

HELIX ENERGY SOLUTIONS GROUP INC  
Form 10-Q  
April 24, 2013

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

Form 10-Q

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2013  
or  
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-32936

HELIX ENERGY SOLUTIONS GROUP, INC.

(Exact name of registrant as specified in its charter)

Minnesota  
(State or other jurisdiction  
of incorporation or organization)

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

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

77060  
(Zip Code)

(281) 618-0400  
(Registrant's telephone number, including area code)

NOT APPLICABLE

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

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

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Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 19, 2013, 105,935,517 shares of common stock were outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

	March 31, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 625,650	\$ 437,100
Accounts receivable:		
Trade, net of allowance for uncollectible accounts of \$5,154 and \$5,152, respectively	142,793	152,233
Unbilled revenue	29,392	26,992
Costs in excess of billing	5,438	6,848
Other current assets	61,189	96,934
Current assets of discontinued operations	—	84,000
Total current assets	864,462	804,107
Property and equipment	2,115,321	2,051,796
Less accumulated depreciation	(582,594 )	(565,921 )
Property and equipment, net	1,532,727	1,485,875
Other assets:		
Equity investments	165,452	167,599
Goodwill	61,732	62,935
Other assets, net	41,958	49,837
Non-current assets of discontinued operations	—	816,227
Total assets	\$ 2,666,331	\$ 3,386,580
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 100,553	\$ 92,398
Accrued liabilities	122,024	161,514
Income tax payable	35,797	—
Current maturities of long-term debt	10,247	16,607
Current liabilities of discontinued operations	—	182,527
Total current liabilities	268,621	453,046
Long-term debt	687,461	1,002,621
Deferred tax liabilities	290,102	359,237
Other non-current liabilities	14,976	5,025
Non-current liabilities of discontinued operations	—	147,237
Total liabilities	1,261,160	1,967,166
Commitments and contingencies		
Shareholders' equity:		
	935,463	932,742

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Common stock, no par, 240,000 shares authorized, 105,939 and 105,763 shares issued, respectively		
Retained earnings	477,925	476,310
Accumulated other comprehensive loss	(33,986 )	(15,667 )
Total controlling interest shareholders' equity	1,379,402	1,393,385
Noncontrolling interest	25,769	26,029
Total equity	1,405,171	1,419,414
Total liabilities and shareholders' equity	\$ 2,666,331	\$ 3,386,580

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

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

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2013	2012
Net revenues	\$ 197,429	\$ 229,842
Cost of sales	144,862	157,359
Gross profit	52,567	72,483
Loss on commodity derivative contracts	(14,113 )	—
Selling, general and administrative expenses	(23,216 )	(22,415 )
Income from operations	15,238	50,068
Equity in earnings of investments	610	407
Net interest expense	(10,323 )	(14,477 )
Loss on early extinguishment of long-term debt	(2,882 )	(17,127 )
Other income (expense), net	(3,684 )	70
Other income – oil and gas	2,818	—
Income before income taxes	1,777	18,941
Income tax provision	443	1,278
Income from continuing operations	1,334	17,663
Income from discontinued operations, net of tax	1,058	48,853
Net income, including noncontrolling interests	2,392	66,516
Less net income applicable to noncontrolling interests	(777 )	(789 )
Net income applicable to Helix	\$ 1,615	\$ 65,727
Basic earnings per share of common stock:		
Continuing operations	\$ 0.01	\$ 0.16
Discontinued operations	0.01	0.46
Net income per common share	\$ 0.02	\$ 0.62
Diluted earnings per share of common stock:		
Continuing operations	\$ 0.01	\$ 0.16
Discontinued operations	0.01	0.46
Net income per common share	\$ 0.02	\$ 0.62
Weighted average common shares outstanding:		
Basic	105,032	104,530
Diluted	105,165	104,989

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



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

	Three Months Ended March 31,	
	2013	2012
Net income, including noncontrolling interests	\$ 2,392	\$ 66,516
Other comprehensive income (loss), net of tax:		
Unrealized loss on hedges arising during the period	(11,285 )	(21,318 )
Reclassification adjustments for loss included in net income	150	84
Income taxes on unrealized losses on hedges	3,897	7,432
Unrealized loss on hedges, net of tax	(7,238 )	(13,802 )
Foreign currency translation gain (loss)	(11,081 )	4,152
Other comprehensive loss, net of tax	(18,319 )	(9,650 )
Comprehensive income (loss)	(15,927 )	56,866
Less comprehensive income applicable to noncontrolling interests	(777 )	(789 )
Comprehensive income (loss) applicable to Helix	\$ (16,704 )	\$ 56,077

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



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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income, including noncontrolling interests	\$ 2,392	\$ 66,516
Adjustments to reconcile net income, including noncontrolling interests to net cash provided by operating activities:		
Income from discontinued operations	(1,058 )	(48,853 )
Depreciation and amortization	24,380	24,649
Amortization of deferred financing costs	1,472	1,611
Stock-based compensation expense	3,353	1,838
Amortization of debt discount	1,278	2,355
Deferred income taxes	16,784	(2,673 )
Excess tax from stock-based compensation	(617 )	340
Loss on early extinguishment of debt	2,882	17,127
Unrealized loss and ineffectiveness on derivative contracts, net	969	114
Changes in operating assets and liabilities:		
Accounts receivable, net	3,714	6,835
Other current assets	12,577	10,483
Income tax payable	(20,283 )	23,233
Accounts payable and accrued liabilities	(48,765 )	(35,987 )
Oil and gas asset retirement costs	(240 )	(5,367 )
Other noncurrent, net	(7,005 )	(4,056 )
Net cash provided by (used in) operating activities	(8,167 )	58,165
Net cash provided by (used in) discontinued operations	(30,503 )	75,640
Net cash provided by (used in) operating activities	(38,670 )	133,805
Cash flows from investing activities:		
Capital expenditures	(36,455 )	(82,962 )
Distributions from equity investments, net	2,050	5,943
Net cash provided by (used in) investing activities	(34,405 )	(77,019 )
Net cash provided by (used in) discontinued operations	582,965	(17,860 )
Net cash provided by (used in) investing activities	548,560	(94,879 )
Cash flows from financing activities:		
Early extinguishment of Senior Unsecured Notes	—	(209,500 )
Borrowings under revolving credit facility	2,573	100,000
Repayment of revolving credit facility	(24,473 )	—
Issuance of Convertible Senior Notes due 2032	—	200,000
Repurchase of Convertible Senior Notes due 2025	(3,487 )	(143,945 )
Proceeds from Term Loan	—	100,000
Repayment of Term Loans	(294,882 )	(750 )
Repayment of MARAD borrowings	(2,529 )	(2,409 )
Deferred financing costs	(41 )	(6,337 )

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Distributions to noncontrolling interest	(1,037 )	—
Repurchases of common stock	(1,473 )	(991 )
Excess tax from stock-based compensation	617	(340 )
Exercise of stock options, net and other	174	381
Net cash provided by (used in) financing activities	(324,558 )	36,109
Effect of exchange rate changes on cash and cash equivalents	3,218	(1,051 )
Net increase in cash and cash equivalents	188,550	73,984
Cash and cash equivalents:		
Balance, beginning of year	437,100	546,465
Balance, end of period	\$ 625,650	\$ 620,449

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

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HELIX ENERGY SOLUTIONS GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 — Basis of Presentation and Recent Accounting Standards

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

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and are consistent in all material respects with those applied in our 2012 Annual Report on Form 10-K ("2012 Form 10-K"). The preparation of these financial statements requires us to make estimates and judgments that affect the amounts reported in the financial statements and the related disclosures. Actual results may differ from our estimates. Management has reflected all adjustments (which were normal recurring adjustments unless otherwise disclosed herein) that it believes are necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations, statements of comprehensive income (loss), and statements of cash flows, as applicable. The operating results for the three-month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. Our balance sheet as of December 31, 2012 included herein has been derived from the audited balance sheet as of December 31, 2012 included in our 2012 Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our 2012 Form 10-K.

