

OCEANEERING INTERNATIONAL INC

Form 10-Q

August 07, 2008

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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 June 30, 2008**

**OR**

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

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

**Commission File Number 1-10945  
OCEANEERING INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)**

DELAWARE

95-2628227

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

11911 FM 529  
Houston, Texas

77041

(Address of principal executive offices)

(Zip Code)

(713) 329-4500

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes , No

Indicate by check mark whether the registrant 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   
(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

The number of shares of the registrant's common stock outstanding as of August 1, 2008 was 55,414,244.



**Oceaneering International, Inc.**  
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Certification by T. Jay Collins, CEO, Pursuant to Rule 13a-14(a)/15d-14(a)

Certification by Marvin J. Migura, CFO, Pursuant to Rule 13a-14(a)/15d-14(a)

Certification by T. Jay Collins, CEO, Pursuant to Section 1350

Certification by Marvin J. Migura, CFO, Pursuant to Section 1350

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS****(unaudited)**  
*(in thousands)*

|   | June 30,<br>2008    | Dec. 31,<br>2007    |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| Current Assets:   |                     |                     |
| Cash and cash equivalents   | \$ 28,829           | \$ 27,110           |
| Accounts receivable, net of allowances for doubtful accounts of \$1,199 and \$1,024 | 411,178             | 370,612             |
| Inventory and other current assets  | 305,293             | 272,847             |
| Total current assets  | 745,300             | 670,569             |
| Property and Equipment, at cost   | 1,358,771           | 1,247,262           |
| Less accumulated depreciation   | 657,634             | 609,155             |
| Net Property and Equipment  | 701,137             | 638,107             |
| Other Assets:   |                     |                     |
| Goodwill  | 144,872             | 111,951             |
| Investments in unconsolidated affiliates  | 65,528              | 64,655              |
| Other   | 45,696              | 46,158              |
| Total other assets  | 256,096             | 222,764             |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,702,533</b> | <b>\$ 1,531,440</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                     |                     |
| Current Liabilities:  |                     |                     |
| Accounts payable  | \$ 100,082          | \$ 76,841           |
| Accrued liabilities   | 234,819             | 235,748             |
| Income taxes payable  | 27,903              | 26,386              |
| Total current liabilities   | 362,804             | 338,975             |
| Long-term Debt  | 226,500             | 200,000             |
| Other Long-term Liabilities   | 90,776              | 77,155              |
| Commitments and Contingencies   |                     |                     |
| Shareholders Equity   | 1,022,453           | 915,310             |

|  |              |              |
|--|--------------|--------------|
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | \$ 1,702,533 | \$ 1,531,440 |
|--|--------------|--------------|

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

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

*(in thousands, except per share amounts)*

|  | For the Three Months<br>Ended<br>June 30, |            | For the Six Months<br>Ended<br>June 30, |            |
|--|---|------------|---|------------|
|  | 2008                                      | 2007       | 2008                                    | 2007       |
| Revenue  | \$ 500,120                                | \$ 432,041 | \$ 935,935                              | \$ 776,045 |
| Cost of Services and Products                            | 381,830                                   | 326,031    | 718,979                                 | 590,433    |
| Gross margin   | 118,290                                   | 106,010    | 216,956                                 | 185,612    |
| Selling, General and Administrative Expense              | 36,825                                    | 29,712     | 70,721                                  | 55,778     |
| Income from operations                                   | 81,465                                    | 76,298     | 146,235                                 | 129,834    |
| Interest Income  | 77  | 137        | 208                                     | 252        |
| Interest Expense, net of amounts capitalized             | (3,503)                                   | (3,972)    | (6,812)                                 | (7,102)    |
| Equity Earnings of Unconsolidated Affiliates             | 612                                       | 1,052      | 1,453                                   | 2,241      |
| Other Income (Expense), Net                              | 1,537                                     | (205)      | 2,611                                   | (173)      |
| Income before income taxes                               | 80,188                                    | 73,310     | 143,695                                 | 125,052    |
| Provision for Income Taxes                               | 28,065                                    | 25,437     | 50,293                                  | 44,013     |
| Net Income   | \$ 52,123                                 | \$ 47,873  | \$ 93,402                               | \$ 81,039  |
| Basic Earnings per Share                                 | \$ 0.95                                   | \$ 0.88    | \$ 1.69                                 | \$ 1.49    |
| Diluted Earnings per Share                               | \$ 0.93                                   | \$ 0.86    | \$ 1.67                                 | \$ 1.46    |
| Weighted average number of common shares                 | 55,141                                    | 54,622     | 55,118                                  | 54,542     |
| Incremental shares from stock equivalents                | 928                                       | 1,056      | 906                                     | 1,051      |
| Weighted average number of common shares and equivalents | 56,069                                    | 55,678     | 56,024                                  | 55,593     |

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



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

|   | For the Six Months Ended<br>June 30, |                  |
|---|--------------------------------------|------------------|
|   | 2008                                 | 2007             |
| <b>Cash Flows from Operating Activities:</b>                                      |                                      |                  |
| Net income  | \$ 93,402                            | \$ 81,039        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |                  |
| Depreciation and amortization   | 54,040                               | 44,133           |
| Gain on sales of property and equipment   | (4,024)                              | (2,961)          |
| Noncash compensation and other  | 1,595                                | 5,998            |
| Undistributed earnings of unconsolidated affiliates                               | (873)                                | (26)             |
| Excluding the effects of acquisitions, increase (decrease) in cash from:          |                                      |                  |
| Accounts receivable   | (36,362)                             | (80,943)         |
| Inventory and other current assets  | (32,446)                             | (62,627)         |
| Other assets  | 4,736                                | 4,119            |
| Current liabilities   | 20,226                               | 55,714           |
| Other long-term liabilities   | 13,731                               | 6,238            |
| <br>  |                                      |                  |
| Total adjustments to net income   | 20,623                               | (30,355)         |
| <br>  |                                      |                  |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>114,025</b>                       | <b>50,684</b>    |
| <br>  |                                      |                  |
| <b>Cash Flows from Investing Activities:</b>                                      |                                      |                  |
| Business acquisitions, less cash acquired   | (45,782)                             | (4,952)          |
| Purchases of property and equipment   | (100,252)                            | (106,561)        |
| Proceeds on sales of property and equipment                                       | 4,360                                | 5,222            |
| <br>  |                                      |                  |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(141,674)</b>                     | <b>(106,291)</b> |
| <br>  |                                      |                  |
| <b>Cash Flows from Financing Activities:</b>                                      |                                      |                  |
| Net proceeds from revolving credit, net of expenses                               | 26,500                               | 50,662           |
| Proceeds from issuance of common stock  | 1,130                                | 3,663            |
| Excess tax benefits from stock-based compensation                                 | 1,738                                | 1,066            |
| <br>  |                                      |                  |
| <b>Net Cash Provided by Financing Activities</b>                                  | <b>29,368</b>                        | <b>55,391</b>    |

