



The New Generation Energy Services Company

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2004 FIRST QUARTER REPORT

May 3, 2004

To Our Shareholders:

Your company set an all-time earnings record for the first quarter as we achieved an important milestone: 10 BCFe of oil and gas production. While initial *Gunnison* production added 1.5 BCFe, most of the improvement resulted from the success of last year's well exploitation program. Stronger than anticipated utilization of our DP vessels, particularly the two dedicated to Well Ops, also led a sequential and year-over-year improvement in Marine Contracting. Another CDI milestone was achieved in Q1 as three of our DP vessels were deployed in the high profile commissioning of the *Marco Polo* tension-leg platform (TLP). Two caveats regarding these Q1 trends: First, while *Gunnison* production will ramp up during the year, the steep decline curve of our mature properties will make it a challenge to match last year's Shelf production. Second, we continue to have little visibility regarding the 2004 contracting markets, particularly for utilization in the second quarter shoulder months of April and May, which are typically the lowest of the year.

Financial Highlights

Net income at 11% of revenues compares favorably with the results of early-cycle service companies as well as mid to small E&P companies.

	First Quarter		
	2004	2003	Increase
Revenues	\$120,714,000	\$88,900,000	36%
Net Income	13,645,000	6,038,000	126%
Diluted Earnings Per Common Share	0.36	0.16	125%

- * **Revenues:** Roughly two-thirds of the \$31.8 million increase reflects significantly higher oil and gas production and, to a lesser extent, commodity prices, with the balance due to improved utilization of the two Well Ops vessels.
- * **Margins:** 26%, the highest of any quarter since 2001, was four points better than the year ago period due to the profit contribution of Marine Contracting (which only broke even in Q1 of 2003).
- * **SG&A:** \$11.2 million increased \$2.2 million from the same period a year ago due to the ERT incentive compensation program and to a new Marine Contracting compensation system. Even with this increase, overhead was 9% of first quarter revenues, an improvement from the 10% of a year ago.
- * **Tax Rate:** An Internal Revenue Service review of the years 2001 and 2002 was completed in Q1 with no taxes assessed. The audit also confirmed that a portion of the Q4000 construction costs qualified for the Research & Development tax credit, a permanent difference which resulted in a 26% tax rate during the quarter and an estimated 33% rate for 2004.
- * **Debt:** Total debt of \$204 million at the end of March compares to \$223 million at year-end. Current maturities at March 31, 2004, included \$16 million borrowed on the Revolving Credit Agreement which was paid off at the end of April.

Operational Highlights

Marine Contracting

* **Utilization:**

	<u>Well Ops</u>		<u>Deep Construction</u>		<u>Robotics</u>		<u>Shelf Construction</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
First Quarter	<u>82%</u>	<u>51%</u>	<u>71%</u>	<u>74%</u>	<u>49%</u>	<u>53%</u>	<u>32%</u>	<u>51%</u>

* **Well Operations:** The **Seawell** worked 66 days versus only 27 days a year ago and would have achieved full utilization had a project not been delayed waiting on third party materials. Our people were successful in accelerating three well intervention projects into the quarter as work for Statoil will limit her availability during the North Sea summer season. The **Q4000** did achieve near full utilization completing two well remediation projects for ENI (*King Kong* and *Yosemite*) and installing jumpers at *Nakika* in 5,200 feet of water. The vessel then transited offshore Holland for a heavy lift NAM project that was time sensitive. The **Q4000** lifting capacity exceeds that of monohull vessels and is much more cost-effective than heavy lift barges.

* **Deepwater Construction:** Utilization was comparable with the prior year even though the *Witch Queen* was coldstacked for the entire first quarter of 2004. The **Intrepid** had a busy quarter (almost full utilization) installing flowline and umbilicals at *Triton* and *Nakika* and setting steel catenary risers at *Marco Polo*. Full utilization for the **Uncle John** produced minimal returns as we took weather in a number of cases and had the vessel working on Shelf saturation diving projects. Outside of the Gulf, the **Eclipse** is experiencing strong demand in the Asia Pacific region. The **Mystic Viking** spent January and a portion of February offshore Trinidad and the month of March in the Atlantic providing salvage survey and assistance for a Canyon project.

* **Robotics:** While ROV system utilization declined slightly, revenues were 46% higher than the year ago due to projects which required ROV support vessels. In addition to the *Mystic Viking* project (see above), the **Merlin** had 60 days of utilization, up substantially from only 18 a year ago. The **Northern Canyon** deployed the T-750 Super Trencher at *Glider* and *Tahoe*, two projects we hope will prove that burial is a flow assurance option in the deepwater GOM.

* **Shelf Construction:** Given the rough weather in the Gulf we typically schedule regulatory inspections during Q1. The **Cal Diver I, Barge I** and two of our small utility vessels were out of service for varying portions of the quarter for this reason. Year ago utilization was higher than normal as a number of vessels were engaged in MMS mandated inspections of platforms in the path of Hurricane *Lili*. The shallow water market in the Gulf remains flat and soft. Our OCS alliance with Horizon Offshore was terminated as that company has moved much of its equipment to other basins of the world.

