OCEANEERING INTERNATIONAL INC
Form 10-Q
August 03, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from ______ to ______

Commission File Number 1-10945

OCEANEERING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**95-2628227**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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 x, 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 x, 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	x	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 x

The number of shares of the registrant s common stock outstanding as of July 29, 2011 was 108,533,170.

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Oceaneering International, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2011 **(unaudited)**	Dec. 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 150,918	$ 245,219
Accounts receivable, net of allowances for doubtful accounts of $6,093 and $5,655	500,432	424,014
Inventory	264,488	236,517
Other current assets	79,033	77,752
Total Current Assets	994,871	983,502
Property and equipment, at cost	1,776,755	1,631,109
Less accumulated depreciation	912,641	844,736
Net Property and Equipment	864,114	786,373
Other Assets:		
Goodwill	170,149	143,234
Investment in Medusa Spar LLC	50,767	51,820
Other	80,560	65,577
Total Other Assets	301,476	260,631
TOTAL ASSETS	$ 2,160,461	$ 2,030,506
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 116,409	$ 85,572
Accrued liabilities	279,899	314,410
Income taxes payable	42,272	39,874
Total Current Liabilities	438,580	439,856
Long-term Debt		
Other Long-term Liabilities	215,514	200,435
Commitments and Contingencies		
Shareholders Equity	1,506,367	1,390,215
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,160,461	$ 2,030,506

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 Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	$ 545,838	$ 464,303	$ 1,016,258	$ 899,473
Cost of services and products	419,722	340,800	791,341	676,265
Gross Profit	126,116	123,503	224,917	223,208
Selling, general and administrative expense	44,442	38,129	82,176	75,505
Income from Operations	81,674	85,374	142,741	147,703
Interest income	89	111	256	214
Interest expense	(212)	(3,878)	(359)	(5,519)
Equity earnings of unconsolidated affiliates	1,430	450	1,900	1,015
Other income (expense), net	(217)	1,507	(358)	525
Income before Income Taxes	82,764	83,564	144,180	143,938
Provision for income taxes	26,071	29,247	45,417	50,378
Net Income	$ 56,693	$ 54,317	$ 98,763	$ 93,560
Basic Earnings per Share	$ 0.52	$ 0.49	$ 0.91	$ 0.85
Diluted Earnings per Share	$ 0.52	$ 0.49	$ 0.91	$ 0.84

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 June 30, 2011	2010
Cash Flows from Operating Activities:		
Net income	$ 98,763	$ 93,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,145	73,132
Deferred income tax provision	3,824	272
Gain on dispositions of property and equipment	(960)	(2,700)
Noncash compensation	5,707	4,222
Distributions from Medusa Spar LLC greater than earnings	1,053	3,048
Excluding the effects of acquisitions, increase (decrease) in cash from:		
Accounts receivable	(64,468)	(531)
Inventory	(23,217)	(7,117)
Other operating assets	(585)	(6,517)
Currency translation effect on working capital	2,620	(2,981)
Operating liabilities	(10,393)	40,788
Total adjustments to net income	(13,274)	101,616
Net Cash Provided by Operating Activities	85,489	195,176
Cash Flows from Investing Activities:		
Purchases of property and equipment	(108,204)	(94,874)
Business acquisitions, net of cash acquired	(59,558)	
Dispositions of property and equipment	3,997	3,500
Disposition of equity method investment		1,348
Net Cash Used in Investing Activities	(163,765)	(90,026)
Cash Flows from Financing Activities:		
Net payments of revolving credit		(100,000)
Proceeds from issuance of common stock		693
Cash dividends paid	(16,280)	
Purchases of treasury stock		(24,460)
Excess tax benefits from stock-based compensation	255	965
Net Cash Provided by Financing Activities	(16,025)	(122,802)
Net Increase (Decrease) in Cash and Cash Equivalents	(94,301)	(17,652)
Cash and Cash Equivalents Beginning of Period	245,219	162,351
Cash and Cash Equivalents End of Period	$ 150,918	$ 144,699

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

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OCEANEERING INTERNATIONAL, INC. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Summary of Major Accounting Policies

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

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

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

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

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

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

Business Acquisitions. On March 31, 2011, we purchased, for $56 million net of cash acquired, Norse Cutting & Abandonment AS (NCA), a Norwegian oilfield technology company that specializes in providing subsea tooling services used in the plugging, abandonment and decommissioning of offshore oil and gas production platforms and subsea wellheads. In addition, NCA performs specialized maintenance and repair services on production platforms in the North Sea. NCA s business is split approximately evenly between the North Sea and the U.S. Gulf of Mexico. We have accounted for this acquisition by allocating the purchase price to the net assets acquired based on their estimated fair values at the date of acquisition. This purchase price allocation is preliminary and based on information currently available to us, and is subject to change when we obtain final asset and liability valuations. This acquisition, along with another smaller acquisition we made in the second quarter, are not material. As a result, we have not included historical pro forma information.

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

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

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

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

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

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

Note 2. Investment in Medusa Spar LLC

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Medusa Spar LLC				
Condensed Statements of Income				
Revenue	$ 5,277	$ 3,316	$ 8,631	$ 6,861
Depreciation	(2,370			