

# FINANCIAL STATEMENTS



# FINANCIAL REVIEW

The 6% growth in 1999 revenue (see revenue contribution chart) was achieved as a 155% increase in decommissioning, ERT and barge operations offset lower activity levels in Deepwater and our traditional Subsea services on the OCS. Salvage and barge operations were 34% of revenues in 1999, up from 14% the prior year, thereby achieving a long held corporate goal that these services grow to 30% of consolidated revenues. The improvement reflects a record year for CDI salvage assets, the sub-contract of derrick and pipelay barges, and the \$20 million increase in natural gas and oil sales registered by ERT. The number of Deepwater GOM fields brought into completion and production remained roughly constant with the prior year (8 to 10 fields) but rates declined as our competitors played catch up by bringing in a number of DP vessels new to the Gulf. The collapse of commodity prices almost wiped out the construction season on the OCS. In this

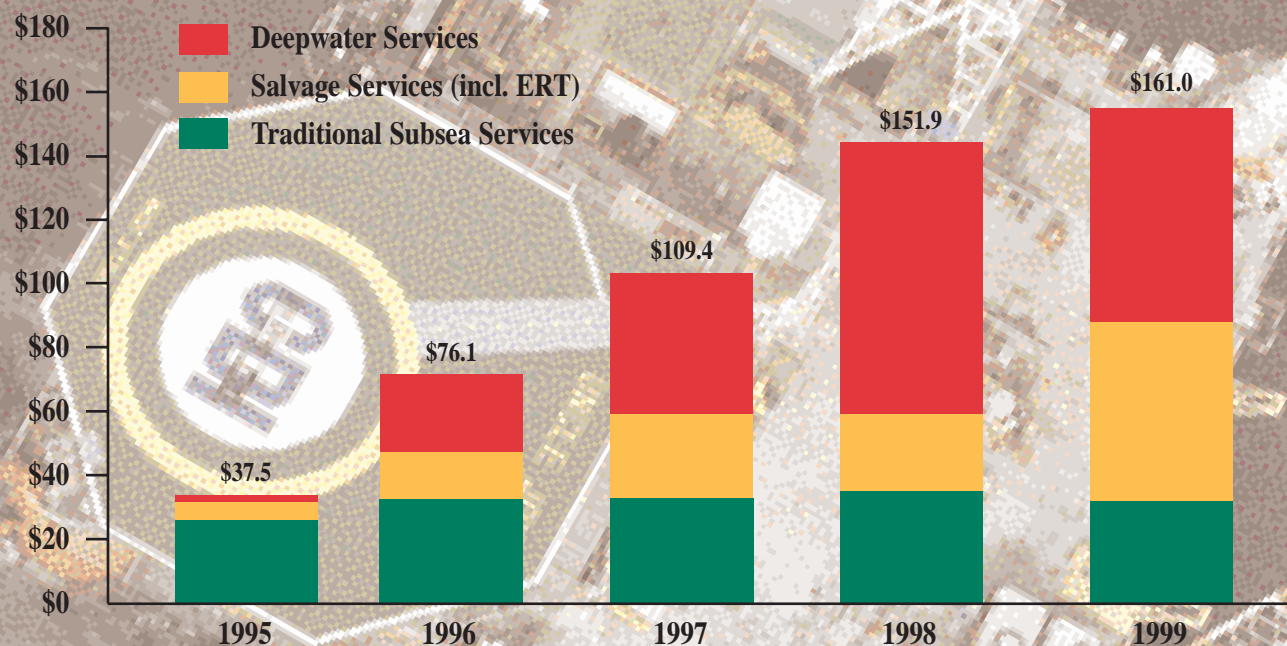
environment CDI shifted to function as prime contractor on two significant Deepwater assignments (*Diana* and *Cooper*), the largest OCS salvage award in our history (Sonat), and five full field/pipelay jobs. Combined, these eight projects represented 40% of Subsea revenues. Major customers in 1999 were EEX (the *Cooper* job alone represented 13% of revenues), Sonat, Exxon Mobil, BP Amoco and Horizon Offshore.

Gross profit of \$37.3 million declined \$12 million from the prior year, resulting in margins of 23%. The company reports gross profit on a fully absorbed basis; i.e. after depreciation of its vessels, amortization of oil and gas properties, offshore insurance premiums and the cost of the Morgan City Operations base. Our GOM competitors took turns as loss leader with "blue light specials" making the competitive bid market an absolute zoo. While the growing responsibility as a prime contrac-

tor aided revenues, it lowered margins as third-party pass-through costs as a percent of revenues increased by 12 points. Margins on *Cooper* were 17%, lower than expected given the technical issues encountered and a low extra work rate. Also impacting margins were three customer bankruptcies, the first time we have experienced this type of loss in more than a decade. Through an aggressive effort we were able to realize 88 cents on the dollar of \$2 million of receivables due from one salvage customer. ERT margins improved nine points to 37% due to higher commodity prices and the increase in oil production. Gas and oil margins also reflect the gains realized on the sale of three offshore blocks, net of the write-down in value of certain properties associated with the 1999 well exploitation program.

## REVENUE CONTRIBUTION

(In Millions)



Selling, general and administrative expenses of \$13.2 million include \$1.2 million of Aquatica overhead for the five months the company was wholly-owned. In other words, overhead was down \$3.8 million or 24% from the prior year due to the lack of Subsea bonuses and staff reductions effected early in the year. SG&A for 1999 includes \$3.7 million related to ERT, an increase of \$2.2 million over 1998 as we added new people to handle the expansion in operations. That subsidiary's significantly increased income also triggered a big payout under its incentive program.

Deepwater projects such as *Diana* and *Cooper* this year and *Baldpate* and *Genesis* last year involve entirely new methodologies in GOM technology. The 33% income tax provision in 1999 fell below the 35% statutory rate as the research and development (R&D) credit related to this work is a permanent rather than temporary timing difference for tax purposes. The R&D efforts and timing differences combined were such that CDI made cash deposits of only 50% of the \$8.5 million provision for income taxes, down from 60% last year.