Certain reclassifications were made to previously reported amounts in the condensed consolidated financial statements and notes thereto to make them consistent with the current presentation format. The most significant of these reclassifications are associated with our discontinued operations. As noted in Note 2, we exited our oil and gas business in February 2013 upon the sale of our former wholly-owned subsidiary, Energy Resource Technology GOM, Inc. ("ERT").

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position (balance sheet). U.S. GAAP allows companies the option to present net in their balance sheets derivatives that are subject to a legally enforceable netting arrangement with the same party where rights of set-off are only available in the event of default or bankruptcy. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of ASU 2011-11 did not have any material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU 2013-02 requires companies to provide information about the amounts that are reclassified out of accumulated other comprehensive income either by

the respective line items of net income or by cross-reference to other required disclosures. This guidance is effective prospectively for fiscal years beginning after December 15, 2012. We adopted ASU 2013-02 on January 1, 2013. The adoption of this guidance did not have any material impact on our consolidated financial statements. We have presented the information required by the guidance in Note 16.

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## Note 2 — Company Overview

We are an international offshore energy company that provides specialty services to the offshore energy industry, with a focus on growing well intervention and robotics operations. In February 2013, we completed the sale of ERT, our former wholly-owned subsidiary that conducted our oil and gas operations in the U.S., for \$624 million plus consideration in the form of overriding royalty interests in ERT's Wang well and certain other of its future exploration prospects. We used \$318.4 million of the sales proceeds to reduce our indebtedness under our Credit Agreement (Note 7) and we are using the remainder in our continuing operations, including supporting the expansion of our well intervention and robotics operations.

## Contracting Services Operations

We seek to provide services and methodologies that we believe are critical to developing offshore reservoirs and maximizing production economics. Our "life of field" services are segregated into four disciplines: well intervention, robotics, subsea construction and production facilities. We have disaggregated our contracting services operations into two reportable segments: Contracting Services and Production Facilities. Our Contracting Services segment includes well intervention, robotics and subsea construction operations (see below for disclosure regarding the planned dispositions of our remaining subsea construction vessels and related assets). Our Production Facilities business includes our majority ownership of the Helix Producer I ("HP I") vessel as well as our equity investments in Deepwater Gateway, L.L.C. ("Deepwater Gateway") and Independence Hub, LLC ("Independence Hub") (Note 6). It also includes the Helix Fast Response System ("HFRS"), which includes access to our Q4000 and HP I vessels.

In October 2012, we entered into an agreement to sell our two remaining pipelay vessels, the Express and the Caesar, and other related pipelay equipment for a total sales price of \$238.3 million, of which we have received a \$50 million deposit that is only refundable in very limited circumstances. The sales of these vessels are expected to close in July 2013 following the completion of each vessel's backlog of work.

## Discontinued Operations

In December 2012, we announced a definitive agreement for the sale of ERT. On February 6, 2013, we sold ERT for \$624 million plus consideration in the form of overriding royalty interests in ERT's Wang well and certain other of its future exploration prospects. As a result, we have presented the assets and liabilities included in the sale of ERT and the historical operating results of our former Oil and Gas segment as discontinued operations in the accompanying condensed consolidated financial statements. See Note 4 for additional information regarding our discontinued oil and gas operations.

## Note 3 — Details of Certain Accounts

Other current assets consist of the following (in thousands):

	March 31, 2013	December 31, 2012
Other receivables	\$ 737	\$ 1,086
Prepaid insurance	4,337	11,999
Other prepaids	12,545	11,751
Spare parts inventory	2,589	2,480
Income tax receivable	—	14,201
Current deferred tax assets	34,397	43,942

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Derivative assets	—	5,946
Other	6,584	5,529
Total other current assets	\$ 61,189	\$ 96,934

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

	March 31, 2013	December 31, 2012
Deferred dry dock expenses, net	\$ 19,689	\$ 22,704
Deferred financing costs, net	19,620	24,338
Intangible assets with finite lives, net	469	491
Other	2,180	2,304
<b>Total other assets, net</b>	<b>\$ 41,958</b>	<b>\$ 49,837</b>

Accrued liabilities consist of the following (in thousands):

	March 31, 2013	December 31, 2012
Accrued payroll and related benefits	\$ 34,721	\$ 51,561
Current asset retirement obligations	4,048	2,898
Unearned revenue	6,964	6,137
Billing in excess of cost	4,625	6,445
Accrued interest	7,699	17,451
Derivative liability (Note 16)	2,008	16,266
Taxes payable excluding income tax payable	5,788	5,164
Pipelay assets sale deposit (Note 2)	50,000	50,000
Other	6,171	5,592
<b>Total accrued liabilities</b>	<b>\$ 122,024</b>	<b>\$ 161,514</b>

## Note 4 — Oil and Gas Properties

## Results of Discontinued Operations

The following summarized financial information relates to ERT, which is reported as “Income from discontinued operations, net of tax” in the accompanying condensed consolidated statements of operations:

	Three Months Ended March 31,	
	2013 (1)	2012
Revenues	\$ 48,847	\$ 178,085
Costs:		
Production (lifting) costs	16,017	37,020
Exploration expenses	3,514	754
Depreciation, depletion, amortization and accretion	1,226	47,843
Proved property impairment and abandonment charges (credits)	(152 )	3,241
Loss on sale of oil and gas properties	—	1,478
Loss on commodity derivative contracts	—	2,339
Selling, general and administrative expenses	1,229	3,281
Net interest expense and other (2)	2,732	7,277
<b>Total costs</b>	<b>24,566</b>	<b>103,233</b>

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Pretax income from discontinued operations	24,281	74,852
Income tax provision	8,499	25,999
Income from operations of discontinued operations	15,782	48,853
Loss on sale of business, net of tax	(14,724 )	—
Income from discontinued operations, net of tax	\$ 1,058	\$ 48,853

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(1) Results for the first quarter of 2013 were through February 6, 2013 when ERT was sold.

Net interest expense of \$2.7 million and \$7.2 million for the three-month periods ended March 31, 2013 and 2012, (2) respectively, was allocated to ERT primarily based on interest associated with indebtedness directly attributed to the substantial oil and gas acquisition made in 2006. This includes interest related to debt required to be paid upon the disposition of ERT.

## Note 5 — Statement of Cash Flow Information

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

	Three Months Ended March 31,	
	2013	2012
Interest paid, net of interest capitalized	\$ 20,164	\$ 32,554
Income taxes paid	\$ 4,521	\$ 6,725

Total non-cash investing activities for the three-month periods ended March 31, 2013 and 2012 included \$23.3 million and \$21.0 million, respectively, of accruals for property and equipment capital expenditures.

## Note 6 — Equity Investments

As of March 31, 2013, we had two investments that we account for using the equity method of accounting: Deepwater Gateway and Independence Hub, both of which are included in our Production Facilities segment.

Deepwater Gateway, L.L.C. In June 2002, we, along with Enterprise Products Partners L.P. ("Enterprise"), formed Deepwater Gateway, each with a 50% interest, to design, construct, install, own and operate a tension leg platform production hub primarily for Anadarko Petroleum Corporation's Marco Polo field in the Deepwater Gulf of Mexico. Our investment in Deepwater Gateway totaled \$90.2 million and \$91.4 million as of March 31, 2013 and December 31, 2012, respectively (including capitalized interest of \$1.3 million and \$1.3 million at March 31, 2013 and December 31, 2012, respectively).