|   |           |           |
|---|-----------|-----------|
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | 1,719     | (216)     |
| <b>Cash and Cash Equivalents    Beginning of Period</b>     | 27,110    | 26,228    |
| <b>Cash and Cash Equivalents    End of Period</b>           | \$ 28,829 | \$ 26,012 |

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

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**OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. Basis of Presentation and Significant Accounting Policies**

We have prepared these unaudited consolidated financial statements pursuant to instructions for the quarterly report on Form 10-Q, which we are required to file with the Securities and Exchange Commission. These financial statements do not include all information and footnotes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. These financial statements reflect all adjustments that we believe are necessary to present fairly our financial position at June 30, 2008 and our results of operations and cash flows for the periods presented. All such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2007. The results for interim periods are not necessarily indicative of annual results.

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

**2. Investments in Unconsolidated Affiliates**

Our investments in unconsolidated affiliates consisted of the following:

|                 | June 30,<br>2008      | Dec. 31,<br>2007 |
|-----------------|-----------------------|------------------|
|                 | <i>(in thousands)</i> |                  |
| Medusa Spar LLC | \$ 64,047             | \$ 63,183        |
| Other           | 1,481                 | 1,472            |
| Total           | \$ 65,528             | \$ 64,655        |

We own a 50% equity interest in Medusa Spar LLC. Medusa Spar LLC owns a 75% interest in a production spar platform in the Gulf of Mexico. Medusa Spar LLC's revenue is derived from processing oil and gas production for a fee based on the volumes processed through the platform (throughput). Medusa Spar LLC financed its acquisition of its 75% interest in the production spar platform using approximately 50% debt and 50% equity from its equity holders. Medusa Spar LLC prepaid the remaining debt during the quarter ended June 30, 2008. We believe our maximum exposure to loss from our investment in Medusa Spar LLC is our \$64 million investment. Medusa Spar LLC is a variable interest entity. As we are not the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46(R), *Consolidation of Variable Interest Entities*, we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Equity earnings from Medusa Spar LLC reflected in our financial statements are after amortization of our initial acquisition costs.

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

|   | For the Three Months      |          | For the Six Months Ended |           |
|---|---------------------------|----------|--------------------------|-----------|
|   | Ended<br>June 30,<br>2008 | 2007     | June 30,<br>2008         | 2007      |
|   | <i>(in thousands)</i>     |          |                          |           |
| <b>Medusa Spar LLC</b>                                |                           |          |                          |           |
| <b>Condensed Statements of Income</b>                 |                           |          |                          |           |
| Revenue   | \$ 4,278                  | \$ 4,896 | \$ 8,694                 | \$ 10,157 |
| Depreciation  | (2,370)                   | (2,370)  | (4,739)                  | (4,739)   |
| General and administrative                            | (66)                      | (17)     | (83)                     | (33)      |
| Interest  | (545)                     | (378)    | (833)                    | (784)     |
| Net Income  | \$ 1,297                  | \$ 2,131 | \$ 3,039                 | \$ 4,601  |
| Equity Earnings reflected in our financial statements | \$ 587                    | \$ 1,036 | \$ 1,428                 | \$ 2,241  |

Interest on Medusa Spar LLC's condensed statements of income for the three- and six-month periods ended June 30, 2008 includes \$284,000 of expense from the write off of unamortized loan costs and the unwinding of a hedge recognized upon the prepayment of debt during the second quarter of 2008.

**3. Inventory and Other Current Assets**

Our inventory and other current assets consisted of the following:

|   | June 30,<br>2008      | Dec. 31,<br>2007 |
|---|-----------------------|------------------|
|   | <i>(in thousands)</i> |                  |
| Inventory of parts for remotely operated vehicles | \$ 96,908             | \$ 84,467        |
| Other inventory, primarily raw materials          | 155,763               | 140,943          |
| Deferred income taxes                             | 21,116                | 13,576           |
| Other   | 31,506                | 33,861           |
| Total   | \$ 305,293            | \$ 272,847       |

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

**4. Debt**

Our long-term debt consisted of the following:

|                           | June 30,<br>2008      | Dec. 31,<br>2007 |
|---------------------------|-----------------------|------------------|
|                           | <i>(in thousands)</i> |                  |
| 6.72% Senior Notes        | \$ 60,000             | \$ 60,000        |
| Revolving credit facility | 166,500               | 140,000          |
| Total                     | \$ 226,500            | \$ 200,000       |

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Scheduled maturities of our long-term debt as of June 30, 2008 were as follows:

|                   | 6.72%<br>Notes | Revolving<br>Credit<br><i>(in thousands)</i> | Total      |
|-------------------|----------------|--|------------|
| Remainder of 2008 | \$ 20,000      | \$   | \$ 20,000  |
| 2009              | 20,000         |  | 20,000     |
| 2010              | 20,000         |  | 20,000     |
| 2011              |                |  |            |
| 2012              |                | 166,500                                      | 166,500    |
| Total             | \$ 60,000      | \$ 166,500                                   | \$ 226,500 |

Maturities through June 30, 2009 are not classified as current as of June 30, 2008 because we are able and intend to extend the maturity by reborrowing under our revolving credit facility, which has a maturity date beyond one year. We capitalized interest charges of \$14,000 and \$150,000 in the three-month periods ended June 30, 2008 and 2007, respectively, and \$14,000 and \$518,000 in the six-month periods ended June 30, 2008 and 2007, respectively, as part of construction-in-progress.

