

HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
July 22, 2015

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

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015

or
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-32936

HELIX ENERGY SOLUTIONS GROUP, INC.
(Exact name of registrant as specified in its charter)
Minnesota
(State or other jurisdiction
of incorporation or organization)

95-3409686
(I.R.S. Employer
Identification No.)

3505 West Sam Houston Parkway North
Suite 400
Houston, Texas
(Address of principal executive offices)

77043
(Zip Code)

(281) 618-0400
(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 (§232.405 of this chapter) 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

As of July 17, 2015, 105,959,614 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$500,062	\$476,492
Accounts receivable:		
Trade, net of allowance for uncollectible accounts of \$7,525 and \$4,735, respectively	120,659	104,724
Unbilled revenue	39,883	28,542
Costs in excess of billing	3,436	2,034
Current deferred tax assets	32,331	31,180
Other current assets	36,664	51,301
Total current assets	733,035	694,273
Property and equipment	2,474,882	2,241,444
Less accumulated depreciation	(554,909)	(506,060)
Property and equipment, net	1,919,973	1,735,384
Other assets:		
Equity investments	145,588	149,623
Goodwill	62,294	62,146
Other assets, net	73,306	59,272
Total assets	\$2,934,196	\$2,700,698
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$98,804	\$83,403
Accrued liabilities	66,788	104,923
Income tax payable	—	9,143
Current maturities of long-term debt	71,497	28,144
Total current liabilities	237,089	225,613
Long-term debt	722,515	523,228
Deferred tax liabilities	257,852	260,275
Other non-current liabilities	41,414	38,108
Total liabilities	1,258,870	1,047,224
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par, 240,000 shares authorized, 105,949 and 105,586 shares issued, respectively	939,504	934,447
Retained earnings	798,286	781,279
Accumulated other comprehensive loss	(62,464)	(62,252)
Total shareholders' equity	1,675,326	1,653,474
Total liabilities and shareholders' equity	\$2,934,196	\$2,700,698

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended	
	June 30,	
	2015	2014
Net revenues	\$166,016	\$305,587
Cost of sales	141,808	196,449
Gross profit	24,208	109,138
Loss on disposition of assets	—	(1,078)
Selling, general and administrative expenses	(16,534)	(29,304)
Income from operations	7,674	78,756
Equity in losses of investments	(323)	(507)
Net interest expense	(5,235)	(4,517)
Other expense, net	(5,036)	(17)
Other income – oil and gas	899	1,596
Income (loss) before income taxes	(2,021)	75,311
Income tax provision	614	17,529
Net income (loss) applicable to common shareholders	\$(2,635)	\$57,782
Earnings (losses) per share of common stock:		
Basic	\$(0.03)	\$0.55
Diluted	\$(0.03)	\$0.55
Weighted average common shares outstanding:		
Basic	105,357	104,992
Diluted	105,357	105,295

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

(in thousands, except per share amounts)

	Six Months Ended	
	June 30,	
	2015	2014
Net revenues	\$355,657	\$559,159
Cost of sales	296,502	374,175
Gross profit	59,155	184,984
Gain on disposition of assets, net	—	10,418
Selling, general and administrative expenses	(29,153)	(49,698)
Income from operations	30,002	145,704
Equity in earnings (losses) of investments	(302)	201
Net interest expense	(9,305)	(9,000)
Other expense, net	(6,192)	(827)
Other income – oil and gas	3,825	13,872
Income before income taxes	18,028	149,950
Income tax provision	1,021	37,946
Net income, including noncontrolling interests	17,007	112,004
Less net income applicable to noncontrolling interests	—	(503)
Net income applicable to common shareholders	\$17,007	\$111,501
Earnings per share of common stock:		
Basic	\$0.16	\$1.06
Diluted	\$0.16	\$1.05
Weighted average common shares outstanding:		
Basic	105,324	105,059
Diluted	105,324	105,359

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (UNAUDITED)
 (in thousands)

	Three Months Ended	
	June 30,	
	2015	2014
Net income (loss) applicable to common shareholders	\$ (2,635)	) \$ 57,782
Other comprehensive income, net of tax:		
Unrealized gain (loss) on hedges arising during the period	3,346	(4,129)
Reclassification adjustments for loss included in net income (loss)	3,258	610
Income taxes on unrealized (gain) loss on hedges	(2,311)	) 1,232
Unrealized gain (loss) on hedges, net of tax	4,293	(2,287)
Foreign currency translation gain	15,889	6,931
Other comprehensive income, net of tax	20,182	4,644
Comprehensive income applicable to common shareholders	\$ 17,547	\$ 62,426
	Six Months Ended	
	June 30,	
	2015	2014
Net income, including noncontrolling interests	\$ 17,007	\$ 112,004
Other comprehensive income (loss), net of tax:		
Unrealized loss on hedges arising during the period	(8,365)	) (74)
Reclassification adjustments for loss included in net income	4,931	1,268
Income taxes on unrealized (gain) loss on hedges	1,202	(418)
Unrealized gain (loss) on hedges, net of tax	(2,232)	) 776
Foreign currency translation gain	2,020	8,278
Other comprehensive income (loss), net of tax	(212)	) 9,054
Comprehensive income	16,795	121,058
Less comprehensive income applicable to noncontrolling interests	—	(503)
Comprehensive income applicable to common shareholders	\$ 16,795	\$ 120,555