Independence Hub, LLC. In December 2004, we acquired a 20% interest in Independence Hub, an affiliate of Enterprise. Independence Hub owns the "Independence Hub" platform located in Mississippi Canyon Block 920 in a water depth of 8,000 feet. Our investment in Independence Hub was \$75.3 million and \$76.2 million as of March 31, 2013 and December 31, 2012, respectively (including capitalized interest of \$4.5 million and \$4.6 million at March 31, 2013 and December 31, 2012, respectively).

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

	Three Months Ended March 31,	
	2013	2012
Deepwater Gateway	\$ 1,500	\$ 2,150
Independence Hub	1,160	4,200
Total	\$ 2,660	\$ 6,350

As disclosed in our 2012 Form 10-K, in the first quarter of 2012, we recorded losses totaling \$3.8 million associated with our investment in an Australian joint venture, including a \$3.0 million fee paid in connection with our exit from the joint venture. In April 2012, we paid this fee and received approximately \$3.7 million of proceeds for our pro rata portion (50%) of the value of certain of the net assets on hand at the time of our exit. We are no longer a participant in this joint venture.



Included below is a summary of certain components of our indebtedness. For additional information regarding our debt, see Note 7 of our 2012 Form 10-K.

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## Senior Unsecured Notes

In December 2007, we issued \$550 million of 9.5% Senior Unsecured Notes due 2016 (“Senior Unsecured Notes”). Interest on the Senior Unsecured Notes is payable semi-annually in arrears on each January 15 and July 15, commencing July 15, 2008. The Senior Unsecured Notes are fully and unconditionally guaranteed by substantially all of our existing restricted domestic subsidiaries, except for Cal Dive I-Title XI, Inc. In addition, any future restricted domestic subsidiaries that guarantee any of our indebtedness and/or our restricted subsidiaries’ indebtedness are required to guarantee the Senior Unsecured Notes. Our foreign subsidiaries are not guarantors of the notes. Prior to stated maturity, we may redeem all or a portion of the Senior Unsecured Notes on no less than 30 days’ and no more than 60 days’ prior notice at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest thereon, if any, to the applicable redemption date.

Year	Redemption Price
2013	102.375%
2014 and thereafter	100.000%

In March 2012, we purchased a portion of these Senior Unsecured Notes which resulted in an early extinguishment of \$200.0 million of our outstanding balance. In these transactions we paid an aggregate amount of \$213.5 million, including \$200.0 million in principal, a \$9.5 million premium and \$4.0 million of accrued interest. We also recorded a \$2.0 million charge to accelerate a pro rata portion of the deferred financing costs associated with the original issuance of the Senior Unsecured Notes. The loss on the early extinguishment of these Senior Unsecured Notes totaled \$11.5 million and is reflected as a component of “Loss on early extinguishment of long-term debt” in the accompanying condensed consolidated statements of operations. We had \$275.0 million of Senior Unsecured Notes outstanding at March 31, 2013 and December 31, 2012.

## Credit Agreement

In July 2006, we entered into a credit agreement (the “Credit Agreement”) under which we borrowed \$835 million in a term loan (the “Term Loan B”) and were able to borrow up to \$300 million (the “Revolving Loans”) under a revolving credit facility (the “Revolving Credit Facility”). The Credit Agreement has been amended eight times, with the most recent amendment occurring in February 2013. These amendments address certain issues with regard to covenants, maturity and the borrowing limits under the Term Loan and the Revolving Loans. The February 2013 amendment was entered into to waive certain year end oil and gas reporting requirements and covenant compliance as a result of the sale of ERT.

In February 2013, we repaid \$293.9 million of our Term Loan debt (including the entire outstanding balance of the Term Loan B) and \$24.5 million under our Revolving Credit Facility with the after-tax proceeds from the sale of ERT. At March 31, 2013, the remaining balance of our Term Loan debt was \$72.3 million. In connection with the repayment of debt in February 2013, we recorded a \$2.9 million charge to accelerate a pro rata portion of the deferred financing costs associated with our Term Loan debt. This charge is reflected as a component of “Loss on early extinguishment of long-term debt” in the accompanying condensed consolidated statements of operations.

Our Term Loan debt currently bears interest at the one-, two-, three- or six-month LIBOR or on Base Rates at our current election plus an applicable margin between 2.25% and 3.5% depending on our consolidated leverage ratio. The average interest rates on our Term Loan debt were 3.3% for the three-month period ended March 31, 2013 and 4.0% (including the effects of our interest rate swaps) for the same period last year. The Term Loan is currently scheduled to mature on July 1, 2015 but could be extended to January 1, 2016 if our Senior Unsecured Notes are fully

repaid or refinanced by July 1, 2015.

As amended, our Revolving Credit Facility provides for \$600 million in borrowing capacity. The full amount of the Revolving Credit Facility may be used for issuances of letters of credit. These letters of credit guarantee items such as various contract bidding, contractual performance, insurance activities and shipyard commitments. The Revolving Loans bear interest based on one-, two-, three- or six-month LIBOR rates or on Base Rates at our current election, plus an applicable margin. The margin ranges from 1.5% to 3.5%, depending on our consolidated leverage ratio. Fees associated with outstanding letters of credit range from 2.0% to 3.0%, depending on our consolidated leverage ratio. We also pay a fixed commitment fee of 0.5%

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on the unused portion of our Revolving Credit Facility. We had \$78.1 million and \$100.0 million drawn on the Revolving Credit Facility at March 31, 2013 and December 31, 2012, respectively. At March 31, 2013, our availability under the Revolving Credit Facility totaled \$513.9 million, net of \$8.0 million of letters of credit issued. The average interest rate for the outstanding balance under the Revolving Credit Facility totaled 3.0% during the three-month period ended March 31, 2013.

We may elect to prepay amounts outstanding under the Term Loan without penalty, but may not reborrow any amounts paid. We may repay amounts outstanding under the Revolving Loans without penalty, and may reborrow amounts paid prior to maturity. In addition, upon the occurrence of certain dispositions or the issuance or incurrence of certain types of indebtedness, we may be required to repay a portion of the Term Loan debt and borrowings under the Revolving Credit Facility equal to the amount of proceeds received from such occurrences (in the event of a disposition of assets comprising collateral, 60% of the after-tax proceeds). Such payments would be applied to the Term Loan and the Revolving Credit Facility on a pro rata basis.

The Credit Agreement contains various covenants regarding, among other things, collateral, capital expenditures, investments, dispositions, indebtedness and financial performance that are customary for this type of financing and for companies in our industry.

### Convertible Senior Notes Due 2025

In March 2005, we issued \$300 million of 3.25% Convertible Senior Notes due 2025 at 100% of the principal amount to certain qualified institutional buyers (“2025 Notes”).

In March 2012, we repurchased \$142.2 million in aggregate principal of the 2025 Notes. In these repurchase transactions we paid an aggregate amount of \$145.1 million, representing principal plus \$1.8 million of premium and \$1.1 million of accrued interest. The loss on the early extinguishment of the 2025 Notes totaled \$5.6 million and is reflected as a component of “Loss on early extinguishment of long-term debt” in the accompanying condensed consolidated statements of operations. The loss on early extinguishment includes the acceleration of \$3.5 million of unamortized discount associated with the 2025 Notes, the \$1.8 million premium paid in connection with the repurchase of a portion of the 2025 Notes and a \$0.3 million charge to accelerate a pro rata portion of the deferred financing costs associated with the original issuance of the 2025 Notes. The remainder of the 2025 Notes was extinguished when the holders exercised their option for us to repurchase their notes in December 2012 (\$154.3 million) and in February 2013 when we repurchased the remaining \$3.5 million of the 2025 Notes that were not put to us by the holders in December 2012.