We take pride in delivering income that was 10.5% of revenues in one of the worst recessions to impact the oilfield service industry since 1986. Net income of \$16.9 million declined by \$7.2 million from the \$24.1 million reported in 1998. While net income fell 30%, the strong cash margins of ERT enabled the company to generate \$44.8 million of EBITDA, almost the same as the prior year. Diluted earnings per share of \$1.10 were down 32%, slightly more than net income due to the 700,000 shares issued to acquire Aquatica, Inc.

Trade receivables of \$48 million were more than double the prior year's ending balance, with most of the increase a result of the terms negotiated with EEX for the *Cooper* project. Pursuant to those terms, \$22 million was paid on January 10, 2000 cutting trade receivables in half. Restricted cash of \$8.7 million reflects the proceeds from 1999 ERT property sales which were set aside to effect a "like kind" exchange for tax purposes. Those funds were effectively

utilized to complete the purchase of the EEX Shelf properties in February 2000 and thus the company was able to defer the taxable gain on these property sales. Decommissioning liabilities associated with 1999 ERT property acquisitions were \$19.5 million, an amount reduced by \$2 million of salvage work completed during the year, taking the year-end abandonment obligation to \$27 million. Shareholder equity of just under \$151 million increased \$37 million due to net income (\$17 million), the shares issued in the acquisition of Aquatica (\$16 million) and exercise of the employee stock options (\$4 million).

The company has consistently targeted the year 2001 as the time when we will see a significant acceleration in Deepwater demand. As a result, 1999 capital expenditures of \$77.5 million were over five times the prior year. This figure includes \$33 million for the construction of the *Q4000*, the acquisition of the *Cal Dive Aker Dove* (\$19 million) and the purchase of new engines for the *Uncle John*. ERT internally funded its \$17 million of capital expenditures from the proceeds of the sale of offshore property interests and the prepayment of abandonment costs received in one acquisition.

The Board of Directors has approved a capital budget of \$120 million for the year 2000 with approximately \$85 million of that associated with the *Q4000*. We expect to submit a supplemental appropriation of \$20 million to \$30 million to convert the *Sea Sorceress* to full DP or purchase an existing DP vessel having similar Deepwater construction features. To meet these funding requirements we have \$20 million of cash on hand and have not drawn on an existing \$40 million line of credit. The "60 day letter" received from the Maritime Administration regarding Title XI financing for the *Q4000* signifies that funding is available and that we have satisfactorily answered MARAD's technical questions concerning the vessel. Assuming the remaining due diligence steps are completed and that the financing transaction is approved, initial construction funding will be drawn in the first half of the year. Such financing would effectively free up \$30 million to \$40 million of cash for the *Sea Sorceress* conversion, the purchase of DP vessels and working capital.



**CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES***Consolidated Balance Sheets - December 31, 1999 and 1998**(in thousands)*

	December 31,	
	1999	1998
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 11,310	\$ 32,380
Restricted cash	8,686	463
Accounts receivable --		
Trade, net of revenue allowance on gross		
amounts billed of \$1,789 and \$1,335	48,191	20,350
Unbilled revenue	3,430	10,703
Other current assets	16,327	9,190
Total current assets	87,944	73,086
<b>PROPERTY AND EQUIPMENT</b>	180,519	107,421
Less — Accumulated depreciation	(45,862)	(28,262)
Total property and equipment	134,657	79,159
<b>OTHER ASSETS:</b>		
Investment in Aquatica, Inc.	--	7,656
Goodwill	13,792	--
Other assets, net	7,329	4,334
	\$ 243,722	\$ 164,235
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 31,834	\$ 15,949
Accrued liabilities	17,223	10,020
Income taxes payable	--	1,201
Total current liabilities	49,057	27,170
<b>LONG-TERM DEBT</b>	---	---
<b>DEFERRED INCOME TAXES</b>	16,837	13,539
<b>DECOMMISSIONING LIABILITIES</b>	26,956	9,883
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, no par, 60,000 shares authorized,		
22,395 and 21,402 shares issued	73,311	52,981
Retained earnings	81,312	64,413
Treasury stock, 6,820 shares, at cost	(3,751)	(3,751)
Total shareholders' equity	150,872	113,643
	\$ 243,722	\$ 164,235

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

**CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES***Consolidated Statements Of Operations For The Years Ended**December 31, 1999, 1998 and 1997**(in thousands, except per share amounts)*

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
NET REVENUES			
Subsea and salvage	\$ 128,435	\$ 139,310	\$ 92,860
Natural gas and oil production	32,519	12,577	16,526
	160,954	151,887	109,386
COST OF SALES			
Subsea and salvage	103,113	93,607	67,538
Natural gas and oil production	20,590	9,071	8,163
Gross profit	37,251	49,209	33,685
SELLING AND ADMINISTRATIVE EXPENSES	13,227	15,801	11,196
INCOME FROM OPERATIONS	24,024	33,408	22,489
Equity in earnings of Aquatica, Inc.	600	2,633	--
Net interest (income) expense and other	(849)	(1,103)	208
INCOME BEFORE INCOME TAXES	25,473	37,144	22,281
Provision for income taxes	8,465	13,019	7,799
Minority Interest	109	--	--
NET INCOME	\$ 16,899	\$ 24,125	\$ 14,482
NET INCOME PER SHARE			
Basic	\$ 1.13	\$ 1.66	\$ 1.12
Diluted	1.10	1.61	1.09
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	15,008	14,549	12,883
Diluted	15,327	14,964	13,313

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

**CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES***Consolidated Statements Of Shareholders' Equity For The Years Ended**December 31, 1999, 1998 and 1997**(in thousands)*

