a minimum annual dividend rate of 4%, subject to adjustment, payable in cash or common shares at Cal Dive's option. After the second anniversary, the holder may redeem the value of its original investments in the preferred shares to be settled in common stock or cash at the discretion of the Company. Under certain conditions, the holder could redeem its investment prior to the second anniversary. The proceeds received from the sale of this stock, net of transaction costs, will be classified outside of shareholders' equity on the balance sheet below total liabilities. The transaction costs will be accreted through the statement of operations over two years. Prior to the conversion, shares will be included in the Company's fully diluted earnings per share under the if converted method based on the Company's average common share price during the applicable period. Subsequent to year-end, the Company filed a registration statement registering approximately 7.5 million shares of common stock relating to this transaction, the maximum potential total number of shares of common stock redeemable under certain circumstances, subject to the Company's ability to redeem with cash, under the terms of the agreement. 66 ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE On June 13, 2002, the Company's Board of Directors, upon the recommendation of its Audit Committee, dismissed Arthur Andersen LLP and appointed Ernst & Young LLP to serve as the Company's independent auditors for fiscal year 2002. Arthur Andersen's reports on Cal Dive's consolidated financial statements for the two fiscal years ended December 31, 2000 and December 31, 2001 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. Additionally, during the two fiscal years ended December 31, 2000 and December 31, 2001 through the date of Arthur Andersen's dismissal, there were no disagreements with Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction, would have caused Arthur Andersen to make reference to the subject matter in connection with its reports on the Company's consolidated financial statements for such years; and there were no reportable events, as listed in Item 304(a)(1)(v) of Regulation S-K. The Company provided Arthur Andersen a copy of the foregoing disclosures and Arthur Andersen advised the Company by letter dated June 18, 2002, that it has found no basis for disagreement with such statements. During the fiscal years ended December 31, 2000 and December 31, 2001 through the date of engagement of Ernst & Young, the Company did not consult with Ernst & Young with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K. PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Act of 1934 in connection with the Company's 2003 Annual Meeting of Shareholders. See also "Executive Officers of the Registrant" appearing in Part I of this Report. ITEM 11. EXECUTIVE COMPENSATION The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Act of 1934 in connection with the Company's 2003 Annual Meeting of Shareholders. ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Act of 1934 in connection with the Company's 2003 Annual Meeting of Shareholders. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A under the Securities Act of 1934 in connection with the Company's 2003 Annual Meeting of Shareholders. ITEM 14. CONTROLS AND PROCEDURES As of December 31, 2002, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation 67 of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2002. PART IV ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (1) Financial Statements The following financial statements included on pages 34 through 55 in this Annual Report are for the fiscal year ended December 31, 2002. Report of Independent Auditors Report of Independent Public Accountants Consolidated Balance Sheets as of December 31, 2002 and 2001. Consolidated Statements of Operations for the Years Ended December 31, 2002, 2001 and 2000. Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2002, 2001 and 2000. Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000. Notes to Consolidated Financial Statements. Financial Statement Schedules All financial statement schedules are omitted because the information is not required or because the information required is in the financial statements or notes thereto. (2) Report on Form 8-K. October 1, 2002 -- Item 5. November 1, 2002 -- Item 9. November 13, 2002 -- Form 8-K/A filed to include financial statements of business acquired and the pro forma financial information required by Item 7 for the acquisition of oil and gas properties purchased from Shell Oil Company by ERT, as previously reported on Form 8-K filed on August 30, 2002. (3) Exhibits. Pursuant to Item 601(b)(4)(iii), the Registrant agrees to forward to the commission, upon request, a copy of any instrument with respect to long-term debt not exceeding 10% of the total assets of the Registrant and its consolidated subsidiaries. The following exhibits are filed as part of this Annual Report: EXHIBITS NUMBER DESCRIPTION -------- ----------- 3.1 -- Amended and Restated Articles of Incorporation of registrant, incorporated by reference to Exhibit 3.1 to the Form S-1 Registration Statement filed by registrant with the Securities and Exchange Commission on May 1, 1997 (Reg. No. 333-26357) (the "Form S-1"). 3.2 -- By-Laws of registrant, incorporated by reference to Exhibit 3.2 to the Form S-1. 68 EXHIBITS NUMBER DESCRIPTION -------- ----------- 3.3 -- Articles of Correction, incorporated by reference to Exhibit 3.3 to the Form S-3 Registration Statement filed by registrant with the Securities and Exchange Commission on May 22, 2002 (Reg. 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Wade Pursell and Company dated January 1, 2002, incorporated by reference to Exhibit 10.7 of the 2001 Form 10-K. 10.6* -- Employment Agreement between Johnny Edwards and Company dated October 2, 1995. 21.1 -- Subsidiaries of registrant -- The registrant has seven subsidiaries: Energy Resource Technology, Inc.; Canyon Offshore, Inc.; Cal Dive ROV, Inc.; Cal Dive I-Title XI, Inc.; Cal Dive Offshore, Ltd.; Well Ops (U.K.) Limited; and Well Ops Inc. 23.1* -- Consent of Ernst & Young LLP. 23.2* -- Consent of Miller & Lents, Ltd. 23.3* -- Consent of Ernst & Young LLP. 99.1* -- Certification of Periodic Report by Chief Executive Officer 99.2* -- Certification of Periodic Report by Chief Financial Officer --------------- * Filed herewith. 70 SIGNATURES Pursuant to the requirements of section 13 or 15(d) 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. CAL DIVE INTERNATIONAL, INC. By: /s/ A. WADE PURSELL ------------------------------------ A. Wade Pursell Senior Vice President, Chief Financial Officer April 8, 2003 Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. SIGNATURE TITLE DATE --------- ----- ---- /s/ OWEN KRATZ Chairman, Chief Executive Officer April 8, 2003 -- and Director Owen Kratz (principal executive officer) /s/ MARTIN R. FERRON President, Chief Operating Officer April 8, 2003 -- and Director Martin R. Ferron /s/ S. JAMES NELSON Vice Chairman and Director April 8, 2003 -- S. James Nelson /s/ A. WADE PURSELL Senior Vice President April 8, 2003 -- and Chief Financial Officer A. Wade Pursell (principal financial and accounting officer) /s/ GORDON F. AHALT Director April 8, 2003 -- Gordon F. Ahalt /s/ BERNARD J. DUROC-DANNER Director April 8, 2003 -- Bernard

J. Duroc-Danner /s/ WILLIAM L. TRANSIER Director April 8, 2003 -- William L. Transier /s/ JOHN V. LOVOI Director April 8, 2003 -- John V. Lovoi /s/ ANTHONY TRIPODO Director April 8, 2003 -- Anthony Tripodo 71 CERTIFICATIONS I, Owen Kratz, the Principal Executive Officer of Cal Dive International, Inc., certify that: 1. I have reviewed this annual report on Form 10-K/A of Cal Dive International, Inc.; 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: April 8, 2003 /s/ OWEN KRATZ ------------------------------------- Owen Kratz Chairman and Chief Executive Officer 72 I, A. Wade Pursell, the Principal Financial Officer of Cal Dive International, Inc., certify that: 1. I have reviewed this annual report on Form 10-K/A of Cal Dive International, Inc.; 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; 3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report; 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date; 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and 6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. Date: April 8, 2003

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