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)
 (in thousands)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net income, including noncontrolling interests	\$17,007	\$112,004
Adjustments to reconcile net income, including noncontrolling interests, to net cash provided by operating activities:		
Depreciation and amortization	53,528	52,853
Amortization of deferred financing costs	2,596	2,435
Stock-based compensation expense	3,515	3,755
Amortization of debt discount	2,928	2,765
Deferred income taxes	(2,454)	) 27,669
Excess tax from stock-based compensation	(86)	) (382)
Gain on disposition of assets, net	—	) (10,418)
Unrealized loss and ineffectiveness on derivative contracts, net	1,941	69
Changes in operating assets and liabilities:		
Accounts receivable, net	(29,006)	) (40,687)
Other current assets	11,904	) (1,998)
Income tax payable, net of income tax receivable	(9,472)	) (24,376)
Accounts payable and accrued liabilities	(35,318)	) 14,312
Other noncurrent, net	(14,050)	) 1,504
Net cash provided by operating activities	3,033	139,505
Cash flows from investing activities:		
Capital expenditures	(232,872)	) (93,001)
Distributions from equity investments, net	3,842	4,849
Proceeds from sale of assets	7,500	11,074
Acquisition of noncontrolling interests	—	) (20,085)
Net cash used in investing activities	(221,530)	) (97,163)
Cash flows from financing activities:		
Proceeds from Nordea Term Loan	250,000	—
Repayment of Term Loan	(7,500)	) (7,500)
Repayment of MARAD Debt	(2,788)	) (2,655)
Deferred financing costs	(1,533)) —
Distributions to noncontrolling interests	—	) (1,018)
Repurchases of common stock	(1,056)	) (6,653)
Excess tax from stock-based compensation	86	382
Proceeds from issuance of ESPP shares	2,512	1,932
Net cash provided by (used in) financing activities	239,721	(15,512)
Effect of exchange rate changes on cash and cash equivalents	2,346	(3,573)
Net increase in cash and cash equivalents	23,570	23,257
Cash and cash equivalents:		
Balance, beginning of year	476,492	478,200

Balance, end of period	\$500,062	\$501,457
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 — Basis of Presentation and New Accounting Standards

The accompanying condensed consolidated financial statements include the accounts of Helix Energy Solutions Group, Inc. and its wholly and majority owned subsidiaries (collectively, “Helix” or the “Company”). Unless the context indicates otherwise, the terms “we,” “us” and “our” in this report refer collectively to Helix and its wholly and majority owned subsidiaries. All material intercompany accounts and transactions have been eliminated. These unaudited condensed consolidated financial statements have been prepared pursuant to instructions for the Quarterly Report on Form 10-Q required to be filed with the Securities and Exchange Commission (the “SEC”), and do not include all information and footnotes normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles.

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and are consistent in all material respects with those applied in our 2014 Annual Report on Form 10-K (“2014 Form 10-K”). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. The operating results for the three- and six-month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. Our balance sheet as of December 31, 2014 included herein has been derived from the audited balance sheet as of December 31, 2014 included in our 2014 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2014 Form 10-K.

We have made all adjustments (which were normal recurring adjustments) that we believe are necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income (loss), and statements of cash flows, as applicable. Our operating results for the three- and six-month periods ended June 30, 2015 included an out-of-period adjustment to correct an error related to a well intervention project performed in 2014 in which our revenues included certain income tax withholding payments made on our behalf and which now will have to be refunded to the counterparty. This adjustment affects our 2015 operating results by reducing our net revenues by \$2.5 million and increasing our net loss by \$1.7 million. The amounts were not deemed material with respect to prior year or the anticipated results and the trend of earnings for fiscal year 2015.

Certain reclassifications were made to previously reported amounts in the consolidated financial statements and notes thereto to make them consistent with the current presentation format.

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU provides a single five-step approach to account for revenue arising from contracts with customers. The ASU requires an entity to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This revenue standard was originally effective prospectively for annual reporting periods beginning after December 15, 2016, including interim periods. In July 2015, the FASB elected to defer its effective date by one year to December 15, 2017. Adoption as of the original effective date is permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption through a cumulative adjustment. We are currently evaluating which transition approach to use and the potential impact the adoption of this standard may have on our consolidated financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” This ASU requires that debt issuance costs related to a recognized debt liability be reported on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective retrospectively beginning in the first quarter of fiscal 2017 and early adoption is permitted. We do not expect this guidance to materially affect our balance sheets as amounts will be reclassified from long-term assets to partial offsets to long-term debt. The guidance will not affect our statements of operations or statements of cash flows.

Note 2 — Company Overview

We are an international offshore energy services company that provides specialty services to the offshore energy industry, with a focus on well intervention and robotics operations. We seek to provide services and methodologies that we believe are critical to developing offshore reservoirs and maximizing production economics. We provide services primarily in deepwater in the Gulf of Mexico, North Sea, Asia Pacific and West Africa regions, and intend to increase our operations offshore Brazil. Our “life of field” services are segregated into three reportable business segments: Well Intervention, Robotics and Production Facilities (Note 11).

Our Well Intervention segment includes our vessels and equipment used to perform well intervention services primarily in the Gulf of Mexico and North Sea regions. Our Well Intervention segment also includes certain intervention riser systems that are available on a rental basis. Our well intervention vessels include the Q4000, the Helix 534, the Seawell, the Well Enhancer and the Skandi Constructor, which is a chartered vessel. Our well intervention fleet also includes the Q5000, a newbuild semi-submersible well intervention vessel that was delivered to us at the end of April 2015 and is currently in transit to the Gulf of Mexico. We are currently constructing another well intervention vessel, the Q7000. We have also contracted to charter two newbuild monohull vessels, which are expected to be delivered in 2016 and used in connection with our contracts to provide well intervention services offshore Brazil.

Our Robotics segment includes remotely operated vehicles (“ROVs”), trenchers and ROVDrills designed to complement offshore construction and well intervention services, and currently operates five chartered ROV and trencher support vessels including the Grand Canyon II, which was delivered to us in late April 2015.

