HELIX ENERGY SOLUTIONS GROUP INC
Form 10-Q
November 02, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2007

or

o **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	**95-3409686**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
400 North Sam Houston Parkway East Suite 400 Houston, Texas	**77060**
(Address of principal executive offices)	*(Zip Code)*

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

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

As of October 31, 2007, 91,331,674 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)

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,436	$ 206,264
Short-term investments		285,395
Accounts receivable		
Trade, net of allowance for uncollectible accounts of $1,717 and $982, respectively	371,028	287,875
Unbilled revenue	36,697	82,834
Other current assets	155,052	61,532
Total current assets	613,213	923,900
Property and equipment	3,443,815	2,721,362
Less accumulated depreciation	(691,973)	(508,904)
	2,751,842	2,212,458
Other assets:		
Equity investments	212,975	213,362
Goodwill, net	835,073	822,556
Other assets, net	132,937	117,911
	$ 4,546,040	$ 4,290,187
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 261,569	$ 240,067
Accrued liabilities	269,289	199,650
Income tax payable	33,079	147,772
Current maturities of long-term debt	25,978	25,887
Total current liabilities	589,915	613,376
Long-term debt	1,444,649	1,454,469
Deferred income taxes	488,634	436,544
Decommissioning liabilities	149,602	138,905
Other long-term liabilities	6,770	6,143
Total liabilities	2,679,570	2,649,437

Commitments and contingencies		
Minority interest	80,091	59,802
Convertible preferred stock	55,000	55,000
Shareholders equity:		
Common stock, no par, 240,000 shares authorized, 91,319 and 90,628 shares issued, respectively	749,227	745,928
Retained earnings	949,134	752,784
Accumulated other comprehensive income	33,018	27,236
Total shareholders equity	1,731,379	1,525,948
	$ 4,546,040	$ 4,290,187

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 September 30,	
	2007	**2006**
Net revenues:		
Contracting services	$ 318,752	$ 229,392
Oil and gas	141,821	145,032
	460,573	374,424
Cost of sales:		
Contracting services	196,027	143,517
Oil and gas	98,228	100,437
	294,255	243,954
Gross profit	166,318	130,470
Gain on sale of assets, net	20,701	2,287
Selling and administrative expenses	42,146	30,309
Income from operations	144,873	102,448
Equity in earnings of investments	7,889	1,897
Net interest expense and other	13,467	15,103
Income before income taxes	139,295	89,242
Provision for income taxes	45,327	31,409
Minority interest	10,195	
Net income	83,773	57,833
Preferred stock dividends	945	804
Net income applicable to common shareholders	$ 82,828	$ 57,029
Earnings per common share:		
Basic	$ 0.92	$ 0.62
Diluted	$ 0.88	$ 0.60
Weighted average common shares outstanding:		
Basic	90,111	91,531

Diluted	95,649	96,918

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)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net revenues:		
Contracting services	$ 852,332	$ 664,630
Oil and gas	414,870	306,455
	1,267,202	971,085
Cost of sales:		
Contracting services	556,546	408,919
Oil and gas	266,958	197,738
	823,504	606,657
Gross profit	443,698	364,428
Gain on sale of assets, net	26,385	2,570
Selling and administrative expenses	106,134	78,751
Income from operations	363,949	288,247
Equity in earnings of investments, net of impairment charge	9,245	12,653
Net interest expense and other	40,765	20,543
Income before income taxes	332,429	280,357
Provision for income taxes	111,711	96,387
Minority interest	21,533	
Net income	199,185	183,970
Preferred stock dividends	2,835	2,413
Net income applicable to common shareholders	$ 196,350	$ 181,557
Earnings per common share:		
Basic	$ 2.18	$ 2.20
Diluted	$ 2.07	$ 2.09
Weighted average common shares outstanding:		
Basic	90,051	82,706

Diluted	96,087	88,209

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)

	Nine Months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net income	$ 199,185	$ 183,970
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	229,870	131,451
Asset impairment charge	904	
Dry hole expense	166	37,615
Equity in earnings of investments, net of distributions		(5,490)
Equity in losses of OTSL, inclusive of impairment charge	10,841	655
Amortization of deferred financing costs	2,315	1,582
Stock compensation expense	11,014	6,250
Deferred income taxes	48,159	64,561
Gain on sale of assets	(26,386)	(2,570)
Excess tax benefit from stock-based compensation	(28)	(7,842)
Minority interest	21,533	
Changes in operating assets and liabilities:		
Accounts receivable, net	(36,029)	(442)
Other current assets	(38,074)	5,361
Accounts payable and accrued liabilities	17,741	(25,105)
Income taxes payable	(115,556)	(24,970)
Other noncurrent, net	(45,127)	(23,440)
Net cash provided by operating activities	280,528	341,586
Cash flows from investing activities:		
Capital expenditures	(684,653)	(253,386)
Acquisition of businesses, net of cash acquired	(10,202)	(872,707)
Investments in equity investments	(16,132)	(23,092)
Distributions from equity investments, net of equity in earnings of investments	6,363	
Sale of short-term investments, net	285,395	
Increase in restricted cash	(834)	(21,404)
Proceeds from sales of property	4,343	31,827
Net cash used in investing activities	(415,720)	(1,138,762)
Cash flows from financing activities:		
Repayment of Senior Credit Facilities	(6,300)	835,000
Repayment of Cal Dive International, Inc. revolving credit facility	(84,000)	
Borrowings under revolving credit facilities	86,000	
Repayment of MARAD borrowings	(3,823)	(3,641)
Deferred financing costs	(231)	(11,143)