	COMMON STOCK		RETAINED EARNINGS	TREASURY STOCK		TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT		SHARES	AMOUNT	
BALANCE, DECEMBER 31, 1996	18,448	\$ 9,093	\$ 25,806	(7,349)	\$ (4,055)	\$ 30,844
NET INCOME	—	—	14,482	—	—	14,482
ACTIVITY IN COMPANY STOCK PLANS	22	327	—	—	—	327
SALE OF TREASURY STOCK, NET	—	4,055	—	529	304	4,359
SALE OF COMMON STOCK, NET	2,875	39,357	—	—	—	39,357
BALANCE, DECEMBER 31, 1997	21,345	52,832	40,288	(6,820)	(3,751)	89,369
NET INCOME	—	—	24,125	—	—	24,125
ACTIVITY IN COMPANY STOCK PLANS, NET	57	149	—	—	—	149
BALANCE, DECEMBER 31, 1998	21,402	52,981	64,413	(6,820)	(3,751)	113,643
NET INCOME	—	—	16,899	—	—	16,899
ACTIVITY IN COMPANY STOCK PLANS, NET	297	4,174	—	—	—	4,174
ACQUISITION OF AQUATICA, INC.	696	16,156	—	—	—	16,156
<b>BALANCE, DECEMBER 31, 1999</b>	<b>22,395</b>	<b>\$ 73,311</b>	<b>\$ 81,312</b>	<b>(6,820)</b>	<b>\$ (3,751)</b>	<b>\$ 150,872</b>

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

**CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES***Consolidated Statements Of Cash Flows For The Years Ended**December 31, 1999, 1998 and 1997**(in thousands)*

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 16,899	\$ 24,125	\$ 14,482
Adjustments to reconcile net income to net cash provided by operating activities--			
Depreciation and amortization	20,615	9,563	7,512
Deferred income taxes	4,298	4,469	3,789
Equity in earnings of Aquatica, Inc.	(600)	(2,633)	—
Gain on sale of gas and oil properties	(8,454)	(585)	(464)
Changes in operating assets and liabilities:			
Accounts receivable, net	(16,918)	937	(5,777)
Other current assets	(6,468)	(3,919)	(2,653)
Accounts payable and accrued liabilities	21,217	5,536	4,766
Income taxes payable, net	(430)	599	736
Other noncurrent, net	(4,660)	(2,395)	(97)
Net cash provided by operating activities	25,499	35,697	22,294
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(77,447)	(14,886)	(28,936)
Restricted cash	(8,222)	(463)	—
Investment in Aquatica, Inc.	442	(5,023)	—
Prepayment of decommissioning liabilities	7,750	—	—
Deposits restricted for salvage operations	(66)	3,262	(436)
Proceeds from sales of property	28,931	619	1,084
Net cash used in investing activities	(48,612)	(16,491)	(28,288)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Exercise of stock warrants and options, net	2,043	149	99
Sale of common stock, net of transaction costs	—	—	39,357
Sale of treasury stock, net of transaction costs	—	—	4,359
Borrowings under term loan facility, net	—	—	6,700
Repayments of long-term debt	—	—	(31,700)
Net cash provided by financing activities	2,043	149	18,815
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(21,070)</b>	<b>19,355</b>	<b>12,821</b>
<b>CASH AND CASH EQUIVALENTS:</b>			
Balance, beginning of year	32,380	13,025	204
Balance, end of year	\$ 11,310	\$ 32,380	\$ 13,025

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

# CAL DIVE INTERNATIONAL, INC., AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. ORGANIZATION:

Cal Dive International, Inc. (Cal Dive, CDI or the Company), headquartered in Houston, Texas, owns, staffs and operates fourteen marine construction vessels and a derrick barge in the Gulf of Mexico. The Company provides a full range of services to offshore oil and gas exploration and production and pipeline companies, including underwater construction, maintenance and repair of pipelines and platforms, and salvage operations. Diving and vessel support services in the shallow water market are provided by Aquatica, Inc., a wholly-owned subsidiary based in Lafayette, Louisiana.

In September 1992, Cal Dive formed a wholly owned subsidiary, Energy Resource Technology, Inc. (ERT), to purchase producing offshore oil and gas properties which are in the later stages of their economic lives. ERT is a fully bonded offshore operator and, in conjunction with the acquisition of properties, assumes the responsibility to decommission the property in full compliance with all governmental regulations.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

#### *Goodwill*

Goodwill is amortized on the straight-line method over its estimated useful life of 25 years. The Company continually evaluates whether subsequent events or circumstances have occurred that indicates the remaining useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. Management believes that there have been no events or circumstances which warrant revision to the remaining useful life or which affect recoverability of goodwill.

#### *Property and Equipment*

Property and equipment are recorded at cost. Depreciation is provided primarily on the straight-line method over the estimated useful lives of the assets.

All of the Company's interests in natural gas and oil properties are located offshore in United States waters. The Company follows the successful efforts method of accounting for its interests in natural gas and oil properties. Under the successful efforts method, only the costs of successful wells and leases containing productive reserves are capitalized.

ERT offshore property acquisitions are recorded at the value exchanged at closing together with an estimate of its proportionate share of the decommissioning liability assumed in the purchase based upon its working interest ownership percentage. In estimating the decommissioning liability assumed in

offshore property acquisitions, the Company performs detailed estimating procedures, including engineering studies. All capitalized costs are amortized on a unit-of-production basis (UOP) based on the estimated remaining oil and gas reserves. Properties are periodically assessed for impairment in value, with any impairment charged to expense.

The following is a summary of the components of property and equipment (dollars in thousands)

	ESTIMATED USEFUL LIFE	1999	1998
Vessels	15	\$ 85,397	\$ 72,220
Offshore leases and equipment	UOP	49,037	22,530
Construction in progress	N/A	31,341	--
Machinery, equipment and leasehold improvements	5	14,744	12,671
Total property and equipment		\$ 180,519	\$ 107,421

In July 1999, the CDI Board of Directors approved the construction of the *Q4000*, a newbuild, ultra-deepwater multi-purpose vessel, for a total estimated cost of \$150 million. Amounts incurred on this project through the end of 1999 are included in Construction in Progress.

