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# 2003 THIRD QUARTER REPORT

November 3, 2003

**To Our Shareholders:**

Our business model which combines marine contracting and oil and gas operations has produced significant improvements in our top and bottom lines and cash flow in a challenging year for subsea construction. Our offshore contracting businesses contributed 31% of the quarter's profitability, right on the 30% targeted for 2003. Nine month oil and gas revenues cracked the $100 million mark for the first time in our history. (The prior high was $71 million set over the full 12 months of 2000). The combination of high commodity prices and ERT's low cost operating structure delivered almost 50% gross profit margins in Q3. The recently issued John S. Herold *2003 Global Upstream Performance Review* recognized the profit performance of our oil and gas activities.

## Financial Highlights

The third quarter was almost a mirror image of the sequential second quarter with 15% operating margins and net income that represented 9% of revenues.

| | Third Quarter | | | Nine Months | | |
|---|---|---|---|---|---|---|
| | **2003** | **2002** | **Increase** | **2003** | **2002** | **Increase** |
| **Revenues** | **$103,855,000** | **$84,015,000** | **24%** | **$294,594,000** | **$210,248,000** | **40%** |
| **Net Income** (common shares) | **8,937,000** | **2,952,000** | **203%** | **23,886,000** | **13,167,000** | **81%** |
| **Diluted Earnings Per Share** | **0.24** | **0.08** | **200%** | **0.63** | **0.37** | **70%** |

- **Revenues:** Nearly all of $20 million increase in consolidated revenues over the prior year quarter was due to significantly higher levels of oil and gas production and commodity prices. Marine Contracting revenues were up slightly (3%) as a strong performance by our robotics company offset a decline in rates in the North Sea construction market.

- **Gross Profit:** 23% margins compare to 14% in the year ago quarter, reflecting improved performance in both of our segments. Marine Contracting margins of 11% were down from 14% in this year's second quarter due in part to higher costs associated with a new offshore insurance package which commenced July 1.

- **SG&A:** $8.6 million is identical to the run rate of the first two quarters with the increase over last year due principally to the ERT Incentive Program.

- **Liquidity & Debt:** EBITDA of $33.1 million represented 32% of third quarter revenues and took nine month cash flow to $91 million, an 84% improvement over 2002 levels. Total debt (long term and current maturities) of $227 million was unchanged in comparison with the balance at the beginning of the year. During the quarter, our Canyon UK subsidiary entered into a $12.0 million, five year term facility to provide the basis for CDI to realize a lower UK and consolidated tax rate.

## Operational Highlights

- **Deepwater Contracting:** Our ability to find work for our DP vessels outside of the Gulf of Mexico resulted in 78% utilization, essentially the same as the second quarter and up from 71% in Q3 last year. The ***Uncle John*** remained in Mexican waters although it lost a few days switching to a new contract at slightly lower rates. The ***Eclipse*** continues to perform exceptionally well in the Middle East, a geographic region that seldom sees a vessel with her capability. The ***Mystic Viking*** completed robotic support work for **Canyon** and then mobilized offshore Trinidad where the vessel will be for the remainder of the year. After a very slow start, the ***Intrepid*** mobilized to Long Island Sound for work on the *Iroquois* pipeline, a project which carried through until her late October return to the Gulf for *Gunnison*. That left the ***Witch Queen*** as the only DP construction vessel operating in the Gulf for the entire quarter where she handled a number of our typical, short term construction projects. Several pipeline burial projects, which included deployment of the state-of-the-art T750 trenching unit, enabled **Canyon** to deliver the best quarter since we acquired the company: $13.3 million of revenues with margins in the high 20% range. With the T750 installed on the ***Northern Canyon***, the profit contribution of that vessel improved significantly. In addition, the ***Merlin*** had reasonable utilization (71%) supporting robotic projects in the Gulf of Mexico throughout the quarter.

- **Well Operations:** While we were able to keep the two Well Ops vessels away from the dock (83% utility) revenues just under $15 million were only at breakeven levels. Pricing in the North Sea has deteriorated due to a lack of both construction and drilling activity. The ***Seawell*** had an effective rate per day that was half of what she realized in Q3 a year ago working the same number of days (80). The ***Q4000*** worked 72 days setting jumpers at Shell *NaKika* and Shell *Princess* in addition to a deepwater decommissioning project which involved the first deployment of the Well Ops purpose built intervention riser system. In contrast, a year ago this vessel had only 44 days of utilization.

- **Shelf Contracting:** The 11 vessels dedicated to the OCS had a solid quarter even though there has been essentially no construction season this year. Utilization of 67%, up from 55% in the second quarter and Q3 a year ago, enabled revenues of $21 million at margins that are good in the current market environment. This performance reflects our significant market share and focus on life-of-field services (inspection, maintenance and repair). Our competition consists of larger contractors experiencing significant financial problems and/or small diving companies with limited assets and infrastructure. For the first time in two years, our primary salvage asset, ***Barge I***, saw considerable activity (70 days of utilization versus 48 in the year ago quarter) as we worked on decommissioning projects for Ocean Energy, McMoRan and Pogo Producing.

- **Oil and Gas:** Revenues of $34 million more than doubled those of Q3 last year driven by a 64% increase in production and commodity prices which were 31% higher. Production of 7.2 BCFe was above our current quarterly run rate of 7.0 BCFe as we resolved a disputed product allocation issue which allowed ERT to sell 25,000 barrels of crude oil inventory in a one-time transaction. Our average price realizations, net of hedging, were $4.61/mcf of natural gas and $27.38/bbl versus $3.22/mcf and $26.74/bbl in the year ago quarter. With the inventory sale, oil represented 44% of third quarter revenues in contrast to the 39% it has averaged this year. Gross profit margins were just under 50%, an improvement from 43% a year ago due in part to higher prices but also to improved efficiency in the operation of our offshore facilities.