### Convertible Senior Notes Due 2032

In March 2012, we completed the public offering and sale of \$200.0 million in aggregate principal amount of 3.25% Convertible Senior Notes due 2032 (“2032 Notes”). The net proceeds from the issuance of the 2032 Notes were \$195.0 million, after deducting the underwriter’s discounts and commissions and offering expenses. We used the net proceeds to repurchase and retire \$142.2 million of aggregate principal amount of the 2025 Notes (see above) in separate, privately negotiated transactions. The remaining net proceeds were used for general corporate purposes, including the repayment of other indebtedness.

The registered 2032 Notes bear interest at a rate of 3.25% per annum, and are payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2012. The 2032 Notes will mature on March 15, 2032, unless earlier converted, redeemed or repurchased by us. The 2032 Notes are convertible in certain circumstances and during certain periods at an initial conversion rate of 39.9752 shares of common stock per \$1,000 principal amount of the 2032 Notes (which represents an initial conversion price of approximately \$25.02 per share of

common stock), subject to adjustment in certain circumstances as set forth in the indenture governing the 2032 Notes. The initial conversion price represents a conversion premium of 35.0% over the closing price of our common stock on March 6, 2012, which was \$18.53 per share.



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Prior to March 20, 2018, the 2032 Notes will not be redeemable. On or after March 20, 2018, we may, at our option, redeem some or all of the 2032 Notes in cash, at any time, upon at least 30 days' notice at a price equal to 100% of the principal amount plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the redemption date. Holders may require us to purchase in cash some or all of their 2032 Notes at a repurchase price equal to 100% of the principal amount of the 2032 Notes, plus accrued and unpaid interest (including contingent interest, if any) up to but excluding the applicable repurchase date, on March 15, 2018, March 15, 2022 and March 15, 2027, or, subject to specified exceptions, at any time prior to the 2032 Notes' maturity following a fundamental change (as defined in the governing indenture).

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

## MARAD Debt

This U.S. government guaranteed financing ("MARAD Debt") is pursuant to Title XI of the Merchant Marine Act of 1936 administered by the Maritime Administration, and was used to finance the construction of the Q4000. The MARAD Debt is payable in equal semi-annual installments beginning in August 2002 and matures 25 years from such date. The MARAD Debt is collateralized by the Q4000, is guaranteed 50% by us, and initially bore interest at a floating rate which approximated AAA Commercial Paper yields plus 20 basis points. As provided for in the MARAD Debt agreements, in September 2005, we fixed the interest rate on the debt through the issuance of a 4.93% fixed-rate note with the same maturity date (February 2027).

## Other

In accordance with our Credit Agreement, Senior Unsecured Notes, 2032 Notes and MARAD Debt agreements, we are required to comply with certain covenants, including the maintenance of minimum net worth, working capital and debt-to-equity requirements, and restrictions that limit our ability to incur certain types of additional indebtedness. As of March 31, 2013, we were in compliance with these covenants and restrictions.

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

	March 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Term Loans (mature July 2015)	\$ 15,325	\$ (14,669 )	\$ 656	\$ 15,318	\$ (11,595 )	\$ 3,723
Revolving Credit Facility (matures July 2015)	20,046	(13,225 )	6,821	20,021	(12,466 )	7,555

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2025 Notes (mature December 2025)	—	—	—	8,189	(8,189 )	—
2032 Notes (mature March 2032)	3,759	(687 )	3,072	4,251	(534 )	3,717
Senior Unsecured Notes (mature January 2016)	10,643	(8,402 )	2,241	10,643	(8,252 )	2,391
MARAD Debt (matures February 2027)	12,200	(5,370 )	6,830	12,200	(5,248 )	6,952
Total deferred financing costs	\$ 61,973	\$ (42,353 )	\$ 19,620	\$ 70,622	\$ (46,284 )	\$ 24,338

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The following table details our interest expense and capitalized interest (in thousands):

	Three Months Ended March 31,	
	2013	2012
Interest expense	\$ 12,578	\$ 15,244
Interest income	(316 )	(288 )
Capitalized interest	(1,939 )	(479 )
Interest expense, net	\$ 10,323	\$ 14,477

## Note 8 — Income Taxes

The effective tax rates for the three-month periods ended March 31, 2013 and 2012 were 24.9% and 6.7%, respectively. The variance is primarily attributable to projected year over year increases in profitability in the United States.

We believe our recorded assets and liabilities are reasonable; however, tax laws and regulations are subject to interpretation and tax litigation is inherently uncertain, and therefore our assessments can involve a series of complex judgments about future events and rely heavily on estimates and assumptions. Income taxes have been provided based on the U.S. statutory rate of 35% and at the local statutory rate for each foreign jurisdiction adjusted for items which are allowed as deductions for federal and foreign income tax reporting purposes, but not for book purposes. The primary differences between the statutory rate and our effective rate from continuing operations are as follows:

	Three Months Ended March 31,	
	2013	2012
Statutory rate	35.0 %	35.0 %
Foreign provision	(10.7 )	(26.5 )
Other	0.6	(1.8 )
Effective rate	24.9 %	6.7 %

## Note 9 — Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows (in thousands):

	March 31, 2013	December 31, 2012
Cumulative foreign currency translation adjustment	\$ (26,748 )	\$ (15,667 )
Unrealized loss on hedges, net (1)	(7,238 )	—
Accumulated other comprehensive loss	\$ (33,986 )	\$ (15,667 )

(1) Amount at March 31, 2013 is related to foreign currency hedges for the Grand Canyon, Grand Canyon II and Grand Canyon III and is net of deferred income taxes totaling \$3.9 million.

## Note 10 — Earnings Per Share

We have shares of restricted stock issued and outstanding, some of which remain subject to vesting requirements. Holders of such shares of unvested restricted stock are entitled to the same liquidation and dividend rights as the holders of our outstanding common stock and are thus considered participating securities. Under applicable accounting guidance, the undistributed earnings for each period are allocated based on the participation rights of both the common shareholders and holders of any participating securities as if earnings for the respective periods had been distributed. Because both the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, we are

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required to compute earnings per share (“EPS”) amounts under the two class method in periods in which we have earnings from continuing operations. For periods in which we have a net loss we do not use the two class method as holders of our restricted shares are not contractually obligated to share in such losses.

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

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Income	Shares	Income	Shares
Basic:				
Continuing operations:				
Net income applicable to Helix	\$1,615		\$65,727	
Less: Income from discontinued operations, net of tax	(1,058 )		(48,853 )	
Income from continuing operations	557		16,874	
Less: Undistributed income allocable to participating securities – continuing operations	(5 )		(174 )	
Income applicable to common shareholders – continuing operations	\$552	105,032	\$16,700	104,530

## Discontinued operations:

Income from discontinued operations, net of tax	\$1,058		\$48,853	
Less: Undistributed income allocable to participating securities – discontinued operations	(8 )		(503 )	
Income applicable to common shareholders – discontinued operations	\$1,050	105,032	\$48,350	104,530

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Income	Shares	Income	Shares
Diluted:				
Continuing operations:				
Income applicable to common shareholders – continuing operations	\$552	105,032	\$16,700	104,530
Effect of dilutive securities:				
Share-based awards other than participating securities	—	133	—	98
Undistributed income reallocated to participating securities	—	—	1	—
Convertible preferred stock	—	—	10	361
Income applicable to common shareholders – continuing operations	\$552	105,165	\$16,711	104,989

## Discontinued operations:

Income from discontinued operations, net of tax	1,058	105,165	48,853	104,989
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No diluted shares were included for the 2032 Notes for the three-month periods ended March 31, 2013 and 2012 as the conversion trigger of \$32.53 per share was not met, and because we have the right to settle any such future conversions in cash at our sole discretion (Note 7). There were no diluted shares associated with our 2025 Convertible Senior Notes as the conversion price of \$32.14 (and conversion trigger of \$38.57 per share) was not met in the three-month periods ended March 31, 2013 and 2012.