Our Production Facilities segment includes the Helix Producer I vessel (“HP I”) as well as our equity investments in Deepwater Gateway, L.L.C. (“Deepwater Gateway”) and Independence Hub, LLC (“Independence Hub”) (Note 5). The Production Facilities segment also includes the Helix Fast Response System (“HFRS”), which provides certain operators access to our Q4000 and HP I vessels in the event of a well control incident in the Gulf of Mexico.

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Note 3 — Details of Certain Accounts

Other current assets and other assets, net consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Note receivable ⁽¹⁾	\$10,000	\$17,500
Other receivables	632	423
Prepaid insurance	197	6,582
Other prepaids	10,452	15,541
Spare parts inventory	6,651	1,857
Income tax receivable	586	—
Value added tax receivable	8,051	9,326
Other	95	72
Total other current assets	\$36,664	\$51,301
	June 30, 2015	December 31, 2014
Note receivable ⁽¹⁾	\$10,000	\$10,000
Deferred dry dock expenses, net	26,061	11,631
Deferred financing costs, net (Note 6)	22,528	23,399
Intangible assets with finite lives, net	719	696
Charter fee deposit (Note 12)	12,544	12,544
Other	1,454	1,002
Total other assets, net	\$73,306	\$59,272

Relates to the remaining balance of the promissory note we received in connection with the sale of our Ingleside spoolbase in January 2014. Interest on the note is payable quarterly at a rate of 6% per annum. Under the terms of ⁽¹⁾ the note, the remaining \$20 million principal balance is required to be paid with a \$10 million payment on December 31, 2015 and December 31, 2016.

Accrued liabilities consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Accrued payroll and related benefits	\$19,490	\$61,246
Current asset retirement obligations	554	575
Unearned revenue	6,700	11,461
Accrued interest	4,882	4,221
Derivative liability (Note 14)	19,390	13,222
Taxes payable excluding income tax payable	6,583	6,236
Other	9,189	7,962
Total accrued liabilities	\$66,788	\$104,923

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Note 4 — Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of three months or less. The following table provides supplemental cash flow information (in thousands):

	Six Months Ended June 30,	
	2015	2014
Interest paid, net of interest capitalized	\$3,729	\$5,960
Income taxes paid	\$13,285	\$35,268

Our non-cash investing activities include accruals for property and equipment capital expenditures. These non-cash investing accruals totaled \$18.3 million and \$14.1 million as of June 30, 2015 and December 31, 2014, respectively. Additionally, our investing activities for the six-month period ended June 30, 2014 included a \$30 million non-cash transaction related to the promissory note we received in connection with the sale of our Ingleside spoolbase in January 2014 (Note 3).

Note 5 — Equity Investments

As of June 30, 2015, we had two investments that we account for using the equity method of accounting: Deepwater Gateway and Independence Hub, both of which are included in our Production Facilities segment.

Deepwater Gateway, L.L.C. In June 2002, we, along with Enterprise Products Partners L.P. (“Enterprise”), formed Deepwater Gateway, each with a 50% interest, to design, construct, install, own and operate a tension leg platform production hub primarily for Anadarko Petroleum Corporation’s Marco Polo field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled \$78.6 million and \$80.9 million as of June 30, 2015 and December 31, 2014, respectively (including net capitalized interest of \$1.2 million at June 30, 2015 and December 31, 2014, respectively).

Independence Hub, LLC. In December 2004, we acquired a 20% interest in Independence Hub, an affiliate of Enterprise. Independence Hub owns the “Independence Hub” platform located in Mississippi Canyon Block 920 in a water depth of 8,000 feet. Our investment in Independence Hub was \$67.0 million and \$68.8 million as of June 30, 2015 and December 31, 2014, respectively (including capitalized interest of \$3.8 million and \$3.9 million at June 30, 2015 and December 31, 2014, respectively).

We received the following distributions from our equity method investments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Deepwater Gateway	\$1,700	\$1,750	\$2,700	\$3,750
Independence Hub	440	500	840	1,300
Total	\$2,140	\$2,250	\$3,540	\$5,050

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Note 6 — Long-Term Debt

Scheduled maturities of our long-term debt outstanding as of June 30, 2015 are as follows (in thousands):

	Term Loan	Nordea Term Loan	MARAD Debt	2032 Notes ⁽¹⁾	Total
Less than one year	\$30,000	\$35,714	\$5,783	\$—	\$71,497
One to two years	30,000	35,715	6,072	—	71,787
Two to three years	30,000	35,714	6,375	—	72,089
Three to four years	180,000	35,714	6,693	—	222,407
Four to five years	—	107,143	7,027	—	114,170
Over five years	—	—	60,054	200,000	260,054
Total debt	270,000	250,000	92,004	200,000	812,004
Current maturities	(30,000)	(35,714)	(5,783)	—	(71,497)
Long-term debt, less current maturities	240,000	214,286	86,221	200,000	740,507
Unamortized debt discount ⁽²⁾	—	—	—	(17,992)	(17,992)
Long-term debt	\$240,000	\$214,286	\$86,221	\$182,008	\$722,515

(1) Beginning in March 2018, the holders of our Convertible Senior Notes due 2032 may require us to repurchase these notes or we may at our option elect to repurchase these notes. The notes will mature in March 2032.

(2) Our Convertible Senior Notes due 2032 will increase to their face amount through accretion of non-cash interest charges through March 2018.