Capital lease payments	(1,882)	(2,184)
Preferred stock dividends paid	(2,835)	(2,668)
Repurchase of common stock	(9,821)	(266)
Excess tax benefit from stock-based compensation	28	7,842
Exercise of stock options, net	957	8,775
Net cash (used in) provided by financing activities	(21,907)	831,715
Effect of exchange rate changes on cash and cash equivalents	1,271	2,166
Net increase (decrease) in cash and cash equivalents	(155,828)	36,705
Cash and cash equivalents:		
Balance, beginning of year	206,264	91,080
Balance, end of period	$ 50,436	$ 127,785

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

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 condensed consolidated financial statements are unaudited, 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 and are consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2006, as amended by our Form 10-K/A for the year ended December 31, 2006 filed on June 18, 2007 (2006 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, results of operations and cash flows, as applicable. Operating results for the period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Our balance sheet as of December 31, 2006 included herein has been derived from the audited balance sheet as of December 31, 2006 included in our 2006 Form 10-K. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in our 2006 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.

Note 2 Company Overview

We are an international offshore energy company that provides development solutions and other key services (contracting services operations) to the open market as well as to our own reservoirs (oil and gas operations). Our oil and gas business is a prospect generating, exploration, development and production company. By employing our own key services and methodologies in our reservoirs, we seek to lower finding and development costs relative to industry norms.

Contracting Services Operations

We seek to provide services and methodologies which we believe are critical to finding and developing offshore reservoirs and maximizing the economics from marginal fields. Those life of field services are organized in five disciplines: reservoir and well tech services, drilling, production facilities, construction and well operations. We have disaggregated our contracting services operations into three reportable segments in accordance with Statement of Financial Accounting Standard No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131): Contracting Services (which currently includes services such as deepwater pipelay, well operations, robotics and reservoir and well tech services), Shelf Contracting, and Production Facilities. Within our contracting services operations, we operate primarily in the Gulf of Mexico, the North Sea and the Asia/Pacific regions, with services that cover the lifecycle of an offshore oil or gas field. Our Shelf Contracting segment, consists of our majority-owned subsidiary, Cal Dive International, Inc. (Cal Dive or CDI), including its 40% interest in Offshore Technology Solutions Limited (OTSL). For information related to the impairment of OTSL, see Note 9 Equity Investments. In December 2006, Cal Dive completed an initial public offering of 22,173,000 shares of its stock. See Note 4 Initial Public Offering of Cal Dive International, Inc. below.

Oil and Gas Operations

In 1992 we began our oil and gas operations to provide a more efficient solution to offshore abandonment, to expand our off-season asset utilization and to achieve better returns than are likely to be generated through pure service contracting. Over the last 15 years we have evolved this business model to include not only mature oil and gas properties but also proved reserves yet to be developed, and in July 2006 the properties of Remington Oil and Gas Corporation (Remington), an exploration, development and production company. By owning oil and gas reservoirs and prospects, we are able to utilize the services we otherwise provide to third parties to create value at key points in the life of our own reservoirs including during the exploration and development stages, the field management stage and the abandonment stage.

Note 3 Statement of Cash Flow Information

We define cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. As of September 30, 2007 and December 31, 2006, we had $34.5 million and $33.7 million, respectively, of restricted cash included in other assets, net, all of which was related to funds required to be escrowed to cover decommissioning liabilities associated with the South Marsh Island 130 (SMI 130) acquisition in 2002 by our Oil and Gas segment. We have fully satisfied the escrow requirement as of September 30, 2007. We may use the restricted cash for decommissioning the related field.

The following table provides supplemental cash flow information for the nine months ended September 30, 2007 and 2006 (in thousands):

	Nine Months Ended September 30,	
	2007	**2006**
Interest paid (net of capitalized interest)	$ 43,096	$ 9,666
Income taxes paid	$179,107	$56,794

Non-cash investing activities for the nine months ended September 30, 2007 and 2006 included $25.8 million and $71.5 million, respectively, of accruals for capital expenditures. The accruals have been reflected in the condensed consolidated balance sheet as an increase in property and equipment and accounts payable.

Note 4 Initial Public Offering of Cal Dive International, Inc.