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## Note 11 — Employee Benefit Plans

## Stock-Based Compensation Plan

We have two stock-based compensation plans: the 1995 Long-Term Incentive Plan, as amended (the “1995 Incentive Plan”) and the 2005 Long-Term Incentive Plan, as amended (the “2005 Incentive Plan”). As of March 31, 2013, there were 6.4 million shares available for issuance under the amended and restated 2005 Incentive Plan, which includes a maximum of 2.0 million shares that may be granted as incentive stock options. There were no stock option grants in the three-month periods ended March 31, 2013 and 2012. During the three-month period ended March 31, 2013, the following grants of share-based awards were made to executive officers and non-employee members of our Board of Directors under the amended and restated 2005 Incentive Plan:

Date of Grant	Shares	Grant Date Fair Value Per Share	Vesting Period
January 2, 2013 (1)	89,329	\$ 20.64	33% per year over three years
January 2, 2013 (2)	89,329	30.96	100% on January 1, 2016
January 2, 2013 (3)	1,620	20.64	100% on January 1, 2015

(1) Reflects the grant of restricted shares to our executive officers.

(2) Reflects the grant of performance share units (“PSUs”) to our executive officers. The estimated fair value of the PSUs on grant date was determined using a Monte Carlo simulation model. The PSUs provide for an award based on the performance of our common stock over a three-year period with the maximum award being 200% of the original awarded PSUs and the minimum amount being zero. The vested PSUs will be settled in an equivalent number of shares of our common stock unless the Compensation Committee of our Board of Directors elects to pay in cash.

(3) Reflects the grant of restricted shares to one of our directors.

Compensation cost is recognized over the respective vesting periods on a straight-line basis. For the three-month periods ended March 31, 2013 and 2012, \$3.4 million and \$1.8 million, respectively, were recognized as stock-based compensation expense related to share-based awards. Additionally during the three-month period ended March 31, 2013, \$1.3 million of stock-based compensation expense was reflected within our discontinued operations as a component of “Loss on sale of business, net of tax” (Note 4).

## Long-Term Incentive Cash Plan

The 2005 Incentive Plan and the 2009 Long-Term Incentive Cash Plan (the “LTI Plans”) provide long-term cash-based compensation to eligible employees. Cash awards historically have been both fixed sum amounts payable (for non-executive management only) as well as cash awards indexed to our common stock with the payment amount at each vesting date fluctuating based on the performance of our common stock (for both executive and non-executive management). These are measured based on the performance of our stock price over the applicable award period compared to a base price determined by the Compensation Committee of our Board of Directors at the time of the award. Cash award payments under the LTI Plans are made each year on the anniversary date of the award. Cash awards granted prior to 2012 have a vesting period of five years and cash awards granted in 2012 and 2013 have a vesting period of three years. This share-based component is considered a liability plan and as such is re-measured to fair value each reporting period with corresponding changes being recorded as a charge to earnings as deemed

appropriate.

The cash awards made under the LTI Plans totaled \$5.9 million in 2013 and \$4.2 million in 2012. Such awards were made to our executive officers and selected management employees in 2013 and to our executive officers in 2012. No cash awards were given to non-executive employees in 2012. Total compensation expense associated with the cash awards issued pursuant to the LTI Plans was \$2.5 million (\$1.6 million related to our executive officers) and \$2.4 million (\$2.0 million related to our executive officers) for the three-month periods ended March 31, 2013 and 2012, respectively. The liability balance for the cash

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awards issued under the LTI Plans was \$8.3 million at March 31, 2013 and \$13.0 million at December 31, 2012, including \$7.5 million at March 31, 2013 and \$11.7 million at December 31, 2012 associated with the variable portion of the cash awards issued under the LTI plans.

## Employee Stock Purchase Plan

In May 2012, the shareholders approved the Helix Energy Solutions Group, Inc. Employee Stock Purchase Plan (the “ESPP”). The ESPP has 1.5 million shares authorized for issuance. Eligible employees who participate in the ESPP may purchase shares of our common stock through payroll deductions on an after-tax basis over a four-month period beginning on January 1, May 1, and September 1 of each year during the term of the ESPP, subject to certain restrictions and limitations established by the Compensation Committee of our Board of Directors (which administers the ESPP) and Section 423 of the Internal Revenue Code. The per share price of common stock purchased under the ESPP is equal to 85% of the lesser of (i) its fair market value on the first trading day of the purchase period or (ii) its fair market value on the last trading day of the purchase period. The first purchase period under the ESPP began on September 1, 2012. The total value of the ESPP awards is calculated using the component approach where each award is computed as the sum of 15% of a share of non-vested stock, a call option on 85% of a share of non-vested stock, and a put option on 15% of a share of non-vested stock. Share-based compensation expense with respect to the ESPP was \$0.2 million for the three-month period ended March 31, 2013.

For more information regarding our employee benefit plans, including our stock-based compensation plans, our long-term incentive cash plan and our employee stock purchase plan, see Note 9 of our 2012 Form 10-K.

## Note 12 — Business Segment Information

In 2012, our operations were conducted through the following lines of business: contracting services and oil and gas. We have disaggregated our contracting services operations into two reportable segments: Contracting Services and Production Facilities. Our Contracting Services segment includes well intervention, robotics and subsea construction operations (see Note 2 for disclosures regarding the planned dispositions of our remaining subsea construction vessels and related assets). The Production Facilities segment includes our consolidated investment in the HP I and Kommandor LLC as well as our equity investments in Deepwater Gateway and Independence Hub that are accounted for under the equity method of accounting. All material intercompany transactions between the segments have been eliminated. In February 2013, we sold ERT and as a result, we have presented the assets and liabilities included in the sale of ERT and the historical operating results of our former Oil and Gas segment as discontinued operations in the accompanying condensed consolidated financial statements. See Note 4 for additional information regarding our discontinued operations.

We evaluate our performance based on operating income and income before income taxes of each segment. Segment assets are comprised of all assets attributable to the reportable segment. Certain financial data by reportable segment are summarized as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenues —		
Contracting Services	\$ 198,054	\$ 244,544
Production Facilities	20,393	20,022
Intercompany elimination	(21,018 )	(34,724 )
Total	\$ 197,429	\$ 229,842

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Income (loss) from operations —		
Contracting Services	\$ 39,304	\$ 59,124
Production Facilities	11,185	10,049
Corporate	(33,531 )	(16,085 )
Intercompany elimination	(1,720 )	(3,020 )
Total	\$ 15,238	\$ 50,068
Equity in earnings of equity investments	\$ 610	\$ 407

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Intercompany segment revenues are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Contracting Services	\$ 16,345	\$ 23,201
Production Facilities	4,673	11,523
Total	\$ 21,018	\$ 34,724

Intercompany segment profits (losses) (which only relate to intercompany capital projects) are as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Contracting Services	\$ 1,764	\$ 3,064
Production Facilities	(44 )	(44 )
Total	\$ 1,720	\$ 3,020

Segment assets are comprised of all assets attributable to each reportable segment. The following table reflected total assets by reportable segment (in thousands):

	March 31, 2013	December 31, 2012
Contracting Services	\$ 2,141,930	\$ 1,974,763
Production Facilities	496,986	503,531
Corporate and other	27,415	8,059
Discontinued operations	—	900,227
Total	\$ 2,666,331	\$ 3,386,580

#### Note 13 — Related Party Transactions

In April 2000, we acquired a 20% working interest in Gunnison, a deepwater Gulf of Mexico prospect, from a third party. Financing for the exploratory costs of approximately \$20 million was provided by an investment partnership, OKCD Investments, Ltd. (“OKCD”), the investors of which include current and former Helix management, in exchange for a revenue interest that is an overriding royalty interest of 25% of Helix’s working interest. Production began in December 2003. Our payments to OKCD totaled \$0.6 million and \$1.7 million in the three-month periods ended March 31, 2013 and 2012, respectively. Our Chief Executive Officer, Owen Kratz, through Class A limited partnership interests in OKCD, personally owns approximately 83% of the partnership. In 2000, OKCD also awarded Class B income participations to key Helix employees who are required to maintain their employment status with Helix in order to retain such income participations. The royalty agreement with OKCD was assumed by the purchaser of ERT following the sale of ERT in February 2013.