Oil & Gas Production

* **Production & Prices:**

	<u>Shelf (BCFe)</u>		<u>Gunnison (BCFe)</u>		<u>Average Price: Oil</u>		<u>Average Price: Gas</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
First Quarter	<u>8.51</u>	<u>6.80</u>	<u>1.51</u>	<u>- -</u>	<u>\$30.66</u>	<u>\$28.67</u>	<u>\$5.58</u>	<u>\$5.22</u>

* **Shelf:** Commodity prices remained strong with our net realized price per BCFe up 7% from the prior year. Roughly half of the 26% production improvement was a result of our second PUD success at High Island 544, a 100% owned field brought online late last year. The balance of the production increase is a function of last year's well exploitation program, specifically drilling and remedial well work at Vermilion 200, High Island 557, and at South Marsh Island 130. 35% of Q1 oil production was hedged at an average price of approximately \$26.50 per bbl. The use of costless collars for natural gas hedges resulted in our realizing the full average market price during the quarter.

* **Gunnison:** Natural gas production from the three subsea wells was curtailed in March as the first oil well was brought online. None of *Gunnison* first quarter production was hedged. Total ERT DD&A of \$17.5 million was 32% of Q1 oil and gas production revenues due in part to the relatively high (36%) amortization rate at *Gunnison*. In addition, the new *Gunnison* natural gas wells combined with those of the Shelf well work program resulted in natural gas being 67% of ERT production in Q1, up from 58% in the year ago period.



Owen E. Kratz
Chief Executive Officer



Martin R. Ferron
Chief Operating Officer



S. James Nelson, Jr.
Vice Chairman



A. Wade Pursell
Chief Financial Officer

CAL DIVE INTERNATIONAL, INC.

Comparative Condensed Consolidated Statements of Operations

(000's omitted, except per share data)	Three Months Ended Mar. 31,	
	2004	2003
	(unaudited)	
Net Revenues:		
Marine Contracting	\$65,519	\$54,229
Oil and Gas Production	55,195	34,671
Total Revenues	120,714	88,900
Cost of Sales:		
Marine Contracting	61,547	54,243
Oil and Gas Production	27,426	15,461
Gross Profit	31,741	19,196
Selling and Administrative	11,158	8,953
Income from Operations	20,583	10,243
Interest Expense (Income), net & Other	1,555	1,101
Income Before Income Taxes	19,028	9,142
Income Tax Provision	5,019	3,291
Income Before Change in Accounting Principle	14,009	5,851
Cumulative Effect of Change in Accounting Principle, net	0	530
Net Income	14,009	6,381
Preferred Stock Dividends and Accretion	364	343
Net Income Applicable to Common Shareholders	\$13,645	\$6,038
Other Financial Data:		
Income from Operations	\$20,583	\$10,243
Depreciation and Amortization:		
Marine Contracting	8,900	7,825
Oil and Gas Production	17,500	8,203
EBITDA (1)	\$46,983	\$26,271
Weighted Avg. Shares Outstanding:		
Basic	37,946	37,553
Diluted	39,150	37,601
Earnings Per Share:		
Basic	\$0.36	\$0.16
Diluted	\$0.36	\$0.16

(1) The Company calculates EBITDA as earnings before net interest expense, taxes, depreciation and amortization. EBITDA is a supplemental non-GAAP 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 Condensed Consolidated Balance Sheets

ASSETS (000'S omitted)	Mar. 31, 2004	Dec. 31, 2003	LIABILITIES & SHAREHOLDERS' EQUITY	Mar. 31, 2004	Dec. 31, 2003
	(unaudited)			(unaudited)	
Current Assets:			Current Liabilities:		
Cash and equivalents	\$7,252	\$8,811	Accounts payable	\$39,787	\$50,897
Accounts receivable	101,077	96,607	Accrued liabilities	49,390	36,850
Other current assets	28,066	25,232	Current mat of L-T debt	31,732 (2)	16,199
Total Current Assets	136,395	130,650	Total Current Liabilities	120,909	103,946
Net Property & Equipment:			Long-term debt		
Marine Contracting	422,971	420,834		172,614	206,632
Oil and Gas	188,273	197,969	Deferred income taxes	95,063	89,274
Production Facilities - Deepwater Gateway	40,653	34,517	Decommissioning liabilities	75,141	75,269
Goodwill	82,433	81,877	Other long term liabilities	1,330	2,042
Other assets, net	18,223	16,995	Convertible preferred stock	24,652	24,538
Total Assets	\$888,948	\$882,842	Shareholders' equity	399,239	381,141
			Total Liabilities & Equity	\$888,948	\$882,842

(2) Reflects \$15.9 million relating to the Company's revolving credit facility (which expires February 2005). A new revolving credit facility is currently being negotiated and should be in place later this year.