- **Guidance:** We expect another quarter quite similar to the prior two, which would suggest full year earnings per share in a range of 85 cents to 95 cents.

Respectfully submitted,

| Owen E. Kratz<br>Chairman<br>Chief Executive Officer | Martin R. Ferron<br>President<br>Chief Operating Officer | S. James Nelson, Jr.<br>Vice Chairman | A. Wade Pursell<br>Chief Financial Officer |
|---|---|---|---|

# CAL DIVE INTERNATIONAL, INC.

## Comparative Consolidated Statements of Operations

| (000's omitted, except per share data) | Three Months Ended Sept. 30, 2003 | Three Months Ended Sept. 30, 2002 | Nine Months Ended Sept. 30, 2003 | Nine Months Ended Sept. 30, 2002 |
|---|---|---|---|---|
| Net Revenues: | | | | |
| Marine Contracting | $69,897 | $68,102 | $193,108 | $172,132 |
| Oil and Gas Production | 33,958 | 15,913 | 101,486 | 38,116 |
| Total Revenues | 103,855 | 84,015 | 294,594 | 210,248 |
| Cost of Sales: | | | | |
| Marine Contracting | 62,530 | 63,322 | 176,319 | 149,838 |
| Oil and Gas Production | 17,320 | 9,120 | 50,877 | 20,534 |
| Gross Profit | 24,005 | 11,573 | 67,398 | 39,876 |
| Selling and Administrative | 8,620 | 6,372 | 26,201 | 18,869 |
| Income from Operations | 15,385 | 5,201 | 41,197 | 21,007 |
| Interest Expense (Income), net & Other | 855 | 659 | 3,034 | 750 |
| Income Before Income Taxes | 14,530 | 4,542 | 38,163 | 20,257 |
| Income Tax Provision | 5,231 | 1,590 | 13,739 | 7,090 |
| Income Before Change in Accounting Principle | 9,299 | 2,952 | 24,424 | 13,167 |
| Cumulative Effect of Change in Accounting Principle, net | 0 | 0 | 530 | 0 |
| Net Income | 9,299 | 2,952 | 24,954 | 13,167 |
| Preferred Stock Dividends and Accretion | 362 | 0 | 1,068 | 0 |
| Net Income Applicable to Common Shareholders | $8,937 | $2,952 | $23,886 | $13,167 |
| | | | | |
| Other Financial Data: | | | | |
| Income from Operations | $15,385 | $5,201 | $41,197 | $21,007 |
| Depreciation and Amortization: | | | | |
| Marine Contracting | 8,443 | 8,151 | 24,370 | 19,137 |
| Oil and Gas Production (including accretion) | 9,233 | 4,529 | 25,450 | 9,206 |
| EBITDA (1) | $33,061 | $17,881 | $91,017 | $49,350 |
| | | | | |
| Weighted Avg. Shares Outstanding: | | | | |
| Basic | 37,665 | 37,268 | 37,618 | 34,888 |
| Diluted | 37,776 | 37,432 | 37,715 | 35,231 |
| | | | | |
| Net Income per Common Share | | | | |
| Basic: | | | | |
| Net Income Before Change in Accounting Principle | $0.24 | $0.08 | $0.62 | $0.38 |
| Cumulative Effect Of Change in Accounting Principle | $0.00 | $0.00 | $0.01 | $0.00 |
| Net Income Applicable to Common Shareholders | $0.24 | $0.08 | $0.63 | $0.38 |
| | | | | |
| Diluted: | | | | |
| Net Income Before Change in Accounting Principle | $0.24 | $0.08 | $0.62 | $0.37 |
| Cumulative Effect Of Change in Accounting Principle | $0.00 | $0.00 | $0.01 | $0.00 |
| Net Income Applicable to Common Shareholders | $0.24 | $0.08 | $0.63 | $0.37 |

(1) *The Company calculates EBITDA as earnings before net interest expense, taxes, depreciation and amortization. EBITDA is a supplemental financial measurement used by CDI and investors in the marine construction industry in the evaluation of its business due to the measurement being similar to performance of operations.*

## Comparative Consolidated Balance Sheets

| *ASSETS* (000'S omitted) | Sept. 30, 2003 | Dec. 31, 2002 | *LIABILITIES & SHAREHOLDERS' EQUITY* | Sept. 30, 2003 | Dec. 31, 2002 |
|---|---|---|---|---|---|
| Current Assets: | | | Current Liabilities: | | |
| Cash | $2,712 | $0 | | | |
| Restricted cash | 2,432 | 2,506 | Accounts payable | $54,756 | $62,798 |
| Accounts receivable | 97,101 | 75,418 | Accrued liabilities | 37,282 | 34,790 |
| Other current assets | 33,150 | 38,195 | Current mat of L-T debt | 14,109 | 4,201 |
| Total Current Assets | 135,395 | 116,119 | Total Current Liabilities | 106,147 | 101,789 |
| | | | | | |
| Net Property & Equipment: | | | Long-term debt | 215,439 | 223,576 |
| Marine Contracting | 430,302 | 418,056 | Deferred income taxes | 87,540 | 71,208 |
| Oil and Gas | 173,040 | 178,295 | Decommissioning liabilities | 66,673 | 92,420 |
| Goodwill | 80,228 | 79,758 | Other non-current liabilities | 2,025 | 9,500 |
| Investment in Deepwater Gateway, LLC | 34,373 | 32,688 | Convertible preferred stock | 24,437 | 0 |
| Other assets, net | 17,057 | 11,094 | Shareholders' equity | 368,134 | 337,517 |
| Total Assets | $870,395 | $836,010 | Total Liabilities & Equity | $870,395 | $836,010 |