The cost of repairs and maintenance of vessels and equipment is charged to operations as incurred, while the cost of improvements is capitalized. Total repair and maintenance charges were \$6,031,000, \$8,264,000 and \$6,771,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

#### *Use of Estimates*

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

#### *Earnings Per Share*

The Company computes and presents earning per share in accordance with Statement of Financial Accounting Standard No. 128, "Earnings Per Share". SFAS 128 requires the presentation of "basic" EPS and "diluted" EPS on the face of the statement of operations. Basic EPS is computed by dividing the net income available to 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, which were stock options, less the number of treasury shares assumed to be purchased from the proceeds from the exercise of stock options.

### *Revenue Recognition*

The Company earns the majority of its service revenues during the summer and fall months. Revenues are derived from billings under contracts (which are typically of short duration) that provide for either lump-sum turnkey charges or specific time, material and equipment charges which are billed in accordance with the terms of such contracts. The Company recognizes revenue as it is earned at estimated collectible amounts. Revenue on significant turnkey contracts is recognized on the percentage-of-completion method based on the ratio of costs incurred to total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments are reflected in the period in which such estimates are revised. Provisions for estimated losses on such contracts are made in the period such losses are determined. Unbilled revenue represents revenue attributable to work completed prior to year-end which has not yet been invoiced. All amounts included in unbilled revenue at December 31, 1999 are expected to be billed and collected within one year.

### *Revenue Allowance on Gross Amounts Billed*

The Company bills for work performed in accordance with the terms of the applicable contract. The gross amount of revenue billed will include not only the billing for the original amount quoted for a project but also include billings for services provided which the Company believes are outside the scope of the original quote. The Company establishes a revenue allowance for these additional billings based on its collections history if conditions warrant such a reserve.

### *Major Customers and Concentration of Credit Risk*

The market for the Company's services is the offshore oil and gas industry. Oil and gas companies make capital expenditures for exploration, drilling and production operations offshore, the level of which is generally dependent on the prevailing view of the future oil and gas prices, which have been characterized by significant volatility in recent years. The Company's customers consist primarily of major, well-established oil and pipeline companies and independent oil and gas producers. The Company performs ongoing credit evaluations of its customers and provides allowances for probable credit losses when necessary.

The percent of consolidated revenue of major customers was as follows: 1999 - EEX Corporation (13%); 1998 - Chevron USA (11%); 1997 - Shell Oil Co. (11%) and J.Ray McDermott, S.A. (19%)

### *Income Taxes*

Deferred taxes are recognized for revenues and expenses reported in different years for financial statement purposes and income tax purposes in accordance with SFAS No. 109, "Accounting for Income Taxes." The statement requires, among other things, the use of the liability method of computing deferred income taxes. The liability method is based on the amount of current and future taxes payable using tax rates and laws in effect at the balance sheet date.

### *Deferred Drydock Charges*

In 1998, the Company changed its method of accounting for regulatory (U.S. Coast Guard, American Bureau of Shipping and Det Norske Veritas) related drydock inspection and certification expenditures. The Company previously expensed inspection and certification costs as incurred; however, effective January 1, 1998, such expenditures are being capitalized and amortized over the 30-month period between regulatory mandated drydock inspections and certification. This predominant industry practice provides better matching of expenses with the period benefitted (i.e., certification to operate the vessel for a 30-month period between required drydock inspections and to meet bonding and insurance coverage requirements). This change had a \$765,000 positive impact on net income, or \$0.05 per share, in the Company's 1998 consolidated financial statements.

### *Statement of Cash Flow Information*

The Company defines cash and cash equivalents as cash and all highly liquid financial instruments with original maturities of less than three months. During the years ended December 31, 1999, 1998 and 1997, the Company's cash payments for interest expense were approximately \$-0-, \$-0- and \$1,033,000 respectively, and cash payments for federal income taxes were approximately \$4,075,000, \$7,650,000 and \$3,200,000 respectively.

### *Reclassifications*

Certain reclassifications were made to previously reported amounts in the consolidated financial statements and notes to make them consistent with the current presentation format.

## **3. ACQUISITION OF AQUATICA, INC.:**

In February 1998, CDI purchased a significant minority equity interest in Aquatica, Inc., a surface diving company. CDI accounted for this investment on the equity basis of accounting for financial reporting purposes. The related Shareholder Agreement provided that the remaining shares of Aquatica, Inc. could be converted into Cal Dive shares based on a formula which, among other things, values the shares of Aquatica, Inc. and must be accretive to Cal Dive shareholders. Effective August 1, 1999, 696,000 shares of common stock of Cal Dive were issued for all of the remaining common stock of Aquatica, Inc. pursuant to these terms. This acquisition was accounted for as a purchase with the acquisition price of \$16.2 million being allocated to the assets acquired and liabilities assumed based upon their estimated fair values. The fair value of tangible assets acquired and liabilities assumed was \$6.4 million and \$2.2 million, respectively. The balance of the purchase price (\$12 million) was recorded as excess of cost over net assets acquired (goodwill). Accumulated amortization as of December 31, 1999 was \$300,000. Results of operations for Aquatica, Inc. are consolidated with those of Cal Dive for periods subsequent to August 1, 1999.

#### 4. OFFSHORE PROPERTY TRANSACTIONS:

During the first four months of 1999, in four separate transactions, ERT acquired interests in 20 offshore blocks in exchange for cash consideration, as well as assumption of the pro rata share of the related decommissioning liabilities. During 1997, ERT acquired net working interests of 50 percent to 100 percent in 3 offshore blocks and in 1998, interests in six blocks involving two separate fields in exchange for cash as well as assumption of the pro rata share of the related decommissioning liability. In connection with 1999, 1998 and 1997 offshore property acquisitions, ERT assumed net abandonment liabilities estimated at approximately \$19,500,000, \$3,432,000 and \$1,351,000 respectively.