**5. Shareholders Equity and Comprehensive Income**

Our shareholders equity consisted of the following:

|  | June 30,<br>2008      | Dec. 31,<br>2007 |
|--|-----------------------|------------------|
|  | <i>(in thousands)</i> |                  |
| Common Stock, par value \$0.25; 180,000,000 shares authorized; 55,187,844 and 55,075,238 shares issued | \$ 13,797             | \$ 13,769        |
| Additional paid-in capital   | 217,273               | 210,388          |
| Retained earnings  | 744,706               | 651,304          |
| Other comprehensive income   | 46,677                | 39,849           |
| Total  | \$ 1,022,453          | \$ 915,310       |

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<br>Ended<br>June 30, |           | For the Six Months Ended<br>June 30, |           |
|--|---|-----------|--------------------------------------|-----------|
|  | 2008                                      | 2007      | 2008                                 | 2007      |
|  | <i>(in thousands)</i>                     |           |                                      |           |
| Net Income per consolidated statements of income   | \$ 52,123                                 | \$ 47,873 | \$ 93,402                            | \$ 81,039 |
| Foreign currency translation gains (losses), net   | (286)                                     | 6,748     | 8,521                                | 9,348     |
| Change in pension liability adjustment, net of tax | (775)                                     | 15        | (1,617)                              | 15        |
| Change in fair value of hedge, net of tax          | 49  | (4)       | (76)                                 | (74)      |
| Total  | \$ 51,111                                 | \$ 54,632 | \$ 100,230                           | \$ 90,328 |

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

|  | June 30,<br>2008      | Dec. 31,<br>2007 |
|--|-----------------------|------------------|
|  | <i>(in thousands)</i> |                  |
| Accumulated net foreign currency translation adjustments | \$ 51,105             | \$ 42,584        |
| Pension liability adjustment                             | (4,428)               | (2,811)          |
| Fair value of hedge                                      |                       | 76               |
| Total  | \$ 46,677             | \$ 39,849        |

**6. Income Taxes**

During interim periods, we provide for income taxes at our estimated effective tax rate, currently 35%, using assumptions as to (1) earnings and other factors that would affect the tax calculation 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 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 greater than 50 percent likely of being realized upon ultimate settlement. We account for any applicable interest and penalties on uncertain tax positions as a component of our provision for income taxes on our financial statements. We charged \$0.3 million and \$0.3 million in the six-month periods ended June 30, 2008 and 2007, respectively, for penalties and interest taken on our financial statements on uncertain tax positions. Our total liabilities for penalties and interest on uncertain tax positions were \$3.1 million on our balance sheet at June 30, 2008. Including penalties and interest, we have accrued a total of \$6.1 million in the caption "other long-term liabilities" on our balance sheet for unrecognized tax benefits. All additions or reductions to those liabilities affect our effective income tax rate in the periods of change.

We do not believe that the total of unrecognized tax benefits will significantly increase or decrease in the next 12 months. Since December 31, 2007, there has been no change to the earliest tax years open to examination by tax authorities where we have significant operations.

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

**7. Business Segment Information**

We supply a comprehensive range of technical services and specialty products to customers in a variety of industries. Our Oil and Gas business consists of five business segments: Remotely Operated Vehicles ( ROVs ); Subsea Products; Subsea Projects; Inspection; and Mobile Offshore Production Systems. 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 and bonuses, as well as other general expenses.

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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, 2007. The following summarizes certain financial data by business segment:

|                                    | For the Three Months Ended |                   |                   | For the Six Months Ended |                   |
|------------------------------------|----------------------------|-------------------|-------------------|--------------------------|-------------------|
|                                    | June 30,<br>2008           | June 30,<br>2007  | March 31,<br>2008 | June 30,<br>2008         | June 30,<br>2007  |
|                                    | <i>(in thousands)</i>      |                   |                   |                          |                   |
| <b>Revenue</b>                     |                            |                   |                   |                          |                   |
| <b>Oil and Gas</b>                 |                            |                   |                   |                          |                   |
| ROVs                               | \$ 159,229                 | \$ 130,219        | \$ 144,729        | \$ 303,958               | \$ 243,549        |
| Subsea Products                    | 164,124                    | 117,311           | 138,518           | 302,642                  | 222,182           |
| Subsea Projects                    | 58,790                     | 68,575            | 47,614            | 106,404                  | 101,675           |
| Inspection                         | 67,969                     | 55,417            | 59,551            | 127,520                  | 102,837           |
| Mobile Offshore Production Systems | 10,165                     | 14,453            | 10,033            | 20,198                   | 25,477            |
| <b>Total Oil and Gas</b>           | <b>460,277</b>             | <b>385,975</b>    | <b>400,445</b>    | <b>860,722</b>           | <b>695,720</b>    |
| Advanced Technologies              | 39,843                     | 46,066            | 35,370            | 75,213                   | 80,325            |
| <b>Total</b>                       | <b>\$ 500,120</b>          | <b>\$ 432,041</b> | <b>\$ 435,815</b> | <b>\$ 935,935</b>        | <b>\$ 776,045</b> |
| <b>Gross Margins</b>               |                            |                   |                   |                          |                   |
| <b>Oil and Gas</b>                 |                            |                   |                   |                          |                   |
| ROVs                               | \$ 53,068                  | \$ 42,364         | \$ 48,629         | \$ 101,697               | \$ 75,047         |
| Subsea Products                    | 38,185                     | 30,552            | 32,594            | 70,779                   | 59,545            |
| Subsea Projects                    | 20,906                     | 25,524            | 14,040            | 34,946                   | 41,097            |
| Inspection                         | 13,776                     | 11,144            | 11,587            | 25,363                   | 17,826            |
| Mobile Offshore Production Systems | 4,766                      | 6,027             | 2,670             | 7,436                    | 9,425             |
| <b>Total Oil and Gas</b>           | <b>130,701</b>             | <b>115,611</b>    | <b>109,520</b>    | <b>240,221</b>           | <b>202,940</b>    |
| Advanced Technologies              | 6,430                      | 7,245             | 4,934             | 11,364                   | 13,120            |
| Unallocated Expenses               | (18,841)                   | (16,846)          | (15,788)          | (34,629)                 | (30,448)          |
| <b>Total</b>                       | <b>\$ 118,290</b>          | <b>\$ 106,010</b> | <b>\$ 98,666</b>  | <b>\$ 216,956</b>        | <b>\$ 185,612</b> |
| <b>Income from Operations</b>      |                            |                   |                   |                          |                   |
| <b>Oil and Gas</b>                 |                            |                   |                   |                          |                   |
| ROVs                               | \$ 45,338                  | \$ 36,675         | \$ 41,497         | \$ 86,835                | \$ 64,168         |
| Subsea Products                    | 25,432                     | 20,973            | 20,717            | 46,149                   | 41,597            |
| Subsea Projects                    | 18,878                     | 23,564            | 12,133            | 31,011                   | 37,634            |
| Inspection                         | 9,337                      | 7,516             | 7,537             | 16,874                   | 10,997            |
| Mobile Offshore Production Systems | 4,341                      | 5,640             | 2,254             | 6,595                    | 8,706             |
| <b>Total Oil and Gas</b>           | <b>103,326</b>             | <b>94,368</b>     | <b>84,138</b>     | <b>187,464</b>           | <b>163,102</b>    |
| Advanced Technologies              | 3,335                      | 5,028             | 2,105             | 5,440                    | 8,954             |
| Unallocated Expenses               | (25,196)                   | (23,098)          | (21,473)          | (46,669)                 | (42,222)          |