#### Note 14 — Commitments and Contingencies and Other Matters

Commitments

In March 2012, we executed a contract with a shipyard in Singapore for the construction of a newbuild semi-submersible well intervention vessel, the Q5000. This \$386.5 million shipyard contract represents the majority of the expected costs associated with the construction of the Q5000. Under the terms of this contract, payments are made in a fixed percentage of the contract price, together with any variations, on contractually scheduled dates. At March 31, 2013, our total investment in the Q5000 was \$142.6 million, including \$115.9 million of scheduled payments made to the shipyard.

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In July 2012, we contracted to charter the Skandi Constructor for use in our North Sea well intervention operations. The vessel was delivered to us on April 1, 2013. The initial term of the charter will expire in March 2016.

In August 2012, we acquired the Discoverer 534 drillship from a subsidiary of Transocean Ltd. for \$85 million. The vessel, renamed the Helix 534, is currently undergoing upgrades and modifications in Singapore to render it suitable for use as a well intervention vessel. At March 31, 2013, our investment in the acquisition and subsequent upgrades to and modifications of the Helix 534 totaled \$147.9 million, including related well control equipment.

In January 2013, we contracted to charter the Rem Installer for use in our robotics operations. The term of the charter will be three years from the delivery date, which is expected to be around mid-2013.

In February 2013, we contracted to charter the Grand Canyon II and Grand Canyon III for use in our robotics operations. The terms of the charters will be five years from the respective delivery dates, which are expected to be in 2014 and 2015.

## Contingencies and Claims

Under terms of the ERT equity purchase agreement, we have required the buyer to provide bonding in a sufficient amount as determined by the Bureau of Ocean Energy Management (“BOEM”) to replace and allow for a full discharge of our existing guaranty to the BOEM for ERT’s lease obligations. The BOEM is in the process of reevaluating its decommissioning assessments for ERT’s deepwater lease properties in the Gulf of Mexico and as such it is currently uncertain as to the amount of bonding that will be required, and thus also the amount of collateral that the buyer will be required to post to its surety/ies to secure such bonding. To the extent that the purchaser is required to post bonding collateral in an amount greater than \$100 million to obtain bonds in the aggregate amount required by the BOEM in order for the BOEM to release our guaranty of ERT’s lease obligations, we have agreed to provide incremental collateral above that amount, if and to the extent required, to the surety/ies providing bonding for ERT’s deepwater properties (the Bushwood and Phoenix fields) in the form of letter(s) of credit, up to the next \$50 million of required collateral, for a period not to exceed one year from issuance of the letter(s) of credit, after which the purchaser would then be required to provide all collateral associated with the bonding requirements with respect to our former oil and gas properties. We anticipate that the BOEM will determine its assessments of decommissioning costs for our former deepwater fields in the near term and that the bonding amounts, and therefore the bonding collateral requirements, to obtain a release of our guaranty with respect to ERT’s lease obligations will be known. At the time of this filing it is uncertain whether the amount of collateral will exceed the \$100 million threshold so as to require any incremental bonding collateral on our part.

In 2007, we were subcontracted to perform development work for a large gas field offshore India. Work commenced in the fourth quarter of 2007 and we completed our scope of work in the third quarter of 2009. To date we have collected approximately \$303 million related to this project with an amount of trade receivables yet to be collected. We have requested arbitration in India pursuant to the terms of the subcontract to pursue our claims and the prime contractor has also requested arbitration and has asserted certain counterclaims against us. If we are not successful in resolving these matters through ongoing discussions with the prime contractor, then arbitration in India remains a potential remedy. Based on a number of factors associated with the ongoing negotiations with the prime contractor, in 2010, we established a \$4 million allowance against our trade receivable balance that reduces its balance to an amount we believe is ultimately realizable. However, at the time of this filing no final commercial resolution of this matter has been reached.

We have received value added tax (VAT) assessments from the State of Andhra Pradesh, India (the “State”) in the amount of approximately \$28 million for the tax years 2010, 2009, 2008 and 2007 related to an Indian subsea

construction and diving contract that we entered into in December 2006. The State claims that we owe unpaid taxes related to products consumed by us during the period of the contract. We are of the opinion that the State has arbitrarily assessed this VAT tax and has no foundation for the assessment and believe that we have complied with all rules and regulations as related to VAT in the State. We also believe that our position is supported by law and intend to vigorously defend our position. However, the ultimate outcome of this assessment and our potential liability from it, if any, cannot be determined at this time. If the current assessment is upheld, it may have a material negative effect on our consolidated results of operations while also impacting our financial position.

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Litigation

On July 8, 2011, a shareholder derivative lawsuit styled City of Sterling Heights Police & Fire Retirement System v. Owen Kratz, et al. was filed in the United States District Court for the Southern District of Texas, Houston Division. In the suit, the plaintiff makes claims against our Board of Directors, certain of our former directors, certain of our current and former executives, and the independent compensation consultant to the Compensation Committee of our Board of Directors, for breaches of the fiduciary duty of loyalty, unjust enrichment and aiding and abetting the alleged breaches of fiduciary duty relating to the long-term equity awards granted in 2010 to the Company's then executive officers who are defendants. The Company filed a motion to dismiss the claim asserting that the plaintiff has not (i) pled specific facts excusing its failure to make pre-suit demand on the Company's Board of Directors as required by Minnesota law; (ii) filed proper verification; or (iii) stated a claim. A ruling regarding the motion is pending.

On May 12, 2012, a shareholder derivative lawsuit styled Mark Lucas v. Owen Kratz, et al. was filed in the 270th Judicial District in the District Court of Harris County, Texas. In the suit, the plaintiff makes claims against our Board of Directors, certain of our former directors, certain of our current and former executive officers and the independent compensation consultant to the Compensation Committee of our Board of Directors, for breaches of the fiduciary duties of candor, good faith and loyalty, unjust enrichment and aiding and abetting the alleged breaches of fiduciary duty relating to the long-term equity awards granted in 2010 to certain of our executive officers. This case is essentially a "copycat" complaint asserting similar causes of action arising out of the same facts as set forth in the federal action described above. The plaintiff is generally demanding disgorgement of the excessive compensation, restraint on the disposition/exercise of the alleged improperly awarded equity, implementation of additional internal controls, and attorney's fees and costs of litigation. We filed motions to stay and dismiss the proceeding, which motions were denied by the trial court judge. We filed a petition for a writ of mandamus with the state appellate court, in which we requested that court to direct the district court to grant our motion to stay or dismiss the case.

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

Note 15 — Fair Value Measurements

Certain of our financial assets and liabilities are measured and reported at fair value on a recurring basis as required under applicable accounting requirements. These requirements establish a hierarchy for inputs used in measuring fair value. The fair value is to be calculated based on assumptions that market participants would use in pricing assets and liabilities and not on assumptions specific to the entity. The statement requires that each asset and liability carried at fair value be classified into one of the following categories:

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

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

- (a) Market Approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) Cost Approach. Amount that would be required to replace the service capacity of an asset (replacement cost).

