

OCEANEERING INTERNATIONAL INC  
Form 10-Q  
November 02, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-10945

**OCEANEERING INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**11911 FM 529**  
**Houston, Texas**  
(Address of principal executive offices)

**95-2628227**  
(I.R.S. Employer  
Identification No.)

**77041**  
(Zip Code)

**(713) 329-4500**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of October 28, 2011 was 108,034,970.

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**Oceaneering International, Inc.**

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|   | Sept. 30,<br>2011<br><b>(unaudited)</b> | Dec. 31,<br>2010    |
|---|---|---------------------|
| <b>ASSETS</b>   |   |                     |
| Current Assets:   |   |                     |
| Cash and cash equivalents   | \$ 166,108                              | \$ 245,219          |
| Accounts receivable, net of allowances for doubtful accounts of \$511 and \$5,655 | 508,287                                 | 424,014             |
| Inventory   | 259,324                                 | 236,517             |
| Other current assets  | 66,052                                  | 77,752              |
| <b>Total Current Assets</b>   | <b>999,771</b>                          | <b>983,502</b>      |
| Property and equipment, at cost   | 1,695,048                               | 1,631,109           |
| Less accumulated depreciation   | 853,948                                 | 844,736             |
| <b>Net Property and Equipment</b>   | <b>841,100</b>                          | <b>786,373</b>      |
| Other Assets:   |   |                     |
| Goodwill  | 157,239                                 | 143,234             |
| Investment in Medusa Spar LLC   | 49,313                                  | 51,820              |
| Other   | 95,539                                  | 65,577              |
| <b>Total Other Assets</b>   | <b>302,091</b>                          | <b>260,631</b>      |
| <b>TOTAL ASSETS</b>   | <b>\$ 2,142,962</b>                     | <b>\$ 2,030,506</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |   |                     |
| Current Liabilities:  |   |                     |
| Accounts payable  | \$ 106,569                              | \$ 85,572           |
| Accrued liabilities   | 265,333                                 | 314,410             |
| Income taxes payable  | 49,659                                  | 39,874              |
| <b>Total Current Liabilities</b>  | <b>421,561</b>                          | <b>439,856</b>      |
| Long-term Debt  |   |                     |
| Other Long-term Liabilities   | 204,719                                 | 200,435             |
| Commitments and Contingencies   |   |                     |
| Shareholders' Equity  | 1,516,682                               | 1,390,215           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                 | <b>\$ 2,142,962</b>                     | <b>\$ 2,030,506</b> |

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



**Table of Contents****OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(unaudited)***(in thousands, except per share amounts)*

|  | For the Three Months Ended<br>September 30, |            | For the Nine Months Ended<br>September 30, |              |
|--|---|------------|--|--------------|
|  | 2011  | 2010       | 2011                                       | 2010         |
| Revenue                                      | \$ 602,208                                  | \$ 516,274 | \$ 1,618,466                               | \$ 1,415,747 |
| Cost of services and products                | 449,112                                     | 390,655    | 1,240,453                                  | 1,066,920    |
| Gross Profit                                 | 153,096                                     | 125,619    | 378,013                                    | 348,827      |
| Selling, general and administrative expense  | 43,474                                      | 37,564     | 125,650                                    | 113,069      |
| Income from Operations                       | 109,622                                     | 88,055     | 252,363                                    | 235,758      |
| Interest income                              | 204   | 123        | 460  | 337          |
| Interest expense                             | (387)                                       | (117)      | (746)                                      | (5,636)      |
| Equity earnings of unconsolidated affiliates | 1,042                                       | 702        | 2,942                                      | 1,717        |
| Other income (expense), net                  | (1,973)                                     | (280)      | (2,331)                                    | 245          |
| Income before Income Taxes                   | 108,508                                     | 88,483     | 252,688                                    | 232,421      |
| Provision for income taxes                   | 29,930                                      | 29,306     | 75,347                                     | 79,684       |
| Net Income                                   | \$ 78,578                                   | \$ 59,177  | \$ 177,341                                 | \$ 152,737   |
| Basic Earnings per Share                     | \$ 0.73                                     | \$ 0.54    | \$ 1.64                                    | \$ 1.39      |
| Diluted Earnings per Share                   | \$ 0.72                                     | \$ 0.54    | \$ 1.63                                    | \$ 1.39      |
| Cash Dividends declared per Share            | \$ 0.15                                     | \$         | \$ 0.30                                    | \$           |

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

**Table of Contents****OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)***(in thousands)*

|   | For the Nine Months Ended<br>September 30, |                   |
|---|--|-------------------|
|   | 2011                                       | 2010              |
| <b>Cash Flows from Operating Activities:</b>                                      |  |                   |
| Net income  | \$ 177,341                                 | \$ 152,737        |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                   |
| Depreciation and amortization   | 112,748                                    | 114,183           |
| Deferred income tax provision   | 283  | 5,458             |
| Gain on dispositions of property and equipment                                    | (18,723)                                   | (2,470)           |
| Noncash compensation  | 9,092                                      | 6,357             |
| Distributions from Medusa Spar LLC greater than earnings                          | 2,507                                      | 4,363             |
| Excluding the effects of acquisitions, increase (decrease) in cash from:          |  |                   |
| Accounts receivable   | (101,661)                                  | (22,140)          |
| Inventory   | (17,986)                                   | (6,805)           |
| Other operating assets  | 19,638                                     | (6,966)           |
| Currency translation effect on working capital                                    | (7,385)                                    | 4,806             |
| Operating liabilities   | (29,662)                                   | 52,472            |
| Total adjustments to net income   | (31,149)                                   | 149,258           |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>146,192</b>                             | <b>301,995</b>    |
| <b>Cash Flows from Investing Activities:</b>                                      |  |                   |
| Purchases of property and equipment   | (163,426)                                  | (164,251)         |
| Business acquisitions, net of cash acquired                                       | (54,221)                                   |                   |
| Dispositions of property and equipment  | 42,082                                     | 13,893            |
| Disposition of equity method investment   |  | 1,348             |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(175,565)</b>                           | <b>(149,010)</b>  |
| <b>Cash Flows from Financing Activities:</b>                                      |  |                   |
| Net payments of revolving credit  |  | (100,000)         |
| Payments of 6.72% Senior Notes  |  | (20,000)          |
| Proceeds from issuance of common stock  |  | 693               |
| Cash dividends paid   | (32,502)                                   |                   |
| Purchases of treasury stock   | (17,491)                                   | (49,520)          |
| Excess tax benefits from stock-based compensation                                 | 255  | 1,741             |
| <b>Net Cash Used in Financing Activities</b>                                      | <b>(49,738)</b>                            | <b>(167,086)</b>  |
| <b>Net Decrease in Cash and Cash Equivalents</b>                                  | <b>(79,111)</b>                            | <b>(14,101)</b>   |
| <b>Cash and Cash Equivalents Beginning of Period</b>                              | <b>245,219</b>                             | <b>162,351</b>    |
| <b>Cash and Cash Equivalents End of Period</b>                                    | <b>\$ 166,108</b>                          | <b>\$ 148,250</b> |

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



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**OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1. Summary of Major Accounting Policies**

*Basis of Presentation.* We have prepared these unaudited consolidated financial statements pursuant to instructions for quarterly reports on Form 10-Q, which we are required to file with the Securities and Exchange Commission. These financial statements do not include all information and footnotes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. These financial statements reflect all adjustments that we believe are necessary to present fairly our financial position at September 30, 2011 and our results of operations and cash flows for the periods presented. Except as otherwise disclosed herein, all such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2010. The results for interim periods are not necessarily indicative of annual results.