|       |           |           |           |            |            |
|-------|-----------|-----------|-----------|------------|------------|
| Total | \$ 81,465 | \$ 76,298 | \$ 64,770 | \$ 146,235 | \$ 129,834 |
|-------|-----------|-----------|-----------|------------|------------|

We generate a material amount of our consolidated revenue from contracts for services in the Gulf of Mexico and North Sea, which are usually more active from April through October, as compared to the rest of the year. In each of the 2007 periods presented, Subsea Projects had higher-than-normal revenue due to work made necessary by severe hurricanes in the Gulf of Mexico in 2004 and 2005. Revenue in our ROV segment is slightly seasonal, 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 in construction support, which is more seasonal than drilling support. Revenue in each of our Subsea Products, Mobile Offshore Production Systems and Advanced Technologies segments has generally not been seasonal.

We have continued to grow our Oil and Gas business by making business acquisitions and purchasing equipment. During the six months ended June 30, 2008, we invested \$68 million and \$65 million in our ROV and Subsea Products segments, respectively.



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**8. Stock-Based Compensation**

*Stock Options*

At June 30, 2008, we had 203,700 outstanding stock options, with a weighted average exercise price of \$15.83 and an aggregate intrinsic value of \$12.5 million. The weighted average remaining contract term of our stock options outstanding at June 30, 2008 was 1.5 years.

As of June 30, 2008, we had no future stock-based compensation expense to be recognized pursuant to stock option grants, as all outstanding stock options are fully vested.

*Restricted Stock Plan Information*

In 2008 and 2007, we granted shares of restricted common stock to our nonemployee directors, excluding our Chairman, and restricted units of our common stock to our Chairman and certain of our key executives and employees. The shares of restricted stock are subject to a one-year vesting requirement, conditioned upon continued service as a director, and the restricted units generally vest in full on the third anniversary of the award date, conditional on continued employment. The restricted unit grants can vest pro rata over three years, provided the employee meets certain age and years-of-service requirements.

For restricted stock units granted in 2006 through 2008, at the earlier of three years after grant or at termination of employment, the employee will be issued a share of our common stock for each common stock unit vested. As of June 30, 2008 and December 31, 2007, totals of 1,018,531 and 885,450 shares of restricted stock or restricted stock units were outstanding and unvested. 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 granted in 2006 through 2008 have no voting rights, but they carry a dividend-equivalent right should we pay dividends on our common stock.

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 \$15 million at June 30, 2008. This expense is being recognized on a staged-vesting basis over the next four years for the awards granted prior to 2006, on a staged-vesting basis over three years for awards made subsequent to 2005 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 granted subsequent to 2005.

**9. Business Acquisition**

In the first quarter of 2008, we acquired GTO Subsea AS ( GTO ), a Norwegian company, for approximately \$45 million. GTO is a rental provider of specialized subsea dredging and excavation equipment, including ROV-deployed units, to the offshore oil and gas industry. We plan to market GTO s equipment in conjunction with our ROV tooling products on a global basis. GTO s results have been included in our Subsea Products segment from its date of acquisition.

We are accounting for this business acquisition using the purchase method of accounting, with the purchase price being allocated to the assets and liabilities acquired based on their fair market values at the respective dates of acquisition. We have made a preliminary purchase price allocation based on information currently available to us, and the allocation is subject to change when we obtain final asset and liability valuations. This acquisition was not material. As a result, we have not included pro forma information in this report.

**10. New Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, except where other accounting pronouncements address fair value measurement for the purposes of lease classification or measurement. The effective date for the application of SFAS No. 157 to certain items was deferred to January 1, 2009 by FASB Staff Position No. 157-2 and this statement will be effective for us at that time, as we do not have any items where application of SFAS No. 157 was not deferred. We are evaluating the impact of this standard on our consolidated financial statements.