Included below is a summary of certain components of our indebtedness:

Credit Agreement

In June 2013, we entered into a credit agreement (the “Credit Agreement”) with a group of lenders pursuant to which we borrowed \$300 million under the Credit Agreement’s term loan (the “Term Loan”) and, subject to the terms of the Credit Agreement, may borrow additional amounts (the “Revolving Loans”) and/or obtain letters of credit under a revolving credit facility (the “Revolving Credit Facility”) up to \$600 million. Subject to lender participation, we may request an increase of up to \$200 million in aggregate commitments with respect to the Revolving Credit Facility, additional term loans or a combination thereof. At June 30, 2015, we had no borrowings under the \$600 million Revolving Credit Facility and our available borrowing capacity totaled \$450.1 million, net of \$16.7 million of letters of credit issued.

The Term Loan and the Revolving Loans (together, the “Loans”) bear interest, at our election, in relation to either the base rate established by Bank of America N.A. or to a LIBOR rate, provided that all Swing Line Loans (as defined in the Credit Agreement) will be base rate loans.

The Loans or portions thereof bearing interest at the base rate bear interest at a per annum rate equal to the base rate plus a margin ranging from 1.00% to 2.00% (1.00% to 3.00% following the amendment described below). The Loans or portions thereof bearing interest at a LIBOR rate bear interest at the LIBOR rate selected by us plus a margin ranging from 2.00% to 3.00% (2.00% to 4.00% following the amendment described below). A letter of credit fee is payable by us equal to our applicable margin for LIBOR rate Loans multiplied by the daily amount available to be drawn under outstanding letters of credit. Margins on the Loans will vary in relation to the consolidated coverage ratio, as provided by the Credit Agreement. We currently also pay a fixed commitment fee of 0.50% on the unused portion

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of our Revolving Credit Facility. The Term Loan currently bears interest at the one-month LIBOR rate plus 2.50%. In September 2013, we entered into various interest rate swap contracts to fix the one-month LIBOR rate on \$148.1 million of our borrowings under the Term Loan. The fixed LIBOR rates are between 74 and 75 basis points.

The Term Loan is repayable in scheduled principal installments of 5% in each of the initial two loan years (\$15 million per year), and 10% in each of the remaining three loan years (\$30 million per year), payable quarterly, with a balloon payment of \$180 million at maturity. These installment amounts are subject to adjustment for any prepayments on the Term Loan. We may elect to prepay amounts outstanding under the Term Loan without premium or penalty, but may not reborrow any amounts prepaid. We may prepay amounts outstanding under the Revolving Loans without premium or penalty, and may reborrow any amounts paid up to the amount of the Revolving Credit Facility. The Loans mature on June 19, 2018. In certain circumstances, we will be required to prepay the Loans.

The Credit Agreement and the other documents entered into in connection with the Credit Agreement (together, the “Loan Documents”) include terms and conditions, including covenants, which we consider customary for this type of transaction. The covenants include restrictions on our and our subsidiaries’ ability to grant liens, incur indebtedness, make investments, merge or consolidate, sell or transfer assets, pay dividends and incur capital expenditures. In addition, the Credit Agreement obligates us to meet certain financial ratios, including the Consolidated Interest Coverage Ratio and the Consolidated Leverage Ratio (as defined in the Credit Agreement). In May 2015, we amended the Credit Agreement to revise the maximum permitted Consolidated Leverage Ratio as follows: 4.00 to 1.00 for the second quarter of 2015, 4.50 to 1.00 for the third quarter of 2015 through the fourth quarter of 2016, 4.00 to 1.00 for the first quarter of 2017, and 3.50 to 1.00 for the second quarter of 2017 and thereafter.

We have designated five of our foreign subsidiaries, and may designate any newly established foreign subsidiaries, as subsidiaries that are not generally subject to the covenants in the Credit Agreement (the “Unrestricted Subsidiaries”), provided we meet certain liquidity requirements, in which case EBITDA (net of cash distributions to the parent) of the Unrestricted Subsidiaries is not included in the calculations with respect to our financial covenants. Our obligations under the Credit Agreement are guaranteed by our wholly owned domestic subsidiaries (except Cal Dive I – Title XI, Inc.) and Canyon Offshore Limited. Our obligations under the Credit Agreement, and of the guarantors under their guaranty, are secured by most of our assets of the parent and our wholly owned domestic subsidiaries (except Cal Dive I – Title XI, Inc.) and Canyon Offshore Limited, plus pledges of up to two-thirds of the shares of certain foreign subsidiaries.

Convertible Senior Notes Due 2032

In March 2012, we completed a public offering and sale of \$200 million in aggregate principal amount of Convertible Senior Notes due 2032 (the “2032 Notes”). The 2032 Notes bear interest at a rate of 3.25% per annum, and are payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2012. The 2032 Notes mature on March 15, 2032 unless earlier converted, redeemed or repurchased. The 2032 Notes are convertible in certain circumstances and during certain periods at an initial conversion rate of 39.9752 shares of common stock per \$1,000 principal amount (which represents an initial conversion price of approximately \$25.02 per share of common stock), subject to adjustment in certain circumstances as set forth in the Indenture governing the 2032 Notes. We have the right and the intention to settle any such future conversions in cash.

Prior to March 20, 2018, the 2032 Notes are not redeemable. On or after March 20, 2018, we, at our option, may redeem some or all of the 2032 Notes in cash, at any time upon at least 30 days’ notice, at a price equal to 100% of the principal amount plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the redemption date. In addition, the holders of the 2032 Notes may require us to purchase in cash some or all of their 2032 Notes at a repurchase price equal to 100% of the

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principal amount of the 2032 Notes, plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the applicable repurchase date, on March 15, 2018, March 15, 2022 and March 15, 2027, or, subject to specified exceptions, at any time prior to the 2032 Notes' maturity following a fundamental change (as defined in the Indenture governing the 2032 Notes).