Based on changes in the economic facts and circumstances of our operations in Brazil, we have changed the functional currency of our Brazilian subsidiary from the U.S. dollar to the Brazilian real effective January 1, 2011. This change had no material effect on our financial statements.

*Stock Split.* On May 6, 2011, our Board of Directors declared a two-for-one stock split to be effected in the form of a stock dividend of our common stock to our shareholders of record at the close of business on May 19, 2011. The stock dividend was distributed on June 10, 2011. All historical share and per share data in this Form 10-Q reflect this stock split. The total number of authorized shares of our common stock and its par value per share were unchanged by this stock split. We have restated shareholders' equity to give retroactive recognition of the stock split for all periods presented by reclassifying an amount equal to the par value of the additional shares issued through the stock dividend from additional paid-in capital to common stock.

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

During the nine-month period ended September 30, 2010, we recorded an impairment charge of \$5.2 million to reduce the carrying value of our vessel held for sale, *The Performer*, to its fair value, less estimated costs to sell. This charge is reflected within the cost of services and products of our Subsea Projects segment. *The Performer* completed its contract in Angola during the first quarter of 2010. We estimated the fair value based on preliminary offers presented to us to purchase the vessel by market participants, which we believed were Level 3 inputs. In July 2010, we sold the vessel for approximately its reduced carrying value.

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

*Business Acquisitions.* On March 31, 2011, we purchased, for \$56 million net of cash acquired, Norse Cutting & Abandonment AS (NCA), a Norwegian oilfield technology company that specializes in providing subsea tooling services used in the plugging, abandonment and decommissioning of offshore oil and gas production platforms and subsea wellheads. In addition, NCA performs specialized maintenance and repair services on production platforms in the North Sea. NCA's business is split approximately evenly between the North Sea and the U.S. Gulf of Mexico. The acquisition included a small, non-strategic business operation we intended to sell when we purchased NCA. During the third quarter of 2011, we sold the non-strategic operation, making the net acquisition price of the retained NCA operations \$50 million. We have accounted for this net acquisition by allocating the purchase price to the net assets acquired based on their estimated fair values at the date of acquisition. This purchase price allocation is preliminary and based on information currently available to us, and is subject to change when we obtain final asset and liability valuations. The amount in our statement of cash flows for business acquisitions, net of cash acquired, includes the net amount of the NCA acquisition plus a smaller acquisition we made in the second quarter.

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*Subsequent Events.* We evaluated events and transactions through the issuance of these financial statements for possible recognition or disclosure.

*New Accounting Standards.* In October 2009, the FASB issued an update regarding accounting for revenue involving multiple-deliverable arrangements that will, in certain circumstances, require sellers to account for more products or services ( deliverables ) separately rather than as a combined unit.

This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. The update also replaces the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant.

The update eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

The update requires that a seller determine its best estimated selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a stand-alone basis. The update does not prescribe any specific methods that sellers must use to accomplish this objective, but provides guidance.

For us, the update was effective prospectively for revenue arrangements entered into or materially modified on or after January 1, 2011. The provisions of the update have not had a material effect on our financial position or results of operations.

In June 2011, the FASB issued an update to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or two separate but consecutive statements. Under either option, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This update does not change the items that are required to be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income and is required to be applied retrospectively. This update is effective for us January 1, 2012. Early adoption is permitted. We have not elected to adopt this update early.

In September 2011, the FASB issued an update regarding goodwill impairment testing. Under the amendments in the update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test. This update is effective for us January 1, 2012, and earlier adoption is permitted. We have elected to adopt this update early. The provisions of the update have not had a material effect on our financial position or results of operations.

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In September 2011, the FASB issued an update regarding an employer's participation in a multiemployer pension plan. For employers that participate in multiemployer pension plans, the update requires an employer to provide additional quantitative and qualitative disclosures. The amended disclosures provide users with more detailed information about an employer's involvement in multiemployer pension plans, including:

the significant multiemployer plans in which an employer participates, including the plan names and identifying numbers;

the level of an employer's participation in the significant multiemployer plans, including the employer's contributions made to the plans and an indication of whether the employer's contributions represent more than 5 percent of the total contributions made to the plans by all contributing employers;

the financial health of the significant multiemployer plans, including an indication of the funded status, whether funding improvement plans are pending or implemented, and whether any plan has imposed surcharges on the contributions to the plan; and

the nature of the employer commitments to the plans, including when the collective-bargaining agreements that require contributions to the significant plans are set to expire and whether those agreements require minimum contributions be made to the plans.

This update is effective for us January 1, 2012, and earlier adoption is permitted. We have not elected to adopt this update early.

**Note 2. Investment in Medusa Spar LLC**

We own a 50% equity interest in Medusa Spar LLC. Medusa Spar LLC owns an interest in a production spar platform in the U.S. Gulf of Mexico. Medusa Spar LLC's revenue is derived from processing oil and gas production for a fee based on the volumes processed through the platform. Medusa Spar LLC has no debt. We believe our maximum exposure to loss from our investment in Medusa Spar LLC is our investment. Medusa Spar LLC is a variable interest entity. We are not the primary beneficiary of Medusa Spar LLC because we own 50% of its equity and we do not manage the operations of the asset it owns. As we are not the primary beneficiary, we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Equity earnings from Medusa Spar LLC reflected in our financial statements are after amortization of our initial acquisition costs.

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

|   | For the Three Months Ended<br>September 30, |          | For the Nine Months Ended<br>September 30, |           |
|---|---|----------|--|-----------|
|   | 2011  | 2010     | 2011                                       | 2010      |
|   | <i>(in thousands)</i>                       |          |  |           |
| <b>Medusa Spar LLC</b>                                |   |          |  |           |
| <b>Condensed Statements of Income</b>                 |   |          |  |           |
| Revenue   | \$ 4,499                                    | \$ 3,818 | \$ 13,130                                  | \$ 10,679 |
| Depreciation  | (2,369)                                     | (2,369)  | (7,108)                                    | (7,108)   |
| General and administrative                            | (18)  | (17)     | (54)                                       | (53)      |
| Net Income  | \$ 2,112                                    | \$ 1,432 | \$ 5,968                                   | \$ 3,518  |
| Equity Earnings reflected in our financial statements | \$ 1,042                                    | \$ 702   | \$ 2,942                                   | \$ 1,717  |

**Table of Contents****Note 3. Inventory**

Our inventory consisted of the following:

|  | Sept. 30,<br>2011     | Dec. 31,<br>2010  |
|--|-----------------------|-------------------|
|  | <i>(in thousands)</i> |                   |
| Inventory for remotely operated vehicles | \$ 138,533            | \$ 119,106        |
| Other inventory, primarily raw materials | 120,791               | 117,411           |
| <b>Total</b>                             | <b>\$ 259,324</b>     | <b>\$ 236,517</b> |

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

**Note 4. Debt**

We had no long-term debt at September 30, 2011 and December 31, 2010.

We capitalized \$0.2 million and \$0.3 million of interest in the three- and nine-month periods ended September 30, 2010, respectively. We have not capitalized any interest in 2011.