(c) Income Approach. Techniques to convert expected future cash flows to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).



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The following table provides additional information related to other financial instruments measured at fair value on a recurring basis at March 31, 2013 (in thousands):

	Level 1	Level 2 (1)	Level 3	Total	Valuation Technique
Liabilities:					
Fair value of long-term debt (2)	681,558	117,597	—	799,155	(a)
Foreign currency forwards	—	11,958	—	11,958	(c)
Total liability	\$681,558	\$129,555	\$—	\$811,113	

Unless otherwise indicated, the fair value of our Level 2 derivative instruments reflects our best estimate and is (1) based upon exchange or over-the-counter quotations whenever they are available. Quoted valuations may not be available due to location differences or terms that extend beyond the period for which quotations are available. Where quotes are not available, we utilize other valuation techniques or models to estimate market values. These modeling techniques require us to make estimations of future prices, price correlation and market volatility and liquidity based on market data. Our actual results may differ from our estimates, and these differences could be positive or negative.

(2) See Note 7 for additional information regarding our long-term debt. The fair value of our debt is as follows:

	March 31, 2013	
	Carrying Value	Fair Value
Term Loan (mature July 2015) (a)	\$ 72,299	\$ 73,022
Revolving Credit Facility (matures July 2015) (a)	78,100	78,100
2032 Notes (mature March 2032) (b)	200,000	246,540
Senior Unsecured Notes (mature January 2016)	274,960	283,896
MARAD Debt (matures February 2027) (c)	102,759	117,597
Total debt	\$ 728,118	\$ 799,155

(a) In February 2013, we repaid \$293.9 million of our Term Loans and \$24.5 million under our Revolving Credit Facility with the after-tax proceeds from the sale of ERT.

(b) Carrying value excludes the related unamortized debt discount of \$30.4 million at March 31, 2013.

The estimated fair value of all debt, other than the MARAD debt, was determined using Level 1 inputs using the (c) market approach. The fair value of the MARAD debt was determined using a third party evaluation of the remaining average life and outstanding principal balance of the MARAD indebtedness as compared to other governmental obligations in the marketplace with similar terms. The fair value of the MARAD Debt was estimated using Level 2 fair value inputs using the market approach.

#### Note 16 — Derivative Instruments and Hedging Activities

Our continuing operations are exposed to market risk associated with interest rates and foreign currency exchange rates. Our risk management activities involve the use of derivative financial instruments to hedge the impact of market risk exposure related to variable interest rates and foreign currency exchange rates. All derivatives are reflected in the accompanying condensed consolidated balance sheets at fair value, unless otherwise noted.

We engage solely in cash flow hedges. Hedges of cash flow exposure are entered into to hedge a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. Changes in the derivative fair values that are designated as cash flow hedges are deferred to the extent that the hedges are effective. These fair value changes are recorded as a component of accumulated other comprehensive income or loss

(a component of shareholders' equity) until the hedged transactions occur and are recognized in earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized immediately in earnings. In addition, any change in the fair value of a derivative that does not qualify for hedge accounting is recorded in earnings in the period in which the change occurs.

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For additional information regarding our accounting for derivatives, see Notes 2 and 17 of our 2012 Form 10-K.

## Interest Rate Risk

As some of our long-term debt has variable interest rates, we historically entered into interest rate swaps to stabilize cash flows related to a portion of our Term Loan debt. We de-designated all of our outstanding interest rate swaps as hedging instruments in December 2012 following the announcement of the sale of ERT. We cash settled all outstanding interest rate swap contracts in February 2013.

## Foreign Currency Exchange Rate Risk

Because we operate in various regions in the world, we conduct a portion of our business in currencies other than the U.S. dollar. We entered into various foreign currency forwards to stabilize expected cash outflows relating to certain vessel charters that are denominated in British pounds and Norwegian kroner.

In January 2013, we entered into foreign currency exchange contracts to hedge the foreign currency exposure to potential variability in cash flows associated with the Grand Canyon charter payments (\$104.6 million) denominated in Norwegian kroner (NOK591.3 million), through September 2017. In February 2013, we entered into similar foreign currency exchange contracts for the Grand Canyon II and Grand Canyon III charter payments (\$100.4 million and \$98.8 million) denominated in Norwegian kroner (NOK594.7 million and NOK595.0 million), through July 2019 and February 2020, respectively. These contracts currently qualify for hedge accounting treatment. All of our remaining foreign exchange contracts are not accounted for as hedge contracts and changes in their fair value are being marked-to-market each reporting period.

## Quantitative Disclosures Related to Derivative Instruments

As a result of the announcement in December 2012 of the sale of ERT, we de-designated all of our outstanding oil and natural gas derivative contracts as hedging instruments. In addition, under the terms of our Credit Agreement (Note 7), we are required to use at a minimum 60% of the after-tax proceeds from the sales of the Caesar, the Express and ERT to make payments to reduce our Term Loan debt and borrowings under the Revolving Credit Facility. Because of the probability that the Term Loan debt would be totally repaid before the expiration of our interest rate swaps, we also concluded that the swaps no longer qualified as cash flow hedges. In February 2013, we settled all of our outstanding commodity derivative contracts and interest rate swap contracts for approximately \$22.5 million and \$0.6 million, respectively.

The following table presents the fair value and balance sheet classification of our derivative instruments that were not designated as hedging instruments (in thousands):

	As of March 31, 2013		As of December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Asset Derivatives:</b>				
Oil contracts	Other current assets	\$—	Other current assets	\$5,800
Foreign exchange forwards	Other current assets	—	Other current assets	146
		\$—		\$5,946
<b>Liability Derivatives:</b>				
Oil contracts	Accrued liabilities	\$—	Accrued liabilities	\$15,777
Interest rate swaps	Accrued liabilities	—	Accrued liabilities	489

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Foreign exchange forwards	Accrued liabilities	821	Accrued liabilities	—
Interest rate swaps	Other long-term liabilities	—	Other long-term liabilities	32
Foreign exchange forwards	Other long-term liabilities	2	Other long-term liabilities	—
		\$823		\$16,298

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As of March 31, 2013, our only derivative instruments designated as cash flow hedges were foreign currency exchange contracts related to the Grand Canyon, Grand Canyon II and Grand Canyon III charter payments. The fair value of these hedging instruments as of March 31, 2013 totaled \$11.1 million, \$1.2 million of which is reflected in “Accrued liabilities” and the remaining \$9.9 million of which is reflected in “Other long-term liabilities” in the accompanying condensed consolidated balance sheet. The last of these contracts will settle in February 2020.

Ineffectiveness associated with our foreign exchange contracts was immaterial for all periods presented. The following tables present the impact that derivative instruments designated as cash flow hedges had on our accumulated comprehensive income (loss) and our condensed consolidated statements of operations (in thousands).

	Loss Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31,	
	2013	2012
Foreign exchange forwards	\$ (7,238 )	\$ —
Oil and natural gas commodity contracts	—	(13,555 )
Interest rate swaps	—	(247 )
	\$ (7,238 )	\$ (13,802 )

	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended March 31,	
		2013	2012
Oil and natural gas commodity contracts	Income from discontinued operations, net of tax	\$ —	\$ 109
Interest rate swaps	Net interest expense	—	(193 )
Foreign exchange forwards	Cost of sales	(150 )	—
		\$ (150 )	\$ (84 )

The following table presents the impact that derivative instruments not designated as hedges had on our condensed consolidated statement of operations (in thousands):

	Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives Three Months Ended March 31,	
		2013	2012
Oil and natural gas commodity contracts	Loss on commodity derivative contracts	\$ (14,113 )	\$ —
Interest rate swaps	Other income (expense), net	(86 )	—
Foreign exchange forwards	Other income (expense), net	(1,244 )	233
		\$ (15,443 )	\$ 233



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## Note 17 — Condensed Consolidated Guarantor and Non-Guarantor Financial Information

The payment of our obligations under the Senior Unsecured Notes is guaranteed by all of our restricted domestic subsidiaries (“Subsidiary Guarantors”) except for Cal Dive I-Title XI, Inc. Each of these Subsidiary Guarantors is included in our condensed consolidated financial statements and has fully and unconditionally guaranteed the Senior Unsecured Notes on a joint and several basis. As a result of these guaranty arrangements, we are required to present the following condensed consolidating financial information. The accompanying guarantor financial information is reported based on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for our share in the subsidiaries’ cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries primarily relate to the elimination of investments in subsidiaries and associated intercompany balances and transactions.