In connection with the issuance of the 2032 Notes, we recorded a discount of \$35.4 million as required under existing accounting rules. To arrive at this discount amount, we estimated the fair value of the liability component of the 2032 Notes as of the date of their issuance (March 12, 2012) using an income approach. To determine this estimated fair value, we used borrowing rates of similar market transactions involving comparable liabilities at the time of issuance and an expected life of 6.0 years. In selecting the expected life, we selected the earliest date the holders could require us to repurchase all or a portion of the 2032 Notes (March 15, 2018). The effective interest rate for the 2032 Notes is 6.9% after considering the effect of the accretion of the related debt discount that represented the equity component of the 2032 Notes at their inception. As of June 30, 2015, the carrying amount of the equity component of the 2032 Notes was \$22.5 million.

MARAD Debt

This U.S. government guaranteed financing (the "MARAD Debt") is pursuant to Title XI of the Merchant Marine Act of 1936 administered by the Maritime Administration, and was used to finance the construction of the Q4000. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and matures in February 2027. The MARAD Debt is collateralized by the Q4000, is guaranteed 50% by us, and initially bore interest at a floating rate that approximated AAA Commercial Paper yields plus 20 basis points. As required by the MARAD Debt agreements, in September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same maturity date.

Nordea Credit Agreement

In September 2014, a wholly owned subsidiary incorporated in Luxembourg, Helix Q5000 Holdings S.à r.l. ("Q5000 Holdings"), entered into a credit agreement (the "Nordea Credit Agreement") with a syndicated bank lending group for a term loan (the "Nordea Term Loan") in an amount of up to \$250 million. The Nordea Term Loan was funded in the amount of \$250 million at the end of April 2015 at the time the Q5000 vessel was delivered. The parent company of Q5000 Holdings, Helix Vessel Finance S.à r.l., also a wholly owned Luxembourg subsidiary, guaranteed the Nordea Term Loan. The loan is secured by the Q5000 and its charter earnings as well as by a pledge of the shares of Q5000 Holdings. This indebtedness is nonrecourse to Helix.

The Nordea Term Loan bears interest at a LIBOR rate plus a margin of 2.5%, with an undrawn fee of 0.875% prior to funding on April 30, 2015. The Nordea Term Loan matures on April 30, 2020 and is repayable in scheduled principal installments of \$8.9 million, payable quarterly, with a balloon payment of \$80.4 million at maturity. Q5000 Holdings may elect to prepay amounts outstanding under the Nordea Term Loan without premium or penalty, but may not reborrow any amounts prepaid. Installment amounts are subject to adjustment for any prepayments on this debt. In certain circumstances, Q5000 Holdings will be required to prepay the loan. In June 2015, we entered into various interest rate swap contracts to fix the one-month LIBOR rate on \$187.5 million of our borrowings under the Nordea Term Loan. The fixed LIBOR rates are between 149 and 152 basis points.

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The Nordea Credit Agreement and related loan documents include terms and conditions, including covenants, that are considered customary for this type of transaction. The covenants include restrictions on Q5000 Holdings's ability to grant liens, incur indebtedness, make investments, merge or consolidate, sell or transfer assets, and pay dividends. In addition, the Nordea Credit Agreement obligates Q5000 Holdings to meet certain minimum financial requirements, including liquidity, consolidated debt service coverage and collateral maintenance.

Other

In accordance with our Credit Agreement, the 2032 Notes, the MARAD Debt agreements, and the Nordea Credit Agreement, we are required to comply with certain covenants, including certain financial ratios such as a consolidated interest coverage ratio and consolidated leverage ratio, as well as the maintenance of minimum net worth, working capital and debt-to-equity requirements. As of June 30, 2015, we were in compliance with these covenants.

Unamortized deferred financing costs are included in "Other assets, net" in the accompanying condensed consolidated balance sheets and are amortized over the life of the respective debt agreements. The following table reflects the components of our deferred financing costs (in thousands):

	June 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Term Loan (matures June 2018)	\$3,638	\$(1,455)	) \$2,183	\$3,638	\$(1,091)	) \$2,547
Revolving Credit Facility (matures June 2018)	14,787	(5,351)	) 9,436	13,275	(3,982)	) 9,293
2032 Notes (mature March 2032)	3,759	(2,070)	) 1,689	3,759	(1,763)	) 1,996
MARAD Debt (matures February 2027)	12,200	(6,467)	) 5,733	12,200	(6,223)	) 5,977
Nordea Term Loan	3,607	(120)	) 3,487	3,586	—	) 3,586
Total deferred financing costs	\$37,991	\$(15,463)	) \$22,528	\$36,458	\$(13,059)	) \$23,399

The following table details the components of our net interest expense (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Interest expense	\$9,751	\$7,160	\$18,160	\$15,522
Interest income	(457)	) (655)	) (1,107)	) (1,372)
Capitalized interest	(4,059)	) (1,988)	) (7,748)	) (5,150)
Net interest expense	\$5,235	\$4,517	\$9,305	\$9,000
Note 7 — Income Taxes				

Our estimated annual effective tax rate, adjusted for discrete tax items, is applied to interim periods' pretax earnings. We believe that our recorded assets and liabilities are reasonable; however, tax laws and regulations are subject to interpretation and tax litigation is inherently uncertain, and therefore our assessments can involve a series of complex judgments about future events and rely heavily on estimates and assumptions.

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The effective tax rates for the three- and six-month periods ended June 30, 2015 were (30.4)% and 5.7%, respectively. The effective tax rates for the three- and six-month periods ended June 30, 2014 were 23.3% and 25.3%, respectively. The variance was primarily attributable to the earnings mix between our higher and lower tax rate jurisdictions.