**Note 5. Commitments and Contingencies**

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

*Financial Instruments and Risk Concentration.* In the normal course of business, we manage risks associated with foreign exchange rates and interest rates through a variety of strategies, including the use of hedging transactions. As a matter of policy, we do not use derivative instruments unless we have an underlying exposure.

We had an interest rate hedge in place on \$100 million of floating rate debt under our revolving credit facility for the period August 2009 to August 2011, designated as a cash flow hedge. We terminated this hedge in May 2010 and charged the cost of \$2.9 million to interest expense in the nine-month period ended September 30, 2010.

Other financial instruments that potentially subject us to concentrations of credit risk are principally cash and cash equivalents and accounts receivable. The carrying values of cash and cash equivalents and bank borrowings approximate their fair values due to the short maturity of those instruments or the short-term duration of the associated interest rate periods. Accounts receivable are generated from a broad group of customers, primarily from within the energy industry, which is our major source of revenue. Due to their short-term nature, carrying values of our accounts receivable and accounts payable approximate fair market value.

One customer in Angola owed us \$42 million and \$56 million at September 30, 2011 and December 31, 2010, respectively, all of which is overdue. We collected \$14 million from this customer during the nine months ended September 30, 2011. We completed the work on the contracts related to this receivable in the first quarter of 2010. Based on our past history with this customer, we believe this receivable ultimately will be collected. During the three-month period ended September 30, 2011, based on our current estimate of when the receivable will be collected, we reduced the net carrying value of the receivable by \$3 million to reflect a present value estimate of \$39 million and reclassified \$22 million to Other Assets - Other on our balance sheet at September 30, 2011, which represents the amount we believe will be collected more than one year from the balance sheet date. The \$3 million adjustment was charged against our earnings as a reduction of revenue in our Subsea Projects segment during the third quarter of 2011.

**Table of Contents****Note 6. Shareholders Equity, Earnings per Share and Stock-Based Compensation***Shareholders Equity*

Our shareholders equity consisted of the following:

|  | Sept. 30,<br>2011     | Dec. 31,<br>2010    |
|--|-----------------------|---------------------|
|  | <i>(in thousands)</i> |                     |
| Common Stock, par value \$0.25;<br>180,000,000 shares authorized;<br>110,834,088 shares issued | \$ 27,709             | \$ 27,709           |
| Additional paid-in capital   | 198,116               | 193,277             |
| Treasury Stock, 2,799,118 and 2,603,324 shares, at cost  | (71,700)              | (61,385)            |
| Retained earnings  | 1,384,413             | 1,239,574           |
| Accumulated other comprehensive income (loss)  | (21,856)              | (8,960)             |
| <b>Total</b>   | <b>\$ 1,516,682</b>   | <b>\$ 1,390,215</b> |

During the nine-month period ended September 30, 2011, we reissued 304,206 shares of treasury stock to satisfy obligations under our stock-based compensation plans. In June 2011, we paid a cash dividend of \$0.15 per share to our shareholders of record at the close of business on June 17, 2011. This was the first dividend payment we made pursuant to the dividend program we announced in May 2011. In September 2011, we paid another quarterly dividend of \$0.15 per share to our shareholders of record at the close of business on September 1, 2011. In October 2011, we announced another quarterly dividend of \$0.15 per share, which will be paid on December 20, 2011 to our shareholders of record at the close of business on December 1, 2011.

*Comprehensive Income*

Comprehensive income is the total of net income and all nonowner changes in equity. The amounts of comprehensive income for the periods indicated are as follows:

|   | For the Three Months Ended<br>September 30, |                  | For the Nine Months Ended<br>September 30, |                   |
|---|---|------------------|--|-------------------|
|   | 2011  | 2010             | 2011                                       | 2010              |
|   | <i>(in thousands)</i>                       |                  |  |                   |
| Net income per consolidated statements of income        | \$ 78,578                                   | \$ 59,177        | \$ 177,341                                 | \$ 152,737        |
| Foreign currency translation gains (losses), net of tax | (41,543)                                    | 27,196           | (12,896)                                   | (575)             |
| Change in fair value of hedges, net of tax              |   |                  |  | 2,428             |
| <b>Total</b>  | <b>\$ 37,035</b>                            | <b>\$ 86,373</b> | <b>\$ 164,445</b>                          | <b>\$ 154,590</b> |

**Table of Contents***Accumulated other comprehensive income*

Amounts comprising the elements of other comprehensive income in Shareholders' Equity are as follows:

|  | Sept. 30,<br>2011     | Dec. 31,<br>2010  |
|--|-----------------------|-------------------|
|  | <i>(in thousands)</i> |                   |
| Accumulated net foreign currency translation adjustments, net of tax | \$ (18,159)           | \$ (5,263)        |
| Pension liability adjustment, net of tax                             | (3,697)               | (3,697)           |
| <b>Total</b>   | <b>\$ (21,856)</b>    | <b>\$ (8,960)</b> |

*Earnings per Share*

The following table presents our earnings per share calculations:

|   | For the Three Months Ended<br>September 30,  |           | For the Nine Months Ended<br>September 30, |            |
|---|--|-----------|--|------------|
|   | 2011   | 2010      | 2011                                       | 2010       |
|   | <i>(in thousands, except per share data)</i> |           |  |            |
| <b>Basic earnings per share:</b>                  |  |           |  |            |
| Net income per consolidated statements of income  | \$ 78,578                                    | \$ 59,177 | \$ 177,341                                 | \$ 152,737 |
| Income allocable to participating securities      |  | (189)     |  | (558)      |
| Earnings allocable to common shareholders         | \$ 78,578                                    | \$ 58,988 | \$ 177,341                                 | \$ 152,179 |
| Basic shares outstanding                          | 108,310                                      | 108,339   | 108,400                                    | 109,419    |
| Basic earnings per share                          | \$ 0.73                                      | \$ 0.54   | \$ 1.64                                    | \$ 1.39    |
| <b>Diluted earnings per share:</b>                |  |           |  |            |
| Net income per consolidated statements of income  | \$ 78,578                                    | \$ 59,177 | \$ 177,341                                 | \$ 152,737 |
| Income allocable to participating securities      |  | (189)     |  | (556)      |
| Earnings allocable to diluted common shareholders | \$ 78,578                                    | \$ 58,988 | \$ 177,341                                 | \$ 152,181 |
| Diluted shares outstanding                        | 108,928                                      | 108,665   | 109,114                                    | 109,819    |
| Diluted earnings per share                        | \$ 0.72                                      | \$ 0.54   | \$ 1.63                                    | \$ 1.39    |

*Stock-Based Compensation*

*Stock Options.* At September 30, 2011, we had no outstanding stock options, and we had no future stock-based compensation expense to be recognized pursuant to stock option grants.

*Restricted Stock Plan Information.* We grant restricted units of our common stock to certain of our key executives, key employees and Chairman of the Board. We also grant shares of restricted stock to our other non-employee directors. The restricted units granted to our key executives and key employees generally vest in full on the third anniversary of the award date, conditional on continued employment. The restricted unit grants, including those granted to our Chairman, can vest pro rata over three years, provided the individual meets certain age and years-of-service requirements. The grants to our other non-employee directors vest in full on the first anniversary of the award date, conditional upon continued service as a director.