ERT production activities are regulated by the federal government and require significant third-party involvement, such as refinery processing and pipeline transportation. The Company records revenue from its offshore properties net of royalties paid to the Minerals Management Service ("MMS"). Royalty fees paid totaled approximately \$4,017,000, \$2,031,000 and \$3,018,000 for the years ended 1999, 1998 and 1997, respectively. In accordance with federal regulations that require operators in the Gulf of Mexico to post an areawide bond of \$3,000,000, the MMS has allowed the Company to fulfill such requirement through an insurance policy.

During the third quarter, ERT substantially completed its 1999 well exploitation program, which included five recompletions and which led to the sale of its interest in three offshore blocks. It is an operating policy that ERT will sell assets (offshore leases, platforms, compressors, etc.) when the expected future revenue stream can be accelerated in a single transaction. Accordingly, proceeds received from such transactions are recorded as revenue in the period received. These sales were structured as Section 1031 "Like Kind" exchanges for tax purposes. Accordingly, the cash received was restricted to use for subsequent acquisitions of additional natural gas and oil properties. Since inception ERT has acquired interests in 41 offshore leases, sold seven (two in 1997 and two in 1998), and taken one field full cycle to decommissioning. The well exploitation work completed during the third quarter also enabled ERT to assess and write down the carrying value of three ERT fields, including one where a third party vendor damaged the reservoir formation. The net result of the sales and the well exploitation program was to add approximately thirteen cents to 1999 diluted earnings per share.

#### 5. ACCRUED LIABILITIES:

Accrued liabilities consisted of the following (in thousands):

	1999	1998
Accrued payroll and related benefits	\$ 6,606	\$ 5,198
Workers compensation claims	497	1,919
Workers compensation claims to be reimbursed	6,241	867
Other	3,879	2,036
Total accrued liabilities	\$ 17,223	\$ 10,020

#### 6. REVOLVING CREDIT FACILITY:

Since April 1997, the Company has had a revolving credit facility of \$40 million available. Interest rates vary from .5% above prime and 2% above the Eurodollar base rate to prime and 1.25 to 2.50 percent above Eurodollar based on specific provisions set forth in the loan agreement. Covenant restrictions include only a fixed charge ratio. The Company was in compliance with these debt covenants at December 31, 1999.

#### 7. FEDERAL INCOME TAXES:

Federal income taxes have been provided based on the statutory rate of 35 percent adjusted for items which are allowed as deductions for federal income tax reporting purposes, but not for book purposes. The primary differences between the statutory rate and the Company's effective rate are as follows:

	1999	1998	1997
Statutory rate	35%	35%	35%
Research and development tax credits	(3)	(1)	---
Other	1	1	---
Effective rate	33%	35%	35%

Components of the provision for income taxes reflected in the statements of operations consist of the following (in thousands):

	1999	1998	1997
Current	\$ 4,167	\$ 8,550	\$ 4,010
Deferred	4,298	4,469	3,789
	\$ 8,465	\$ 13,019	\$ 7,799

Deferred income taxes result from those transactions which affect financial and taxable income in different years. The nature of these transactions and the income tax effect of each as of December 31, 1999 and 1998, is as follows (in thousands):

	1999	1998
Deferred tax liabilities --		
Depreciation	\$ 16,837	\$ 13,539
Deferred tax assets --		
Reserves, accrued liabilities and other	(532)	(416)
Net deferred tax liability	\$ 16,305	\$ 13,123

## 8. COMMITMENTS AND CONTINGENCIES:

### *Lease Commitments*

During 1999, CDI acquired Hvide Marine's interest in Cal Dive Aker CAHT I, LLC (CAHT I), the company which owns the *Cal Dive Aker Dove* (a newbuild DP anchor handling and subsea construction vessel which commenced operations in September 1999) for a total of \$18.9 million. CDI effectively owns 56% of CAHT I and accordingly results of operations of this company are consolidated in the accompanying financial statements with Aker's share being reflected as minority interest.

In December, 1999, CAHT I entered into a sale-leaseback of the *Cal Dive Aker Dove*. Cal Dive's portion of the proceeds received totaled \$20 million and resulted in a gain of \$1.4 million which was deferred and is being amortized over the ten year term of the lease. The lease, which is accounted for as an operating lease, requires CAHTI to make quarterly payments of \$988,000 and contains a renewal option and options to purchase the vessel for amounts approximating fair market value after 8-1/2 years of the lease term and at the end of the lease term.

The Company occupies several facilities under noncancelable operating leases. Future minimum rentals under these leases are \$3.4 million at December 31, 1999 with \$579,000 due in 2000, \$599,000 in 2001, \$622,000 in 2002, \$676,000 in 2003, \$516,000 in 2004 and the balance thereafter. Total rental expense under these operating leases was \$673,000, \$601,000 and \$376,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

### *Insurance and Litigation*

The Company carries hull protection on vessels, indemnity insurance and a general umbrella policy. All onshore employees are covered by workers' compensation, and all offshore employees, including divers and tenders, are covered by Jones Act employee coverage, the maritime equivalent of workers' compensation. The Company is exposed to deductible limits on its insurance policies, which vary from \$5,000 to a maximum of \$100,000 per accident occurrence. Effective August 1, 1992, the Company adopted a self-insured (within specified limits) medical and health benefits program for its employees whereby the Company is exposed to a maximum of \$15,000 per claim.