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In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115*. SFAS No. 159 allows companies to measure many financial instruments and certain other items at fair value that are not otherwise required to be measured at fair value under generally accepted accounting principles. A company that elects the fair value option for an eligible item will be required to recognize in current earnings any changes in that item's fair value in reporting periods subsequent to the date of adoption. We adopted SFAS No. 159 at the beginning of 2008, as required. We have not elected the fair value option for any eligible item.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS No. 141R ). SFAS No. 141R still requires purchase accounting in business combinations, but it:

- requires an acquirer to recognize all assets and liabilities acquired at the acquisition date, measured at their fair values as of that date, with limited exceptions;

- requires the expensing of all transaction costs and restructuring charges;

- requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities at the full amounts of their fair market values at the acquisition date; and

- requires the acquirer to recognize contingent consideration, including earn-out arrangements, at the acquisition date, measured at its fair value at that date, with subsequent changes to be recognized in earnings.

SFAS No. 141R will apply to any acquisitions we complete on or after January 1, 2009, and earlier adoption is not allowed.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. SFAS No. 160 requires that revenue, expenses, gains, losses, net income or loss and other comprehensive income be reported in the consolidated financial statements at the consolidated amounts, and that the amount of net income attributable to the noncontrolling interest (commonly called minority interest) be reported separately in the consolidated statement of income. SFAS No. 160 also requires that the minority ownership interest in subsidiaries be separately presented in the consolidated balance sheets within equity. We currently report the net income attributable to minority interests within our consolidated statements of income below operating income, and we report minority interest ownership on our consolidated balance sheets in other long-term liabilities. These items have not been material to us to date. SFAS No. 160 requires prospective application for us effective January 1, 2009, and earlier adoption is not allowed; however, presentation and disclosure are retroactively required.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for our first quarter 2009 financial statements, with early application encouraged. We have not yet adopted this standard and are evaluating the impact of this standard on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). This FASB Staff Position is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the value of the asset under SFAS No. 141R. FSP 142-3 requires prospective application of its accounting requirements to intangible assets we acquire after January 1, 2009, and earlier adoption is not allowed. The disclosure requirements of FSP 142-3 will apply to all our intangible assets effective January 1, 2009.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( EITF 03-6-1 ). EITF 03-6-1 states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, need to be included in the earnings allocation in computing earnings per share ( EPS ) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share*. EITF 03-6-1 requires prospective application for us effective January 1, 2009, and earlier adoption is not

allowed; however, prior period EPS data will be adjusted retrospectively to conform to EITF 03-6-1.

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

All statements in this quarterly report on Form 10-Q, other than statements of historical facts, including, without limitation, statements regarding our expectations about 2008 net income and segment results, our plans for future operations, the adequacy of our working capital, our anticipated tax rate for 2008 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 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, 2007. 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 Operation included in our annual report on Form 10-K for the year ended December 31, 2007.

*Executive Overview*

We generate over 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. Our net income for the three-month period ended June 30, 2008 was higher than any calendar year second quarter in our history. Compared to the first quarter of 2008, our quarterly net income increased, as all our operating segments had higher operating income, led by record quarters in our ROV and Inspection segments and a seasonal increase in our Subsea Projects segment.

For 2008, we anticipate our net income to be approximately 10% higher than 2007, with increased ROV, Subsea Products and Inspection operating income from continued demand growth, and decreased Subsea Projects operating income due to decreasing demand for our diving and shallow water vessel services as hurricane damage-related projects near completion and due to scheduled regulatory inspections on four of our owned vessels.

*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, 2007 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 10 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 June 30, 2008, we had working capital of \$382 million, including \$29 million of cash and cash equivalents. Additionally, we had \$133.5 million of borrowing capacity available under our \$300 million revolving credit facility. Our capital expenditures, including business acquisitions, were \$146 million during the first half of 2008, as compared to \$112 million during the first half last year. We added seven new remotely operated vehicles ( ROVs ) to our fleet and disposed of three ROVs during the six months ended June 30, 2008, resulting in a total of 214 ROVs in the fleet. We plan to add 23 more ROVs during the second half of 2008 and these are in the process of being built. Our total ROV capital expenditures were \$68 million for the first half of 2008. Our capital expenditures in the first half of 2008 also included \$65 million within our Subsea Products segment, of which approximately \$45 million was for the acquisition of GTO Subsea AS ( GTO ). GTO is a rental provider of specialized subsea dredging and excavation equipment, including ROV-deployed units, to the offshore oil and gas industry. Our capital expenditures in 2007 included expenditures for additions and upgrades to our ROV fleet to expand the fleet, vessel upgrades, the acquisition of a small inspection company in the United Kingdom (the U.K. ) and facility expansions in the U.K., Norway, Morgan City and Houston. Our facility expansions in the U.K., Norway and Houston related to our Subsea Products manufacturing operations, and our Morgan City expansion was to support our growing ROV and Subsea Projects operations. We have chartered the *Ocean Intervention III* from another party for an initial term of three years which

began in May 2007, with extension options for up

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to six additional years. The *Ocean Intervention III* is equipped with two of our work-class ROVs and is being utilized on deepwater projects in the Gulf of Mexico. We have also chartered the *Olympic Intervention IV* for an initial term of five years, which began in July 2008. The *Olympic Intervention IV* will be outfitted with two high-specification work-class ROVs, and we anticipate using the vessel, beginning in the fourth quarter of 2008, to perform subsea hardware installation and inspection, repair and maintenance projects, and to conduct well intervention services in the ultra-deep waters of the Gulf of Mexico.

We had no material contractual commitments for capital expenditures at June 30, 2008. We currently estimate that our total capital expenditures, including completed business acquisitions, for 2008 will be approximately \$250 million. At June 30, 2008, we had long-term debt of \$226.5 million and an 18% debt-to-total-capitalization ratio. We have \$60 million of Senior Notes outstanding, to be repaid from 2008 through 2010, and \$166.5 million outstanding under our \$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. The amount available under the credit agreement can be increased to \$450 million upon our agreement with the existing or additional lenders. 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 the six-month period ended June 30, 2008, we generated \$114 million in cash from operating activities, used \$142 million of cash in investing activities and obtained \$29 million of cash from financing activities. The cash used in investing activities was used primarily for the capital expenditures and the GTO business acquisition described above. The cash obtained from financing activities was used, along with the cash provided by operating activities, to pay for those capital expenditures and the GTO business acquisition and to finance an increase in working capital of \$51 million. The increase in working capital was primarily the result of higher accounts receivable and inventories, partially offset by higher accounts payable.