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For each of the restricted stock units granted in 2009 through 2011, at the earlier of three years after grant or at termination of employment or service, the grantee will be issued a share of our common stock for each common stock unit vested. As of September 30, 2011 and December 31, 2010, totals of 1,094,650 and 1,044,150 shares of restricted stock or restricted stock units were outstanding. Each grantee of shares of restricted stock is deemed to be the record owner of those shares during the restriction period, with the right to vote and receive any dividends on those shares. The restricted stock units outstanding have no voting or dividend rights.

We estimate that stock-based compensation cost not yet recognized related to shares of restricted stock or restricted stock units, based on their grant-date fair values, was \$14.9 million at September 30, 2011. This expense is being recognized on a staged-vesting basis over three years for awards attributable to individuals meeting certain age and years-of-service requirements, and on a straight-line basis over the applicable vesting period of one or three years for the other awards.

**Note 7. Income Taxes***General*

During interim periods, we provide for income taxes based on our current estimated annual effective tax rate using assumptions as to (1) earnings and other factors that would affect the tax provision for the remainder of the year and (2) the operations of foreign branches and subsidiaries that are subject to local income and withholding taxes. The primary difference between our current 2011 estimated effective tax rate of 31.5% and the federal statutory tax rate of 35% reflects our intent to indefinitely reinvest in certain of our international operations; therefore, we are no longer providing for U.S. taxes on a portion of our foreign earnings. The effective tax rate of 29.8% in our financial statements for the nine months ended September 30, 2011 is a result of the 31.5% estimated annual effective tax rate adjusted by \$4.9 million of discrete tax benefits, primarily attributable to amending prior years' U.S. federal income tax returns to reflect a broader interpretation of our revenue eligible for certain deductions allowable for oil and gas construction activities, and tax effecting the \$18.3 million gain on the sale of the *Ocean Legend* at the U.S. federal statutory tax rate of 35%.

We conduct our operations in a number of locations that have varying laws and regulations with regard to income and other taxes, some of which are subject to interpretation. Our tax returns are subject to audit by taxing authorities in multiple jurisdictions. These audits often take years to complete and settle. The following lists the earliest tax years open to examination by tax authorities where we have significant operations:

| Jurisdiction   | Periods |
|----------------|---------|
| United States  | 2007    |
| United Kingdom | 2009    |
| Norway         | 2001    |
| Angola         | 2006    |
| Nigeria        | 2005    |
| Brazil         | 2006    |
| Australia      | 2008    |
| Canada         | 2008    |

Our management believes that adequate provisions have been made for all taxes that ultimately will be payable, although final determinations of tax liabilities may differ from our estimates.

*Income Tax Positions*

The financial statement recognition of the benefit for a tax position depends on the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is more likely than not of being realized upon ultimate settlement. We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes in our financial statements. There were no significant changes in the nine-month periods ended September 30, 2011 and 2010 for penalties and interest taken in our financial statements relating to uncertain tax positions. Our total liabilities for penalties and interest on uncertain tax positions were \$4.3 million and \$4.0 million on our balance sheets at September 30, 2011 and December 31, 2010, respectively. Including penalties and interest, we have accrued a net total of \$5.7 million and \$5.6 million in the caption other long-term





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liabilities on our balance sheets at September 30, 2011 and December 31, 2010, respectively, for uncertain tax positions. All additions or reductions to those liabilities would affect our effective income tax rate in the periods of change.

We do not believe that the total of our unrecognized tax benefits will significantly increase or decrease in the next 12 months.

**Note 8. Business Segment Information**

We are a global oilfield provider of engineered services and products primarily to the offshore oil and gas industry, with a focus on deepwater applications. Through the use of our applied technology expertise, we also serve the defense and aerospace industries. Our Oil and Gas business consists of four business segments: Remotely Operated Vehicles ( ROVs ); Subsea Products; Subsea Projects; and Inspection. Our Advanced Technologies business is a separate segment that provides project management, engineering services, products and equipment for applications outside the oil and gas industry. Unallocated Expenses are those not associated with a specific business segment. These consist of expenses related to our incentive and deferred compensation plans, including restricted stock units, performance units and bonuses, as well as other general expenses.

There are no differences in the basis of segmentation or in the basis of measurement of segment profit or loss from those used in our consolidated financial statements for the year ended December 31, 2010.

The following summarizes certain financial data by business segment:

|                               | For the Three Months Ended |                   |                   | For the Nine Months Ended |                     |
|-------------------------------|----------------------------|-------------------|-------------------|---------------------------|---------------------|
|                               | Sept. 30,<br>2011          | Sept. 30,<br>2010 | June 30,<br>2011  | Sept. 30,<br>2011         | Sept. 30,<br>2010   |
|                               | <i>(in thousands)</i>      |                   |                   |                           |                     |
| <b>Revenue</b>                |                            |                   |                   |                           |                     |
| ROVs                          | \$ 200,927                 | \$ 164,727        | \$ 189,097        | \$ 554,352                | \$ 490,351          |
| Subsea Products               | 220,107                    | 160,194           | 195,800           | 573,225                   | 396,486             |
| Subsea Projects               | 49,912                     | 75,002            | 34,733            | 122,214                   | 184,589             |
| Inspection                    | 71,633                     | 57,330            | 69,768            | 199,751                   | 166,049             |
| Advanced Technologies         | 59,629                     | 59,021            | 56,440            | 168,924                   | 178,272             |
| <b>Total</b>                  | <b>\$ 602,208</b>          | <b>\$ 516,274</b> | <b>\$ 545,838</b> | <b>\$ 1,618,466</b>       | <b>\$ 1,415,747</b> |
| <b>Gross Profit</b>           |                            |                   |                   |                           |                     |
| ROVs                          | \$ 69,052                  | \$ 59,807         | \$ 66,529         | \$ 190,989                | \$ 187,153          |
| Subsea Products               | 57,798                     | 48,176            | 54,934            | 154,519                   | 115,269             |
| Subsea Projects               | 23,326                     | 19,367            | 4,239             | 32,896                    | 41,283              |
| Inspection                    | 12,879                     | 11,146            | 12,945            | 35,221                    | 31,612              |
| Advanced Technologies         | 10,517                     | 6,837             | 7,256             | 24,086                    | 26,072              |
| Unallocated Expenses          | (20,476)                   | (19,714)          | (19,787)          | (59,698)                  | (52,562)            |
| <b>Total</b>                  | <b>\$ 153,096</b>          | <b>\$ 125,619</b> | <b>\$ 126,116</b> | <b>\$ 378,013</b>         | <b>\$ 348,827</b>   |
| <b>Income from Operations</b> |                            |                   |                   |                           |                     |
| ROVs                          | \$ 60,054                  | \$ 51,514         | \$ 58,145         | \$ 165,605                | \$ 162,787          |
| Subsea Products               | 41,489                     | 35,247            | 36,269            | 105,441                   | 76,735              |
| Subsea Projects               | 20,983                     | 17,101            | 1,874             | 25,893                    | 34,472              |
| Inspection                    | 8,858                      | 7,504             | 9,349             | 24,087                    | 20,097              |
| Advanced Technologies         | 5,769                      | 2,858             | 3,160             | 11,446                    | 14,464              |
| Unallocated Expenses          | (27,531)                   | (26,169)          | (27,123)          | (80,109)                  | (72,797)            |
| <b>Total</b>                  | <b>\$ 109,622</b>          | <b>\$ 88,055</b>  | <b>\$ 81,674</b>  | <b>\$ 252,363</b>         | <b>\$ 235,758</b>   |



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We generate revenue from contracts for services in the U.S. Gulf of Mexico in our Subsea Projects segment, which is usually more active from April through October, as compared to the rest of the year. The European operations of our Inspection segment are also seasonally more active in the second and third quarters. Revenue in our ROV segment is subject to seasonal variations in demand, with our first quarter generally being the low quarter of the year. The level of our ROV seasonality depends on the number of ROVs we have engaged in vessel-based activities, which are more seasonal than drilling support. Revenue in each of our Subsea Products and Advanced Technologies segments has generally not been seasonal.