In 1998, CDI entered into a subcontract with Seacore Marine Contractors Limited (Seacore) to provide a vessel (the *Sea Sorceress*) for the excavation of glory holes on the Terra Nova Project in the North Atlantic ocean. Seacore was in turn contracted by Coflexip Stena Offshore (Coflexip). Due to unforeseen difficulties with respect to the sea states and soil conditions, Coflexip chose to suspend glory hole dredging for the 1998 season. Subsequently, Coflexip formally terminated the contract with Seacore and issued a call against a performance bond provided by Seacore. CDI has provided Seacore a performance bond of \$5 million with respect to the subcontract of the *Sea Sorceress* although no call has been made on this bond. Seacore and CDI believe the contract was wrongfully terminated and are vigorously defending this claim and seeking damages in arbitration.

The Company incurs workers' compensation claims in the normal course of business, which management believes are covered by insurance. The Company, its insurers and legal counsel analyze each claim for potential exposure and estimate the ultimate liability of each claim. Amounts accrued and receivable from insurance companies, above the applicable deductible limits, are reflected in other current assets in the consolidated balance sheet. Such amounts were \$6,241,000 and \$867,000 as of December 31, 1999 and 1998, respectively. See related accrued liabilities at Note 5. The Company has not incurred any significant losses as a result of claims denied by its insurance carriers. In addition, the Company from time to time incurs other claims, such as contract disputes, in the normal course of business. In the opinion of management, the ultimate liability to the Company, if any, which may result from the claims discussed above will not materially affect the Company's consolidated financial position, results of operations or net cash flows.

## 9. EMPLOYEE BENEFIT PLANS:

### *Defined Contribution Plan*

The Company sponsors a defined contribution 401(k) retirement plan covering substantially all of its employees. The Company's contributions and cost are determined annually as 50 percent of each employee's contribution up to 5 percent of the employee's salary. The Company's costs related to this plan totaled \$375,000, \$431,000 and \$305,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

### *Stock-Based Compensation Plans*

During 1995, the Board of Directors and shareholders approved the 1995 Long-Term Incentive Plan (the Incentive Plan). Under the Incentive Plan, a maximum of 10% of the total shares of Common Stock issued and outstanding may be granted to key executives and selected employees who are likely to make a significant positive impact on the reported net income of the Company. The Incentive Plan is administered by a committee which determines, subject to approval of the Compensation Committee of the Board of Directors, the type of award to be made to each participant and sets forth in the related award agreement the terms, conditions and limitations applicable to each award. The committee may grant stock options, stock appreciation rights, or stock and cash awards. Options granted to employees under the Incentive Plan vest 20% per year for a five year period, have a maximum exercise life of five years and, subject to certain exceptions, are not transferable.

Effective May 12, 1998, the Company adopted a qualified, non-compensatory Employee Stock Purchase Plan ("ESPP"), which allows employees to acquire shares of common stock through payroll deductions over a six month period. The purchase price is equal to 85 percent of the fair market value of the common stock on either the first or last day of the subscription

period, whichever is lower. Purchases under the plan are limited to 10 percent of an employee's base salary. Under this plan 11,238 and 13,937 shares of common stock were purchased in the open market at a weighted average share price of \$24.38 and \$21.25 during 1999 and 1998, respectively.

The Incentive Plan and ESPP are accounted for using APB Opinion No. 25, and therefore no compensation expense is recorded. If SFAS Statement No. 123 had been used for the accounting of these plans, the Company's pro forma net income for 1999, 1998 and 1997 would have been \$16,218,000, \$23,735,000 and \$14,023,000 respectively, and the Company's pro forma diluted earnings per share would have been \$1.06, \$1.59 and \$1.07 respectively. These pro forma results exclude consideration of options granted prior to January 1, 1995, and therefore may not be representative of that to be expected in future years.

All of the options outstanding at December 31, 1999, have exercise prices as follows: 184,500 shares at \$4.50, 116,054 at \$7.90, 387,000 shares at \$9.50, 82,000 shares at \$13.00, 84,770 shares at \$20.56 and 124,280 shares ranging from \$14.00 to \$32.00 and a weighted average remaining contractual life of 2.49 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used: expected dividend yields of 0 percent; expected lives of five years risk-free interest rate assumed to be 5.5 percent in 1997, 5.0 percent in 1998 and 5.5 percent in 1999 and expected volatility to be 36 percent in 1997 and 59 percent in 1998 and 1999. The fair value of shares issued under the ESPP was based on the 15% discount received by the employees.

Options outstanding are as follows:

	1999		1998		1997	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding, beginning of year	1,044,600	\$ 9.40	994,500	\$ 8.66	544,500	\$ 4.50
Granted	238,969	12.07	325,850	23.55	540,000	12.17
Exercised	(292,965)	6.84	(56,750)	5.03	(22,000)	4.50
Terminated	(12,000)	4.50	(219,000)	28.24	(68,000)	4.50
Options outstanding, December 31	978,604	\$ 11.18	1,044,600	\$ 9.40	994,500	\$ 8.66
Options exercisable, December 31	247,744	\$ 8.59	222,950	\$ 6.50	199,604	\$ 4.50

Options granted in 1999 include 143,639 shares issued in connection with the August 1, 1999 acquisition of Aquatica, Inc., which provided for conversion of Aquatica employee stock options into Cal Dive stock options at the same ratio which Aquatica common shares were converted into Cal Dive common shares. Options granted and options terminated under the Incentive Plan for 1998 include options which were repriced on November 6, 1998. The options which were repriced were originally granted between August 25, 1997 and May 11, 1998 with original exercise prices between \$28.38 and \$37.25. Options for 165,000 shares were cancelled on November 6, 1998 and a proportionately reduced number of shares (100,850) were reissued at an exercise price of \$20.56 per share with a new five year vesting period.

## 10. COMMON STOCK:

The Company's amended and restated Articles of Incorporation provide for authorized Common Stock of 60,000,000 shares with no par value per share.