In September 2002, our Board of Directors authorized us to repurchase up to 6 million shares of our common stock, subject to a \$75 million aggregate purchase price limitation. Under this plan, we have repurchased an aggregate of 1,795,600 shares of common stock through June 30, 2008, at a total cost of \$20 million. We have reissued all of those shares as contributions to our 401(k) plan or in connection with exercises of stock options. Although we have not made any such repurchases since April 2003, we may from time to time effect additional repurchases in accordance with the terms of the Board's authorization, which remains in effect.

**Results of Operations**

We operate in six 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 Six Months Ended |                  |
|--------------------|-------------------------------|------------------|-------------------|--------------------------|------------------|
|                    | June 30,<br>2008              | June 30,<br>2007 | March 31,<br>2008 | June 30,<br>2008         | June 30,<br>2007 |
|                    | <i>(dollars in thousands)</i> |                  |                   |                          |                  |
| Revenue            | \$500,120                     | \$432,041        | \$435,815         | \$935,935                | \$776,045        |
| Gross margin       | 118,290                       | 106,010          | 98,666            | 216,956                  | 185,612          |
| Operating income   | 81,465                        | 76,298           | 64,770            | 146,235                  | 129,834          |
| Gross margin %     | 24%                           | 25%              | 23%               | 23%                      | 24%              |
| Operating income % | 16%                           | 18%              | 15%               | 16%                      | 17%              |

We generate a material amount of our consolidated revenue from contracts for services in the Gulf of Mexico and North Sea, which are usually more active from April through October, as compared to the rest of the year. In each of the 2007 periods presented, Subsea Projects had higher-than-normal revenue due to work made necessary by severe hurricanes in the Gulf of Mexico in 2004 and 2005. Revenue in our ROV segment is slightly seasonal, 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 in construction support, which is more seasonal than drilling support. Revenue in each of our Subsea

Products, Mobile Offshore Production Systems and Advanced Technologies segments has generally not been seasonal.

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

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

|   | For the Three Months Ended    |                  |                   | For the Six Months Ended |                  |
|---|-------------------------------|------------------|-------------------|--------------------------|------------------|
|   | June 30,<br>2008              | June 30,<br>2007 | March 31,<br>2008 | June 30,<br>2008         | June 30,<br>2007 |
|   | <i>(dollars in thousands)</i> |                  |                   |                          |                  |
| <b>Remotely Operated Vehicles</b>         |                               |                  |                   |                          |                  |
| Revenue                                   | \$ 159,229                    | \$ 130,219       | \$ 144,729        | \$ 303,958               | \$ 243,549       |
| Gross margin                              | 53,068                        | 42,364           | 48,629            | 101,697                  | 75,047           |
| Gross margin %                            | 33%                           | 33%              | 34%               | 33%                      | 31%              |
| Operating income                          | 45,338                        | 36,675           | 41,497            | 86,835                   | 64,168           |
| Operating income %                        | 28%                           | 28%              | 29%               | 29%                      | 26%              |
| Utilization %                             | 84%                           | 87%              | 80%               | 82%                      | 86%              |
| <b>Subsea Products</b>                    |                               |                  |                   |                          |                  |
| Revenue                                   | 164,124                       | 117,311          | 138,518           | 302,642                  | 222,182          |
| Gross margin                              | 38,185                        | 30,552           | 32,594            | 70,779                   | 59,545           |
| Gross margin %                            | 23%                           | 26%              | 24%               | 23%                      | 27%              |
| Operating income                          | 25,432                        | 20,973           | 20,717            | 46,149                   | 41,597           |
| Operating income %                        | 15%                           | 18%              | 15%               | 15%                      | 19%              |
| <b>Subsea Projects</b>                    |                               |                  |                   |                          |                  |
| Revenue                                   | 58,790                        | 68,575           | 47,614            | 106,404                  | 101,675          |
| Gross margin                              | 20,906                        | 25,524           | 14,040            | 34,946                   | 41,097           |
| Gross margin %                            | 36%                           | 37%              | 29%               | 33%                      | 40%              |
| Operating income                          | 18,878                        | 23,564           | 12,133            | 31,011                   | 37,634           |
| Operating income %                        | 32%                           | 34%              | 25%               | 29%                      | 37%              |
| <b>Inspection</b>                         |                               |                  |                   |                          |                  |
| Revenue                                   | 67,969                        | 55,417           | 59,551            | 127,520                  | 102,837          |
| Gross margin                              | 13,776                        | 11,144           | 11,587            | 25,363                   | 17,826           |
| Gross margin %                            | 20%                           | 20%              | 19%               | 20%                      | 17%              |
| Operating income                          | 9,337                         | 7,516            | 7,537             | 16,874                   | 10,997           |
| Operating income %                        | 14%                           | 14%              | 13%               | 13%                      | 11%              |
| <b>Mobile Offshore Production Systems</b> |                               |                  |                   |                          |                  |
| Revenue                                   | 10,165                        | 14,453           | 10,033            | 20,198                   | 25,477           |
| Gross margin                              | 4,766                         | 6,027            | 2,670             | 7,436                    | 9,425            |
| Gross margin %                            | 47%                           | 42%              | 27%               | 37%                      | 37%              |
| Operating income                          | 4,341                         | 5,640            | 2,254             | 6,595                    | 8,706            |
| Operating income %                        | 43%                           | 39%              | 22%               | 33%                      | 34%              |
| <b>Total Oil and Gas</b>                  |                               |                  |                   |                          |                  |
| Revenue                                   | \$ 460,277                    | \$ 385,975       | \$ 400,445        | \$ 860,722               | \$ 695,720       |
| Gross margin                              | 130,701                       | 115,611          | 109,520           | 240,221                  | 202,940          |
| Gross margin %                            | 28%                           | 30%              | 27%               | 28%                      | 29%              |
| Operating income                          | 103,326                       | 94,368           | 84,138            | 187,464                  | 163,102          |



|                    |     |     |     |     |     |
|--------------------|-----|-----|-----|-----|-----|
| Operating income % | 22% | 24% | 21% | 22% | 23% |
|--------------------|-----|-----|-----|-----|-----|

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In general, our Oil and Gas business focuses on supplying services and products to the deepwater sector of the offshore market. In the past couple of years, we have had a high level of demand due to historically high hydrocarbon prices and hurricane damage to the oil and gas producing infrastructure in the Gulf of Mexico. In 2008, we have experienced a decline in hurricane damage-related repair work in our Subsea Projects segment as we complete projects.