During the quarter ended September 30, 2011, we sold the *Ocean Legend*, a mobile offshore production system, for total proceeds of \$38 million. The sale resulted in a gain of \$18.3 million, which we recognized as a reduction of the costs of services and products in our Subsea Projects segment. During the nine months ended September 30, 2010, we recognized a \$5.2 million impairment charge on *The Performer*, a vessel held for sale, as an increase in the costs of services and products in our Subsea Projects segment.

During the nine months ended September 30, 2011, we made \$218 million of capital expenditures, of which \$77 million was invested in our Subsea Products segment and \$84 million was invested in our ROV segment. The amount in our Subsea Products segment included a net \$54 million for business acquisitions.

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

Certain forward-looking statements we make in this quarterly report on Form 10-Q, including, without limitation, statements regarding our expectations about:

fourth quarter of 2011 and full year of 2011 operating results and earnings per share, and the contributions from our segments to those results;

segment operating results in 2012;

the level of services and products we anticipate;

the adverse impact on our earnings for the remainder of 2011 as a result of regulatory developments subsequent to the U.S. Department of the Interior Drilling Moratorium and delay in issuing the required permits to undertake oil and gas activities in the U.S. Gulf of Mexico;

cash flows and segment results;

our plans for future operations (including planned additions to our remotely operated vehicle ( ROV ) fleet and other capital expenditures);

the adequacy of our liquidity and capital resources;

our plans to renew or replace our revolving credit facility in 2011;

our anticipated tax rates;

seasonality; and

industry conditions

are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks, uncertainties and assumptions, including those we have referred to under the heading "Risk Factors" in this report and under the headings "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements" in Part I of our annual report on Form 10-K for the year ended December 31, 2010. Although we believe that the expectations reflected in such forward-looking statements are reasonable, because of the inherent limitations in the forecasting process, as well as the relatively volatile nature of the industries in which we operate, we can give no assurance that those expectations will prove to be correct. Accordingly, evaluation of our future prospects must be made with caution when relying on forward-looking information.

The following discussion should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our annual report on Form 10-K for the year ended December 31, 2010.

*Executive Overview*

We are raising our 2011 diluted earnings per share estimate to the range of \$2.11 to \$2.15 from the range of \$1.90 to \$1.98. This compares to our 2010 diluted earnings per share of \$1.82. We have lowered our estimated effective tax rate from 34.3% in 2010 to 31.5%, before specific adjustments, in 2011. We believe our ROV and Subsea Products operating income will be higher in 2011 than in 2010. We believe Subsea Projects revenue and operating income for 2011 will be less than in 2010. We forecast fourth quarter 2011 diluted earnings per share of \$0.48 to \$0.52 with decreases in operating income from the third quarter of 2011 in all our operating segments except ROVs, where we expect increased days on hire for ROVs on international drill support work. We estimate our 2012 diluted earnings per share will be in the range of \$2.35 to \$2.55, with international demand growth and a moderate increase in overall oilfield activity in the U.S. Gulf of Mexico. For Subsea Projects in 2012, we expect a gradual recovery in the U.S. Gulf of Mexico and a substantial increase in revenue and operating income over 2011 as a result of an anticipated international expansion of our deepwater vessel project capabilities.

We generate approximately 90% of our revenue and substantially all of our operating income before Unallocated Expenses from our services and products provided to the oil and gas industry, particularly in the deepwater sector of the offshore market. Consequently, the level of our customers' capital spending on deepwater exploration and development has a significant impact on the demand for many of our services and products. The usual uncertainties we face associated with our customers' spending and the timing of projects have been exacerbated by the *Deepwater Horizon* drilling rig tragedy at the Macondo well in the U.S. Gulf of Mexico in April 2010, the resulting environmental impacts, and the effects of new environmental and safety regulations established by the U.S. Department of the Interior in response to the incident. The moratorium, which was lifted in October 2010, and the subsequent regulatory developments and delay in issuing drilling permits began to have an unfavorable effect on our U.S. Gulf of Mexico ROV operations in June 2010. We are encouraged by the recent pace of new deepwater well permitting in the U.S. Gulf of Mexico and anticipate this trend will continue into 2012.

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### ***Critical Accounting Policies and Estimates***

For information about our Critical Accounting Policies and Estimates, please refer to the discussion in our annual report on Form 10-K for the year ended December 31, 2010 under the heading "Critical Accounting Policies and Estimates" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### ***New Accounting Standards***

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

### ***Liquidity and Capital Resources***

We consider our liquidity and capital resources adequate to support our existing operations and capital commitments. At September 30, 2011, we had working capital of \$578 million, including \$166 million of cash and cash equivalents. Additionally, we had \$300 million of borrowing capacity available under our revolving credit facility.

Our capital expenditures, including business acquisitions, were \$218 million during the first nine months of 2011, as compared to \$164 million during the corresponding period of last year. We added 16 new ROVs to our fleet during the nine months ended September 30, 2011, retired 13, and transferred one to our Advanced Technologies segment, resulting in a total of 262 ROVs available for oilfield use. We plan to add four to six more new ROVs during the rest of 2011, and most of these are in the process of being built or installed. Our capital expenditures in the nine months ended September 30, 2011 included \$50 million, net, for the acquisition of Norse Cutting & Abandonment AS (NCA), a Norwegian oilfield technology company, and \$84 million in our ROV segment. NCA specializes in providing subsea tooling services used in the plugging, abandonment and decommissioning of offshore production platforms and subsea wellheads in the North Sea and the U.S. Gulf of Mexico. In addition, NCA performs specialized maintenance and repair services on production platforms in the North Sea. NCA is part of our Subsea Products segment. We estimate our capital expenditures for 2011, including business acquisitions, will be approximately \$280 million. In the fourth quarter of 2011, we anticipated our capital expenditures will principally be in ROVs and Subsea Products.

We have chartered two deepwater vessels, the *Ocean Intervention III* and the *Olympic Intervention IV*. The term on the *Ocean Intervention III* now extends to May 2012, with annual extension options for up to four additional years. The charter on the *Olympic Intervention IV* is for an initial five-year term ending in July 2013, with one two-year and three one-year extension options. We have outfitted each of these deepwater vessels with two of our high specification work-class ROVs, and we use these vessels to perform subsea hardware installation and inspection, maintenance and repair projects in the ultra-deep waters of the U.S. Gulf of Mexico.

We had no material contractual commitments for capital expenditures at September 30, 2011.

At September 30, 2011, we had no long-term debt outstanding and an available \$300 million revolving credit facility, which is scheduled to expire in January 2012. The revolving credit facility has short-term interest rates that float with market rates, plus applicable spreads. We plan to renew or replace our revolving credit agreement in the fourth quarter of 2011.