On April 11, 1997, Coflexip purchased approximately 3,700,000 shares of the Company's stock, consisting of approximately 2.1 million shares sold by management of the Company and 1.1 million shares sold by First Reserve Funds at a price of \$9.46 per share. Coflexip agreed to accept approximately 500,000 shares of the Company's Common Stock as payment for two ROVs at published retail prices as part of this transaction. The Company also entered into a joint venture with Coflexip (Quantum Offshore Contractors, L.L.C.) designed to target larger EPIC contracts in the Gulf of Mexico. Such contracts did not develop and accordingly in December 1999 this venture was dissolved in favor of a new business arrangement which will enable the parties to consult and cooperate with one another as they see fit on a project-by-project basis.

In conjunction with the Coflexip transaction, the Company entered into a new Shareholders Agreement. The new Shareholders Agreement provides that, except in limited

circumstances (including issuance of securities under stock option plans or in conjunction with acquisitions), the Company shall provide preemptive rights to acquire the Company's securities to each of Coflexip and the Executive Directors. The Shareholders Agreement also provides that the Company will not enter into an agreement (i) to sell the Company, (ii) to retain an advisor to sell the Company or (iii) to pursue any acquisition in excess of 50% of the Company's market capitalization without first notifying Coflexip in writing and providing Coflexip the opportunity to consummate an acquisition on terms substantially equivalent to any proposal.

The Company completed an initial public offering of common stock on July 7, 1997, with the sale of 4.1 million shares at \$15 per share. Of the 4.1 million shares, 2,875,000 shares were sold by the Company and 1,265,000 shares were sold by First Reserve Funds. Net proceeds to the Company of approximately \$39.4 million were used to retire all of its then outstanding long-term indebtedness of \$20 million.

In May 1998, the Company completed a secondary offering of 2,867,070 shares of common stock at \$33.50 per share on behalf of certain selling shareholders. The Company received no proceeds from the offering.

## 11. BUSINESS SEGMENT INFORMATION: (in thousands)

The following summarizes certain financial data by business segment:

	1999	YEAR ENDED DECEMBER 31, 1998	1997
Revenues —			
Subsea and salvage	\$ 128,435	\$ 139,310	\$ 92,860
Natural gas and oil production	32,519	12,577	16,526
Total	\$ 160,954	\$ 151,887	\$ 109,386
Income from operations —			
Subsea and salvage	\$ 15,817	\$ 31,440	\$ 16,411
Natural gas and oil production	8,207	1,968	6,078
Total	\$ 24,024	\$ 33,408	\$ 22,489
Net interest (income) expense and other –			
Subsea and salvage	\$ (264)	\$ (705)	\$ 379
Natural gas and oil production	(585)	(398)	(171)
Total	\$ (849)	\$ (1,103)	\$ 208
Provision for income taxes –			
Subsea and salvage	\$ 5,431	\$ 12,195	\$ 5,614
Natural gas and oil production	3,034	824	2,185
Total	\$ 8,465	\$ 13,019	\$ 7,799
Identifiable assets —			
Subsea and salvage	\$ 197,570	\$ 142,629	\$ 107,420
Natural gas and oil production	46,152	21,606	18,180
Total	\$ 243,722	\$ 164,235	\$ 125,600
Capital expenditures —			
Subsea and salvage	\$ 60,662	\$ 10,923	\$ 26,984
Natural gas and oil production	16,785	3,963	1,952
Total	\$ 77,447	\$ 14,886	\$ 28,936
Depreciation and amortization —			
Subsea and salvage	\$ 9,459	\$ 6,966	\$ 4,000
Natural gas and oil production	11,156	2,597	3,512
Total	\$ 20,615	\$ 9,563	\$ 7,512

## 12. SUPPLEMENTAL OIL AND GAS DISCLOSURES (UNAUDITED):

The following information regarding the Company's oil and gas producing activities is presented pursuant to SFAS No. 69, "Disclosures About Oil and Gas Producing Activities" (in thousands).

### Capitalized Costs

Aggregate amounts of capitalized costs relating to the Company's oil and gas producing activities and the aggregate amount of related accumulated depletion, depreciation and amortization as of the dates indicated are presented below. The Company has no capitalized costs related to unproved properties.

	AS OF DECEMBER 31,	
	1999	1998
Proved properties		
being amortized	\$ 49,037	\$ 22,530
Less -- Accumulated		
depletion, depreciation		
and amortization	(19,530)	(9,082)
Net capitalized costs	\$ 29,507	\$ 13,448

Included in capitalized costs is the Company's estimate of its proportionate share of decommissioning liabilities assumed relating to these properties. As of December 31, 1999 and 1998, such liabilities totaled \$27.0 million and \$9.9 million, respectively, and are also reflected as decommissioning liabilities in the accompanying consolidated balance sheet.

### Costs Incurred in Oil and Gas Producing Activities

The following table reflects the costs incurred in oil and gas property acquisition and development activities during the years indicated:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Proved property			
acquisition costs	\$ 22,610	\$ 5,416	\$ 2,687
Development costs	5,002	2,281	385
Total costs incurred	\$ 27,612	\$ 7,697	\$ 3,072

### Results of Operations for Oil and Gas Producing Activities

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Revenues	\$ 32,519	\$ 12,577	\$ 16,526
Production (lifting) costs	9,433	6,820	4,651
Depreciation, depletion and amortization	11,156	2,597	3,512
Pretax income from producing activities	11,930	3,160	8,363
Income tax expenses	3,034	1,106	2,927
Results of oil and gas producing activities	\$ 8,896	\$ 2,054	\$ 5,436

### Estimated Quantities of Proved Oil and Gas Reserves

Proved oil and gas reserve quantities are based on estimates prepared by Company engineers in accordance with guidelines established by the Securities and Exchange Commission. The Company's estimates of reserves at December 31, 1999, have been reviewed by Miller and Lents, Ltd., independent petroleum engineers. All of the Company's reserves are located in the United States. Proved reserves cannot be measured exactly because the estimation of reserves involves numerous judgmental determinations. Accordingly, reserve estimates must be continually revised as a result of new information obtained from drilling and production history, new geological and geophysical data and changes in economic conditions.

