

OCEANEERING INTERNATIONAL INC
Form 10-Q
August 05, 2009
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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, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-10945

OCEANEERING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-262827
(I.R.S. Employer
Identification No.)

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

77041
(Zip Code)

(713) 329-4500

(Registrant's telephone number, including area code)

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Not Applicable

(Former name, former address and former fiscal year,

if changed since last report)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of July 31, 2009 was 54,866,502.

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

	June 30, 2009 (unaudited)	Dec. 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 49,393	\$ 11,200
Accounts receivable, net of allowances for doubtful accounts of \$1,075 and \$1,492	406,122	446,719
Inventory	261,283	235,582
Other current assets	45,169	54,204
Total Current Assets	761,967	747,705
Property and equipment, at cost	1,460,441	1,351,839
Less accumulated depreciation	724,082	654,409
Net Property and Equipment	736,359	697,430
Other Assets:		
Goodwill	125,119	118,706
Investments in unconsolidated affiliates	60,676	63,930
Other	43,074	42,249
Total Other Assets	228,869	224,885
TOTAL ASSETS	\$ 1,727,195	\$ 1,670,020
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 76,258	\$ 92,511
Accrued liabilities	238,777	244,035
Income taxes payable	32,367	20,781
Total Current Liabilities	347,402	357,327
Long-term Debt	140,000	229,000
Other Long-term Liabilities	137,829	116,039
Commitments and Contingencies		
Shareholders Equity	1,101,964	967,654

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,727,195	\$ 1,670,020
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The accompanying Notes are an integral part of these Consolidated Financial Statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	\$ 450,683	\$ 500,120	\$ 885,783	\$ 935,935
Cost of Services and Products	340,538	381,830	669,836	718,979
Gross margin	110,145	118,290	215,947	216,956
Selling, General and Administrative Expense	35,847	36,825	72,269	70,721
Income from operations	74,298	81,465	143,678	146,235
Interest Income	91	77	226	208
Interest Expense, net of amounts capitalized	(2,208)	(3,503)	(4,589)	(6,812)
Equity Earnings of Unconsolidated Affiliates	766	612	1,649	1,453
Other Income, Net	1,070	1,537	1,276	2,611
Income before income taxes	74,017	80,188	142,240	143,695
Provision for Income Taxes	25,906	28,065	49,784	50,293
Net Income	\$ 48,111	\$ 52,123	\$ 92,456	\$ 93,402
Basic Earnings per Share	\$ 0.87	\$ 0.94	\$ 1.68	\$ 1.68
Diluted Earnings per Share	\$ 0.87	\$ 0.93	\$ 1.67	\$ 1.66

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

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

	For the Six Months Ended June 30,	
	2009	2008
Cash Flows from Operating Activities:		
Net income	\$ 92,456	\$ 93,402
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	57,714	54,040
Deferred income tax provision	17,840	7,426
Loss (gain) on sales of property and equipment	1,081	(4,024)
Noncash compensation	3,385	4,045
Distributions from Medusa Spar LLC		
greater than (less than) earnings Excluding the effects of acquisitions,	3,254	(873)
increase (decrease) in cash from:		
Accounts receivable	40,597	(36,362)
Inventory and other current assets	(15,723)	(30,060)
Other assets	(1,884)	2,173
Currency translation effect on working capital	14,923	(2,693)
Current liabilities	(7,531)	20,226
Other long-term liabilities	1,386	3,919
Total adjustments to net income	115,042	17,817
Net Cash Provided by Operating Activities	207,498	111,219
Cash Flows from Investing Activities:		
Business acquisitions, net of cash acquired		(42,976)
Purchases of property and equipment	(90,098)	(100,252)
Dispositions of property and equipment	8,377	4,360
Net Cash Used in Investing Activities	(81,721)	(138,868)
Cash Flows from Financing Activities:		
Net (payments) proceeds from revolving credit, net of expenses	(4,000)	26,500
Payments on Term Loan	(85,000)	
Proceeds from issuance of common stock	916	1,130

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Excess tax benefits from stock-based compensation	500	1,738
Net Cash (Used in) Provided by Financing Activities	(87,584)	29,368
Net Increase in Cash and Cash Equivalents	38,193	1,719
Cash and Cash Equivalents Beginning of Period	11,200	27,110
Cash and Cash Equivalents End of Period	\$ 49,393	\$ 28,829

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

Table of Contents**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, 2009 and our results of operations and cash flows for the periods presented. All such adjustments are of a normal and recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2008. The results for interim periods are not necessarily indicative of annual results.

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

We evaluated events and transactions through the issuance of these financial statements on August 5, 2009 for possible recognition or disclosure.

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

2. Investments in Unconsolidated Affiliates

Our investments in unconsolidated affiliates consisted of the following:

	June 30, 2009	Dec. 31, 2008
	<i>(in thousands)</i>	
Medusa Spar LLC	\$ 59,329	\$ 62,583
Other	1,347	1,347
Total	\$ 60,676	\$ 63,930

We own a 50% equity interest in Medusa Spar LLC. Medusa Spar LLC owns a 75% interest in a production spar platform in the Gulf of Mexico. Medusa Spar LLC's revenue is derived from processing oil and gas production for a fee based on the volumes processed through the platform. Medusa Spar LLC financed its acquisition of its 75% interest in the production spar platform using approximately 50% debt and 50% equity from its equity holders. The debt was repaid in 2008. We believe our maximum exposure to loss from our investment in Medusa Spar LLC is our \$59 million investment. Medusa Spar LLC is a variable interest entity. We are not the primary beneficiary of Medusa Spar LLC because we own 50%, we do not manage the operations of the asset it owns, and another owner guaranteed the revenue stream necessary for Medusa Spar LLC to repay its debt. As we are not the primary beneficiary, we are accounting for our investment in Medusa Spar LLC under the equity method of accounting. Equity earnings from Medusa Spar LLC reflected in our financial statements are after amortization of our initial acquisition costs.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	2008	June 30, 2009	2008
<i>(in thousands)</i>				
Medusa Spar LLC				
Condensed Statements of Income				
Revenue	\$ 3,948	\$ 4,278	\$ 8,128	\$ 8,694
Depreciation	(2,370)	(2,370)	(4,739)	(4,739)
General and administrative	(17)	(66)	(35)	(83)
Interest		(545)		(833)
Net Income	\$ 1,561	\$ 1,297	\$ 3,354	\$ 3,039
Equity Earnings reflected in our financial statements	\$ 766	\$ 587	\$ 1,649	\$ 1,428

3. Inventory

Our inventory consisted of the following:

	June 30, 2009	Dec. 31, 2008
<i>(in thousands)</i>		
Parts and components for remotely operated vehicles	\$ 120,118	\$ 104,892
Other inventory, primarily raw materials	141,165	130,690
Total	\$ 261,283	\$ 235,582

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

4. Debt

Our long-term debt consisted of the following:

	June 30, 2009	Dec. 31, 2008
<i>(in thousands)</i>		
6.72% Senior Notes	\$ 40,000	\$ 40,000
Term Loan		85,000
Revolving credit	100,000	104,000
Total	\$ 140,000	\$ 229,000