Our principal source of cash from operating activities is our net income, adjusted for the non-cash expenses of depreciation and amortization, deferred income taxes and noncash compensation under our stock-based compensation plans. Our \$146 million and \$302 million of cash provided from operating activities in the nine-month periods ended September 30, 2011 and 2010, respectively, were affected by cash increases/(decreases) of: (\$102 million) and (\$22 million), respectively, from changes in accounts receivable; (\$18 million) and (\$7 million), respectively, from changes in inventory; and (\$30 million) and \$52 million, respectively, from changes in operating liabilities.

In the nine-month period ended September 30, 2011, we used \$176 million of cash, net of the cash proceeds received from dispositions of property and equipment, including the *Ocean Legend*, in investing activities. The cash used in investing activities was used for the capital expenditures, including the business acquisition, described above.

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

In February 2010, our Board of Directors approved a plan to repurchase up to 12 million shares of our common stock. The timing and amount of repurchases will be determined by our management. We expect that any shares repurchased under the plan will be held as treasury stock for future use. The plan does not obligate us to repurchase any particular number of shares. As of September 30, 2011 we have repurchased a total of 2.7 million shares for \$67.0 million under this plan, including the 500,000 shares we repurchased for \$17.5 million during the nine months ended September 30, 2011.

In June 2011, we paid a cash dividend of \$0.15 per share to our shareholders of record at the close of business on June 17, 2011. This was the first dividend payment we made pursuant to the dividend program we announced in May 2011. In September 2011, we paid another quarterly dividend of \$0.15 per share to our shareholders of record at the close of business on September 1, 2011. In October 2011, we announced another quarterly dividend of \$0.15 per share, which will be paid on December 20, 2011 to our shareholders of record at the close of business on December 1, 2011.

**Results of Operations**

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

Consolidated revenue and margin information is as follows:

|                  | For the Three Months Ended    |                   |                  | For the Nine Months Ended |                   |
|------------------|-------------------------------|-------------------|------------------|---------------------------|-------------------|
|                  | Sept. 30,<br>2011             | Sept. 30,<br>2010 | June 30,<br>2011 | Sept. 30,<br>2011         | Sept. 30,<br>2010 |
|                  | <i>(dollars in thousands)</i> |                   |                  |                           |                   |
| Revenue          | \$ 602,208                    | \$ 516,274        | \$ 545,838       | \$ 1,618,466              | \$ 1,415,747      |
| Gross profit     | 153,096                       | 125,619           | 126,116          | 378,013                   | 348,827           |
| Gross margin     | 25%                           | 24%               | 23%              | 23%                       | 25%               |
| Operating income | 109,622                       | 88,055            | 81,674           | 252,363                   | 235,758           |
| Operating margin | 18%                           | 17%               | 15%              | 16%                       | 17%               |

We generate revenue from contracts for services in the U.S. Gulf of Mexico in our Subsea Projects segment, which is usually more active from April through October, as compared to the rest of the year. The European operations of our Inspection segment are also seasonally more active in the second and third quarters. Revenue in our ROV segment is subject to seasonal variations in demand, with our first quarter generally being the low quarter of the year. The level of our ROV seasonality depends on the number of ROVs we have engaged in vessel-based activities, which are more seasonal than drilling support. Revenue in each of our Subsea Products and Advanced Technologies segments has generally not been seasonal.



**Table of Contents****Oil and Gas**

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

|                                   | For the Three Months Ended    |                   |                  | For the Nine Months Ended |                   |
|-----------------------------------|-------------------------------|-------------------|------------------|---------------------------|-------------------|
|                                   | Sept. 30,<br>2011             | Sept. 30,<br>2010 | June 30,<br>2011 | Sept. 30,<br>2011         | Sept. 30,<br>2010 |
|                                   | <i>(dollars in thousands)</i> |                   |                  |                           |                   |
| <b>Remotely Operated Vehicles</b> |                               |                   |                  |                           |                   |
| Revenue                           | \$ 200,927                    | \$ 164,727        | \$ 189,097       | \$ 554,352                | \$ 490,351        |
| Gross profit                      | 69,052                        | 59,807            | 66,529           | 190,989                   | 187,153           |
| Gross margin                      | 34%                           | 36%               | 35%              | 34%                       | 38%               |
| Operating income                  | 60,054                        | 51,514            | 58,145           | 165,605                   | 162,787           |
| Operating margin                  | 30%                           | 31%               | 31%              | 30%                       | 33%               |
| Days available                    | 23,719                        | 23,084            | 23,729           | 70,722                    | 68,150            |
| Utilization %                     | 80%                           | 73%               | 76%              | 76%                       | 75%               |
| <b>Subsea Products</b>            |                               |                   |                  |                           |                   |
| Revenue                           | 220,107                       | 160,194           | 195,800          | 573,225                   | 396,486           |
| Gross profit                      | 57,798                        | 48,176            | 54,934           | 154,519                   | 115,269           |
| Gross margin                      | 26%                           | 30%               | 28%              | 27%                       | 29%               |
| Operating income                  | 41,489                        | 35,247            | 36,269           | 105,441                   | 76,735            |
| Operating margin                  | 19%                           | 22%               | 19%              | 18%                       | 19%               |
| Backlog at the end of the period  | 403,000                       | 308,000           | 405,000          | 403,000                   | 308,000           |
| <b>Subsea Projects</b>            |                               |                   |                  |                           |                   |
| Revenue                           | 49,912                        | 75,002            | 34,733           | 122,214                   | 184,589           |
| Gross profit                      | 23,326                        | 19,367            | 4,239            | 32,896                    | 41,283            |
| Gross margin                      | 47%                           | 26%               | 12%              | 27%                       | 22%               |
| Operating income                  | 20,983                        | 17,101            | 1,874            | 25,893                    | 34,472            |
| Operating margin                  | 42%                           | 23%               | 5%               | 21%                       | 19%               |
| <b>Inspection</b>                 |                               |                   |                  |                           |                   |
| Revenue                           | 71,633                        | 57,330            | 69,768           | 199,751                   | 166,049           |
| Gross profit                      | 12,879                        | 11,146            | 12,945           | 35,221                    | 31,612            |
| Gross margin                      | 18%                           | 19%               | 19%              | 18%                       | 19%               |
| Operating income                  | 8,858                         | 7,504             | 9,349            | 24,087                    | 20,097            |
| Operating margin                  | 12%                           | 13%               | 13%              | 12%                       | 12%               |
| <b>Total Oil and Gas</b>          |                               |                   |                  |                           |                   |
| Revenue                           | \$ 542,579                    | \$ 457,253        | \$ 489,398       | \$ 1,449,542              | \$ 1,237,475      |
| Gross profit                      | 163,055                       | 138,496           | 138,647          | 413,625                   | 375,317           |
| Gross margin                      | 30%                           | 30%               | 28%              | 29%                       | 30%               |
| Operating income                  | 131,384                       | 111,366           | 105,637          | 321,026                   | 294,091           |
| Operating margin                  | 24%                           | 24%               | 22%              | 22%                       | 24%               |

In general, our Oil and Gas business focuses on supplying services and products to the deepwater sector of the offshore market. We are the world's largest provider of ROV services, and profit from this business segment typically constitutes about half of our total operating income before Unallocated Expenses.