Our ROV segment revenue reflects the utilization percentages, fleet sizes and average pricing of the respective periods. Operating income was favorably impacted in the three- and six-month periods of 2008 compared to the corresponding periods of the prior year by increases in the average revenue per day of ROV utilization and the number of days on hire. Our operating income increased in the quarter ended June 30, 2008 compared to the immediately preceding quarter as we achieved higher day rates and more operating days. Our margin percentages remained relatively flat, as costs for personnel, equipment, goods and services in the oilfield services industry also have escalated. We expect our full-year 2008 ROV operating income to be \$35 million to \$45 million higher than 2007.

Our Subsea Products operating income was higher in the second quarter of 2008 compared to the other three-month periods presented, and was higher in the first half of 2008 as compared to the first half of 2007. Margin percentages were lower in the periods ended June 30, 2008, as compared to the corresponding periods of the prior year, due to:

higher development costs for our blowout preventer ( BOP ) control systems;

lower utilization of our installation workover control systems ( IWOCS ) due to market demand being lower than we anticipated for tree installations, workovers and plug and abandonment activities in the Gulf of Mexico; and

costs we are incurring to expand our IWOCS operations in the U.K. and Angola.

Revenue, gross margin, and operating income increased from the periods of the prior year and from the first quarter of 2008 due to higher umbilical plant throughput and specialty product sales, particularly ROV tooling. We expect our full-year 2008 Subsea Products operating income to be \$15 million to \$20 million more than 2007, due to improved umbilical manufacturing results, particularly in the second half of the year, and higher specialty product sales. Our Subsea Products backlog was \$372 million at June 30, 2008 compared to \$338 million at December 31, 2007.

Our Subsea Projects operating income was lower in the three- and six-month periods ended June 30, 2008 compared to the corresponding periods of the prior year. The decreases were primarily due to a softer market for our diving and deepwater vessel services as a result of the substantial completion of work associated with hurricane damage.

Additionally, we incurred expenses associated with regulatory inspection of three of our vessels in the first half of 2008. The first half of 2007 also included a gain of \$3.5 million from the sale of an ROV support vessel. We expect our full-year 2008 operating income for Subsea Projects to be \$25 million to \$30 million less than that of 2007 due to decreasing demand for diving and shallow water vessel services as hurricane damage-related projects near completion and due to scheduled regulatory inspections on four of our owned vessels.

Our Inspection margins increased as a result of strong demand in most of the geographic areas we serve. We expect higher operating income for the full-year 2008 as compared to 2007 from increased activity and higher pricing.

Two of our Mobile Offshore Production Systems segment's three main assets were working under the same contracts as in 2007. The contract for the use of our vessel PB *San Jacinto* was terminated and the vessel went off-hire in July 2007. We recognized revenue and gross margin of \$2.8 million in the second quarter of 2007 associated with a settlement of that contract termination and a gain of \$2.0 million on the sale of the PB *San Jacinto* in the second quarter of 2008.

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

Revenue and margin information is as follows:

|                    | For the Three Months Ended    |                  |                   | For the Six Months Ended |                  |
|--------------------|-------------------------------|------------------|-------------------|--------------------------|------------------|
|                    | June 30,<br>2008              | June 30,<br>2007 | March 31,<br>2008 | June 30,<br>2008         | June 30,<br>2007 |
|                    | <i>(dollars in thousands)</i> |                  |                   |                          |                  |
| Revenue            | \$39,843                      | \$46,066         | \$35,370          | \$75,213                 | \$80,325         |
| Gross margin       | 6,430                         | 7,245            | 4,934             | 11,364                   | 13,120           |
| Gross margin %     | 16%                           | 16%              | 14%               | 15%                      | 16%              |
| Operating income   | 3,335                         | 5,028            | 2,105             | 5,440                    | 8,954            |
| Operating income % | 8%                            | 11%              | 6%                | 7%                       | 11%              |

Our Advanced Technologies segment's revenue and margins for the three- and six-month periods ended June 30, 2008 decreased over the corresponding periods of the prior year due to the completion of a major contract for engineering services at the end of September 2007.

**Unallocated Expenses**

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

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

|                           | For the Three Months Ended    |                  |                   | For the Six Months Ended |                  |
|---------------------------|-------------------------------|------------------|-------------------|--------------------------|------------------|
|                           | June 30,<br>2008              | June 30,<br>2007 | March 31,<br>2008 | June 30,<br>2008         | June 30,<br>2007 |
|                           | <i>(dollars in thousands)</i> |                  |                   |                          |                  |
| Gross margin expenses     | \$18,841                      | \$16,846         | \$15,788          | \$34,629                 | \$30,448         |
| % of revenue              | 4%                            | 4%               | 4%                | 4%                       | 4%               |
| Operating income expenses | 25,196                        | 23,098           | 21,473            | 46,669                   | 42,222           |
| % of revenue              | 5%                            | 5%               | 5%                | 5%                       | 5%               |

Our higher long-term incentive expenses were the principal cause of the increases in Unallocated Expenses in the three- and six-month periods ended June 30, 2008 compared to the corresponding periods of the prior year. For the full-year 2008, we expect our Unallocated Expenses to increase from 2007 levels in line with the increase in the size of our operations.