As of December 31, 1997, 4,500 Bbls. of oil and 6,325,700 Mcf. of gas of the Company's proved reserves were undeveloped. As of December 31, 1998, 400 Bbls. of oil and 1,153,300 Mcf. of gas were undeveloped. As of December 31, 1999, 337,500 Bbls. of oil and 284,800 Mcf. of gas were undeveloped.

### RESERVE QUANTITY INFORMATION

	OIL (BBLs.)	GAS (MMCF.)
Total proved reserves at		
December 31, 1996	124	24,596
Revisions of previous estimates	(21)	1,831
Production	(51)	(5,385)
Purchases of reserves in place	149	2,115
Sales of reserves in place	(1)	(912)
Total proved reserves at		
December 31, 1997	200	22,245
Revisions of previous estimates	(123)	(1,706)
Production	(67)	(4,535)
Purchases of reserves in place	60	6,631
Sales of reserves in place	--	(201)
Total proved reserves at		
December 31, 1998	70	22,434
Revisions of previous estimates	1,091	(2,392)
Production	(339)	(6,819)
Purchases of reserves in place	888	17,218
Sales of reserves in place	(8)	5,060
Total proved reserves at		
December 31, 1999	1,702	25,381

*Standardized Measure of Discounted Future Net Cash Flows  
Relating to Proved Oil and Gas Reserves*

The following table reflects the standardized measure of discounted future net cash flows relating to the Company's interest in proved oil and gas reserves as of December 31:

	1999	1998	1997
Future cash inflows	\$ 101,686	\$ 47,691	\$ 59,819
Future costs --			
Production	(30,550)	(17,412)	(23,675)
Development and abandonment	(30,303)	(11,232)	(6,917)
Future net cash flows before income taxes	40,833	19,047	29,227
Future income taxes	(16,191)	(6,477)	(7,927)
Future net cash flows	24,642	12,570	21,300
Discount at 10% annual rate	(1,799)	(2,414)	(1,540)
Standardized measure of discounted future net cash flows	\$ 22,843	\$ 10,156	\$ 19,760

*Changes in Standardized Measure of Discounted Future Net  
Cash Flows*

Principal changes in the standardized measure of discounted future net cash flows attributable to the Company's proved oil and gas reserves are as follows:

	1999	1998	1997
Standardized measure, beginning of year	\$ 10,156	\$ 19,760	\$ 33,805
Sales, net of production costs	(23,086)	(5,757)	(11,441)
Net change in prices, net of production costs	15,968	(4,573)	(17,707)
Changes in future development costs	(1,227)	(1,736)	160
Development costs incurred	5,002	2,281	385
Accretion of discount	1,537	2,711	4,870
Net change in income taxes	(9,776)	2,120	7,544
Purchases of reserves in place	31,309	4,403	3,282
Sales of reserves in place	(14,456)	(57)	(2,480)
Net change due to revision in quantity estimates	(7,591)	(3,192)	2,289
Changes in production rates (timing) and other	(175)	(5,804)	(947)
Standardized measure, end of year	\$ 22,843	\$ 10,156	\$ 19,760

**13. REVENUE ALLOWANCE ON GROSS  
AMOUNTS BILLED:**

The following table sets forth the activity in the Company's Revenue Allowance on Gross Amounts Billed for each of the three years in the period ended December 31 (in thousands):

	1999	1998	1997
Beginning balance	\$ 1,335	\$ 1,822	\$ 1,021
Additions	1,923	2,998	3,058
Deductions	(1,469)	(3,485)	(2,257)
Ending balance	\$ 1,789	\$ 1,335	\$ 1,822

See Note 2 for a detailed discussion regarding the Company's accounting policy on the revenue allowance on gross amounts billed.

## 14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

The offshore marine construction industry in the Gulf of Mexico is highly seasonal as a result of weather conditions and the timing of capital expenditures by the oil and gas companies. Historically, a substantial portion of the Company's services has been performed during the summer and fall months. As a result, historically a disproportionate portion of the Company's revenues and net income is earned during such period. The following is a summary of consolidated quarterly financial information for 1999 and 1998.

	QUARTER ENDED			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
Fiscal 1999				
Revenues	\$ 26,006	\$ 34,104	\$ 58,470	\$ 42,374
Gross profit	5,257	5,724	17,955	8,315
Net income	2,087	2,641	9,017	3,154
Net income per share:				
Basic	.14	.18	.59	.20
Diluted	.14	.18	.58	.20
Fiscal 1998				
Revenues	\$ 33,157	\$ 38,526	\$ 42,913	\$ 37,291
Gross profit	10,563	12,134	15,116	11,395
Net income	5,243	5,954	7,577	5,351
Net income per share:				
Basic	0.36	0.41	0.52	0.37
Diluted	0.35	0.40	0.51	0.36

## 15. SUBSEQUENT EVENTS (UNAUDITED):

### *Acquisition of Offshore Blocks*

During the first quarter of 2000 ERT acquired interests in six offshore blocks from EEX Corporation and agreed to operate the remaining EEX properties on the Outer Continental Shelf (OCS). The acquired offshore blocks include working interests from 40% to 75% in five platforms, one caisson and 13 wells currently producing 23 mmcf per day (13 mmcf net). ERT exchanged cash of \$4.9 million and assumed EEX's prorated share of the abandonment obligation for the acquired interests, and entered into a two-year contract to manage the remaining EEX operated properties. EEX personnel who operated these properties also became ERT employees.

**REPORT OF INDEPENDENT  
PUBLIC ACCOUNTANTS**

To the Board of Directors of  
Cal Dive International, Inc.:

We have audited the accompanying consolidated balance sheets of Cal Dive International, Inc. (a Minnesota corporation), and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cal Dive International, Inc., and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas  
February 17, 2000