HELIX ENERGY SOLUTIONS GROUP, INC.  
CONDENSED CONSOLIDATING BALANCE SHEETS  
(UNAUDITED)  
(in thousands)

	As of March 31, 2013				
	Helix	Guarantors	Non-Guarantors	Consolidating Entries	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$551,596	\$7,274	\$66,780	\$ —	\$ 625,650
Accounts receivable, net	75,490	30,366	36,937	—	142,793
Unbilled revenue	8,179	386	26,265	—	34,830
Income taxes receivable	—	—	3,402	(3,402 )	—
Other current assets	40,566	4,946	15,742	(65 )	61,189
Total current assets	675,831	42,972	149,126	(3,467 )	864,462
Intercompany	(116,440 )	334,709	(130,205 )	(88,064 )	—
Property and equipment, net	224,594	353,969	960,461	(6,297 )	1,532,727
Other assets:					
Equity investments in unconsolidated affiliates	—	—	165,452	—	165,452
Equity investments in affiliates	1,240,653	47,066	—	(1,287,719 )	—
Goodwill	—	45,107	16,625	—	61,732
Other assets, net	39,678	136	31,507	(29,363 )	41,958
Due from subsidiaries/parent	319,941	—	—	(319,941 )	—
Total assets	\$2,384,257	\$823,959	\$1,192,966	\$ (1,734,851 )	\$ 2,666,331
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$55,165	\$16,824	\$28,564	\$ —	\$ 100,553
Accrued liabilities	94,783	13,532	13,709	—	122,024
Income taxes payable	35,149	19,953	—	(19,305 )	35,797
Current maturities of long-term debt	5,000	—	5,247	—	10,247
Total current liabilities	190,097	50,309	47,520	(19,305 )	268,621
Long-term debt	589,948	—	97,513	—	687,461
Deferred tax liabilities	171,543	11,454	112,606	(5,501 )	290,102

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Other long-term liabilities	4,559	9,950	467	—	14,976
Due to parent	—	52,582	345,426	(398,008 )	—
Total liabilities	956,147	124,295	603,532	(422,814 )	1,261,160
Total equity	1,428,110	699,664	589,434	(1,312,037 )	1,405,171
Total liabilities and shareholders' equity	\$2,384,257	\$823,959	\$1,192,966	\$ (1,734,851 )	\$ 2,666,331

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HELIX ENERGY SOLUTIONS GROUP, INC.  
CONDENSED CONSOLIDATING BALANCE SHEETS  
(in thousands)

	As of December 31, 2012				
	Helix	Guarantors	Non-Guarantors	Consolidating Entries	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$381,599	\$4,436	\$51,065	\$ —	\$ 437,100
Accounts receivable, net	39,203	37,378	75,652	—	152,233
Unbilled revenue	13,959	875	19,006	—	33,840
Income taxes receivable	24,611	—	306	(10,716 )	14,201
Other current assets	54,588	16,418	11,696	31	82,733
Current assets of discontinued operations	—	84,000	—	—	84,000
Total current assets	513,960	143,107	157,725	(10,685 )	804,107
Intercompany	(154,756 )	352,210	(125,889 )	(71,565 )	—
Property and equipment, net	208,190	351,746	930,556	(4,617 )	1,485,875
Other assets:					
Equity investments in unconsolidated affiliates	—	—	167,599	—	167,599
Equity investments in affiliates	1,762,359	53,461	—	(1,815,820 )	—
Goodwill	—	45,107	17,828	—	62,935
Other assets, net	47,355	130	34,848	(32,496 )	49,837
Due from subsidiaries/parent	294,461	485,096	—	(779,557 )	—
Non-current assets of discontinued operations	—	816,227	—	—	816,227
Total assets	\$2,671,569	\$2,247,084	\$1,182,667	\$ (2,714,740 )	\$ 3,386,580
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$45,784	\$17,229	\$29,385	\$ —	\$ 92,398
Accrued liabilities	117,902	26,019	17,593	—	161,514
Income taxes payable	—	26,618	—	(26,618 )	—
Current maturities of long-term debt	11,487	—	5,120	—	16,607
Current liabilities of discontinued operations	—	182,527	—	—	182,527
Total current liabilities	175,173	252,393	52,098	(26,618 )	453,046
Long-term debt	902,453	—	100,168	—	1,002,621
Deferred tax liabilities	168,688	86,925	109,171	(5,547 )	359,237
Other long-term liabilities	1,453	3,086	486	—	5,025
Due to parent	—	—	323,049	(323,049 )	—
Non-current liabilities of discontinued operations	—	147,237	—	—	147,237
Total liabilities	1,247,767	489,641	584,972	(355,214 )	1,967,166
Total equity	1,423,802	1,757,443	597,695	(2,359,526 )	1,419,414
Total liabilities and shareholders' equity	\$2,671,569	\$2,247,084	\$1,182,667	\$ (2,714,740 )	\$ 3,386,580



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HELIX ENERGY SOLUTIONS GROUP, INC.  
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)  
(in thousands)

	Three Months Ended March 31, 2013				
	Helix	Guarantors	Non- Guarantors	Consolidating Entries	Consolidated
Net revenues	\$20,394	\$102,063	\$91,126	\$ (16,154 )	\$ 197,429
Cost of sales	16,589	74,370	70,100	(16,197 )	144,862
Gross profit	3,805	27,693	21,026	43	52,567
Loss on commodity derivative contracts	(2,337 )	(11,776 )	—	—	(14,113 )
Selling, general and administrative expenses	(15,790 )	(3,909 )	(3,517 )	—	(23,216 )
Income (loss) from operations	(14,322 )	12,008	17,509	43	15,238
Equity in earnings of investments	33,146	(6,395 )	610	(26,751 )	610
Net interest expense and other	(8,780 )	(1,149 )	(4,142 )	—	(14,071 )
Income (loss) before income taxes	10,044	4,464	13,977	(26,708 )	1,777
Income tax provision (benefit)	(6,268 )	3,805	2,891	15	443
Income (loss) from continuing operations	16,312	659	11,086	(26,723 )	1,334
Income (loss) from discontinued operations, net of tax	(14,724 )	15,782	—	—	1,058
Net income (loss), including noncontrolling interest	1,588	16,441	11,086	(26,723 )	2,392
Less net income applicable to noncontrolling interests	—	—	—	(777 )	(777 )
Net income (loss) applicable to Helix	\$1,588	\$16,441	\$11,086	\$ (27,500 )	\$ 1,615
Total comprehensive income (loss) applicable to Helix	\$1,588	\$9,203	\$5	\$ (27,500 )	\$ (16,704 )

	Three Months Ended March 31, 2012				
	Helix	Guarantors	Non- Guarantors	Consolidating Entries	Consolidated
Net revenues	\$20,022	\$107,603	\$125,900	\$ (23,683 )	\$ 229,842
Cost of sales	16,621	75,735	88,445	(23,442 )	157,359
Gross profit (loss)	3,401	31,868	37,455	(241	