Our ROV segment revenue reflects the utilization percentages, fleet sizes and average pricing of the respective periods. Our operating income increased in the three-month period ended September 30, 2011 compared to the corresponding period of the prior year from increased days on hire. For the nine months ended

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September 30, 2011, ROV operating income was slightly higher than that of the corresponding period of 2010 as the positive effects of higher utilization were greater than the negative effects of a different geographic mix, with less activity in 2011 in the U.S. Gulf of Mexico and higher activity internationally. Our ROV revenue and operating income for the third quarter of 2011 increased from the immediately preceding quarter from higher international activity. We expect our full-year 2011 ROV operating income to be more than in 2010, due to increases in fleet size and days on hire, with an increase in international demand and a decrease in days on hire in the U.S. Gulf of Mexico. We expect our 2011 operating margin to be slightly below our 2010 level due to the change in geographic mix. We expect to add a total of 20 to 22 new ROVs in 2011, including the 16 we added through September 30. For 2012, we expect ROV operating income to increase over that of 2011 from increased days on hire, principally in West Africa and the U.S. Gulf of Mexico. We anticipate adding 15 to 20 ROVs to our fleet in 2012 and retiring four to six.

Our Subsea Products revenue and operating income for the three- and nine-month periods ended September 30, 2011 were higher than those of the corresponding periods of the prior year. The improvements came from both our umbilical and specialty products. The umbilical operating improvement was from higher plant throughput, particularly in our plant in Scotland. For the three-month period, the specialty products improvement was largely from higher sales of valves and tooling. For the nine-month period, the specialty products improvement was largely from higher sales of installation and workover control system ( IWOCS ) services, clamps and valves. Compared to the immediately preceding quarter, our operating income for the quarter ended September 30, 2011 increased on valves and IWOCS services sales. The 2011 periods also include results from NCA from the date of its acquisition, March 31, 2011. Our Subsea Products backlog was \$403 million at September 30, 2011 compared to \$384 million at December 31, 2010. We believe Subsea Products operating income will be higher in 2011 than what we reported for 2010, as we expect higher umbilical throughput and an increase in IWOCS services, clamps, valves and tooling sales, with the tooling increase partially due to our NCA acquisition. We anticipate our 2012 Subsea Products operating income will improve over that of 2011 on the strength of higher tooling sales and umbilical plant throughput.

Our Subsea Projects operating income increased in the three-month period ended September 30, 2011 compared to the corresponding period of the prior year from a \$18.3 million gain on the sale of the *Ocean Legend*, a mobile offshore production system, in the third quarter of 2011. Our operating income for the nine months ended September 30, 2011 was less than that of the corresponding period of the prior year from lower demand for our shallow water diving and deepwater vessel services in the U.S. Gulf of Mexico. During the nine months ended September 30, 2010, we recorded a \$5.2 million impairment charge to adjust the carrying value of our vessel held for sale, *The Performer*, to its fair value less estimated costs to sell. *The Performer* completed its contract in Angola during the first quarter of 2010. We decided to sell the vessel, and completed the sale in July 2010 for approximately the vessel's reduced carrying value. We believe Subsea Projects revenue and operating income for 2011 will be less than in 2010, as we completed work on the Macondo project in 2010 and have experienced a reduced level of subsea activity in the U.S. Gulf of Mexico as a result of additional environmental and safety regulations that have been implemented by the Bureau of Ocean Energy Management. For Subsea Projects in 2012, we expect a gradual recovery in the U.S. Gulf of Mexico and a substantial increase in revenue and operating income over 2011 as a result of an anticipated international expansion of our deepwater vessel project capabilities.

Our Inspection revenue and operating income were higher in the three- and nine-month periods ended September 30, 2011 compared to the corresponding periods of the prior year due to increased service sales in all our geographic areas. We expect our 2011 Inspection operating income will be higher than that of 2010 due to increased demand for our services. We expect a slight increase in 2012 segment operating income over 2011 from global service sales.

**Table of Contents****Advanced Technologies**

Revenue and margin information is as follows:

|                  | For the Three Months Ended    |                   |                  | For the Nine Months Ended |                   |
|------------------|-------------------------------|-------------------|------------------|---------------------------|-------------------|
|                  | Sept. 30,<br>2011             | Sept. 30,<br>2010 | June 30,<br>2011 | Sept. 30,<br>2011         | Sept. 30,<br>2010 |
|                  | <i>(dollars in thousands)</i> |                   |                  |                           |                   |
| Revenue          | \$ 59,629                     | \$ 59,021         | \$ 56,440        | \$ 168,924                | \$ 178,272        |
| Gross profit     | 10,517                        | 6,837             | 7,256            | 24,086                    | 26,072            |
| Gross margin     | 18%                           | 12%               | 13%              | 14%                       | 15%               |
| Operating income | 5,769                         | 2,858             | 3,160            | 11,446                    | 14,464            |
| Operating margin | 10%                           | 5%                | 6%               | 7%                        | 8%                |

Advanced Technologies operating income for the third quarter of 2011 was higher than the corresponding period of 2010 from work for the U.S. Navy and U.S. Department of Defense.

Advanced Technologies operating income in the nine-month period ended September 30, 2011 was lower than the corresponding period of the prior year from lower profitability on U.S. Navy vessel service work, reduced manufacturing for the U.S. Department of Defense and less work on theme park rides and the NASA Constellation Space Suit contract. We believe for the full year of 2011 segment operating income will be less than that of 2010. For 2012, we expect higher segment operating income resulting from U.S. Navy vessel overhaul work and submarine repair services.

**Unallocated Expenses**

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

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

|                           | For the Three Months Ended    |                   |                  | For the Nine Months Ended |                   |
|---------------------------|-------------------------------|-------------------|------------------|---------------------------|-------------------|
|                           | Sept. 30,<br>2011             | Sept. 30,<br>2010 | June 30,<br>2011 | Sept. 30,<br>2011         | Sept. 30,<br>2010 |
|                           | <i>(dollars in thousands)</i> |                   |                  |                           |                   |
| Gross profit expenses     | \$ 20,476                     | \$ 19,714         | \$ 19,787        | \$ 59,698                 | \$ 52,562         |
| % of revenue              | 3%                            | 4%                | 4%               | 4%                        | 4%                |
| Operating income expenses | 27,531                        | 26,169            | 27,123           | 80,109                    | 72,797            |
| % of revenue              | 5%                            | 5%                | 5%               | 5%                        | 5%                |

The increases in the three- and nine-month periods ended September 30, 2011 compared to the corresponding periods of the prior year were due to higher incentive compensation expenses.

**Table of Contents****Other**

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

|  | For the Three Months Ended |                   |                  | For the Nine Months Ended |                   |
|--|----------------------------|-------------------|------------------|---------------------------|-------------------|
|  | Sept. 30,<br>2011          | Sept. 30,<br>2010 | June 30,<br>2011 | Sept. 30,<br>2011         | Sept. 30,<br>2010 |
| Interest income                              | \$ 204                     | \$ 123            | \$ 89            | \$ 460                    | \$ 337            |
| Interest expense                             | (387)                      | (117)             | (212)            | (746)                     | (5,636)           |
| Equity earnings of unconsolidated affiliates | 1,042                      | 702               | 1,430            | 2,942                     | 1,717             |
| Other income (expense), net                  | (1,973)                    | (280)             | (217)            | (2,331)                   | 245               |
| Provision for income taxes                   | 29,930                     | 29,306            | 26,071           | 75,347                    | 79,684            |

Interest expense in the nine-month period ended September 30, 2010 included \$2.9 million to terminate an interest rate hedge on the \$100 million of revolving credit debt we repaid in the second quarter of 2010. Interest expense includes fees for lender commitments under our revolving credit agreement and fees for standby letters of credit and bank guarantees that banks issue on our behalf for performance bonds, bid bonds and self-insurance requirements.