Income taxes have been provided based on the U.S. statutory rate of 35% and at the local statutory rate for each foreign jurisdiction. The primary differences between the U.S. statutory rate and our effective rate are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
U.S. statutory rate	35.0	% 35.0	% 35.0	% 35.0
Foreign provision	(54.6	) (8.4	) (31.5	) (8.3
Tax benefits previously unrecognized	—	(4.5	) —	(2.3
Other	(10.8	) 1.2	2.2	0.9
Effective rate	(30.4	)% 23.3	% 5.7	% 25.3
Note 8 — Accumulated Other Comprehensive Income (Loss) (“OCI”)				

The components of Accumulated OCI are as follows (in thousands):

	June 30, 2015	December 31, 2014
Cumulative foreign currency translation adjustment	\$(28,141	) \$(30,161
Unrealized loss on hedges, net ⁽¹⁾	(34,323	) (32,091
Accumulated other comprehensive loss	\$(62,464	) \$(62,252

Amounts relate to foreign currency hedges for the Grand Canyon, the Grand Canyon II and the Grand Canyon III (1) charters as well as interest rate swap contracts for the Term Loan and the Nordea Term Loan, and are net of deferred income taxes totaling \$18.5 million at June 30, 2015 and \$17.3 million at December 31, 2014 (Note 14).

Note 9 — Earnings Per Share

We have shares of restricted stock issued and outstanding, which currently are unvested. Holders of such shares of unvested restricted stock are entitled to the same liquidation and dividend rights as the holders of our outstanding unrestricted common stock and the shares are thus considered participating securities. Under applicable accounting guidance, the undistributed earnings for each period are allocated based on the participation rights of both the common shareholders and holders of any participating securities as if earnings for the respective periods had been distributed. Because both the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, we are required to compute earnings per share (“EPS”) amounts under the two class method in periods in which we have earnings from continuing operations.

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The presentation of basic EPS amounts on the face of the accompanying condensed consolidated statements of operations is computed by dividing the net income applicable to our common shareholders by the weighted average shares of our outstanding common stock. The calculation of diluted EPS is similar to basic EPS, except that the denominator includes dilutive common stock equivalents and the income included in the numerator excludes the effects of the impact of dilutive common stock equivalents, if any. The computations of the numerator (income) and denominator (shares) to derive the basic and diluted EPS amounts presented on the face of the accompanying condensed consolidated statements of operations are as follows (in thousands):

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Income	Shares	Income	Shares
Basic:				
Net income (loss) applicable to common shareholders	\$ (2,635	)	\$ 57,782	
Less: Undistributed income allocated to participating securities	—		(300)
Undistributed income (loss) allocated to common shares	\$ (2,635	)	\$ 57,482	104,992
Diluted:				
Undistributed income (loss) allocated to common shares	\$ (2,635	)	\$ 57,482	104,992
Effect of dilutive securities:				
Share-based awards other than participating securities	—	—	—	303
Undistributed income reallocated to participating securities	—	—	1	—
Net income (loss) applicable to common shareholders	\$ (2,635	)	\$ 57,483	105,295
	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Income	Shares	Income	Shares
Basic:				
Net income applicable to common shareholders	\$ 17,007		\$ 111,501	
Less undistributed income allocated to participating securities	(96	)	(586)
Undistributed income allocated to common shares	\$ 16,911	105,324	\$ 110,915	105,059
Diluted:				
Undistributed income allocated to common shares	\$ 16,911	105,324	\$ 110,915	105,059
Effect of dilutive securities:				
Share-based awards other than participating securities	—	—	—	300
Undistributed income reallocated to participating securities	—	—	2	—
Net income applicable to common shareholders	\$ 16,911	105,324	\$ 110,917	105,359

Approximately 8.0 million of potentially dilutive shares related to the 2032 Notes were excluded from the diluted EPS calculation for the three- and six-month periods ended June 30, 2015 and 2014 because we have the right, intention

and ability to settle any such future conversions in cash (Note 6).

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Note 10 — Employee Benefit Plans

Long-Term Incentive Stock-Based Plan

As of June 30, 2015, there were 6.1 million shares of our common stock available for issuance under our active long-term incentive stock-based plan, the 2005 Long-Term Incentive Plan, as amended and restated effective May 9, 2012 (the “2005 Incentive Plan”). During the six-month period ended June 30, 2015, the following grants of share-based awards were made under the 2005 Incentive Plan:

Date of Grant	Shares	Grant Date Fair Value Per Share	Vesting Period
January 2, 2015 ⁽¹⁾	289,163	\$21.70	33% per year over three years
January 2, 2015 ⁽²⁾	289,163	\$25.06	100% on January 1, 2018
January 5, 2015 ⁽³⁾	3,946	\$21.66	100% on January 1, 2017
January 12, 2015 ⁽¹⁾	3,866	\$19.40	33% per year over three years
January 12, 2015 ⁽²⁾	3,866	\$25.06	100% on January 11, 2018
February 1, 2015 ⁽¹⁾	2,664	\$18.77	33% per year over three years
February 1, 2015 ⁽²⁾	2,664	\$25.06	100% on January 31, 2018
April 1, 2015 ⁽³⁾	6,476	\$14.96	100% on January 1, 2017

(1) Reflects the grant of restricted stock to our executive officers and selected management employees.

Reflects the grant of performance share units (“PSUs”) to our executive officers and selected management employees. The PSUs provide for an award based on the performance of our common stock over a three-year (2) period with the maximum amount of the award being 200% of the original awarded PSUs and the minimum amount being zero. The vested PSUs may be settled in either cash or shares of our common stock at the discretion of the Compensation Committee of our Board of Directors.