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

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

|   | For the Three Months Ended    |                  |                   | For the Six Months Ended |                  |
|---|-------------------------------|------------------|-------------------|--------------------------|------------------|
|   | June 30,<br>2008              | June 30,<br>2007 | March 31,<br>2008 | June 30,<br>2008         | June 30,<br>2007 |
|   | <i>(dollars in thousands)</i> |                  |                   |                          |                  |
| Interest income                                   | \$ 77                         | \$ 137           | \$ 131            | \$ 208                   | \$ 252           |
| Interest expense, net of amounts capitalized      | (3,503)                       | (3,972)          | (3,309)           | (6,812)                  | (7,102)          |
| Equity earnings of unconsolidated affiliates, net | 612                           | 1,052            | 841               | 1,453                    | 2,241            |
| Other income (expense), net                       | 1,537                         | (205)            | 1,074             | 2,611                    | (173)            |
| Provision for income taxes                        | 28,065                        | 25,437           | 22,228            | 50,293                   | 44,013           |

The amounts of equity earnings (losses) of unconsolidated affiliates are as follows:

|                 | For the Three Months Ended    |                  |                      | For the Six Months Ended |                  |
|-----------------|-------------------------------|------------------|----------------------|--------------------------|------------------|
|                 | June<br>30,<br>2008           | June 30,<br>2007 | March<br>31,<br>2008 | June 30,<br>2008         | June 30,<br>2007 |
|                 | <i>(dollars in thousands)</i> |                  |                      |                          |                  |
| Medusa Spar LLC | \$ 587                        | \$ 1,036         | \$ 841               | \$ 1,428                 | \$ 2,241         |
| Other           | 25                            | 16               |                      | 25                       |                  |
| Total           | \$ 612                        | \$ 1,052         | \$ 841               | \$ 1,453                 | \$ 2,241         |

We own a 50% equity interest in Medusa Spar LLC, which owns a 75% interest in the Medusa Spar production platform in the Gulf of Mexico. Medusa Spar LLC earns revenue on a tariff basis on oil and gas production throughput processed by the spar from the Medusa field and certain specified surrounding areas. The lower earnings for the three- and six-month periods ended June 30, 2008 compared to the other periods presented resulted from declining production as the reservoirs currently being produced deplete normally. For 2008, we anticipate lower equity income than in 2007 from our Medusa Spar LLC investment due to declines in production from the currently producing wells.

Interest expense for the periods presented reflects the respective average debt levels.

Foreign currency gains of \$1.3 million and \$2.8 million for the three- and six-month periods ended June 30, 2008 are included in other income and are related primarily to the devaluation of the U.S. Dollar against the Brazilian Real. 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 calculation 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 anticipate our effective tax rate for 2008 to be 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 manage our exposure to interest rate changes through the use of a combination of fixed- and floating-rate debt. See Note 4 of Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2007 for a description of our long-term debt agreements, interest rates and maturities. We believe that significant interest rate changes will not have a material near-term impact on our future

earnings or cash flows. Because we operate in various oil and gas exploration and production regions in the

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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. 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 \$8.5 million and \$9.3 million to our equity accounts for the six-month periods ended June 30, 2008 and 2007, respectively, to reflect the net impact of the U.S. Dollar against various foreign currencies for locations where the functional currency is not the U.S. Dollar. Positive adjustments reflect the net impact of the strengthening of various foreign currencies against the U.S. Dollar for locations where the functional currency is not the U.S. Dollar. Conversely, negative adjustments reflect the effect of a strengthening dollar. The increase in the first half of 2008 was primarily due to the strengthening of the Norwegian Kroner against the U.S. Dollar.

We recorded foreign currency transaction gains of \$1.3 million and \$2.8 million for the three- and six-month periods ended June 30, 2008 in other income (expense). Those transaction gains are related primarily to the devaluation of the U.S. Dollar against the Brazilian Real.

**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 chief 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 chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2008 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 June 30, 2008 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 4. Submission of Matters to a Vote of Security Holders.**

(a) Oceaneering International, Inc. held its Annual Meeting of Shareholders on May 16, 2008. The following matters were voted upon at the Annual Meeting, with the voting results as follows:

## (1) Election of Class I Directors

| Nominee           | Shares Voted<br>For | Shares With Votes<br>Withheld |
|-------------------|---------------------|-------------------------------|
| T. Jay Collins    | 51,037,645          | 1,378,625                     |
| D. Michael Hughes | 49,940,459          | 2,475,811                     |

Messrs. Jerold J. DesRoche, David S. Hooker, John R. Huff and Harris J. Pappas also continued as directors immediately following the Annual Meeting.

## (2) Approval of Amendment of the Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 90,000,000 to 180,000,000

| Shares Voted For | Shares Voted Against | Shares Abstaining |
|------------------|----------------------|-------------------|
| 44,039,215       | 8,319,566            | 57,489            |

## (3) Ratification of the appointment of Ernst &amp; Young LLP as independent auditors for Oceaneering

| Shares Voted For | Shares Voted<br>Against | Shares Abstaining |
|------------------|-------------------------|-------------------|
| 52,086,021       | 120,745                 | 209,504           |

**Item 6. Exhibits**

|   |       |   | Registration<br>or File<br>Number | Form or<br>Report | Report<br>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 T. Jay Collins, Chief Executive Officer   |                                   |                   |                |                   |
|   | 31.02 | Rule 13a-14(a)/15d-14(a) Certification by Marvin J. Migura, Chief Financial Officer |                                   |                   |                |                   |
|   | 32.01 | Section 1350 Certification by T. Jay Collins, Chief Executive Officer               |                                   |                   |                |                   |
|   | 32.02 | Section 1350 Certification by Marvin J. Migura, Chief Financial Officer             |                                   |                   |                |                   |

\* Indicates exhibit previously filed with the Securities and Exchange

Commission, as indicated, and is 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)

Date: August 7, 2008

By: /S/ T. JAY COLLINS  
T. Jay Collins  
President and Chief Executive Officer

Date: August 7, 2008

By: /S/ MARVIN J. MIGURA  
Marvin J. Migura  
Senior Vice President and Chief  
Financial Officer

Date: August 7, 2008

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

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

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