In December 2006, we contributed the assets of our Shelf Contracting segment into Cal Dive, our then wholly owned subsidiary. Cal Dive subsequently sold 22,173,000 shares of its common stock in an initial public offering and distributed the net proceeds of $264.4 million to us as a dividend. In connection with the offering, CDI also entered into a $250 million revolving credit facility. In December 2006, Cal Dive borrowed $201 million under the facility and distributed $200 million of the proceeds to us as a dividend. For additional information related to the Cal Dive credit facility, see Note 10 Long-Term Debt below. We recognized an after-tax gain of $96.5 million, net of taxes of $126.6 million, as a result of these transactions in 2006. CDI used the remaining proceeds for general corporate purposes.

In connection with the offering, together with CDI shares issued to CDI employees since the offering, our ownership of CDI decreased to approximately 73% as of September 30, 2007 and December 31, 2006. Subject to market conditions, we may sell additional shares of Cal Dive common stock in the future.

Further, in conjunction with the offering, the tax basis of certain of CDI s tangible and intangible assets was increased to fair value. The increased tax basis should result in additional tax deductions available to CDI over a period of two to five years. Under a Tax Matters Agreement between us and CDI, for a period of ten years from the closing of CDI s initial public offering, to the extent CDI generates taxable income sufficient to realize the additional tax deductions, CDI will be required to pay us 90% of the amount of tax savings actually realized from the step-up of the basis of certain assets. As of September 30, 2007 and December 31, 2006, we have a receivable from CDI of approximately $7.5 million and $11.3 million, respectively, related to the Tax Matters Agreement. For additional information related to the Tax Matters Agreement, see our 2006 Form 10-K.

Note 5 Acquisition of Remington Oil and Gas Corporation

On July 1, 2006, we acquired 100% of Remington, an independent oil and gas exploration and production company headquartered in Dallas, Texas, with operations concentrated in the onshore and offshore regions of the Gulf Coast, for approximately $1.4 billion in cash and stock and the assumption of $357.8 million of liabilities. The merger consideration was 0.436 shares of Helix common stock and $27.00 in cash for each share of Remington common stock. On July 1, 2006, we issued 13,032,528 shares of our common stock to Remington stockholders and funded the cash portion of the Remington acquisition (approximately $806.8 million) and transaction costs (approximately $18.6 million) through borrowings under a credit agreement (see Note 10 Long-Term Debt below).

The Remington acquisition was accounted for as a business combination with the acquisition price allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess being recorded as goodwill. The final valuation of net assets was completed in June 2007 with no material changes to our preliminary valuation. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	$ 154,408
Property and equipment	863,935
Goodwill	711,656
Other intangible assets(1)	6,800
Total assets acquired	$ 1,736,799
Current liabilities	$ 131,881
Deferred income taxes	204,096
Decommissioning liabilities (including current portion)	20,044
Other non-current liabilities	1,800
Total liabilities assumed	$ 357,821
Net assets acquired	$ 1,378,978

(1) The intangible asset is related to a favorable drilling rig contract and to several non-compete agreements between the Company and

certain members of senior management. The fair value of the drilling rig contract was $5.0 million, with $5.0 million reclassified into property and equipment for drilling of certain successful exploratory wells in the nine months ended September 30, 2007. The fair value of the non-compete agreements was $1.8 million, which is being amortized over the term of the agreements (three years) on a straight-line basis.

Note 6 Oil and Gas Properties

We follow the successful efforts method of accounting for our interests in oil and gas properties. Under the successful efforts method, the costs of successful wells and leases containing productive reserves are capitalized. Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized. Costs incurred relating to unsuccessful exploratory wells are expensed in the period in which the drilling is determined to be unsuccessful.

As of September 30, 2007, we capitalized approximately $27.4 million of exploratory drilling costs associated with ongoing exploration and/or appraisal activities. Such capitalized costs may be charged against earnings in future periods if management determines that commercial quantities of hydrocarbons have not been discovered or that future appraisal drilling or development activities are not likely to occur. The following table provides a detail of our capitalized exploratory project costs at September 30, 2007 and December 31, 2006 (in thousands):

	September 30, 2007	December 31, 2006
Noonan[(1)]	$	$ 27,824
Huey	11,556	11,378
Castleton (part of Gunnison)	7,075	7,070
South Marsh Island 123 #1	5,626	
Other	3,166	3,711
Total	$ 27,423	$ 49,983

(1) Wells have been completed.

As of September 30, 2007, all of these exploratory well costs had been capitalized for a period of one year or less, except for Huey and Castleton. We are not the operator of Castleton.

The following table reflects net changes in suspended exploratory well costs during the nine months ended September 30, 2007 (in thousands):

	2007
Beginning balance at January 1	$ 49,983
Additions pending the determination of proved reserves	210,780
Reclassifications to proved properties	(233,174)
Charged to dry hole expense	(166)
Ending balance at September 30	$ 27,423

Further, the following table details the components of exploration expense for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Delay rental	$ 547	$ 509	$ 2,185	$ 799
Geological and geophysical costs	879	2,142	3,293	2,881
Dry hole expense	50	16,869		