(3) Reflects the grant of restricted stock to certain members of our Board of Directors who have made an election to take their quarterly fees in stock in lieu of cash.

Compensation cost for restricted stock is recognized over its vesting period on a straight-line basis. For the three- and six-month periods ended June 30, 2015, \$1.5 million and \$2.9 million, respectively, were recognized as stock-based compensation expense related to restricted stock. For the three- and six-month periods ended June 30, 2014, \$1.3 million and \$2.5 million, respectively, were recognized as stock-based compensation expense related to restricted stock and restricted stock units.

The estimated fair value of the PSUs on grant date was determined using a Monte Carlo simulation model. Until December 2014, the PSUs were being treated as an equity award. Accordingly, compensation expense associated with the PSUs was fixed, as represented by the number of PSUs multiplied by their respective grant date fair value, and the fixed amount was amortized on a straight-line basis over the three-year vesting period. In connection with the vesting of the 2012 PSU awards that occurred in January 2015, the decision was made by the Compensation Committee of our Board of Directors to settle these PSUs with a cash payment of \$4.5 million (rather than an equivalent number of shares of our common stock, which was the default provision of the PSU awards). Accordingly, PSUs are now accounted for as a liability plan and changes in fair value of the awards are recognized in earnings. For the three-month period ended June 30, 2015, \$0.2 million was recognized as stock-based compensation expense related to PSUs. For the six-month period ended June 30, 2015, we recorded a net reduction of \$0.9 million of previously recognized compensation cost to reflect the estimated fair value of unvested PSUs as of June 30, 2015. For the three-

and six-month periods ended June 30, 2014, \$0.5 million and \$1.0 million, respectively, were recognized as stock-based compensation expense related to PSUs.

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Long-Term Incentive Cash Plans

We have certain long-term incentive cash plans (the “LTI Cash Plans”) that provide long-term cash-based compensation to eligible employees. Cash awards historically have been both fixed sum amounts payable (for non-executive management only) as well as cash awards indexed to our common stock with the payment amount at each vesting date fluctuating based on the performance of our common stock (for both executive and non-executive management). Payment amounts under these awards are calculated based on the ratio of the average stock price during the applicable measurement period over the original base price determined by the Compensation Committee of our Board of Directors at the time of the award. Cash payments under these awards are made each year on the anniversary date of the award. Cash awards granted since 2012 have a vesting period of three years while those granted prior to 2012 have a vesting period of five years. The LTI Cash Plans are considered liability plans and as such are re-measured to fair value each reporting period with corresponding changes in the liability amount being reflected in our results of operations.

The cash awards granted under the LTI Cash Plans to our executive officers and selected management employees totaled \$8.9 million in 2014. No long-term incentive cash awards were granted in 2015. For the three- and six-month periods ended June 30, 2015, we recorded reductions of \$0.6 million and \$2.5 million, respectively, of previously recognized compensation expense associated with the cash awards issued pursuant to the LTI Cash Plans, reflecting the effect the decrease in our stock price since December 31, 2014 had on the value of our liability plan. For the three- and six-month periods ended June 30, 2014, total compensation expense associated with the cash awards issued pursuant to the LTI Cash Plans was \$3.7 million and \$5.4 million, respectively. The liability balance for the cash awards issued under the LTI Cash Plans was \$1.2 million at June 30, 2015 and \$12.8 million at December 31, 2014.

Employee Stock Purchase Plan

We also have an employee stock purchase plan (the “ESPP”). The ESPP has 1.5 million shares authorized for issuance, of which 1.0 million shares were available for issuance as of June 30, 2015. The total value of the ESPP awards is calculated using the component approach where each award is computed as the sum of 15% of a share of non-vested stock, a call option on 85% of a share of non-vested stock, and a put option on 15% of a share of non-vested stock. Share-based compensation expense with respect to the ESPP was \$0.3 million and \$0.6 million, respectively, for the three- and six-month periods ended June 30, 2015. For the three- and six-month periods ended June 30, 2014, share-based compensation expense with respect to the ESPP was \$0.3 million and \$0.5 million, respectively.

For more information regarding our employee benefit plans, including our long-term incentive stock-based and cash plans and our employee stock purchase plan, see Note 8 to our 2014 Form 10-K.

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Note 11 — Business Segment Information

We have three reportable business segments: Well Intervention, Robotics and Production Facilities. Our Well Intervention segment includes our vessels and equipment used to perform well intervention services primarily in the Gulf of Mexico and North Sea regions. Our well intervention vessels include the Q4000, the Q5000, the Helix 534, the Seawell, the Well Enhancer and the Skandi Constructor, which is a chartered vessel. Our well intervention segment also includes certain intervention riser systems that are available on a rental basis. Our Robotics segment includes ROVs, trenchers and ROVDrills designed to complement offshore construction and well intervention services, and currently operates five chartered ROV and trencher support vessels. The Production Facilities segment includes the HP I as well as our investments in Deepwater Gateway and Independence Hub that are accounted for under the equity method. The results of our previously reported Subsea Construction segment are immaterial and thus no longer meet the threshold to be separately reported as a business segment. These results are now aggregated within “Other” for all periods presented in this Quarterly Report on Form 10-Q. All material intercompany transactions between the segments have been eliminated.