Our equity earnings of unconsolidated affiliates consists of earnings from our 50% equity interest in Medusa Spar LLC, which owns a 75% interest in the Medusa Spar production platform in the U.S. Gulf of Mexico. Medusa Spar LLC earns revenue on a tariff basis on oil and gas production throughput processed by the platform from the Medusa field and other surrounding areas.

Other income (expense) for the nine months ended September 30, 2010 contained a \$2.1 million fee for serving as the stalking horse bidder on an asset auction proceeding. Otherwise, other income (expense) in the periods presented consisted principally of foreign currency transaction losses.

The provisions for income taxes were related to U.S. income taxes that we provided at estimated annual effective rates using assumptions as to earnings and other factors that would affect the tax provision for the remainder of the year and to the operations of foreign branches and subsidiaries that were subject to local income and withholding taxes. We anticipated our effective tax rate for 2011 to be 31.5%. The primary difference between our current 2011 estimated effective tax rate of 31.5% and the federal statutory tax rate of 35% reflects our intent to indefinitely reinvest in certain of our international operations; therefore, we are no longer providing for U.S. taxes on a portion of our foreign earnings. The effective tax rate of 29.8% in our financial statements for the nine months ended September 30, 2011 is a result of the 31.5% estimated annual effective tax rate adjusted by \$4.9 million of discrete tax benefits, primarily attributable to amending prior years' U.S. federal income tax returns to reflect a broader interpretation of our revenue eligible for certain deductions allowable for oil and gas construction activities, and tax effecting the \$18.3 million gain on the sale of the *Ocean Legend* at the U.S. federal statutory tax rate of 35%.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are currently exposed to certain market risks arising from transactions we have entered into in the normal course of business. These risks relate to interest rate changes and fluctuations in foreign exchange rates. We do not believe these risks are material. We have not entered into any market risk sensitive instruments for speculative or trading purposes. We currently have no outstanding hedges or similar instruments. We currently have no long-term debt. We typically manage our exposure to interest rate changes through the use of a combination of fixed- and floating-rate debt. See Note 5 of Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2010 for a description of our long-term debt agreements, interest rates and maturities. We believe that significant interest rate changes would not have a material near-term impact on our future earnings or cash flows.

## **Table of Contents**

Because we operate in various oil and gas exploration and production regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. The functional currency for several of our international operations is the applicable local currency. A stronger U.S. dollar against the U.K. pound sterling and the Norwegian kroner would result in lower operating income. We manage our exposure to changes in foreign exchange rates principally through arranging compensation in U.S. dollars or freely convertible currency and, to the extent possible, by limiting compensation received in other currencies to amounts necessary to meet obligations denominated in those currencies. We use the exchange rates in effect as of the balance sheet date to translate assets and liabilities as to which the functional currency is the local currency, resulting in translation adjustments that we reflect as accumulated other comprehensive income or loss in the shareholders' equity section of our Consolidated Balance Sheets. We recorded adjustments of (\$12.9 million) and (\$0.6 million) to our equity accounts in the nine-month periods ended September 30, 2011 and 2010, respectively. Positive adjustments reflect the net impact of the weakening of the U.S. dollar against various foreign currencies for locations where the functional currency is the local currency. Conversely, negative adjustments reflect the effect of a strengthening dollar.

One customer in Angola owed us \$42 million and \$56 million at September 30, 2011 and December 31, 2010, respectively, all of which is overdue. We collected \$14 million from this customer during the nine months ended September 30, 2011. We completed the work on the contracts related to this receivable in the first quarter of 2010. Based on our past history with this customer, we believe this receivable ultimately will be collected. During the three-month period ended September 30, 2011, based on our current estimate of when the receivable will be collected, we reduced the net carrying value of the receivable by \$3 million to reflect a present value estimate of \$39 million and reclassified \$22 million to Other Assets - Other on our balance sheet at September 30, 2011, which represents the amount we believe will be collected more than one year from the balance sheet date. The \$3 million adjustment was charged against our earnings as a reduction of revenue in our Subsea Projects segment during the third quarter of 2011.

### **Item 4. Controls and Procedures.**

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2011 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal control over financial reporting that occurred during the three months ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***(c) Purchases of equity securities by the issuer and affiliated purchasers.*

| <b>Period</b>                          | <b>Total number of shares purchased</b> | <b>Average price paid per share</b> | <b>Total number of shares purchased as part of publicly announced plans or programs</b> | <b>Maximum number of shares that may yet be purchased under the plans or programs</b> |
|--|---|-------------------------------------|---|---|
| July 1 through July 31, 2011           |   | N/A                                 |   | 9,800,000   |
| August 1 through August 31, 2011       | 385,900                                 | 34.2270                             | 385,900   | 9,414,100   |
| September 1 through September 30, 2011 | 114,100                                 | 37.5332                             | 114,100   | 9,300,000   |
| Total                                  | 500,000                                 | 34.9815                             | 500,000   | 9,300,000   |

**Table of Contents****Item 6. Exhibits**

|   | Registration<br>or File<br>Number | Form or<br>Report | Report/<br>Filing Date | Exhibit<br>Number |
|---|-----------------------------------|-------------------|------------------------|-------------------|
| * 3.01 Restated Certificate of Incorporation  | 1-10945                           | 10-K              | Dec. 2000              | 3.01              |
| * 3.02 Certificate of Amendment to Restated Certificate of Incorporation                      | 1-10945                           | 8-K               | May 2008               | 3.1               |
| * 3.03 Amended and Restated Bylaws  | 1-10945                           | 8-K               | Dec. 2007              | 3.1               |
| 31.01 Rule 13a-14(a)/15d-14(a) Certification by M. Kevin McEvoy, Chief Executive Officer      |                                   |                   |                        |                   |
| 31.02 Rule 13a-14(a)/15d-14(a) Certification by Marvin J. Migura, Principal Financial Officer |                                   |                   |                        |                   |
| 32.01 Section 1350 Certification by M. Kevin McEvoy, Chief Executive Officer                  |                                   |                   |                        |                   |
| 32.02 Section 1350 Certification by Marvin J. Migura, Principal Financial Officer             |                                   |                   |                        |                   |
| 101.DEF XBRL Taxonomy Extension Definition Linkbase Document                                  |                                   |                   |                        |                   |
| 101.INS XBRL Instance Document  |                                   |                   |                        |                   |
| 101.SCH XBRL Taxonomy Extension Schema Document   |                                   |                   |                        |                   |
| 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document                                 |                                   |                   |                        |                   |
| 101.LAB XBRL Taxonomy Extension Label Linkbase Document                                       |                                   |                   |                        |                   |
| 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document                                |                                   |                   |                        |                   |

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

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**SIGNATURES**

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

OCEANEERING INTERNATIONAL, INC.

(Registrant)

November 2, 2011

By: /S/ M. KEVIN MCEVOY  
M. Kevin McEvoy  
President and Chief Executive Officer

November 2, 2011

By: /S/ MARVIN J. MIGURA  
Marvin J. Migura  
Executive Vice President

(Principal Financial Officer)

November 2, 2011

By: /S/ W. CARDON GERNER  
W. Cardon Gerner  
Senior Vice President and Chief Financial Officer

(Principal Accounting Officer)



**Table of Contents****Index to Exhibits**

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| 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document                                 |                                   |                   |                        |                   |
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