We evaluate our performance primarily based on operating income of each reportable segment. Segment assets are comprised of all assets attributable to each reportable segment. Corporate and other includes all assets not directly identifiable with our business segments. Certain financial data by reportable segment are summarized as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net revenues —				
Well Intervention	\$85,675	\$181,218	\$189,726	\$340,918
Robotics	75,101	119,704	155,272	207,594
Production Facilities	20,293	24,049	38,678	47,189
Other	—	—	—	358
Intercompany elimination	(15,053	) (19,384	) (28,019	) (36,900
Total	\$166,016	\$305,587	\$355,657	\$559,159
Income (loss) from operations —				
Well Intervention	\$4,135	\$64,775	\$18,929	\$113,508
Robotics	4,303	20,799	13,760	32,018
Production Facilities	8,444	10,459	13,022	21,843
Corporate and other	(9,009	) (17,322	) (15,616	) (20,512
Intercompany elimination	(199	) 45	(93	) (1,153
Total	\$7,674	\$78,756	\$30,002	\$145,704
Equity in earnings (losses) of investments	\$(323) \$(507) \$(302) \$201

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Intercompany segment amounts are derived primarily from equipment and services provided to other business segments at rates consistent with those charged to third parties. Intercompany segment revenues are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Well Intervention	\$6,417	\$7,956	\$11,363	\$13,417
Robotics	8,636	11,428	16,656	23,483
Total	\$15,053	\$19,384	\$28,019	\$36,900

The following table reflects total assets by reportable segment (in thousands):

	June 30, 2015	December 31, 2014
Well Intervention	\$1,805,388	\$1,470,349
Robotics	304,357	299,701
Production Facilities	446,199	459,427
Corporate and other	378,252	471,221
Total	\$2,934,196	\$2,700,698

Note 12 — Commitments and Contingencies and Other Matters

Commitments

In March 2012, we executed a contract with a shipyard in Singapore for the construction of a newbuild semi-submersible well intervention vessel, the Q5000. This \$386.5 million shipyard contract represented the majority of the costs associated with the construction of the Q5000. Pursuant to the terms of this contract, payments were made as a fixed percentage of the contract price, together with any variations, on contractually scheduled dates. The vessel was delivered to us in the second quarter of 2015 and is currently in transit to the Gulf of Mexico. In September 2014, we entered into the Nordea Credit Agreement to partially finance the construction of the Q5000 and other future capital projects. The Nordea Term Loan was funded at the time the Q5000 vessel was delivered to us (Note 6). At June 30, 2015, our total investment in the Q5000 was \$479.0 million, including \$386.5 million of scheduled payments made to the shipyard.

In February 2013, we contracted to charter the Grand Canyon II and the Grand Canyon III for use in our robotics operations. The terms of the charters are for five years from the respective delivery dates. We took delivery of the Grand Canyon II in late April 2015 and received a \$4.7 million non-refundable payment from the shipyard that constructed the vessel related to the delayed delivery of the vessel. This payment will be amortized as a reduction in our cost of sales over the five-year charter for the vessel. The delivery of the Grand Canyon III has been extended until February 2016.

In September 2013, we executed a second contract with the same shipyard in Singapore that constructed the Q5000. This contract is for the construction of a newbuild semi-submersible well intervention vessel, the Q7000, which is to be built to North Sea standards. This \$346.0 million shipyard contract represents the majority of the expected costs associated with the construction of the Q7000. Pursuant to the original terms of this contract, 20% of the contract price was paid upon the signing of the contract and the remaining 80% was to be paid upon the delivery of the vessel. Pursuant to an amendment we entered into with the shipyard in June 2015, the remaining 80% will now be paid in two

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installments, with 20% in June 2016 and 60% upon the delivery of the vessel. We agreed to pay the shipyard incremental costs of up to \$14.5 million to extend the scheduled delivery of the Q7000 from mid-2016 to July 30, 2017. We paid \$7.3 million of these costs in July 2015 and the remaining costs will be paid upon the delivery of the vessel. At June 30, 2015, our total investment in the Q7000 was \$105.8 million, including the \$69.2 million paid to the shipyard upon signing the contract.

In February 2014, we entered into agreements with Petróleo Brasileiro S.A. (“Petrobras”) to provide well intervention services offshore Brazil. The initial term of the agreements with Petrobras is for four years with options to extend. In connection with the Petrobras agreements, we entered into charter agreements with Siem Offshore AS for two newbuild monohull vessels, both of which are expected to be in service for Petrobras in 2016. At June 30, 2015, our total investment in the topside equipment for the two vessels was \$85.7 million. In November 2014, we paid a charter fee deposit of \$12.5 million.

Contingencies and Claims

We believe that there are currently no contingencies which would have a material effect on our financial position, results of operations or cash flows.

Litigation

We are involved in various legal proceedings, some involving claims for personal injury under the General Maritime Laws of the United States and the Jones Act based on alleged negligence. In addition, from time to time we incur other claims, such as contract disputes, in the normal course of business.

Note 13 — Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value accounting rules establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as follows:

- (a) Market Approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) Cost Approach. Amount that would be required to replace the service capacity of an asset (replacement cost).
- (c) Income Approach. Techniques to convert expected future cash flows to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, long-term debt and various derivative instruments. The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term nature of these instruments. The following tables provide additional information relating to other financial instruments measured at fair value on a recurring basis (in thousands):

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	Fair Value Measurements at June 30, 2015 Using				Valuation Technique
	Level 1	Level 2 ⁽¹⁾	Level 3	Total	
Assets:					
Interest rate swaps	\$—	\$905	\$—	\$905	(c)
Liabilities:					
Foreign exchange contracts	—	54,460	—	54,460	(c)
Interest rate swaps	—	2,440	—	2,440	(c)
Total net liability	\$—	\$55,995	\$—	\$55,995	
	Fair Value Measurements at December 31, 2014 Using				Valuation Technique
	Level 1	Level 2 ⁽¹⁾	Level 3	Total	
Assets:					
Interest rate swaps	\$—	\$369	\$—	\$369	(c)
Liabilities:					
Foreign exchange contracts	—	50,428			